Education

SUMMARY

DEPARTMENT

Matters from the current audit

There are no new or outstanding recommendations to the Department of Education in this report.

In accordance with Section 19(4) of the *Auditor General Act*, we report a summary of the results of school jurisdiction audited fiscal 2013 financial statements and management letters. Findings include the following:

- All 76 school jurisdictions transitioned to public sector accounting standards when preparing their fiscal 2013 financial statements.
- The net total unrestricted operating surplus and operating reserves increased to $454 million from $347 million in fiscal 2012 and $339 million in fiscal 2011.[1] One jurisdiction had an accumulated operating deficit in fiscal 2013 which is less than the four jurisdictions in fiscal 2012 and three in fiscal 2011.
- The number of school jurisdictions that incurred annual operating deficits has decreased to 20 in fiscal 2013 from 30 with deficits in fiscal 2012 and 27 with deficits in fiscal 2011.
- The 106 recommendations issued to school jurisdictions by their auditors in fiscal 2013 are considerably fewer than the 184 recommendations in fiscal 2012 and 181 in fiscal 2011. Generally the type of recommendations made to school jurisdictions has been relatively consistent. However, large reductions were observed in the number of recommendations related to policies and procedures, purchasing and school generated funds. While this is a significant improvement, school jurisdiction trustees must continue to hold management of their jurisdiction accountable for improving identified weaknesses.

NORTHLAND SCHOOL DIVISION NO. 61

Matters from prior audits

The division implemented our October 2010 recommendation on obtaining an interest in land—see page 124

[1] The amounts for fiscal 2012 and 2011 are restated from those previously reported in the *Report of the Auditor General of Alberta—October 2013*, pages 80-84 (2012 - $313 million, 2011 - $320 million). The restatement is due to jurisdictions transitioning to public sector accounting standards from not-for-profit accounting standards in fiscal 2013. The difference is mainly the inclusion of school generated funds, previously reported as a liability, in operating reserves under public sector accounting standards.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT

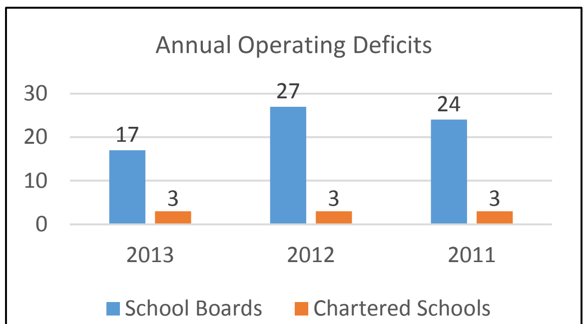
Matters from the current year

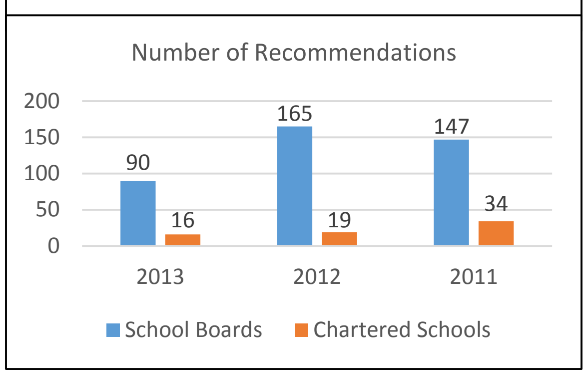
Summary of results—school jurisdiction audited financial statements and management letters

Summary

In accordance with Section 19(4) of the *Auditor General Act*, we report a summary of results of school jurisdiction audited financial statements and the management letters provided by their auditors for their fiscal year ended August 31, 2013. Results were compared to results observed for the fiscal years ended August 31, 2012 and 2011. Highlights are:

- All 76 school jurisdictions applied public sector accounting standards for the first time in preparing their fiscal 2013 financial statements.
- The number of schools that received a qualified audit opinion on their financial statements was three (2012 – three, 2011 – four).
- The net total unrestricted operating surplus and operating reserves increased to $454 million (2012 – $347 million, 2011 – $339 million). One jurisdiction has an accumulated deficit (2012 – four, 2011 – three).
- The number of school jurisdictions that incurred annual operating deficits decreased to 20 (2012 – 30, 2011 – 27).
- The number of recommendations made to school jurisdictions by their auditors decreased to 106 (2012 – 184, 2011 – 181). While this is a significant improvement, school jurisdiction trustees need to hold management of their jurisdiction accountable for continuing to improve identified weaknesses.
- 36 jurisdictions had no recommendations (2012 – 24, 2011 – 21).
- There were neither significant changes in the type of recommendation made to jurisdictions nor significant increases in the number of jurisdictions receiving a particular recommendation. Significant reductions were observed in the number of jurisdictions that received recommendations related to policies and procedures, purchasing and school generated funds.





Background

We audited one of the school jurisdictions (Northland School Division No. 61). For all other school jurisdictions we examined the management letter of their auditors and the auditor's report on the financial statements. Those audits were not designed to assess all key systems of control and accountability. The auditors report to management on weaknesses that come to their attention when auditing the financial statements.

The composition of school jurisdictions by fiscal year follows.

	School Boards	Chartered Schools	Total
2013	63	13	76
2012	62	13	75
2011	64	13	77

Summary of results

Financial reporting

Under Section 151 of the *School Act*, school jurisdiction auditors must send management letters, auditor's reports and audited financial statements to the minister by November 30 of each year.

Auditor's reports—Three school jurisdictions (Almadina School Society, Calgary Arts Academy Society and Calgary Girls' School Society) received a qualified auditor's report on their fiscal 2013 financial statements (2012 – three, 2011 – four). Consistent with 2012 and 2011, the reports for these three chartered schools were qualified because the auditors were unable to verify the completeness of gifts, donations and fundraising revenue. In 2011 one school board received a qualification related to capital assets.

All school jurisdiction auditors reported that fiscal 2013 financial statements were presented applying public sector accounting standards.

Financial statements—Seventeen school boards and three charter schools incurred annual deficits from operations (2012 – 27 school boards and three charter schools, 2011 – 24 school boards and three chartered schools). The net annual operating surplus of all school jurisdictions combined was $92 million (2012 – $53 million surplus, 2011 – $14 million surplus). Annual deficits from operations are acceptable to the department as long as jurisdictions have sufficient accumulated surpluses available to cover the shortfall.

Accumulated deficits from operations are not acceptable to the ministry. School jurisdictions with accumulated deficits from operations are expected to work with the ministry to eliminate the accumulated operating deficit. One school board has an accumulated deficit from operations as at August 31, 2013 (2012 – four, 2011 – three). No chartered school had an accumulated deficit from operations in the past three fiscal years.

The net total unrestricted surplus and operating reserves increased to $454 million (2012 – $347 million, 2011 – $339 million) or 6.7% of the total operating expenses for jurisdictions in fiscal 2013. As reported in our school board budgeting follow-up system audit,[2] the department monitors if a jurisdiction's total unrestricted surplus and operating reserves,[3] as a percentage of total operating expenses, is within a reasonable range. The range applied by the department has been one to four per cent. It found that 61 jurisdictions were above and two jurisdictions were below this range as at August 31, 2013 (2012 – 51 jurisdictions above and four below the range, 2011 – 55 jurisdictions above and four below the range). We were unable to identify any analysis in the department's annual report of the reasonableness of the unrestricted surplus and operating reserve balances and the expected future performance improvements at jurisdictions from applying these funds.

The net book value of tangible capital assets at school jurisdictions is approximately $5.1 billion as at August 31, 2013 (2012 – $5.0 billion, 2011 – $4.9 billion). These assets are funded through a combination of the school's unrestricted surplus, restricted grant funding, and debt. School jurisdictions funded approximately $576 million or 11.3% of these assets from unrestricted surpluses (2012 – $576 million, 2011 – $566 million). School jurisdictions have also set aside capital reserves of $136 million for future capital expenses (2012 – $150 million, 2011 – $117 million). We were unable to identify analysis in the department's annual report of the reasonableness of capital reserves relative to the department's future capital planning.

Management letter recommendations
There were a total of 106 recommendations made to school jurisdictions for fiscal 2013 (2012 – 184, 2011 – 181). Auditors for 36 school jurisdictions did not report any findings and recommendations to management (2012 – 24, 2011 – 21). These results demonstrate school jurisdictions' commitment to improving the overall strength of internal controls and the quality of their financial reporting. We encourage school jurisdiction trustees to hold management of their respective jurisdiction accountable to implement all process recommendations identified. The department contacts jurisdictions, where necessary, to encourage them to deal with the issues raised in the management letters, particularly recommendations repeated from prior years.

The following is a summary of the audit findings and recommendations reported to school jurisdictions by their auditors for the fiscal years ended August 31, 2013 and 2012.

We have grouped our summary of the findings into the following categories:
- financial reporting and governance
- internal control weaknesses
- information technology management

Users of this summary should keep in mind that the audits from which these findings came were not designed to assess all key control and accountability systems.

Financial reporting and governance recommendations
Accounting issues—Eight jurisdictions (including four of the fifteen reported in 2012) need to resolve accounting issues relating to capitalization versus expensing items, recognizing liabilities appropriately, revenue recognition and leases.

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[2] *Report of the Auditor General of Alberta—February 2014*, pages 47-50.

[3] For purposes of this analysis, operating reserves exclude school generated funds, as school trustees cannot apply discretion in use of these funds.

Board approval—Two jurisdictions (including none of the three reported in 2012) need to ensure that board minutes are appropriately approved.

Board oversight—One jurisdiction (including one of the three reported in 2012) needs to ensure that the board receives timely information in areas such as monthly or quarterly financial statements and progress on recommendations in the auditor's management letter to maintain and strengthen overall stewardship and that the finance committee takes on a more proactive financial oversight role.

Budgetary process—Two jurisdictions (including one of the two reported in 2012) need to improve their budgetary processes.

Review of financial information—Twelve jurisdictions (including two of the eleven reported in 2012) need to improve their review and approval of financial information such as bank reconciliations, journal entries, monthly financial statements and variances between budget and actual expenditures.

Timeliness of recording financial information—Three jurisdictions (including none of the two reported in 2012) need to ensure accounting transactions for tangible capital assets and capital grant expenditures, accruals, receivables are recorded or financial statements are prepared on a regular and timely basis.

Personnel and staff shortages—One jurisdiction (including none of the two reported in 2012) needs to implement succession plans, cross-training for key financial positions and review the allocation of staff resources in the accounting function.

Internal control weakness recommendations

Cash management—Five jurisdictions (including none of the five reported in 2012) need to improve cash management processes and controls.

Tangible capital assets—Five jurisdictions (including none of the four reported in 2012) need to improve the recording and tracking of tangible capital assets.

Goods and services tax—Five jurisdictions (including one of the five reported in 2012) need to improve their processes for charging the appropriate amount of GST and for recording the accurate amount of GST paid and recoverable.

Payroll—Fifteen jurisdictions (including six of the eleven reported in 2012) need to improve controls over the accuracy of and access to payroll information.

Policies and procedures—Three jurisdictions (including zero of the twenty reported in 2012) need to implement, update or follow formal procedures and policies.

Purchases—Six jurisdictions (including four of the thirteen reported in 2012) need to improve controls over the purchase cycle such as the review and authorization processes over purchases and payments, employee sign off for goods received and retention of supporting documentation.

Segregation of duties—Six jurisdictions (including one of the two reported in 2012) need to segregate duties over authorization and recording of transactions or custody of and accounting for certain assets.

School-generated funds—Nine school jurisdictions (including seven of the twenty four reported in 2012) need to improve the processes used to collect, record, spend and report school generated funds.

Information technology management recommendations
Computer security—Two jurisdictions (including one of the five reported in 2012) need to improve computer security processes by having unique individual usernames and passwords, implementing a mandatory password change policy, having user access restricted for the appropriate information, and backing up data at an offsite location.

Change management—One jurisdiction (the only jurisdiction reported in 2012) needs to implement or enhance formal, documented policies and procedures for managing and testing changes to system and network software or hardware.

NORTHLAND SCHOOL DIVISION NO. 61

Matters from prior audits

Obtaining an interest in land—implemented

Our audit findings

The division implemented our October 2010[4] recommendation to develop processes to ensure it obtains a valid legal interest in land before beginning construction of schools.

The official trustee approved Procedure 530 – Construction of Buildings on Third Party Land, on November 22, 2013, which establishes a process for ensuring that the division has an appropriate legal interest in third party lands before commencing construction of buildings on such lands. We observed this policy was applied in 2013 when the division obtained a 35-year lease agreement with the Gift Lake Métis Settlement before beginning construction of the school in Gift Lake.

OUTSTANDING RECOMMENDATIONS

NORTHLAND SCHOOL DIVISION NO. 61

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Improving financial reporting—October 2010, no. 14, p. 134
We recommend that the Northland School Division No. 61 improve its financial reporting by:
- preparing and presenting quarterly financial information to the Official Trustee
- regularly reviewing and reconciling general ledger accounts
- preparing year-end financial statements promptly

[4] *Report of the Auditor General of Alberta—October 2010,* no. 13, page 133.