

Education

SUMMARY

DEPARTMENT

Matters from current audit

There is one new recommendation for the Department of Education from the current audit. The Department of Education should improve its change management controls.

In accordance with Section 19(4) of the *Auditor General Act*, we have compiled a summary of the results of school jurisdictions' audited fiscal 2014 financial statements and management letters—see the following page.

We are the appointed auditor of one of the school jurisdictions (Northland School Division No. 61). For all other school jurisdictions we examined the management letters of their auditors and the auditors' reports on the financial statements.

NORTHLAND SCHOOL DIVISION NO. 61

Matters from prior audits

The division should improve its financial reporting—recommendation repeated, see page 86.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT

Matters from the current audit

Change IT management controls

Background

Change management control is a systematic approach to managing all changes made to an information technology system. The purpose is to ensure that no unnecessary changes are made, all changes are documented, services are not unnecessarily disrupted and resources are used efficiently.

The Department of Innovation and Advanced Education and the Department of Education share the same IT infrastructure, called the shared services environment, to support their operations. The Department of Innovation and Advanced Education is responsible for supporting the network infrastructure. The Department of Education is responsible for supporting its own business operations.

RECOMMENDATION 9: ENFORCE IT CHANGE MANAGEMENT CONTROLS

We recommend that the Department of Education enforce its documented IT change management processes and demonstrate that all changes are appropriately classified, logged and approved.

Criteria: the standards for our audit

The department should have documented effective IT change management procedures to implement all changes in a structured way. All IT changes should be appropriately classified, logged, approved, documented and subjected to formal change management procedures.

Our audit findings**KEY FINDINGS**

- IT change management processes required on an emergency basis are not consistently followed.
- Department staff did not have the documented change management process.

The Department of Innovation and Advanced Education is responsible for developing and distributing the IT processes for the shared services environment. Although the process for managing changes in the shared environment is well documented, the process was not available to all staff at the Department of Education. As a result, change processes required on an emergency basis were not consistently followed by some department staff.

The standard changes the department logged followed proper change management processes. However, not all of the emergency changes followed the documented procedures. We found two emergency changes were not consistent with the documented process. One change did not meet the documented criteria for an emergency change. We could not confirm that the other emergency change met the documented criteria.

Implications and risks if recommendation not implemented

If IT change management processes are not properly followed, system outages could occur.

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

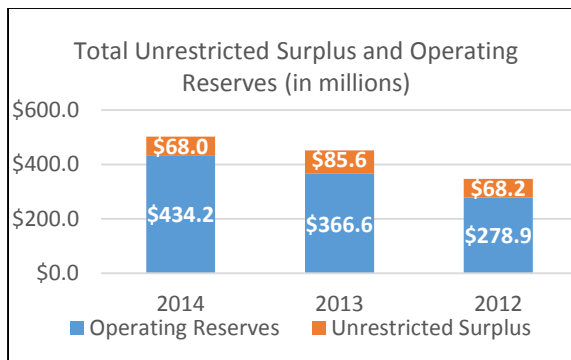
We have completed our Section 19(4) summary of results of school jurisdiction audited financial statements and the management letters provided by their auditors for their fiscal year ended August 31, 2014. We have also provided comparative results for the fiscal years ended August 31, 2013¹ and 2012.

¹ In 2014 certain school jurisdictions restated their fiscal 2013 figures for corrections primarily related to the adoption of Public Sector Accounting Standards. The impact on 2013 consolidated school jurisdiction figures previously reported is unrestricted surplus decreased by \$1.1 million, operating reserves decreased by \$111,000, investment in tangible capital assets decreased by \$1.7 million, capital reserves increased by \$111,000 and tangible capital assets increased by \$3.9 million. Comparative 2013 figures presented reflect these immaterial adjustments.

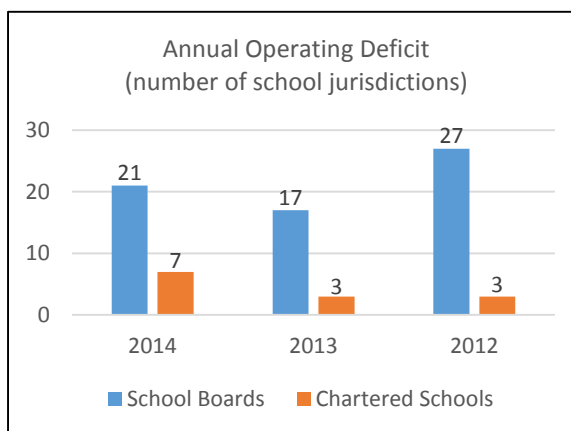
Highlights are:

- All 74 school jurisdictions applied public sector accounting standards in preparing their fiscal 2014 financial statements.
- The number of schools that received a qualified audit opinion on their financial statements was two (2013–three, 2012–three).

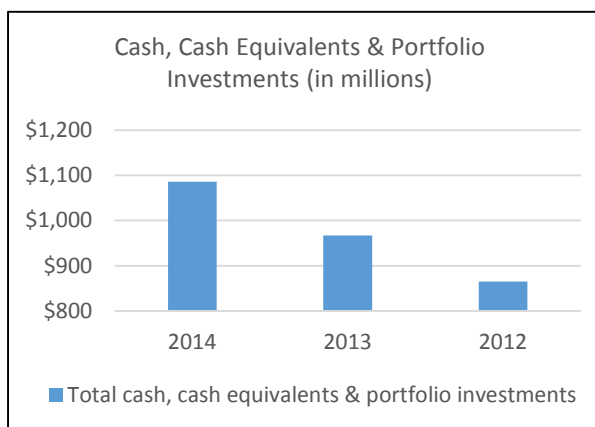
- The net consolidated accumulated unrestricted operating surplus and operating reserves² increased to \$502 million (2013–\$452 million, 2012–\$347 million). No jurisdictions had an accumulated deficit (2013–one, 2012–four).



- The number of school jurisdictions that incurred an annual operating deficit increased to 28 (2013–20, 2012–30). The combined net operating surplus was \$81 million on a budgeted deficit of \$72 million (2013–net operating surplus of \$92 million, budgeted deficit of \$72 million, 2012–net operating surplus of \$53 million, budgeted deficit of \$113 million).

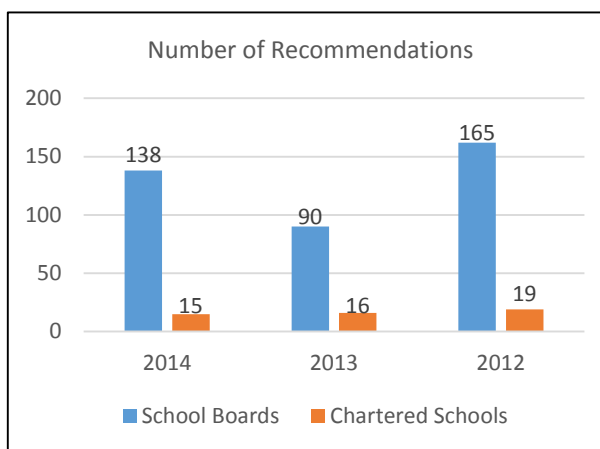


- The total cash, cash equivalents and portfolio investments increased to \$1.1 billion (2013–\$967 million, 2012–\$865 million). This increase correlates to an increase in the combined unrestricted surplus, operating reserves and capital reserves over the three-year period.



² Reserves are an unrestricted surplus which the school trustees have internally restricted for either a planned future operating or capital expenditure. The trustees restrict the unrestricted surplus into a reserve (or remove restrictions to increase the unrestricted surplus) at their discretion through an approved board of trustees resolution. Operating reserves also include school generated funds which are funds raised by the schools for a specific purpose and cannot be used for any other purpose at the school trustees' discretion. School generated funds in 2014 are \$41.7 million (2013–\$39.0 million, 2012–\$35.7 million).

- The number of recommendations made to school jurisdictions by their auditors increased to 153 (2013–106, 2012–184). This increase indicates school jurisdictions continue to face challenges annually in establishing and sustaining strong internal controls and financial reporting. School jurisdiction trustees should hold management of their jurisdiction accountable for achieving that desired result.



- 23 jurisdictions had no recommendations (2013–36, 2012–24).
- There were no significant changes in the type of recommendation made to jurisdictions. However, there were significant increases in the recommendations related to purchases and school generated funds.

Background

We are the appointed auditor of one of the school jurisdictions (Northland School Division No. 61). For all other school jurisdictions, we examined the management letters of their auditors and the auditors’ reports on the financial statements. Those audits were not designed to assess all key systems of control and accountability. The auditors do report to management about weaknesses that come to their attention when auditing the financial statements.

The composition of school jurisdictions by fiscal year follows:

	SCHOOL BOARDS ³	CHARTERED SCHOOLS	TOTAL
2014	61	13	74
2013	62	13	75
2012	64	13	77

³ Total number of school boards excludes Alberta Distance Learning (ADL).

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—Two school jurisdictions (Calgary Girls' School Society and Valhalla School Foundation) received a qualified auditor's report on their fiscal 2014 financial statements (2013–three, 2012–three). Consistent with 2013 and 2012, the reports for these two chartered schools were qualified because the auditors were unable to verify the completeness of gifts, donations and fundraising revenue.

All school jurisdiction auditors reported that their fiscal 2014 financial statements were presented applying public sector accounting standards.

Financial statements—Twenty-one school boards and seven charter schools incurred an annual deficit from operations (2013–17 school boards and 3 charter schools, 2012–27 school boards and 3 chartered schools). The net annual operating surplus of all school jurisdictions combined was \$81 million (2013–\$92 million surplus, 2012–\$53 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 operations⁴ 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. No school boards had an accumulated deficit from operations as at August 31, 2014 (2013–one, 2012–four). No chartered school had an accumulated deficit from operations in the past two fiscal years.

The combined accumulated unrestricted surplus and operating reserves increased to \$502 million (2013–\$452 million, 2012–\$347 million) or seven per cent of the total operating expenses for jurisdictions in fiscal 2014. The department monitors if a jurisdiction's combined accumulated unrestricted surplus and operating reserves,⁴ as a percentage of total operating expenses, is within a reasonable range. The range applied by the department is one to four per cent. Fifty-nine jurisdictions were above and no jurisdictions were below this range as at August 31, 2014 (2013–61 jurisdictions above and two below the range, 2012–51 jurisdictions above and four below the range).

The total cash, cash equivalents and portfolio investments increased to \$1.1 billion (2013–\$967 million, 2012–\$865 million). This increase correlates with an increase in the combined unrestricted surplus, operating reserves and capital reserves at school jurisdictions over this period.

The total operating surplus was \$81 million on a budgeted deficit of \$72 million (2013–operating surplus of \$92 million, budgeted deficit of \$72 million, and 2012–operating surplus of \$53 million, budgeted deficit of \$113 million).

The net book value of tangible capital assets at school boards is approximately \$5 billion (2013–\$5 billion, 2012–\$5 billion). These assets are funded through a combination of the school's accumulated surplus, restricted grant funding, and debt. As at August 31, 2014, school boards funded approximately \$594 million or 11.3 per cent of these assets from unrestricted surpluses (2013–\$574 million, 2012–\$566 million). School boards have also set aside capital reserves of \$147 million for future capital expenses (2013–\$136 million, 2012–\$150 million).

⁴ For purposes of this analysis, operating reserves excludes school generated funds as school trustees cannot apply discretion in use of these funds.

Similar to our fiscal 2013 summary report,⁵ 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
- cash, cash equivalent and portfolio investment balances and their correlation with future plans at the school jurisdictions to apply these funds
- surplus amounts and the expected future budgeted operating surplus/deficits at jurisdictions
- capital reserves relative to the department's future capital planning

Management letter recommendations

There were a total of 153 recommendations made to school jurisdictions for fiscal 2014 (2013–106, 2012–184). Auditors for 23 school jurisdictions did not report any findings and recommendations to management (2013–36, 2012–24). These results indicate school jurisdictions continue to face challenges annually in establishing and sustaining 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 resolve control weaknesses identified 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, 2014 and 2013.

We have grouped our summary of audit 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. Our summary of the recommendations made to school jurisdictions identifies trends across the sector. The Department of Education and school jurisdictions can use this information to work together to rectify identified common control weaknesses. Management of individual school jurisdictions can also use this information to proactively consider the sustainability of their jurisdiction's control environment, particularly where the trend is an increased number of recommendations. We do not identify the school jurisdictions associated with recommendations, as this information is not necessary in order for the department and school jurisdictions to achieve their desired result—establishing sector-wide strong, sustainable internal controls for financial reporting.

Financial reporting and governance recommendations

Accounting issues—Ten jurisdictions (including three of the eight reported in 2013) should resolve the accounting issues treatment relating to capitalization versus expensing items, recognizing liabilities appropriately, revenue recognition, leases and its relevant costs.

Board approval—No jurisdictions (two reported in 2013) failed to ensure that board minutes are approved appropriately.

⁵ *Report of the Auditor General of Alberta—October 2014*, page 119.

Board oversight—Five jurisdictions (including one reported in 2013) should 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—Five jurisdictions (including none of the two reported in 2013) should improve their budgetary processes.

Review of financial information—Ten jurisdictions (including four of the 12 reported in 2013) should 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—One jurisdiction (including none of the three reported in 2013) should ensure accounting transactions for 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—Two jurisdictions (including one of the two reported in 2013) should implement succession plans or cross-training for key financial positions or 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 2013) should improve cash management processes and controls.

Capital assets—Four jurisdictions (including two of the five reported in 2013) should improve the recording and tracking of capital assets.

Goods and services tax—Five jurisdictions (including two of the five reported in 2013) should improve their processes for charging the appropriate amount of GST and for recording the accurate amount of GST paid and recoverable.

Payroll—Seventeen jurisdictions (including 10 of the 15 reported in 2013) should improve controls over the administration of employee payroll information, processing of expense claims, application of vacation pay policies and regular reviews of payroll expense.

Policies and procedures—Five jurisdictions (including two of the four reported in 2013) should implement, update or follow formal procedures and policies.

Purchases—Thirteen jurisdictions (including two of the six reported in 2013) should 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—Nine jurisdictions (including five of the eight reported in 2013) should segregate duties over authorization and recording of transactions or custody of and accounting for certain assets.

School-generated funds—Fourteen school jurisdictions (including six of the nine reported in 2013) should improve the processes used to collect, record, spend and report school generated funds.

Information technology management recommendations

Computer security—Four jurisdictions (including three of the four reported in 2013) should 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—Three jurisdictions (including one reported in 2013) should implement or enhance formal, documented policies and procedures for managing and testing changes to system and network software or hardware.

Matters from prior audits

There are no matters to report from previous audits.

NORTHLAND SCHOOL DIVISION NO. 61**Matters from prior audits****Improve financial reporting—repeated****Background**

In 2010⁶ we recommended that the Northland School Divisions 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

We repeat this recommendation because the division has not demonstrated it can prepare financial statements on a timely basis.

RECOMMENDATION 10: IMPROVE FINANCIAL REPORTING—REPEATED

We again recommend that the Northland School Division No. 61 improve its financial reporting by:

- regularly reviewing and reconciling general ledger accounts
- preparing year-end financial statements promptly

Criteria: the standards for our audit

Strong financial reporting processes should be in place to provide reliable, periodic, financial information to management and the Official Trustee.

Our audit findings**KEY FINDING**

Management was unable to promptly prepare accurate financial reporting.

While quarterly financial reporting has been prepared and provided to the official trustee, the division was unable to produce accurate financial statements within scheduled year end timelines. A number of sub-ledgers were not promptly reconciled to the general ledger.

Implications and risks if recommendation not implemented

Management and the official trustee will not have reliable financial information with which to make decisions.

⁶ Report of the Auditor General of Alberta—October 2010, no. 14, page 134.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

The following recommendation is outstanding and not yet ready for a follow-up audit:

Systems to improve student attendance in Northland School Division: Oversight by the department—March 2015, no. 2, p. 23

We recommend that the Department of Education exercise oversight of Northland School Division by ensuring:

- the division develops and executes an operational plan to improve student attendance
- the operational plan identifies the resources needed and how results will be measured, reported and analyzed

NORTHLAND SCHOOL DIVISION NO. 61

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve financial reporting—October 2015, no. 10, p. 86)

(Originally October 2010, no. 14, p. 134)

We again recommend that the Northland School Division No. 61 improve its financial reporting by:

- regularly reviewing and reconciling general ledger accounts
- preparing year-end financial statements promptly

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

Systems to improve student attendance in Northland School Division: Develop plan to improve student attendance—March 2015, no. 1, p. 23

We recommend that Northland School Division develop an operational plan with short- and long-term targets to improve student attendance. The operational plan should include:

- measurable results and responsibilities
- a prioritized list of student-centred strategies, initiatives and programs
- documentation of the costs and resources required to action the strategies, initiatives and programs
- a specific timeline for implementation
- reporting on progress and accountability for improved attendance results

Systems to improve student attendance in Northland School Division: Monitor and enforce student attendance—March 2015, no. 3, p. 30

We recommend that Northland School Division improve its guidance and procedures for schools to:

- consistently record and monitor student attendance
- benchmark acceptable attendance levels
- manage and follow up on non-attendance

