

# Education

## SUMMARY

### DEPARTMENT

#### Matters from current and prior audits

There are no new recommendations for the Department of Education in this report. The department implemented processes to improve its information technology change management controls—see below.

In accordance with Section 19(4) of the *Auditor General Act*, we have compiled a summary of the results of school jurisdictions' audited fiscal 2015 financial statements and management letters—see page 90.

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

There are no new recommendations for the Northland School Division in this report.

## FINDINGS AND RECOMMENDATIONS

### DEPARTMENT

#### Matters from the prior audits

#### Change IT management controls—implemented

#### OUR AUDIT FINDINGS

The department implemented our 2015<sup>1</sup> recommendation to enforce its documented IT change management processes and demonstrate that all changes are appropriately classified, logged and approved.

The department developed new policies and procedures for change management including routine, emergency maintenance, patching modifications, and application upgrades. The new change management process consists of a change advisory board, an emergency change advisory board and an IT advisory board to assess, review, and authorize all significant IT changes. A post-implementation review is now required to assess all IT changes and the achieved results. Policies and procedures are reviewed and updated annually and made available to all staff. The department's staff received training and must complete an annual security course to ensure compliance with security policies and practices.

We examined department's policies and procedures and found the processes adequately deal with all parts of the change management process. We also examined documentation of the training provided to managers and IT staff. We interviewed staff to ensure training was provided in advance of the effective date of the policies. We also tested a planned emergency outage that went through the new emergency change management process and found there to be no issues or inconsistencies. Based on our

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<sup>1</sup> *Report of the Auditor General of Alberta—October 2015*, no. 9, page 79.

examination, we concluded that the department has effectively developed and implemented processes for managing emergency changes.

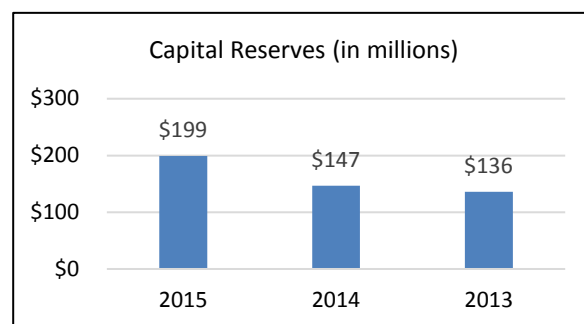
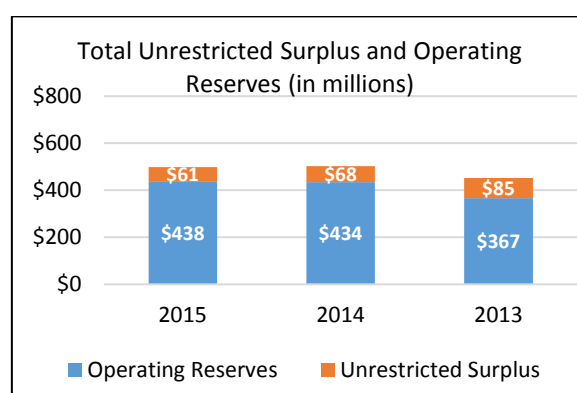
## Summary of results—school jurisdiction audited financial statements and management letters

### 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 the year ended August 31, 2015. We have also provided comparative results for the fiscal years ended August 31, 2014 and 2013.

Highlights are:

- One school jurisdiction received a qualified audit opinion on its financial statements (2014—two, 2013—three).
- The net consolidated accumulated unrestricted operating surplus and operating reserves<sup>2</sup> decreased to \$499 million (2014—\$502 million, 2013—\$452 million). No jurisdiction has an accumulated deficit (2014—none, 2013—one).
- Capital reserves<sup>3</sup> increased to \$199 million (2014—\$147 million, 2013—\$136 million).

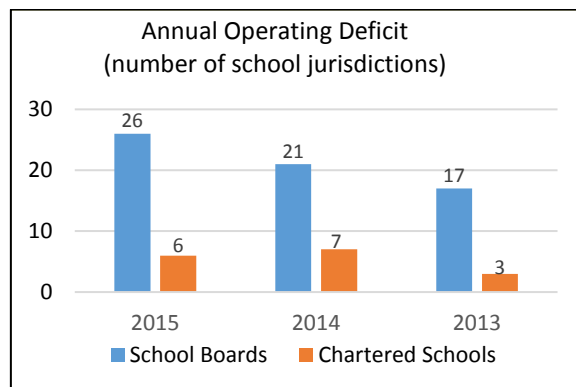


<sup>2</sup> Reserves are an unrestricted surplus that the school trustees have internally restricted for either a planned future operating expenditure or capital expenditure. The trustees restrict the unrestricted surplus into a reserve (or remove restrictions to increase the unrestricted surplus) at their discretion through an approved board of trustees resolution. Operating reserves also include school-generated funds, which are non-discretionary funds raised by the schools for a specific purpose. School-generated funds in 2015 are \$41 million (2014—\$42 million, 2013—\$39 million).

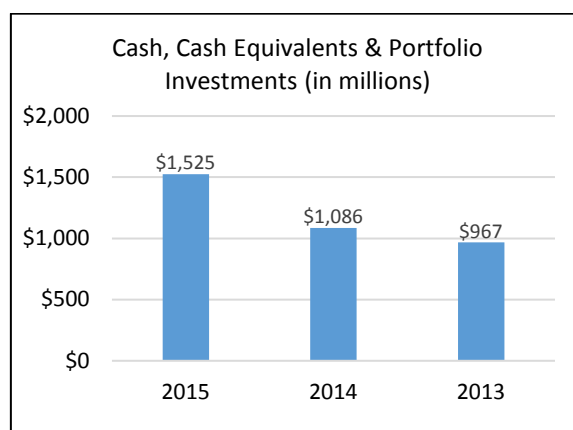
<sup>3</sup> Capital reserves are the funds set aside by the board to meet future capital expenditures. Once the capital reserves are established, the funds cannot be spent on operating purposes without prior ministerial approval.

- The number of school jurisdictions that incurred annual operating deficits increased to 32 (2014–28, 2013–20).

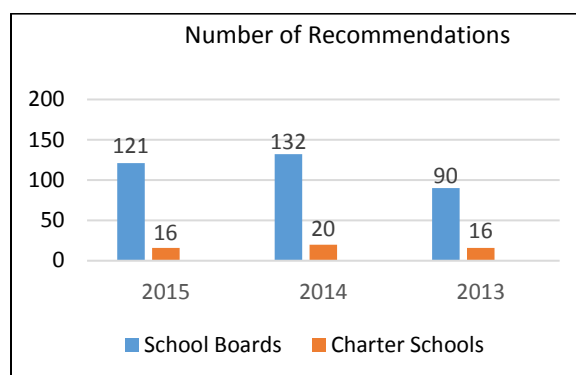
The combined net operating surplus of all jurisdictions was \$76 million on a budgeted deficit of \$94 million (2014–\$81 million on a budgeted deficit of \$72 million, 2013–\$92 million on a budgeted deficit of \$72 million). Over the past 10 years<sup>4</sup> jurisdictions incurred a total net operating surplus of \$701 million on a total budgeted deficit of \$670 million.



- The total cash, cash equivalents and portfolio investments increased to \$1.5 billion (2014–\$1.1 billion, 2013–\$967 million). Unlike prior years, the current year increase is significantly higher than the increase in the combined unrestricted surplus, operating reserves and capital reserves. The current year increase relates to department funding of future school construction costs.



- The total number of recommendations made to school jurisdictions by their auditors decreased to 137 (2014–152, 2013–106). School jurisdiction trustees should continue to hold their management accountable for continuing to improve identified weaknesses.



- Twenty-five jurisdictions had no recommendations (2014–23, 2013–36).

- There were no significant changes in the type of recommendation made to jurisdictions. There were improvements in the areas of board oversight, segregation of duties and processing goods and services tax. However, school jurisdictions have had the most difficulty in sustaining adequate processes in areas related to financial information review, policies and procedures, purchasing, school-generated funds and payroll.

<sup>4</sup> In 2007 the combined net operating surplus of all jurisdictions was \$150 million on a budgeted surplus of \$16 million. In 2010 jurisdictions reported a combined net operating deficit of \$14 million on a budgeted deficit of \$124 million.

## 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. However, if the auditors find weaknesses when auditing the financial statements, they report the weaknesses to management.

The composition of school jurisdictions by fiscal year is as follows:

FISCAL YEAR	SCHOOL BOARDS <sup>5</sup>	CHARTERED SCHOOLS	TOTAL
2015	61	13	74
2014	61	13	74
2013	62	13	75

## FINDINGS

### 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**—One school jurisdiction (Valhalla School Foundation) received a qualified auditor's report on its fiscal 2015 financial statements (2014—two, 2013—three). In all these instances, the auditors issued a qualified report as they were unable to verify the completeness of gifts, donations and fundraising revenue.

**Financial statements**—Twenty-six school jurisdictions and six charter schools incurred an annual deficit from operations (2014—21 school jurisdictions and seven charter schools, 2013—17 school jurisdictions and three charter schools). School jurisdictions combined were budgeting to incur annual operating deficits of about \$94 million for 2015 as some school jurisdictions planned to use reserves to offset annual operating deficits. Annual deficits from operations are acceptable to the department as long as jurisdictions have sufficient accumulated surpluses available to cover the shortfall. Rather than an overall deficit, school jurisdictions had a combined net annual operating surplus in 2015 of \$76 million (2014—\$81 million, 2013—\$92 million). Over the past 10 years<sup>6</sup> jurisdictions incurred a total net operating surplus of \$701 million compared to the total budgeted deficit of \$670 million.

Accumulated deficits from operations are not acceptable to the ministry. School jurisdictions with accumulated deficits from operations are expected to work with the department to eliminate the accumulated operating deficit. No school boards had an accumulated deficit from operations as at August 31, 2015 (2014—none, 2013—one). No charter schools had an accumulated deficit from operations in the past three fiscal years.

<sup>5</sup> The total number of school boards excludes Alberta Distance Learning (ADL). The Ministry of Education requires ADL to submit a separate set of audited financial statements.

<sup>6</sup> In 2007 the combined net operating surplus of all jurisdictions was \$150 million on a budgeted surplus of \$16 million. In 2010 jurisdictions reported the combined net operating deficit of \$14 million on a budgeted deficit of \$124 million.

The combined accumulated unrestricted surplus and operating reserves decreased to \$499 million (2014–\$502 million, 2013–\$452 million), or six per cent of the total operating expenses for jurisdictions in fiscal 2015. The department monitors whether the school jurisdiction combined accumulated unrestricted surplus and operating reserves,<sup>7</sup> as a percentage of total operating expenses, are within a reasonable range. Department management judgmentally increased the range for 2015 to 1–5% from the previous range of 1–4%. Forty-seven jurisdictions were above five per cent and no jurisdictions were below one per cent as at August 31, 2015 (2014–57 jurisdictions above five per cent and none below one per cent, 2013–57 jurisdictions above five per cent and two below one per cent).<sup>8</sup> The department implemented a new requirement in 2016 for school jurisdictions to outline their plans for the use of the operating and capital reserves. Department management will monitor the implementation of these plans when it receives the jurisdictions' August 31, 2016 audited financial statements.

The minister, together with department management, has not told school jurisdictions what, if anything, they intend to do with excess reserve balances identified in jurisdictions' 2016 audited financial statements. The department has told us its mechanisms to reduce excess reserve balances include recovering funding from jurisdictions, directing school boards to apply reserves to targeted areas or implementing a short-term overall funding reduction to the system.

The total cash, cash equivalents and portfolio investments increased to \$1.5 billion (2014–\$1.1 billion, 2013–\$967 million). This increase correlates with an increase in deferred revenues for planned school construction costs not yet incurred. The department implemented a new payment process in 2016 to reduce the amounts paid to jurisdictions in advance of construction costs incurred. The department will assess the effectiveness of the payment process when it receives jurisdictions' 2016 audited financial statements.

The net book value of tangible capital assets at school jurisdictions is approximately \$5.5 billion (2014–\$5.3 billion, 2013–\$5.1 billion). These assets are funded through a combination of the schools' accumulated surplus, restricted grant funding, and debt. As at August 31, 2015, school jurisdictions funded approximately \$622 million, or 10 per cent, of these assets from unrestricted surpluses (2014–\$594 million, 2013–\$574 million). School jurisdictions have also set aside capital reserves of \$199 million for future capital expenses (2014–\$147 million, 2013–\$136 million).

Similar to our last two summary reports,<sup>9</sup> 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/deficit at jurisdictions
- capital reserves relative to the department's future capital planning

### Management letter recommendations

There were 137 recommendations made to school jurisdictions for fiscal 2015 (2014–152, 2013–106). Auditors for 25 school jurisdictions did not report any findings or recommendations to management

<sup>7</sup> For the purposes of this analysis, operating reserves excludes school-generated funds as school trustees cannot apply discretion in use of these funds.

<sup>8</sup> As previously reported in the *October 2015 Auditor General Report*, page 83, in 2014, 59 jurisdictions were above four per cent and none below one per cent, and in 2013, 61 jurisdictions were above four per cent and two below one per cent.

<sup>9</sup> *Report of the Auditor General of Alberta—October 2015*, page 84 and *Report of the Auditor General of Alberta—October 2014*, page 119.

(2014–23, 2013–36). Some school jurisdictions significantly improved in the areas of board information, segregation of duties, and processing goods and services tax. The number of school jurisdictions with recommendations related to payroll processes also decreased. However, more school jurisdictions received recommendations in the areas of financial information review and policies and procedures. These two areas, along with adequate processes related to purchasing, school-generated funds and payroll, have posed the most difficulty for school jurisdictions to sustain annually. We encourage all school jurisdiction trustees to hold management of their respective jurisdiction accountable for implementing 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, 2015 compared to 2014.

We have grouped our summary of audit findings into the following categories:

- financial reporting and oversight
- internal control weaknesses
- information technology management

Users of this summary should keep in mind that the audits these findings came from 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 an individual school jurisdiction can also use this information to proactively consider the sustainability of the 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 oversight recommendations

**Accounting issues**—Nine jurisdictions (including three of the ten reported in 2014) should resolve the accounting issues treatment relating to capitalization versus expensing items, recognizing liabilities appropriately, revenue recognition and leases.

**Board approval**—One jurisdiction (none reported in 2014) failed to ensure that board minutes are approved appropriately.

**Board information**—One jurisdiction (included in the five reported in 2014) should ensure that the board receives timely financial information to maintain and strengthen overall stewardship.

**Budgetary process**—Three jurisdictions (including two of the five reported in 2014) should improve their budgetary processes.

**Review of financial information**—Fourteen jurisdictions (including four of the ten reported in 2014) 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 (the same one as reported in 2014) should ensure that accounting transactions for capital assets and capital grant expenditures, accruals and receivables are recorded accurately and financial statements are prepared on time.

**Personnel and staff shortages**—Two jurisdictions (not reported in 2014) 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

**Capital assets**—Four jurisdictions (including two of the four reported in 2014) should improve the recording and tracking of capital assets.

**Cash management**—Seven jurisdictions (including three of the five reported in 2014) should improve cash management processes and controls.

**Goods and services tax**—One jurisdiction (not included in the five reported in 2014) should improve its processes for charging the appropriate amount of GST and for recording the accurate amount of GST paid and recoverable.

**Payroll**—Eleven jurisdictions (including six of the 17 reported in 2014) 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**—Eleven jurisdictions (including four of the five reported in 2014) should implement, update or follow formal procedures and policies.

**Purchases**—Twelve jurisdictions (including two of the 13 reported in 2014) 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**—Three jurisdictions (including two of the nine reported in 2014) should segregate duties over authorization and recording of transactions or custody of and accounting for certain assets.

**School-generated funds**—Fourteen school jurisdictions (including five of the 14 reported in 2014) should improve their processes to collect, record, spend and report school-generated funds.

### Information technology management recommendations

**Computer security**—Two jurisdictions (including two of the four reported in 2014) 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 off-site location.

**Change management**—Two jurisdictions (including one of the three reported in 2014) should implement or enhance formal, documented policies and procedures for managing and testing changes to system and network software or hardware.

## OUTSTANDING RECOMMENDATIONS

### DEPARTMENT

The following recommendations are outstanding and not yet ready for follow-up audits:

#### **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

#### **Education & Infrastructure—School-building Program: Clarify roles and responsibilities**

—April 2016, no. 1, p. 9

We recommend that the Department of Education improve its oversight of the school-building program by:

- working with the Department of Infrastructure to clarify the roles and responsibilities of each department and establishing supporting policies and procedures
- developing clear decision making authorities for the program

#### **Education & Infrastructure—School-building Program: Improve the planning and approval process**

—April 2016, no. 2, p. 12

We recommend that the Department of Education improve project approvals for new schools and modernizations by:

- implementing a gated approval process
- identifying the approval gates, required deliverables and responsibilities for completion of the deliverables

#### **Education & Infrastructure—School-building Program: Improve systems to manage and control projects—April 2016, no. 3, p. 13**

We recommend that the Department of Education improve its systems to manage and control school capital projects by:

- agreeing on project expectations promptly with school jurisdictions and Infrastructure, including scope, budget and key milestones
- developing and implementing change management policies and procedures

#### **Education & Infrastructure—School-building Program: Improve reporting systems and controls**

—April 2016, no. 6, p. 16

We recommend that the Department of Education define and report on the key performance indicators of the school-building program.

#### **Education & Infrastructure—School-building Program: Match capital funding to project progress**

—April 2016, no. 8, p. 19

We recommend that the Department of Education improve its cash flow forecasting systems and ensure capital funding requests are supported by assumptions tied to project progress.



**Education & Infrastructure—School-building Program: Submit revised plan for approval  
—April 2016, no. 9, p. 19**

We recommend that, if Treasury Board adjusts the Department of Education’s funding request, the Department of Education should submit its revised school-building program plan to the Treasury Board for approval. The revised plan should align with the approved funding and should clearly identify the impact on project progress.

## EDUCATION AND INFRASTRUCTURE

The following recommendations are outstanding and not yet ready for follow-up audits:

**Education & Infrastructure—School-building Program: Improve systems to manage and control projects—April 2016, no. 4, p. 14**

We recommend that the departments of Education and Infrastructure improve the planning process by:

- identifying who must review and approve project planning deliverables and formally communicate these approvals to school jurisdictions or the Department of Infrastructure’s contractors
- basing oversight of projects managed by school jurisdictions on risk

**Education & Infrastructure—School-building Program: Improve reporting systems and controls  
—April 2016, no. 7, p. 16**

We recommend that the departments of Education and Infrastructure improve reporting on the school-building program by:

- defining reporting requirements, including measures to assess project performance
- using a common reporting system that specifies where information will be retained, who will update it and how it will be updated

## NORTHLAND SCHOOL DIVISION NO. 61

The following recommendations are outstanding and not yet ready for 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

Management has identified this recommendation as implemented—to be confirmed with 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