

Education—School Board Budgeting Follow-up

SUMMARY

In our October 2006 report,¹ we recommended that the Department of Education:

- improve the school board budget process
- work with key stakeholder associations to provide guidance to school board trustees on minimum standards for interim financial reporting and best practices for fulfilling financial monitoring responsibilities, including having strong budgetary control systems

The department implemented our recommendations by:

- providing information to help school boards prepare budgets on time
- examining whether school boards are applying and disclosing realistic assumptions when preparing their budgets
- reviewing whether school boards' budget update reports are reasonable and are submitted on time
- monitoring the financial health of school boards by annually assessing the reasonableness of accumulated operating surplus or deficit balances and examining financial trends over a five-year period
- developing minimum standards for interim financial reporting and providing information on controls and best practices to encourage further improvements in financial monitoring

Why this is important to Albertans

In 2013 the department paid \$6.3 billion in grants to Alberta school boards.² Albertans want assurance that the department and school boards have appropriate systems to ensure that school boards are operating within the resources allocated to them. Failure to do so may result in certain education programs not being provided if current funding must be used to eliminate accumulated operating deficits.

AUDIT OBJECTIVE AND SCOPE

Our audit objective was to determine if the department has implemented two recommendations from our October 2006 report. In performing our audit, we:

- interviewed department management and staff and representatives from stakeholder associations
- tested the department's systems and processes for monitoring the financial condition of school boards
- examined on a sample basis school board budget reports, budget updates, the department review of school board audited financial statements for fiscal 2011 and 2012, and deficit elimination plans
- obtained information from a sample of school boards through a questionnaire
- reviewed applicable internal and publicly available documentation, including legislation

We conducted our field work from June to September 2013. We substantially completed our audit on December 2, 2013. Our audit was conducted in accordance with the *Auditor General Act* and the standards for assurance engagements set by the Canadian Institute of Chartered Accountants.

¹ *Annual Report of the Auditor General of Alberta: 2005–2006*, Vol. 2, pages 63–70.

² School boards for this audit comprise 62 school board jurisdictions and 13 chartered schools.

BACKGROUND

The minister requires school boards to submit budget reports to the department by May 31 each year. Since the department is the major source of funding to school boards, the department must provide them with information on grant rates, changes to grant allocations and funding for specific initiatives by mid-February each year. School boards must submit a budget update report and their audited financial statements by November 30 each year.

The minister has authority, under the *School Act*, to prescribe reporting and accountability systems for school boards.³ The minister can also inquire into the financial condition of school boards and make any order he or she considers appropriate.⁴ A school board may budget for or incur an operating deficit in a given fiscal year, which would reduce its accumulated operating surplus. However, a deficit elimination plan is required when a board budgets for or incurs an accumulated operating deficit. School boards are expected to work with the department to eliminate the accumulated operating deficit within three to five years. For the year ended March 31, 2013, four of 75 school boards had an accumulated operating deficit. These numbers are relatively consistent with each of the past five years.

In 2006 the Association of School Business Officials of Alberta formed a financial monitoring and accountability committee of key stakeholders. This ad hoc committee issued a report in May 2007.⁵ In 2010 a task force reported⁶ on developing and implementing processes for three priority areas: budget systems and processes; financial monitoring; and capacity building for school board trustees and superintendents.

FINDINGS

School board budget process—implemented

Background

In 2006 we recommended⁷ that the department improve the school board budget process by:

- providing school boards with timely information needed to prepare their budgets
- requiring school boards to use realistic assumptions and to disclose key budget assumptions to their trustees and the department
- establishing a date to give the department a trustee-approved revised budget based on actual enrollment and prior year actual results
- re-assessing when and how the department should take action to help school boards avoid incurring an accumulated operating deficit

Audit findings

Budget information

For the school boards' 2012 and 2013 fiscal years, all sampled school boards confirmed the department provided the information needed to prepare timely budgets. The department provided a manual that details the funding available and grant rates and the estimated amount of provincial funding by grant type based on enrollment projections, by mid-February. The budget report template and guidelines for preparing the budget report were also provided sufficiently in advance for the school boards to prepare budget reports by the department's submission deadline.

³ Chapter S-3, RSA 2000, Section 78.

⁴ Chapter S-3, RSA 2000, Section 41.

⁵ Financial Monitoring and Accountability Ad Hoc Committee. Part 1—Budget Process, Interim Reporting and Financial Monitoring, May 2007.

⁶ Alberta Education. Building Financial Capacity for School Board Trustees and Superintendents—Report of the Advisory Task Force, 2010.

⁷ *Annual Report of the Auditor General of Alberta: 2005–2006*, Vol. 2, no. 25, page 65.

Use and disclosure of assumptions

The department requires that school boards prepare their budget reports based on realistic assumptions on enrollment and staffing, planned activities, anticipated revenues and the completeness of costs. The school board budget report must also disclose all key assumptions and business and financial risks and be approved by the board chair.

From a sample of board-approved budget submissions, we observed that all disclosed details of significant assumptions applied in their budget. Our samples included school boards that varied in both size and location in the province. The department reviewed these budget reports for reasonableness using a standard checklist and followed up with the school boards, if necessary, for clarification on assumptions and risks.

Budget update reports

For the school boards' 2012 and 2013 fiscal years, all sampled school boards submitted their budget update reports on time. The department requires that variances greater than five percent from the original budget in enrollment, staffing, revenues or expenses be explained. The department reviews these explanations and follows up with the individual school boards if necessary.

We originally recommended that revised budgets should be approved by the board of trustees. The department, in collaboration with key stakeholders, concluded that this is not always necessary. Instead, the department requires the board of trustees to at least formally receive budget updates and indicate this on the budget update form. As the board of trustees would ensure the department is notified of any further adjustments required to a budget update received, we agree this approach provides the same control as a formal approval. For all school boards sampled, we observed an attestation by the secretary-treasurer that the budget update information was formally received by the board of trustees.

Monitoring of school board's financial health

As recommended by the Advisory Task Force, the department monitors whether a school board's accumulated operating surplus, as a percentage of total operating expenses, is within a reasonable range. The department generally makes additional inquiries of a school board's secretary-treasurer when the school board falls below the minimum amount in the range to assess the potential for an accumulated operating deficit.

While this indicator is important to assess the financial health of the school board, the department continues to consider other indicators that may assist in mitigating financial and business risk. The department plans to communicate these indicators to the school boards so that they are aware of the department's expectations and monitoring processes. We will assess the department's progress in improving this process during our fiscal 2014 financial statement audit.

The department prepares financial reporting profiles to monitor the financial condition of school boards. The profile is prepared annually based on the school board's audited financial statements and other data, such as enrollment numbers. The profile consists of trend analysis for each school board over the past five years relating to accumulated operating surplus, capital reserves, liquidity and capital asset replacement data. School boards are compared to the average for all school boards and the average for school boards with similar enrollment. As this analysis is provided to school boards, board management may use it to perform further compare itself to its peer group.

Further required improvements

While the department has improved its monitoring processes, it has the following opportunities to further improve its processes to assist school boards in avoiding or eliminating an accumulated operating deficit. We will confirm the department has made these improvements during our fiscal 2014 financial statement audit.

Deficit elimination plans should be submitted by school boards when they budget for or incur an accumulated operating deficit. In 2012 the department obtained these plans when they performed a review of the fiscal 2011 school board audited financial statements in February or when the minister requested information relating to the school boards with an accumulated operating deficit. In 2013 the department did not complete the review process of the fiscal 2012 school board audited financial statements by the February targeted timeline. As a result, the department did not request a plan for two school boards until June 2013. These deficit elimination plans remained outstanding at the completion of our audit field work. The department acknowledged it must improve the timeliness of its review process.

We observed no set format for deficit elimination plans. As a result, the consistency of information varied by plan. To mitigate this weakness, the department in 2012 implemented a checklist to help staff be consistent in their review of deficit elimination plans for reasonableness and achievability within five years. Management can continue to improve this process by approving the reviews completed by their staff.

The funding manual requires that deficit elimination plans receive ministry approval. However, it does not specify what that approval is or by whom. The department management has asserted that their role is not to approve the plan specifically, but to determine if it is reasonable and achievable. While senior management review deficit elimination plans, they do not evidence their review. In addition, we found no formal documentation of management's regular communication with school boards that have an accumulated operating deficit and monitoring of their plans. Management intends to clarify the funding manual and improve the evidence of reviews and monitoring of deficit elimination plans.

School board interim reporting and guidance to trustees—implemented

Background

In 2006 we recommended⁸ that the department work with key stakeholder associations to set minimum standards for the financial monitoring information provided to school board trustees and provide trustees information about:

- the characteristics of a strong budgetary control system
- best practices in fulfilling financial monitoring responsibilities

Audit findings

The department implemented our recommendation, through collaboration with key stakeholders, by:

- identifying and communicating to school boards minimum standards for interim financial reporting by school board management to trustees
- providing guidance to school boards about characteristics of strong budgetary controls
- identifying best practices for fulfilling financial monitoring responsibilities through training courses and publications that are available to school board management and trustees

⁸ *Annual Report of the Auditor General of Alberta: 2005–2006*, Vol. 2, no. 26, page 68.