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## Introduction

In this part, we set out:

- ◆ a brief overview of the Department's role, goals, and key risks; and
- ◆ the results of our audits of the Department and the funds that it manages.

Effective April 1, 2002, Cabinet amalgamated the Department with the Department of Post-Secondary Education and Skills Training to form the Department of Learning.

## Understanding the Department

It is important that legislators and the public understand the role of the Department and its risks. This helps them to better assess the Department's performance. This section briefly describes the Department's role to March 31, 2002, its goals, risks, and spending.

### Role of the Department and its goals

Under *The Education Act, 1995* (Act), the Department is responsible for the overall quality of the Kindergarten to Grade 12 (K-12) education system in Saskatchewan. Also under the Act, 99 locally elected boards of education and conseils scolaires are responsible for the administration and management of school divisions.

Specific responsibilities of the Department include developing policies and provincial curriculum, working with school divisions to deliver the curriculum, regulating independent schools and home-based education, and certifying and classifying teachers.

Table 1 summarizes the Department's goals, objectives, and strategic outcomes as set out in its 2002 Annual Report.

**Table 1**

<p>Goal 1: All students experience responsive school environments that ensure high quality learning</p> <ul style="list-style-type: none"><li>1.1 Curriculum is appropriate, relevant and current</li><li>1.2 Teaching and learning are supported by appropriate technologies</li><li>1.3 Curriculum is effectively implemented and supported</li><li>1.4 Each student is prepared for full and meaningful participation in society</li></ul> <p>Goal 2: The diverse needs of students are met</p> <ul style="list-style-type: none"><li>2.1 Curriculum and learning experiences are structured to address individual student needs</li><li>2.2 Partners work collaboratively to ensure programs and services respond to the needs of students</li><li>2.3 Schools receive provincial, community and family support to meet the needs of students</li></ul> <p>Goal 3: The structural and fiscal integrity of the K-12 education system is maintained</p> <ul style="list-style-type: none"><li>3.1 The education system provides for the exercise of constitutional rights</li><li>3.2 Provincial operating and capital funding is distributed equitably</li><li>3.3 The education system provides for an appropriate balance of leadership from the Department and local autonomy</li></ul> <p>Strategic outcomes:</p> <ul style="list-style-type: none"><li>◆ A quality education system in which the Goals of Education are achieved. The Goals of Education are intended to develop the intellectual, physical, emotional, spiritual, and social potential of all students in the province to the best of their abilities.</li><li>◆ Public understanding of and confidence in the school system.</li><li>◆ Equality of access to and benefit from the services and programs of the education system.</li><li>◆ Leadership in mediating and facilitating the variety of social and political interests which have an impact on education.</li><li>◆ Maintenance of the structural integrity, effectiveness, and efficiency of the education system.</li></ul>
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*Directions*, published in 1984, set out the Saskatchewan Goals of Education. The Goals of Education focus on the development of the intellectual, physical, emotional, spiritual, and social potential of all students in the province. Periodic reports provide information on the progress towards achieving those goals. For further information on these goals and indicators, see *Saskatchewan Education Indicators 2000 – Kindergarten to Grade 12*.

The Department's web site contains this report, its annual reports, and other key publications. It is located at <http://www.sasked.gov.sk.ca>.

## **Risks the Department faces**

The environment in which the Kindergarten to Grade 12 system operates continues to change. These changes can affect the needs of students and society and the delivery of education. Relevant characteristics of

Saskatchewan's population include the number of preschool-aged children, the age distribution of school-aged children, the number of aboriginal children (due to the option of First Nations children attending either a band school if living on a reserve or a provincially-funded school if living off a reserve), and the place of residence. Other factors include socio-economic factors such as level of family income, youth crime rates, and the state of health.

As identified in the *2000 Saskatchewan Education Indicators: Kindergarten to Grade 12*, Saskatchewan's population as a whole continues to age. In 1999, the proportion of the population under age 20 has declined to under 30%. In 1999, the number of Saskatchewan preschool-aged children was insufficient to replace the number of older students who are completing their schooling within the next five years. In 1996, Aboriginal peoples represented 11.4% of the province's population. The proportion of school-aged Aboriginal youth compared with the school-aged population as a whole increased from 1991 to 1996. The Department expects this trend to continue. The population continues to shift from rural to urban areas.<sup>1</sup>

The *2000 Saskatchewan Education Indicators: Kindergarten to Grade 12* also reports increases in personal income from 1992 to 1998 over and above inflation. The Report notes the percentage of Saskatchewan children living in poverty has dropped slightly to 18.6% (48,000 children). It also states that the rate at which Saskatchewan's youth are charged with crimes and the rate of cases before the courts are about double that of Canadian rates.<sup>2</sup>

In 1998, we worked with the Department to identify four areas where ineffective action could limit the Department's ability to successfully carry out its mandate. The four areas are:

- ◆ ensuring the provincial curriculum reflects the knowledge and skills that people need;
- ◆ providing leadership to ensure the expectations of a quality education system delivered at a reasonable cost are clear and understood;

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<sup>1</sup> pp.7 - 9, *2000 Saskatchewan Education Indicators Kindergarten to Grade 12*

<sup>2</sup> pp. 11 – 16, *2000 Saskatchewan Education Indicators: Kindergarten to Grade 12*

- ◆ ensuring schools have equitable access to appropriate funding; and
- ◆ developing and implementing measures to address the diverse needs of children and youth at risk of doing poorly at school.

We examine matters related to these areas. In 1999, we reported on our review of the leadership role of the Department as it relates to vulnerable children and youth. In our 2001 Spring Report, we reported on the adequacy of the Department's processes to maintain the relevance of the core curriculum. In Part B of this chapter, we report on the Department's follow-up on recommendations in curriculum evaluations.

***Maintaining a relevant core curriculum—follow-up***

In Chapter 4B of our 2001 Spring Report, we reported on our audit of the Department's processes to maintain the relevance of the core curriculum. Maintaining the core curriculum is critical to students' future success. Maintaining the core curriculum helps ensure that what students study in school is relevant.

We reported that the Department's processes to maintain the core curriculum were adequate with one exception. We were unable to determine if the Department used information about resources when it maintained the curriculum.

The Department and school divisions use resources like written materials, equipment, and teacher time to make the transition to a revised curriculum and to deliver the revised curriculum on an ongoing basis. We did not find sufficient evidence that the Department considered the resources required to maintain the curriculum.

We recommended that the Department improve how it documents its use of information about resources in its curriculum maintenance processes. On November 1, 2001, the Standing Committee on Public Accounts agreed with this recommendation. In this section, we describe the Department's actions taken on the recommendation since our report up to the fall of 2002.

**Action on the recommendation**

The Department has begun to improve how it documents its use of information about resources. The Department has included additional information and analysis about resources in the workplan of one departmental unit out of three that help to maintain the curriculum.

The Department needs to ensure that improvement takes place in all relevant areas. We encourage the Department to integrate similar improvements into the regular practices of all units involved in maintaining the curriculum. Without further attention to these steps, the Department's action will not correct the problem that led to the recommendation.

We will continue to monitor how the Department documents its use of information about resources in its curriculum maintenance processes.

**Overview of Department spending**

The Kindergarten to Grade 12 education system spends over \$1 billion<sup>3</sup> each year. Table 2 sets out the amount of school grants that the Department provides to school divisions. In addition, the Department pays for teachers' pensions and benefits directly. School divisions finance the rest primarily through property taxes.

The following is a list of planned and actual program spending reported for the Department in the *Public Accounts 2001-02: Volume 2: Details of Revenue and Expenditure* (2001-02 Public Accounts – Volume 2) (to view a copy of this report, see <http://www.gov.sk.ca/finance/paccts>). The actual amounts for teachers' pensions and benefits is adjusted from the amounts reported in Public Accounts to reflect the actual annual costs of pensions earned by teachers.

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<sup>3</sup> p.42, Saskatchewan Education, *2000 Saskatchewan Education Indicators: Kindergarten to Grade 12*

**Table 2**

	Estimates 2001/2002 <sup>4</sup>	Actual 2001/02
	(in millions of \$)	
School division grants (operating and capital)	\$493.7	\$493.0
Teachers pension and benefits	93.4	78.5
Early childhood development	1.6	1.6
Education programs	20.3	19.2
Administration and shared services	3.6	4.1
Accommodation and central services	<u>2.2</u>	<u>2.1</u>
	<u>\$ 614.8</u>	<u>\$ 598.5</u>

## Audit conclusions and findings

This section contains our audit conclusions and findings for the Department and its four agencies, the Saskatchewan Correspondence School Revolving Fund, Learning Resources Distribution Centre Revolving Fund, School Division Tax Loss Compensation Fund for the fiscal year ended March 31, 2002 and Teachers' Superannuation Plan (Plan) administered by the Teachers' Superannuation Commission for the fiscal year ended June 30, 2002.

### In our opinion:

- ◆ **the financial statements of each of the above mentioned agencies for the year ended March 31, 2002 and of the Plan for the year ended June 30, 2002 are reliable.**
- ◆ **the Department and its agencies had adequate rules and procedures to safeguard and control their assets except for matters reported in this chapter; and**
- ◆ **the Department and its agencies complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue-raising, spending,**

<sup>4</sup> Saskatchewan Finance, *Saskatchewan Estimates 2001-02*



**borrowing, and investing except for the matters reported in this chapter.**

In the following section, we briefly set out the detailed findings for the Department, the Learning Resources Distribution Centre Revolving Fund, Saskatchewan Correspondence School Revolving Fund, and the Teachers' Superannuation Commission. We also note that the Department significantly improved its 2001 Annual Report to the Legislative Assembly.

## **Department**

### ***Status of previous recommendations***

In this section, we provide an update on the status of prior recommendations that are not yet fully implemented. For each recommendation, we set out the position of the Standing Committee on Public Accounts (PAC) and key activities that the Department undertook in 2001-2002 to move towards compliance with the recommendation.

### **Proper recording of pension costs needed**

The Department has not changed how it recorded and reported on the annual pension costs for teachers.

As previously reported, the salaries and benefits paid to teachers for services rendered include pension benefits. Pension benefits, and thus pension costs, accumulate each year that the teachers work. The Department is responsible for the pension costs of teachers. Pension costs represent about 13% of the Department's total spending.

As previously reported, the Department follows the accounting policy set by Treasury Board for planning and reporting the costs of teachers' pensions. We think that Treasury Board's policy is not appropriate (See Chapter 9 – Finance for further details). Using the policy, the Department bases its decisions (e.g., for teachers' pay) only on the amount of cash that it pays out (i.e., on a cash basis) rather than on pension costs incurred by the Department (i.e., the pension benefits earned by teachers). The difference is significant.

If the Department reported the pension costs that it actually incurred, its expenses for the year would have decreased by \$22.6 million and its liabilities would have increased by \$2.5 billion.

Because of using an inappropriate accounting policy, the financial reports of the Department, along with the Estimates and the General Revenue Fund's financial statements, are materially misstated. In addition, legislators and the public are unable to assess properly the pension costs actually incurred by the Department.

Management told us that Treasury Board requires the Department to conform to the established accounting policies. In addition, management continued to tell us that the issue of the appropriateness of the accounting policy is a matter that we should raise with the Department of Finance.

In its Third Report to the Legislative Assembly dated June 2002, PAC acknowledged that the Department was complying with Treasury Board's policy. And, by following that policy, PAC thinks that the Department is appropriately recording and reporting its pension costs. We disagree. We do not think Treasury Board's policy on this matter is appropriate and use of the policy results in recording and reporting improper amounts. Treasury Board also agrees that its policy does not follow generally accepted accounting principles.<sup>5</sup>

We continue to recommend that the Department work with Treasury Board to adopt an appropriate accounting policy that properly reports the Department's pension costs.

**Better reporting on performance by school divisions needed**

The Department continues to collect information from school divisions as part of the provincial indicators program. It uses this information to prepare the Saskatchewan Education Indicators reports and other publications (e.g., *SAIP Mathematics III Assessment 2001*). The Indicator reports focus on the progress of the K-12 education system as a whole

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<sup>5</sup> Note 1 of the *Public Accounts 2001-2002: Volume 1: Main Financial Statements*, General Revenue Fund financial statements states, "these financial statements are prepared in accordance with the generally accepted accounting principles for senior governments as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accounts, with the following exception: ... pension liabilities are not recorded in the financial statements. The General Revenue Fund accounts for pension obligations on a cash basis."

towards achievement of the Goals of Education. The Department generally publishes these reports every two years. It expects to publish the next report in the winter of 2002. These reports are available at <http://www.sasked.gov.sk.ca/k/pecs/ae/indicators.html>.

In addition, the Department participates in the school assessment indicators program (SAIP). SAIP is a cyclical program of pan-Canadian assessments of student achievement in mathematics, reading, writing, and science that has been conducted by Councils of Ministers of Education of Canada (CMEC) since 1993. CMEC publishes the results of these assessments (e.g., *SAIP Mathematics III Assessment 2001*). The Department makes them available through its web site.

In January 2002, the Department started a program to work with school divisions to improve their capacity to report on their performance.

In March 2001, PAC expressed its continued support for the following recommendation.

We continue to recommend that the Department, working with school divisions and other stakeholders, set public reporting requirements for school divisions' performance in achieving the Goals of Education.

**Proper financial statements for school divisions needed**

For the year ended December 2001, several school divisions piloted a new financial statement format. The Saskatchewan Association of School Business Officials (SASBO) proposed the format and the Department endorsed it. The format reflects generally accepted accounting principles as recommended by The Canadian Institute of Chartered Accountants for local governments. At the time of the audit, the Department had not yet reviewed the results of the pilot. SASBO expects the balance of the school divisions to use the new format for the year ended December 31, 2002. The Department has advised us that it expects school divisions will implement fully the new financial statement format by the Department's year ending March 31, 2003.

In March 2001, PAC expressed its continued support for the following recommendation. We continue to recommend that the Department, working with school divisions, set financial reporting requirements for

school divisions consistent with those recommended by The Canadian Institute of Chartered Accountants for the public sector.

**Reporting on performance - Annual Report**

We previously reported that the content of the Department's annual reports needs improvement. The Department has made significant changes to the format of its 2001 Annual Report. The Department organized its report according to the Department's strategic goals and objectives. It reported its key accomplishments related to each objective.

To improve further its annual report as a performance report, future annual reports could include a description of the following:

- ◆ the key risks the Department faces;
- ◆ what the Department views as its measures of successful achievement of its strategic goals; and
- ◆ the extent to which the Department has achieved its plan including an analysis of the differences between planned and actual operational results.

Good performance reporting depends upon good planning. Management told us that it plans to strengthen future annual reports in conjunction with the changes in reporting expected by the Government's accountability initiative.

In March 2001, PAC expressed its continued support for the following recommendation. We continue to recommend that the Department continue to improve the contents of its annual reports.

**Learning Resources Distribution Centre Revolving Fund**

The Department of Education recommends Saskatchewan schools use specific learning resources including reference books, curriculum guides, and related print and non-print materials. The purpose of the Learning Resources Distribution Centre Revolving Fund (Fund) is to purchase, sell, and distribute these publications and materials for use in Saskatchewan schools.

***Processes to value inventory need improvement***

The Department needs to improve its processes to value the Fund's inventory.

To prepare financial statements, agencies need adequate processes to value their inventory. They must assess the condition of the inventory (e.g., damaged) and estimate its resale value by considering key operating factors such as, impact of condition on ability to sell, amount on hand compared to anticipated demand, and changes in expected operations.

At March 31, 2002, the Fund had inventory of \$1.7 million. The Fund's inventory represents 82% of its total assets.

During 2001-02, the Department decided to phase out certain activities of the Fund over the next year. As a part of this decision, the Department decided that it would need to sell certain inventory below its cost.

When the Department prepared its financial statements for audit, it did not fully consider the impact of this decision on the value of its inventory. During the audit, we brought this matter to the Department's attention. The Department corrected its records and reduced the value of its inventory in its final financial statements.

- 1. We recommend that the Department's inventory valuation processes include the impact of its key operational decisions.**

***More timely financial statements required***

*The Tabling of Documents Act, 1991* sets out the required time frames for the tabling of financial statements in the Legislative Assembly. The timeframes for tabling financial statements under this Act are decreasing.

Under the Act, the Department was required to table the Fund's financial statements for the year ended March 31, 2001 by September 27, 2001. It tabled these financial statements on November 29, 2001. The Department was required to table the Fund's financial statements for the year ended March 31, 2002 by August 28, 2002. It tabled these financial statements on October 23, 2002.

Timely tabling ensures the legislators and public receive useful information.

2. **We recommend that the Department ensure that it provides the Learning Resources Distribution Centre Revolving Fund's financial statements to the Legislative Assembly by the date required by law.**

## **Saskatchewan Correspondence School Revolving Fund**

The purpose of the Saskatchewan Correspondence School Revolving Fund is to provide educational services at the high school level, Grades 9-12, to Saskatchewan residents through distance education.

### ***More timely financial statements required***

Under *the Tabling of Documents Act, 1991*, the Department was required to table the Fund's financial statements for the year ended March 31, 2001 by September 27, 2001. It tabled these financial statements on November 29, 2001.

3. **We recommend that the Department ensure that it provides the Saskatchewan Correspondence School Revolving Fund's financial statements to the Legislative Assembly by the date required by law.**

## **Teachers' Superannuation Commission**

The Teachers' Superannuation Commission operates under the authority of *The Teachers Superannuation and Disability Benefits Act*. The Commission consists of seven members appointed by the Lieutenant Governor in Council. The Commission's primary roles are to:

- ◆ provide lifetime retirement and related benefits to teachers; and
- ◆ assist the Government in its responsibility for ensuring that there is sufficient money in the Teachers' Superannuation Fund to pay all allowances and other amounts out of the Teachers' Superannuation Fund as they become due and payable.

The Commission manages the Teachers' Superannuation Plan. The Plan consists of the Teachers' Superannuation Fund, a defined benefit final average pension plan, and the Voluntary Contributions Fund.

In 2001-02, the Plan received contributions of \$18.3 million from teachers and \$53.3 million from the Minister of Finance. At June 30, 2002, the Plan held assets of \$1.7 billion and had liabilities of \$3.6 billion.

### ***Verification of investment manager's compliance reports***

The Commission needs adequate rules and procedures to ensure that the Plan's investments comply with the law and the Plan's investment objectives.

The Commission is responsible to ensure that its investments comply with the law and the Plan's investment objectives. *The Pension Benefits Act, 1992 (Act)* sets out the investment requirements that pension plans must follow. Pension plans sometimes contract with investment managers to make investment decisions. Pension plans must ensure that their investment managers comply with the requirements of the plans' investment objectives and with the law. Pension plans can do this by independent verification of the investment managers' compliance reports.

The Commission's contract with the Plan's investment manager requires the manager to ensure that the Plan's investments comply with the law and the Plan's investment objectives. Quarterly, the Commission receives an investment compliance report from the investment manager.

The Commission has established a policy requiring management to verify partially the compliance report received from the investment manager. The policy requires management to verify compliance relating to securities held directly (e.g. bonds and equities). The policy does not require management to verify the compliance report relating to investments in pooled funds. The Commission held \$231 million in pooled funds at June 30, 2002.

To ensure that all investments comply with the law and the Plan's investment objectives, the Commission should revise its policy to require the verification of the compliance report for all of its investments. Alternatively, the Commission could receive periodic independent

assurance on the adequacy of the systems and practices that the investment manager uses.

Because the Commission does not have a policy to verify the compliance reports for all investments, we cannot determine if the Commission's investments complied with the law and the Plan's established investment objectives through out the year.

- 4. We recommend that the Commission establish processes to ensure that the Plan's investments in pooled funds comply with the requirements of the law and its investment objectives.**

Management told us that it plans to seek regular independent verification of the Plan's entire portfolio to ensure that it complies with the law and the Plan's investment objectives.