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## Main points

The learning sector spends over \$2 billion each year to provide pre-kindergarten to Grade 12 education, post-secondary education, technical training, public libraries, and student financial assistance.

The Department of Learning oversees the learning sector including its various partners (such as school boards, universities, regional colleges, public libraries). In its 2004-05 Annual Report, the Department has started to report results against the learning sector plan. Also, it is working with school divisions to re-focus their reporting from activities to results and to help them prepare financial statements using proper accounting policies.

The Department must know if its services achieve the intended results. The Department evaluates its services, but needs to use a department-wide risk assessment to make sure its evaluations focus on high-risk areas.

The Department provides adults with significant financial support (e.g., student loans, provincial training allowances). In prior years, we reported that the Department needs to make sure it provides eligible persons with the correct amount of support. While the Department has made some improvements, more work remains.

The Department provides many individuals and agencies with money. This can place staff in potential positions of conflict. While the Public Service Commission has policies on acceptable conduct, the Department needs to provide its staff with written guidance to help staff avoid conflicts-of-interest.

The Department has taken some steps to address our 2004 recommendations about its capital construction processes. It has adjusted its processes to get more information before and during construction. It plans to make further changes to better document and track risks related to major capital construction projects. It expects these changes will help it identify risks earlier and monitor the capital construction better.

## Introduction

The Department has overall responsibility for the learning sector. This sector includes programs and services for early childhood development, pre-kindergarten to Grade 12 (K-12) education, post-secondary education, technical training, public libraries, and student financial assistance.

Its responsibilities are set out primarily in *The Education Act, 1995*, *The Department of Post-Secondary Education and Skills Training Act*, and *The Public Libraries Act, 1996*.

## Special purpose funds and agencies

The Department is responsible for the following special purpose funds and agencies:

	Year-end
Saskatchewan Correspondence School Revolving Fund	March 31
Saskatchewan Student Aid Fund	March 31
School Division Tax Loss Compensation Fund	March 31
Training Completions Fund	March 31
Prince of Wales Scholarship Fund	March 31
University of Regina	April 30
University of Saskatchewan	April 30
Saskatchewan Population Health Evaluation Unit, Inc.	April 30
Carlton Trail Regional College	June 30
Cumberland Regional College	June 30
Cypress Hills Regional College	June 30
North West Regional College	June 30
Northlands College	June 30
Parkland Regional College	June 30
Prairie West Regional College	June 30
Southeast Regional College	June 30
Saskatchewan Apprenticeship and Trade Certification Commission (SATCC)	June 30
Saskatchewan Institute of Applied Science and Technology (SIASST)	June 30
Teachers' Superannuation Commission	June 30

## Financial overview

Each year, the learning sector spends over \$2 billion. The Government, primarily through the Department of Learning, provides over \$1 billion. K–12 school divisions raise about \$718 million through local property taxes; and universities raise about \$400 million primarily through tuition fees, federal government grants, and sales of services.

As set out below, the Department spent over \$1.2 billion in 2004-05.

	Original Estimates <sup>1</sup>	Actual
	(in millions of dollars)	
Administration	\$ 5.7	\$ 5.3
Accommodation and central services	6.2	6.0
Early childhood development	3.3	3.3
K–12 education	578.8	586.9
Post-secondary education	387.9	450.0
Provincial library	8.5	9.0
Student support programs	71.3	68.9
Teachers' pensions and benefits	119.1	68.7 <sup>2</sup>
Training programs	37.5	37.6
Capital asset acquisitions	(5.5)	(4.3)
Capital asset amortization	3.4	3.5
	<u>\$ 1,218.4</u>	<u>\$ 1,234.9<sup>2</sup></u>

In 2004-05, the Department had revenues of \$59.7 million (2004 - \$60.5 million) of which 98% (2004 - 97%) came from the Federal Government primarily for labour market development programs.

The Department's *2004-05 Annual Report* sets out the reasons for the major differences between actual financial results and the estimates. Follow the links at [www.sasked.gov.sk.ca](http://www.sasked.gov.sk.ca) to view this report.

<sup>1</sup> Saskatchewan Finance, *Saskatchewan Estimates 2004-05*. The Estimates' total does not include the additional \$144,915 million authorized through the *Saskatchewan Supplementary Estimates* for Learning (Vote 5) and special warrant, i.e., Order in Council 123/2005.

<sup>2</sup> The actual amount for Teachers' pensions and benefits is restated from \$133,700 reported in the Department 2004-05 Annual Report. The amount is adjusted for the \$65 million understatement of pension costs. See section entitled "Pension costs reported incorrectly" for further detail.

## Audit conclusions and findings

This section reports the results of our 2005 audits of the Department, the five special purpose funds, three of eight regional colleges (i.e., Carlton Trail, Parkland, and Southeast), SATCC, and SIAST. It does not include the results of our audits of the Teachers' Superannuation Commission or the Saskatchewan Population Health Evaluation Unit, Inc. We have not completed these audits because they have not finalized their financial statements.

### In our opinion for the fiscal years ending on or before June 30, 2005:

- ♦ the Department and its agencies had adequate rules and procedures to safeguard public resources except for the matters reported in this chapter
- ♦ the Department complied with authorities governing its and the above-listed funds' and agencies' activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing and investing except for the matters reported in this chapter
- ♦ the 2005 financial statements of the above-listed funds and agencies are reliable

Since 1998-99, we audit colleges on a cyclical basis. We work with the appointed auditor of each of these colleges to carry out the audits. We require the appointed auditors of the other five colleges that are not in rotation to provide us with reports that set out the results of their audits. We review these reports and have discussions with related departmental officials to identify if significant matters exist for these colleges. If so, we work with the appointed auditor on these matters. For SIAST, we carry out the audit jointly with the appointed auditor.

Exhibit 1 sets out the appointed auditor for each agency. We use the framework recommended by the *Report of the Task Force on Roles*,

*Responsibilities and Duties of Auditors*<sup>3</sup>. The auditors of the other five colleges did not report any new matters for the colleges they audited.

**Exhibit 1**

Crown agency	Appointed auditor
SIAST	Deloitte & Touche LLP, Chartered Accountants
Carlton Trail Regional College	E.J.C. Dudley & Co., Chartered Accountants
Parkland Regional College	Skilnick Besler Miller Moar & Co., Chartered Accountants
Southeast Regional College	Cogent Business Consulting, Certified Management Accountants

Also, this chapter contains the status of our two previous recommendations about the Department’s capital construction process.

The following sections set out our detailed findings.

**Findings—Department**

This section includes four new matters and provides an update on previously reported recommendations.

***Department-wide risk assessments needed***

The Department needs to use formal department-wide risk assessments to help ensure its evaluation activities provide senior management with timely, objective reports on its high-risk areas.

The Department has over 500 full-time employees who work in over 20 branches and 7 regional offices located throughout the province. In addition to providing financial support to educational agencies, it provides a number of training and student support programs.

Senior management of large agencies need to know whether their services achieve the intended results, and its systems of control are adequate and effective. Periodic, independent, objective reviews can provide this assurance. Reviews use systematic, disciplined approaches

<sup>3</sup> Find this report at [www.auditor.sk.ca/rrd.html](http://www.auditor.sk.ca/rrd.html).

to evaluate the effectiveness of risk management, control, and governance processes. Typically, reviews focus primarily on high-risk areas. Focusing on high risk areas help ensure the Department receives timely, objective reports to monitor these areas and take timely corrective action, as necessary. Large agencies use agency-wide risk assessments to guide the nature and extent of reviews.

The Department recognizes the value of objective reviews. It uses systematic approaches to do reviews. It assigns staff not involved in the delivery of services to evaluate its operations. Senior management periodically receive reviews from the following two main sources.

First, senior management receives some information on the effectiveness of its controls from its Quality Assurance Unit. During 2004-05, the unit adopted a risk management framework to help it focus its work plan. It assessed risks facing one part of the Department—student financial assistance. At March 31, 2005, the Unit had not yet applied its risk framework to the entire Department.

Second, senior management receives evaluation reports about the effectiveness of certain policies from the Policy and Evaluation Branch. The Branch evaluates certain policies using a three- to five-year plan approved by the Deputy Minister. Some evaluations are done at prescribed times to comply with federal-provincial agreements. The Department makes these reports publicly available through its web site.

The Department does not formally assess its risks on a department-wide basis. As such, management does not know if its evaluation activities (i.e., reports from Quality Assurance Unit, and Policy and Evaluation Branch) focus sufficiently on all of its high-risk areas.

- 1. We recommend the Department of Learning use a department-wide risk assessment to guide the nature and extent of its evaluation activities.**

### ***Reinforcing of appropriate staff conduct needed***

The Department needs to provide staff with written guidance to better reinforce appropriate staff conduct.

To protect the public interest and maintain a respectful workplace, staff must understand the conduct expected of them. Policies and supporting guidance help ensure staff understand and avoid situations of conflict. Also, they help ensure staff provide services with integrity and impartially at all times.

The Department's staff is subject to the Public Service Commission's (PSC) policies. PSC's policies provide employees with guidance on appropriate conduct (e.g., oath of office, conflict-of-interest, corrective discipline). Staff can get these policies on PSC's web site.

All staff are responsible to avoid conflicts of interest and to be accountable for their conduct. Agencies must educate their staff about appropriate conduct including consequences of inappropriate conduct. Agencies may need to provide staff with additional written procedures and guidance for specific situations unique to the delivery of their services.

The Department provides many individuals and agencies with money. It has situations unique to its services (for example, handling of applications of relatives and friends). For example in 2005, when the Department looked into a complaint about an employee, it determined the employee handled student financial assistance accounts of related parties (e.g., family members). The Department disciplined the employee for this breach of conduct.

The Department told us that it directs staff not to handle files of related parties. However, the Department had not provided staff with written guidance in addition to the PSC policies to reinforce this direction. Providing guidance in writing helps ensure consistent communication, fosters understanding, and eases monitoring.

- 2. We recommend the Department of Learning provide staff with written guidance on situations unique to the Department to help staff avoid conflicts-of-interest.**

### ***Documentation of estimates needed***

The Department did not properly review its estimate of the Correspondence School Revolving Fund's (Fund) unearned fees prior to recording the estimate in its financial records.



The Department provides distance educational services for Grade 9 to 12 students through the Fund. The Fund has annual revenues of about \$1.5 million of which \$1.3 million is from registration and tuition fees.

Each year, the Department estimates the amount of fees that it has received, but has not earned by year-end (because it has not yet delivered the related course). The Department records this estimate in the Fund's financial records. At March 31, 2005, the Fund's financial statements include \$442,600 of unearned fees (\$407,600 - 2004).

An agency makes estimates when information is not available when its financial reports or statements. Estimates are often more complex and subject to variance than other financial transactions. An agency reviews the reasonableness of significant estimates independent of preparation prior to their approval and recording in financial records.

Reviewers need clear written support to assess the reasonableness of estimates. The agency must clearly document the basis of the estimate. The basis of the estimate should include the following: the method used, key assumptions, the extent these assumptions may be subject to change, and the source of the underlying data.

For the year ending March 31, 2005, the Department had not fully documented the basis for estimating unearned fees. Also, management did not review its initial estimate before recording it in the Fund's financial records. During the audit, we determined the Department's initial estimate of unearned fees was too high by about \$178,000. The Department re-estimated the unearned fees and corrected the financial records and statements of the Fund.

When estimates are approved without the proper documentation, the risk that the estimated amount recorded in its financial statements may be incorrect increases.

- 3. We recommend that the management of the Department of Learning review written support (including the method, assumptions, and source of key information used to determine the estimate) for all significant estimates prior to recording them in its financial records.**

### ***Fund's financial statements late***

The Department did not give the Legislative Assembly the 2004 and 2005 financial statements for the Correspondence School Revolving Fund on time.

Under *The Education Act, 1995*, the Minister of Learning must give the financial statements of the Fund to the Legislative Assembly by July 29<sup>th</sup> each year (i.e., within 120 days of the Fund's year-end). The Minister provided the 2004 financial statements on September 12, 2004 and at October 31, 2005, had not provided the 2005 financial statements.

### ***Provincial training allowances overpayments***

As reported in Chapter 4 of our 2003 Report – Volume 3, the Department continues to need better processes to ensure only eligible persons receive provincial training allowances in the correct amount. The Standing Committee on Public Accounts agreed with our recommendation in June 2004.

During the year, the Department paid out \$21.7 million (2003-04: \$18.5 million) in provincial training allowances. The Department of Community Resources and Employment reimbursed the Department for \$3.6 million of these payments (i.e., payments related bridging-to-employment).

As in prior years, Learning made significant overpayments. It recovered a portion of these overpayments by reducing future payments to recipients, or taking other steps when it was no longer making payments to the recipient. In most cases, the recipients have limited financial resources and recovery of overpayments is difficult.

At March 31, 2005, the Department had not recovered \$4.1 million of its overpayments (2003-04: \$3.6 million). The Department estimates that it will not recover almost 88% of this amount (2004 - 76%).

In 2004-05, the Department's overpayment experience was higher than it deemed acceptable. In July 2004, the Department approved a maximum acceptable rate of incorrect payments of 5.0% and corrective actions to reduce errors to a maximum rate of 4.0% within 24 months. Nine months later (i.e., at March 31, 2005), the Department determined 5.10% of its

total 2004-05 disbursements resulted from overpayments. The Department is determining corrective actions to reduce its overpayments to approved maximums.

We continue to recommend that the Department use procedures that prevent and detect incorrect payments to meet the pre-established rate.

### ***Better reporting of performance needed***

Since 1998, our Office has made four key recommendations related to better reporting on performance. The Standing Committee on Public Accounts discussed these recommendations in the past and agreed with them. Exhibit 2 below provides an update on the status of each recommendation.

**Exhibit 2**

<b>Previous recommendation</b>	<b>Key actions or activity during audit period</b>	<b>Status</b>
We recommend the Department provide legislators and the public with a clear concise description of the accountability relationships between the Department and the key provincial agencies within the learning sector.	In its 2005-06 Performance Plan released in March 2005, the Department improved its description of its relationship with school boards. However, it has not improved its description of its relationship with agencies within the post-secondary education sector.  In addition, the level of detail is not yet sufficient for the legislators and public to have a clear understanding of who is accountable for what, to whom, and how.	Partially implemented
We recommend the Department report publicly against its approved sector-wide plan	The <i>Saskatchewan Learning 2004-2005 Annual Report</i> reports progress against the 2004-2005 <i>Learning Sector Performance Plan</i> .	Implemented
We recommend that the Department work with school divisions and other stakeholders to set requirements for school divisions' reporting on their performance.	Currently, public reports of most school divisions focus on activities as opposed to what they achieved.  Working with school divisions and others, the Department is developing a PreK–12 Continuous Improvement Framework that will focus on advancing student outcomes; clarifying roles and responsibilities; and implementing a planning cycle to advance common system-wide and local priorities. It expects to implement the Framework over a three-year time beginning December 2005.	Not implemented

Previous recommendation	Key actions or activity during audit period	Status
We recommend that the Department set financial reporting requirements for school divisions consistent with those recommended by The Canadian Institute of Chartered Accountants for the public sector (GAAP).	<p>In late 2004-05, the Department and Saskatchewan Association of School Business Officials (SASBO) agreed that school boards (boards) should use Canadian GAAP to prepare their financial statements.</p> <p>In mid-2005, the Department and SASBO plan to compare the current accounting policies that boards use with GAAP, identify changes necessary, and develop an implementation plan to ensure boards' full compliance with GAAP.</p>	Not implemented

### ***Pension costs reported incorrectly***

Due to continued use of accounting policies set by Treasury Board, the Department has not reported its costs of teachers' pensions properly.

The Department follows Treasury Board's policies to prepare its financial plan (Estimates) and to account for its activities. In our audit report on the 2005 financial statements of the General Revenue Fund<sup>4</sup> and Chapter 5 - Finance, we continue to report that Treasury Board does not use Canadian generally accepted accounting policies for the public sector to account for pension costs.

As a result, for the year ended March 31, 2005, the Department understates the amount of teachers' pension and benefit costs reported in its annual report by \$65 million (2004 - overstated by \$11 million) and understates the amount it owes for teachers' pensions by \$2.55 billion (2004 - \$2.49 billion).

## **Findings—Southeast Regional College**

Southeast Regional College (College) provides educational services and programs under the authority of *The Regional Colleges Act* (the Act).

<sup>4</sup> *Public Accounts 2004-05: Volume 1: Main Financial Statements*, Auditor's Report [on the General Revenue Fund]. pp. 11-12.

For the year ending June 30, 2005, the College's financial statements report revenues of \$6.4 million, expenses of \$6.5 million, and assets of \$4.0 million.

### ***Non-compliance with The Regional Colleges Act***

The College did not comply with certain provisions of the Act.

In June 2005, the College borrowed \$57,924 to buy a vehicle. The Act (i.e., section 21) requires the College to obtain the Minister's approval before it borrows money. In October 2005, the College sought the Minister's approval.

## **Findings—Student Aid Fund**

### ***Background***

The Department uses the Student Aid Fund (Fund) to help students finance their education. It does this through providing students with grants, bursaries, and loans.

In 2005, the Fund had revenues of \$45.5 million including \$32.2 million from the General Revenue Fund and had expenditures of \$37.0 million. At March 31, 2005, the Fund held net assets of \$15.0 million.

### ***Verification of critical information needed—status of previous recommendation***

As previously reported, the Department needs to verify critical information on student loan applications within a reasonable time.

During the year, the Department approved approximately 16,000 student loans (2004 - 16,000 loans) for approximately \$60 million (2004 - \$59 million). The Department also paid debt reduction benefits<sup>5</sup> to students and incurred other costs of \$27 million (2004 - \$31 million). These debt reduction benefits and other costs depend on the amount of loans awarded to students. When the Department approves loans to students in

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<sup>5</sup> Debt reduction benefits include grants and bursaries, which offset the student loans issued to post-secondary students, based on established criteria.

excess of the amount they are entitled, debt reduction and other costs also increase.

By not verifying all critical information within a reasonable time, the Department may incur unnecessary costs and may not comply with the provisions of the regulations that govern student assistance. The Department must decide which applicant information to verify before approving loans and which information to verify at a later date. Verifying critical information on student loan applications ensures only eligible students receive aid and that the amount of aid they receive is correct. The Department must balance its costs to verify applicant information with the need to provide students with timely financial assistance.

During the year, the Department completed a risk assessment regarding verification of critical student loan application information. The Department thinks two of the types of information not verified have a relatively high risk of significant monetary loss. For these areas, the Department is working with the related government agency to gain access to information. It will use this information to verify the information on the student loan application.

At year-end, the Department was developing processes to verify information on the number of dependants and single parent status. Because the Department did not have processes to verify the above information and it is not practical for us to do so, we are unable to report the extent to which students received incorrect amounts of aid.

We have reported this matter for several years. The Standing Committee on Public Accounts previously agreed with this recommendation in March 2001, April 1999, and December 1996.

We continue to recommend that the Department verify critical information on student loan applications.

## Capital construction—follow-up

### Background

This section describes the Department's action up to October 2005 on recommendations we made during our 2004 audit of capital construction projects.

In Chapter 13 of our 2004 Report – Volume 1, we reported that the Department had adequate processes to ensure its partners<sup>6</sup> meet the requirements for completing approved capital construction projects with two exceptions. The Department needed to improve how it established requirements for construction projects and how it documents reliable information to monitor the status of projects. Exhibit 3 sets out the criteria we used in this audit. We recommended:

- ◆ that the Department obtain from school divisions comparisons of planned and actual costs, and timing by key stage for each approved project
- ◆ that the Department document its assessment of the processes that its partners use to identify and mitigate significant risks or set its own processes to identify and mitigate significant risks on approved capital projects

In June 2004, the Standing Committee on Public Accounts agreed with the above recommendations.

At October 2005, while the Department has taken steps to address our recommendations, more work remains. The following highlights key steps taken and further steps the Department expects to undertake.

The Department has more clearly assigned to its facilities consultants the responsibility to oversee projects at school divisions and identify risks associated with these projects. The consultants work directly with school divisions.

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<sup>6</sup> Partners include school divisions, University of Regina, University of Saskatchewan, SIAST, and regional colleges.

In August 2005, the Department advised school divisions of changes to its approval processes for K-12 capital projects. The new process will require school divisions to provide information for future projects on their plans along with actual costs to date at each stage (planning, design, and construction) of K-12 major capital construction projects. The Department started to use this new process in the fall of 2005 for certain projects it approved in August 2005. At October 2005, these projects are at the planning stage. Therefore, the Department has not yet used the process to compare actual to planned costs during the design or construction phases of the process.

At October 2005, the Department is developing a project checklist to help it standardize its risk assessment process among its partners. It expects the checklist to help it document the steps taken by each partner and the Department as well as documenting any corrective measures needed.

### Exhibit 3

To ensure partners meet requirements for completing approved capital construction projects, the Department's processes should:

1. establish requirements for capital construction projects
2. confirm partner acceptance of responsibilities for construction projects
3. routinely use reliable information on the status of the project
4. address concerns

Source: Chapter 13 of our 2004 Report – Volume 1.