

Education—School divisions

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Main points

As a result of changes to *The Education Act, 1995*, effective April 1, 2009 our Office became responsible to audit school divisions. This is the first year that we have been actively involved in auditing school divisions' financial statements, processes to safeguard public resources, and compliance with authorities.

School divisions made significant progress in improving the measurement, presentation, and disclosure of their financial statements compared to the year before. We commend school divisions for this good work.

This chapter contains guidance in the form of 11 recommendations to school divisions. These recommendations were formed based on situations we noted in various school divisions. We encourage all school divisions to review these recommendations and, where applicable, apply them in their operations.

Introduction

The Ministry of Education (Ministry) provides direction for Pre-kindergarten to Grade 12 education to school divisions. School divisions provide kindergarten to Grade 12 education to students throughout the province. The Ministry's and school divisions' responsibilities are set out primarily in *The Education Act, 1995* (Act).

The Ministry was responsible for 29 school divisions for the year ended August 31, 2010. See Exhibit 1 for a list of school divisions, their appointed auditors, and a description of our participation.

This chapter sets out our results of the audit of the school divisions for the year ended August 31, 2010. We plan to report the results of our audit of the Ministry for the year ended March 31, 2011 in our 2011 Report – Volume 2.

In 2010, the school divisions had revenues totalling \$1.8 billion (2009 - \$1.7 billion) including \$1.1 billion from the General Revenue Fund and expenses totalling \$1.7 billion (2009 - \$1.6 billion). At August 31, 2010, the school divisions held net financial assets of \$241 million (2009 - \$207 million) and non-financial assets of \$1.3 billion (2009 - \$1.2 billion).

Background

As a result of changes to the Act effective April 1, 2009, school divisions became part of the Government reporting entity and our Office became responsible to audit them. For the year ended March 31, 2010, school divisions' financial results were included in the Government's Summary Financial Statements. For the year ended August 31, 2010, we were actively involved in auditing school divisions' financial statements, processes to safeguard public resources, and compliance with authorities.

Soon after the changes to the Act, we assessed how we could best contribute to school divisions' practices and accountability.

During the last two years, we have had several meetings with the Ministry and provided guidance to the Ministry on its first *Financial Reporting Manual for School Divisions*. We made several presentations to senior

management of school divisions. For many school divisions, we had direct discussions with senior management and their boards. We also worked with their appointed auditors.

Based on our first year of auditing school divisions we offer guidance through 11 generalized recommendations to assist school divisions in improving their practices and accountability. We encourage school divisions to review these recommendations and, where applicable, apply them in their operations.

Audit conclusions and findings

We worked with appointed auditors (see Exhibit 1) using the framework recommended in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (www.auditor.sk.ca/rrd.html).

In our opinion,¹ for the year ended August 31, 2010:

- ◆ **The school divisions had adequate rules and procedures to safeguard public resources except for the matters reported in this chapter**
- ◆ **The school divisions complied with authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing except for the matters reported in this chapter**
- ◆ **The financial statements of the school divisions are reliable except for a school division where its audit report indicates revenues from school-based activities (i.e., school-generated funds) may not be complete**

Significant improvement in financial statements

For the year ended August 31, 2010, school divisions made significant progress in improving the measurement, presentation, and disclosure of their financial statements from that of the previous year. For the previous year, most school division financial statements were not in accordance

¹ Except as indicated in Exhibit 1.

with Canadian generally accepted accounting principles established by the Canadian Public Sector Accounting Board.

Review of financial reports required

School division boards need to approve policies on when and how (i.e., the basis of preparation) school divisions prepare periodic financial reports for their boards. Also, school division boards need to review periodic financial reports on school division activities. Reviewing periodic financial reports allows boards to understand the complete financial picture of their school division during the year. To understand the complete financial picture, the periodic financial statements should be prepared on the same basis as the year end financial statements (i.e., in accordance with Canadian generally accepted accounting principles established by the Canadian Public Sector Accounting Board (GAAP)), and be compared to budget with reasons provided for significant differences. This would allow boards to determine if school divisions used money for the intended purposes, and to take corrective action if required.

We noted the following weaknesses in certain school divisions during our work this year:

- ◆ There was no policy for when and how the school division should prepare periodic financial reports
- ◆ Periodic financial reports were not prepared in accordance with GAAP (cash basis of accounting used instead)
- ◆ Periodic financial reports were not prepared for the review and scrutiny of the board
- ◆ Review of periodic financial reports by the board was not documented in its minutes
- ◆ Where periodic financial reports were prepared there was no comparison of actual results to budget within the periodic financial reports

- 1. We recommend that school division boards approve policies on when and how the school divisions prepare periodic financial reports for their boards.**
- 2. We recommend that school division boards review (at least quarterly) financial reports (including comparison to budget) prepared in accordance with Canadian generally accepted**

accounting principles established by the Canadian Public Sector Accounting Board and document their review in minutes.

Code of conduct and conflict of interest policies required

A few school boards need to provide their staff with written guidance to help ensure appropriate staff behaviour (i.e., codes of conduct).

To protect the public interest and maintain a respectful workplace, staff must understand the conduct expected of them. Policies and supporting guidance help staff understand and avoid situations of conflict of interest, and when and how to report inappropriate behaviour. They also help supervisors address inappropriate behaviour consistently and as expected. They also convey the expectation that staff will provide services with integrity and impartially.

- 3. We recommend that school divisions establish code of conduct and conflict of interest policies and communicate these to staff.**

Segregation of duties required

School division boards need to segregate certain duties among their employees to safeguard public resources from misuse. School divisions need processes to identify weakness in controls (such as poor segregation of duties) and assess the risk of these weaknesses.

Good controls separate the following functions: the custody or access to assets (e.g., cash), the initiation of transactions (e.g., decision to buy), the approval of transactions (e.g., approval to buy), and the responsibility for recording and reporting the transaction (e.g., recording amounts in the accounting records). When school divisions assign incompatible functions, they must rely on independent review and approval of work and reports to detect errors or irregularities. Staff who are assigned responsibility for review and approval of such work and reports must be fully aware of an employee's incompatible functions and related risks. They must keep the additional risks in mind when carrying out their review.

We noted the following segregation of duties issues at certain school divisions:

- ◆ There was no policy to segregate the incompatible duties between staff members handling cash (e.g., opening the mail) and preparing the bank deposit.
- ◆ There was no policy to segregate the incompatible duties of employees preparing and approving journal entries and bank reconciliations before entering adjustments to accounting records.
- ◆ There was no delegation of authority policy to segregate the duties of employees that sets out who approves key documents (e.g., cheques, contracts) and at what thresholds.
- ◆ The purchasing policy to segregate the duties of employees preparing purchase orders for goods and services from senior management approving the purchase orders was not followed. Also, employees did not prepare purchase orders for all required purchases and did not always obtain the proper approval or all required information.
- ◆ There was no segregation of incompatible duties of employees preparing, posting, and reviewing journal entries and financial reporting and variance analysis (i.e., investigating reasons for differences between actual results and planned results).
- ◆ There was no segregation of the incompatible duties of entering suppliers into the purchase system, recording supplier payments, and approving supplier payments.
- ◆ Senior employees did not independently review and approve payments to suppliers to ensure the validity and accuracy of invoices.
- ◆ There was no independent review and approval of travel and expense claims paid to senior employees.
- ◆ There was no segregation of the incompatible duties of entering new employees into the payroll system (i.e., change master files),

preparing the payroll, and independently reviewing and approving payroll prior to payment.

- ◆ Proper support (e.g., contracts of employment, teaching certificates, confirmation of education qualifications, record of years of experience) for payroll payments was not maintained.
- 4. **We recommend that school divisions have segregation of duties policies.**
- 5. **We recommend that school divisions assess the risks of incompatible functions and take appropriate action.**

Lines of credit require Minister’s approval

Section 319(2) of *The Education Act, 1995* requires that the Minister must approve money borrowed to finance current operating expenditures. We found that several school divisions used their lines of credit during the year ended August 31, 2010 without the Minister’s approval.

At August 31, 2010, these school divisions had borrowed a combined \$22.5 million using their lines of credit. These school divisions had the ability to borrow an additional \$64 million under their lines of credit.

School divisions that do not obtain the Minister’s approval to borrow money are operating in a manner not authorized by the Government. Also, because the Government controls school divisions, it is ultimately responsible for this debt.

- 6. **We recommend that school divisions obtain the approval of the Minister for the existence and use of lines of credit.**

Information technology security policies need improvement

School divisions need to establish adequate information technology (IT) security policies.

We found certain school divisions did not set minimum password standards, allowed inappropriate access by employees to systems and

data, did not restrict physical access to computer server rooms, did not update and monitor firewalls, and/or did not appropriately test and document changes to their systems.

IT security policies help ensure the confidentiality, integrity, and availability of information systems and data. For example, these policies identify the rules that staff need to follow. Certain school divisions also need to define how compliance with security policies will be monitored and how security weaknesses will be addressed. Staff awareness training helps ensure staff are informed of security policies and security risks.

Without adequate IT security policies, school divisions' systems and data are at increased risk of unauthorized access, inappropriate changes, and information not being available when needed.

7. We recommend that school divisions establish information technology security policies.

IT disaster recovery plans needed

We found that some school divisions did not have disaster recovery plans. School divisions need written, tested, and approved information technology (IT) disaster recovery plans to enable them to continue to deliver their programs and services if their IT systems become damaged. For example, IT systems need to be available for instruction that relies on computers, financial systems need to be available to pay contractors and staff the correct amounts on time, and student records need to remain accessible.

School divisions should base their IT disaster recovery plans on risk assessments focusing on key programs, systems, and data.

An IT disaster recovery plan:

- ◆ Sets out the responsibilities of those who are to implement the plan
- ◆ Includes emergency procedures to be used while the system is unavailable

- ◆ Includes steps for the recovery and restoration of the system
- ◆ Is regularly tested and updated

8. We recommend that school divisions prepare and test their information technology disaster recovery plans.

Purchase and disposal of real property without Minister's approval

Section 81(2) of *The Education Regulations, 1986* and section 347(2) of *The Education Act, 1995*, respectively, require school divisions to obtain the approval of the Minister before purchasing buildings or disposing of any real property (i.e., land or buildings).

During the year ended August 31, 2010, one school division purchased a building and disposed of land without obtaining the Minister's approval.

9. We recommend that school divisions obtain the approval of the Minister of Education before making purchases or disposing of real property.

Controls over school-generated funds needed

One school division did not have adequate processes to ensure that all revenues from school-based activities (i.e., school-generated funds) in schools of the school division are recorded in its financial records. Without adequate processes to collect and record school-generated funds, there is increased risk that money could be misappropriated and that revenues recorded in the financial statements are not complete.

10. We recommend that school divisions establish appropriate processes to collect and record all funds generated in schools.

Lack of a formal agreement

We noted a situation where two school divisions are jointly building a high school complex. During the year, construction started on the complex that will house not only the high school, but also another agency and a

common area. According to the funding agreement approved by the Ministry of Education for the two school divisions, the other agency is to contribute \$3.8 million, which is the full cost of the construction of the portion of the facility that it will use. However, title to this portion of the facility will remain with the two school divisions.

The two school divisions entered into an arrangement with another agency without a formal agreement. Without a formal agreement, there is increased risk of misunderstandings about current and future rights and obligations.

- 11. We recommend that school divisions ensure that when they enter into financial arrangements with other agencies, they formalize their rights and obligations in written agreements.**

Exhibit 1—School divisions, appointed auditors and our participation

Under the Act, school divisions have the authority to appoint auditors. The following lists the school divisions, their appointed auditors, and our participation.

<u>School Division</u>	<u>Appointed Auditor (at August 31, 2010)</u>	<u>Participated in Audit²</u>
Chinook School Division No. 211	Stark & Marsh	Yes
Christ the Teacher Roman Catholic Separate School Division No. 212	Parker Quine LLP	Yes
Conseil des écoles fransaskoises No. 310	BDO Dunwoody LLP and Advisors	Note 1
Creighton School Division No. 111	Kendall Wall Pandya	Note 2
Englefeld Protestant Separate School Division No. 132	Meyers Norris Penny LLP	Note 2
Good Spirit School Division No. 204	Skilnick Miller Moar Grodecki & Kreklewich	Note 3
Holy Family Roman Catholic Separate School Division No. 140	Cogent Business Consulting	Yes
Holy Trinity Roman Catholic Separate School Division No. 22	Robert A. Tiede	Note 3
Horizon School Division No. 205	Meyers Norris Penny	Yes
Ile a la Crosse School Division No. 112	Menssa Baert Cameron Odishaw	Note 2
Light of Christ Roman Catholic Separate School Division No. 16	Menssa Baert Cameron Odishaw	
Living Sky School Division No. 202	Holm Clements Kwong Svenkeson Raiche, Chartered Accountants, P.C. Ltd.	Yes
Lloydminster Roman Catholic Separate School Division No. 89	Wilkinson Livingston Stevens LLP	Yes
Lloydminster Public School Division No. 99	Wilkinson Livingston Stevens LLP	Yes
North East School Division No. 200	NeuPath Group, PC Inc.	Yes
Northern Lights School Division No. 113	Meyers Norris Penny LLP	Yes
Northwest School Division No. 203	Pinnacle Business Solutions	Yes
Prairie South School Division No. 210	Stark & Marsh	Yes
Prairie Spirit School Division No. 206	C.S. Skrupski Certified General Accountant Professional Corporation	Yes
Prairie Valley School Division No. 208	Meyers Norris Penny LLP	Yes

² Yes: We were actively involved in auditing the school division's financial statements, processes to safeguard public resources, and compliance with authorities.

<u>School Division</u>	<u>Appointed Auditor (at August 31, 2010)</u>	<u>Participated in Audit²</u>
Prince Albert Roman Catholic Separate School Division No. 6	Deloitte & Touche LLP	Yes
Regina Roman Catholic Separate School Division No. 81	Dudley & Company LLP	Yes
Regina School Division No. 4	Meyers Norris Penny LLP	Yes
Saskatchewan Rivers School Division No. 119	Deloitte & Touche LLP	Yes
Saskatoon School Division No. 13	KPMG LLP	Yes
South East Cornerstone School Division No. 209	Virtus Group LLP	Yes
St. Augustine Roman Catholic Separate School Division No. 220	Dillon Hillstead Melanson C.G.A. Prof. Corp.	Note 2
St. Paul's Roman Catholic Separate School Division No. 20	Deloitte & Touche LLP	Yes
Sun West School Division No. 207	Close Perkins & Hauta	Yes

Note 1: Our opinions for the year ended August 31, 2010 do not include the Conseil. We plan to audit the Conseil beginning with the year ended August 31, 2011.

Note 2: We limited our work to reviewing the audit plan and opinions of the appointed auditor. Consequently, our opinions for the year ended August 31, 2010 do not include this school division. We plan to follow up on any matters reported by the appointed auditor to ensure the school division addresses them.

Note 3: We are delayed in completing our work and opinions for the year ended August 31, 2010.

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