

Chapter 1

School Divisions

1.0 MAIN POINTS

This is the second year that we have been actively involved in auditing school divisions' financial statements, processes to safeguard public resources, and compliance with authorities.

While the financial statements of school divisions are reliable and school divisions are complying with authorities governing their activities related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing, school divisions still have work to do in improving their internal controls. This chapter contains guidance in the form of nine generalized recommendations including one new recommendation for school divisions. These recommendations are based on situations in various school divisions.

We encourage all school divisions to review these recommendations and, where applicable, apply them in their operations. We also note that three recommendations we made in 2011 have been implemented by school divisions.

2.0 INTRODUCTION

The Ministry of Education (Ministry) is responsible for providing direction to school divisions for Pre-kindergarten to Grade 12 education. 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 28 school divisions for the year ended August 31, 2011. See Exhibit 5.1 for a list of school divisions, their appointed auditors, and a description of our participation.

This chapter sets out the results of our audits of school divisions for the year ended August 31, 2011. We plan to report the results of our audit of the Ministry for the year ended March 31, 2012 in our 2012 Report – Volume 2.

For 2011, the school divisions had revenues totalling \$1.9 billion (2010 - \$1.8 billion) including \$1.1 billion (2010 - \$1.1 billion) from the General Revenue Fund and expenses totalling \$1.8 billion (2010 - \$1.7 billion). At August 31, 2011, the school divisions held net financial assets of \$252 million (2010 - \$241 million) and non-financial assets of \$1.4 billion (2010 - \$1.3 billion).

3.0 BACKGROUND

Starting with the year ended March 31, 2010, school divisions' financial results have been included in the Government's Summary Financial Statements. For the years ended



August 31, 2010 and 2011, we were actively involved in auditing school divisions' financial statements, processes to safeguard public resources, and compliance with authorities.

During the last three years, we met with the Ministry and provided guidance to the Ministry on its 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 audits of school divisions, we offer guidance through nine generalized recommendations including one new recommendation 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. We also note that three recommendations made in 2011 have been implemented by school divisions. See Exhibit 5.2 for a summary of school division results for the years ended August 31, 2010 and 2011. Similar to the year ended August 31, 2010, most school divisions for the year ended August 31, 2011 continue to need to improve their internal controls.

4.0 AUDIT CONCLUSIONS AND FINDINGS

We worked with appointed auditors (see Exhibit 5.1) 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, for the year ended August 31, 2011:

- › **School divisions had adequate rules and procedures to safeguard public resources except for the matters reported in this chapter¹**
- › **School divisions complied with the following authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing:**

The Education Act, 1995

The Education Regulations, 1986

The Financial Administration Act, 1993 (Section 38)

The Pension Benefits Act, 1992 (Section 44)

The Pension Benefits Regulations, 1993 (Section 38)

Pension Benefit Standards Regulations, 1985 (Canada) [Sections 9(1), 11(1)]

- › **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**

¹ For one appointed auditor we have not relied on the reports of the auditor. We carried out additional work to enable us to report our findings in this chapter.

4.1 Periodic Verification of Capital Assets Needed

One school division did not have adequate processes to periodically verify the existence of its physical assets. This increases the risk that some of its physical assets such as computers and other equipment may be disposed without authorization and proper adjustment to the accounting records.

1. We recommend that school divisions periodically verify the existence of their physical assets.

4.2 Timely Review of Financial Reports Needed

We recommended that school division boards approve policies on when and how the school divisions prepare periodic financial reports for their boards. (2011 Report – Volume 1)

Status – We continue to make this recommendation.

We recommended 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. (2011 Report – Volume 1)

Status – We continue to make this recommendation.

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 was used instead)

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 be aware of the complete financial operations of their school division throughout the year. 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), and should be provided in comparison to budget with reasons provided for significant differences. This would



allow boards to determine on a timely basis if school divisions are using money for the intended purposes, and to take corrective action as soon as possible, where required.

4.3 Segregation of Duties Required

We recommended that school divisions have segregation of duties policies. (2011 Report – Volume 1)

Status – We continue to make this recommendation.

We recommended that school divisions assess the risks of incompatible functions and take appropriate action. (2011 Report – Volume 1)

Status – We continue to make this recommendation.

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

- › There was no policy to segregate the incompatible duties of employees preparing and approving journal entries and bank reconciliations before making adjustments to accounting records.
- › 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 new employees into the payroll system (i.e., changing 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, records of years of experience) for payroll payments was not maintained.
- › There was no segregation of incompatible duties of accounts payable clerks where clerks were responsible for processing invoices for payment, printing signed cheques, comparing information on signed cheques to invoices, and mailing cheques.

- Management did not always document that it had reviewed and approved the work of staff for journal entries, bank reconciliations, and the approval of invoices from suppliers.

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.

Good internal controls separate the following functions: the custody of 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.

4.4 Information Technology Security Policies Need Improvement

We recommended that school divisions establish information technology security policies. (2011 Report – Volume 1)

Status – We continue to make this recommendation.

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.



4.5 IT Disaster Recovery Plans Needed

We recommended that school divisions prepare and test their information technology disaster recovery plans. (2011 Report – Volume 1)

Status – We continue to make this recommendation.

We found that certain school divisions did not have disaster recovery plans. School divisions need written, approved, and tested 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 utilizes computers, financial systems need to be available to pay contractors and staff the correct amounts of money 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
- › Should be regularly tested and updated

4.6 Controls Over School-Generated Funds Needed

We recommended that school divisions establish appropriate processes to collect and record all funds generated in schools. (2011 Report – Volume 1)

Status – We continue to make this recommendation.

Two school divisions did not have adequate processes to ensure that all revenues raised from school-based activities (i.e., school-generated funds) were recorded in their 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 will not be complete.

4.7 Lack of Formal Agreements

We recommended that school divisions ensure that when they enter into financial arrangements with other agencies, they formalize their rights and obligations in written agreements. (2011 Report – Volume 1)

Status – We continue to make this recommendation.

Two school divisions are jointly building a high school complex. The complex houses not only the high school, but also a regional college and a common area. As reported in our 2011 Report – Volume 1, there was no formal agreement between the school divisions and the regional college regarding the college's contribution or the college's access to and use of the property.

Also, in April 2011, a school division entered into a five year \$20 million arrangement for bus services without a formal agreement. Bus services were received by the school division based on a draft agreement. The agreement for bus services was not signed until February 2012.

Without formal agreements, there is an increased risk of misunderstandings about current and future rights and obligations.

4.8 Code of Conduct and Conflict of Interest Policies

We recommended that school divisions establish code of conduct and conflict of interest policies and communicate these to staff. (2011 Report – Volume 1)

Status – Implemented.

During the year, we found all school divisions have now established codes of conduct and conflict of interest policies. School divisions communicated these to staff.

4.9 Lines of Credit Require Minister's Approval

We recommended that school divisions obtain the approval of the Minister for the existence and use of lines of credit. (2011 Report – Volume 1)

Status – Implemented.

School divisions have now obtained the approval of the Minister for their lines of credit.



4.10 Purchase and Disposal of Real Property Without Minister's Approval

We recommended that school divisions obtain the approval of the Minister of Education before making purchases or disposing of real property. (2011 Report – Volume 1)

Status – Implemented.

The school division has now received the Minister's approval for the purchase of a building and the disposal of land.

5.0 EXHIBITS

5.1 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.

School Division	Appointed Auditor (at August 31, 2011)	Participated in Audit*
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	Deloitte & Touche LLP	Yes
Creighton School Division No. 111	Kendall Wall Pandya	Note 1
Englefeld Protestant Separate School Division No. 132	MNP LLP	Note 1
Good Spirit School Division No. 204	Skilnick Miller Moar Grodecki & Kreklewich	Yes
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	Yes
Horizon School Division No. 205	MNP LLP	Yes
Ile a la Crosse School Division No. 112	Menssa Baert Cameron Odishaw	Note 1
Light of Christ Roman Catholic Separate School Division No. 16	Menssa Baert Cameron Odishaw	Yes
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

School Division	Appointed Auditor (at August 31, 2011)	Participated in Audit*
Lloydminster Public School Division No. 99	Wilkinson Livingston Stevens LLP	Yes
North East School Division No. 200	MNP LLP	Yes
Northern Lights School Division No. 113	MNP 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	MNP LLP	Yes
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	MNP 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. Paul's Roman Catholic Separate School Division No. 20	Deloitte & Touche LLP	Yes
Sun West School Division No. 207	Close Perkins & Hauta	Yes

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

Note 1: For school divisions with revenue less than \$7 million, we limited our work to reviewing the opinions of the appointed auditor on the reliability of financial statements, effectiveness of processes to safeguard public resources, and compliance with authorities.

5.2 School Division Summary Results for 2010 and 2011

The following exhibit lists the recommendations and the number of school divisions to which the recommendations apply.

Recommendation	Year Ended August 31, 2011	Year Ended August 31, 2010
We recommend that school divisions periodically verify the existence of their physical assets.	1	0
We recommended that school division boards approve policies on when and how the school divisions prepare periodic financial reports for their boards. (2011 Report – Volume 1) We recommended 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. (2011 Report – Volume 1)	7	9



Recommendation	Year Ended August 31, 2011	Year Ended August 31, 2010
<p>We recommended that school divisions have segregation of duties policies. (2011 Report – Volume 1)</p> <p>We recommended that school divisions assess the risks of incompatible functions and take appropriate action. (2011 Report – Volume 1)</p>	<p>11</p> <p>11 related to payments</p> <p>2 related to payroll</p>	<p>12</p> <p>12 related to payments</p> <p>2 related to payroll</p> <p>2 related to revenue</p>
<p>We recommended that school divisions establish information technology security policies. (2011 Report – Volume 1)</p>	<p>19</p>	<p>20</p>
<p>We recommended that school divisions prepare and test their information technology disaster recovery plans. (2011 Report – Volume 1)</p>	<p>15</p>	<p>18</p>
<p>We recommended that school divisions establish appropriate processes to collect and record all funds generated in schools. (2011 Report – Volume 1)</p>	<p>2</p>	<p>2</p>
<p>We recommended that school divisions ensure that when they enter into financial arrangements with other agencies, they formalize their rights and obligations in written agreements. (2011 Report – Volume 1)</p>	<p>2</p>	<p>2</p>
<p>We recommended that school divisions establish code of conduct and conflict of interest policies and communicate these to staff. (2011 Report – Volume 1)</p>	<p>0</p>	<p>2</p>
<p>We recommended that school divisions obtain the approval of the Minister for the existence and use of lines of credit. (2011 Report – Volume 1)</p>	<p>0</p>	<p>8</p>
<p>We recommended that school divisions obtain the approval of the Minister of Education before making purchases or disposing of real property. (2011 Report – Volume 1)</p>	<p>0</p>	<p>1</p>