

## Chapter 6 Education

### 1.0 MAIN POINTS

This chapter reports the results of the annual audit of the Ministry of Education (Education), its funds, and plans.

Education, the Technology Supported Learning Fund, the School Division Tax Loss Compensation Fund, the Prince of Wales Scholarship Fund, the Teachers' Superannuation Plan, and the Teachers' Disability Plan complied with the authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing.

The financial statements of the Teachers' Superannuation Plan and Education's funds for the years ended on or before June 30, 2013 are reliable.

Education, Teachers' Superannuation Plan, and Teachers' Disability Plan had effective rules and procedures to safeguard public resources except Education needs to:

- › Follow Canadian generally accepted accounting principles for the public sector when accounting for its decisions related to school capital projects and their financing
- › Enter into written agreements with school divisions for funding of school capital projects
- › Improve its information technology (IT) processes by preparing an IT strategic plan, signing a complete service level agreement with the Information Technology Office of the Ministry of Central Services (ITO),<sup>1</sup> monitoring the effectiveness of ITO's security controls over Education's computer systems and data, and promptly removing unneeded user access to its computer systems and data

### 2.0 INTRODUCTION

Education provides leadership and direction to early learning and child care, Kindergarten through Grade 12 education, literacy, and library sectors. Education supports the sectors through funding, governance, and accountability, with a focus on improving student achievement.<sup>2</sup>

For the year ended March 31, 2013, services were provided by 279.5 full-time equivalent positions.<sup>3</sup>

<sup>1</sup> Effective May 25, 2012, the Information Technology Office became a part of the Ministry of Central Services.

<sup>2</sup> Ministry of Education, *2012-13 Annual Report*, p. 5.

<sup>3</sup> *Ibid.*, p. 6.



## 2.1 Financial Overview

For the year ended March 31, 2013, Education spent \$1.65 billion on its programs and had revenues of \$12.5 million. Information about Education's revenues and expenditures appears in its *2012-13 Annual Report*.<sup>4</sup>

**Figure 1 – Major Programs and Spending**

	Estimates 2012-13	Actual 2012-13
	(in millions)	
Central Management and Services	\$ 15.6	\$ 17.3
K-12 Education	1,295.6	1,281.5
Early Years	62.9	58.6
Literacy	2.7	2.6
Provincial Library	12.0	12.0
Teachers' Pension and Benefits	<u>244.9</u>	<u>310.5</u>
<b>Total Appropriation</b>	<u>1,633.7</u>	<u>1,682.5</u>
Capital Asset Acquisitions	(38.6)	(30.4)
Capital Asset Amortization	1.0	1.4
<b>Total Expense</b>	<u>\$ 1,596.1*</u>	<u>\$ 1,653.5</u>

Source: Ministry of Education, *2012-13 Annual Report*, p. 20

\* The Ministry obtained an additional \$58.2 million authorized through the Saskatchewan Supplementary Estimates and statutory adjustments.

## 2.2 Related Special Purpose Funds and Agencies

At March 31, 2013, Education was responsible for 28 school divisions and the Teachers' Group Life Insurance Plan each with year-ends of August 31, and the following funds and plans:

	Year-end
<b>Funds</b>	
Technology Supported Learning Revolving Fund	March 31
School Division Tax Loss Compensation Fund	March 31
Prince of Wales Scholarship Fund	March 31
<b>Plans</b>	
Teachers' Superannuation Plan	June 30
Teachers' Disability Plan*	June 30
Teachers' Dental Plan	June 30

\* The Teachers' Disability Plan does not have separate financial statements

<sup>4</sup> [www.education.gov.sk.ca/Annual-Report](http://www.education.gov.sk.ca/Annual-Report) (30 October 2013).

Our *2013 Report – Volume 1* includes the audit results of the school divisions and Teachers' Group Life Insurance Plan for the year ended August 31, 2012. For our audit results of the Teachers' Dental Plan, see Chapter 25. This chapter includes the results of the remaining above-listed plans and funds (agencies).

### 3.0 AUDIT CONCLUSIONS AND SCOPE

In our opinion, for the years ended on or before June 30, 2013:

- › **Education and its agencies had effective rules and procedures to safeguard public resources except as reported in this chapter**
- › **Education and its agencies complied with the following authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing:**

<i>The Government Organization Act</i>	<i>The Teachers' Life Insurance (Government Contributory) Act</i>
<i>The Education Act, 1995</i>	<i>The Teachers' Superannuation and Disability Benefits Act</i>
<i>The Education Funding Regulations</i>	<i>The Teachers' Superannuation and Disability Benefits Regulations</i>
<i>The Education Regulations, 1986 (Sections 95.4 to 95.7)</i>	<i>The Teachers Dental Plan Act (Section 7)</i>
<i>The School Division Tax Loss Compensation Fund Administration Regulations</i>	<i>The Pension Benefits Act, 1992</i>
<i>The Child Care Act (Sections 21 and 22)</i>	<i>The Pension Benefits Regulations, 1993</i>
<i>The Child Care Regulations, 2001</i>	<i>The Tabling of Documents Act, 1991</i>
<i>The Financial Administration Act, 1993</i>	<i>The Crown Employment Contracts Act</i>
<i>The Public Libraries Act, 1996 (Sections 64 and 65)</i>	<i>Pension Benefits Standards Regulations, 1985 (Canada)</i>
<i>The Public Libraries Regulations, 1996</i>	<i>Income Tax Act (Canada) (Sections 147.1, 147.2, and 147.3)</i>
<i>The Public Service Act</i>	<i>Income Tax Regulations (Canada) (Sections 8501-8504, 8512, 8514, 8520)</i>
<i>The Public Works and Services Act (Sections 4 and 8)</i>	Orders in Council issued under the above legislation
<i>The Department of Social Services Act (Section 8)</i>	

- › **The financial statements for the Teachers' Superannuation Plan and the funds are reliable**

We used the control framework developed by the Canadian Institute of Chartered Accountants (CICA) to make our judgments about the effectiveness of Education's and the plan's controls. The CICA defines control as comprising elements of an organization that, taken together, support people in the achievement of an organization's objectives.

Assessing Education's rules and procedures to safeguard public resources includes assessing the design and effectiveness of Education's control activities relating to grants. Grants amount to approximately 97% of the total Ministry expenditures.

This chapter also provides the status of previous recommendations agreed to by the Standing Committee on Public Accounts (PAC).



## 4.0 KEY FINDINGS AND RECOMMENDATIONS

In this section, we outline key observations from our assessments and the resulting recommendations.

### 4.1 Assets Constructed Under Shared Ownership Agreements Incorrectly Recorded

During 2012-13, Education entered into contractual agreements for certain capital projects with seven school divisions. It calls these shared ownership agreements. The Government argues that under these agreements, Education owns a portion of the facility being built. Education based its share of ownership on the proportion of funding it provided as compared to the expected overall cost of the project. Instead of recording its funding for these capital projects as capital transfers (expenses) as done prior to entering into these agreements and for other approved capital projects, Education recorded its funding of \$27.2 million as tangible capital assets of the General Revenue Fund (GRF). We disagreed with the accounting for these projects based on the following.

Under Canadian generally accepted accounting principles for the public sector (Canadian GAAP), to capitalize a tangible capital asset, an agency must control the risks and benefits of the asset.<sup>5</sup> The risks and benefits with respect to the ongoing use of the facilities being constructed that Education obtains from the agreements remain substantially unchanged from the risks and benefits derived from facilities currently solely owned by school divisions. These facilities are specifically designed to deliver educational services and their use is not easily changed. School divisions will use them in the delivery of their services. Education remains a major source of capital for such facilities and a major source of maintenance funding for them. Also, as noted in **Section 4.2**, it remains a source of funding to assist in the repayment of school divisions' borrowings related to capital projects.

The Government uses Education as its vehicle to exercise control over the school divisions that are party to these agreements. Given the relationship between Education and the school divisions, we do not think it is feasible to partition the benefits and risks associated with facilities built under these agreements to Education and the related school divisions. Furthermore, equating the extent of financial contribution of each party to the risks and rewards of ownership cannot be substantiated.

Education incorrectly recorded \$27.2 million as tangible capital assets and did not properly record this amount as capital transfers (i.e., expenses). Use of Canadian GAAP is necessary so that Education's financial records accurately reflect the costs of its programs and decisions.

<sup>5</sup> Risks of owning an asset would include being responsible for the costs of ownership (e.g., insurance coverage, maintenance, and the impact of asset not being able to provide services). Benefits of owning an asset include use of assets to provide services directly (e.g., using it to provide education services) or to generate revenue (e.g., rental income).

1. We recommend that the Ministry of Education follow Canadian generally accepted accounting principles for the public sector when accounting for assets constructed under shared ownership agreements.

## 4.2 Capital Grants to School Divisions Not Properly Recorded

We recommended that the Ministry of Education properly record capital grants to school divisions in its financial records. (2012 Report – Volume 2; Public Accounts Committee has not yet considered this recommendation)

**Status** – Not Implemented

In our *2012 Report – Volume 2*, Chapter 5 and in our *2013 Report – Volume 1*, Chapter 8, we describe that Education had established a practice of providing school divisions with funding to enable them to repay the principal and interest due on loans for their capital projects. Instead of providing funding during the development of certain capital projects, Education decided to let the school divisions borrow money from financial institutions and to provide the school divisions with funding as the principal and interest on these loans comes due. School divisions rely on this source of funding to repay their loans, and Education has created an expectation or guarantee to the school divisions that it will provide them with sufficient funding to do so.

Canadian GAAP requires transactions to be accounted for based on their substance. As such, loans expected to be repaid through future government funding should be accounted for as a liability and expense in the year that the expectation or promise is made.

Education inappropriately accounts for these funding arrangements on a “pay-as-you-go” basis instead of on an accrual basis. At March 31, 2013, Education did not record liabilities of \$72 million in its financial records.

## 4.3 Capital Funding Agreements with School Divisions Needed

We recommended that the Ministry of Education enter into written agreements with school divisions setting out the terms and conditions of its capital grants that support the Ministry’s expenses. (2011 Report – Volume 2; Public Accounts Committee agreement October 4, 2012)

**Status** – Not Implemented



Education advised that it is working to implement funding agreements for all new major school capital projects beginning in 2013-14 (i.e., those costing more than \$1 million).

In 2012-13, Education communicated expectations about school capital using a variety of means. As reported in prior years, Education continued, for most capital projects, to use approval forms to communicate its funding decisions for school capital projects. As noted in **Section 4.1**, during 2012-13, Education signed shared ownership agreements with seven school divisions for certain capital projects. Also, it communicated expectations about school capital through letters to school divisions and discussions at sector conferences.

Formal funding agreements would help Education and school divisions have a clear understanding of the terms and conditions of capital funding and expectations about the management of capital projects.

## 4.4 Information Technology Controls Need Improvement

We recommended the Ministry of Education (formerly the Department of Learning) sign a service level agreement with the Information Technology Office of the Ministry of Central Services. (2006 Report – Volume 3; Public Accounts Committee agreement March 31, 2007)

**Status** – Partially Implemented

During 2011-12, Education signed a memorandum of understanding (MOU) with ITO identifying the roles and responsibilities for both parties. However, the MOU is not yet complete because Education and ITO are still working to define service, disaster recovery, and reporting requirements. Without an adequate service level agreement, Education's needs may not be met.

We recommended that the Ministry of Education (formerly the Department of Learning) follow its established procedures for user access to its systems and data. (2007 Report – Volume 3; Public Accounts Committee agreement January 9, 2008)

**Status** – Partially Implemented

As in prior years, Education did not consistently follow its processes for promptly removing user access to its computer systems from individuals who are no longer in its employment. For example, we found 3 out of 16 individuals tested did not have their access removed promptly. If former employees do not have access removed on a timely basis, it increases the risk of inappropriate access to Education's computer systems and data.

We recommended the Ministry of Education monitor the effectiveness of the Information Technology Office of the Ministry of Central Services' security controls to protect the Ministry's computer systems and data. (2008 Report – Volume 3; Public Accounts Committee agreement December 9, 2008)

**Status** – Not Implemented

ITO provides Education with computers and network access, and acts as custodian for Education's information systems and data. To know that its information systems and data are secure, Education needs to monitor whether the security provided by ITO is adequate. As described above, Education has not yet agreed with ITO about the service, disaster recovery, and reporting requirements that ITO will provide. During the year, Education received reports from ITO using a standard template developed for all ministries. However, these reports do not contain sufficient information to enable Education to assess the effectiveness of ITO's security controls. Therefore, Education does not know if ITO is addressing Education's security and disaster recovery needs.

We recommended the Ministry of Education prepare an information technology strategic plan. (2009 Report – Volume 3; Public Accounts Committee agreement May 12, 2010)

**Status** – Partially Implemented

Education continues to work on developing an IT strategic plan. Education intends to complete the IT strategic plan by 2014.

Education needs an IT strategic plan to ensure its use of resources supports its strategic objectives by helping management ensure IT initiatives are appropriate to meet Education's strategic direction. It would also help management determine if it has addressed the threats and risks to Education's security.



## 5.0 EXHIBIT

### 5.1 Status of Previous Recommendations of the Standing Committee on Public Accounts

The following exhibit provides an update on recommendations agreed to by PAC that are not yet implemented and are not discussed earlier in this chapter.

PAC Report Year	Outstanding Recommendation	Status
<b>Ministry of Education – Instruction Time (2009 Report – Volume 3)</b>		
2011	4-3 that the Ministry of Education define “instruction time” to set clear expectations for delivery of the core curriculum.	<b>Partially Implemented</b> (as of September 30, 2011) We plan to follow up in 2014.
2011	4-4 that the Ministry of Education require school divisions to publicly report on their performance in meeting the Ministry’s instruction time requirements.	<b>Partially Implemented</b> (as of September 30, 2011) We plan to follow up in 2014.
2011	4-5 that the Ministry of Education monitor for all core curriculum areas of study the extent to which school divisions meet the Ministry’s requirements for instruction time.	<b>Partially Implemented</b> (as of September 30, 2011) We plan to follow up in 2014.
2011	4-6 that the Ministry of Education take corrective action where necessary to improve school division compliance with the Ministry’s requirements for instruction time.	<b>Not Implemented</b> (as of September 30, 2011) We plan to follow up in 2014.