

May 2016



IMPROVING BUDGETING AND
EXPENDITURE MANAGEMENT IN THE
PUBLIC EDUCATION SYSTEM

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The Honourable Linda Reid
Speaker of the Legislative Assembly
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Dear Madame Speaker:

I have the honour to transmit to the Legislative Assembly of British Columbia my report, *Improving Budgeting and Expenditure Management in the Public Education System*.

We conducted the audit in accordance with the standards for assurance engagements set out by the Chartered Professional Accountants of Canada (CPA) in the *CPA Handbook – Assurance and Value-for-Money Auditing in the Public Sector*, Section PS 5400, and under the authority of Section 11 (8) of the *Auditor General Act*.



Carol Bellringer, FCPA, FCA
Auditor General
Victoria, B.C.
May 2016

AUDITOR GENERAL'S COMMENTS

THROUGH OUR ONGOING audits in the public education system, we've observed instances in which the Ministry of Education and some school districts were caught off-guard by unpredicted deficits and budget shortfalls, in part because some districts were struggling to manage their finances.

Therefore, it seemed appropriate to audit school districts' budgeting and expenditure monitoring practices and share our findings with all districts in the hopes that everyone could benefit. As such, we collected our observations from our past audits, and noted and researched good practices. We also looked at the Ministry of Education's role in monitoring and providing guidance in this area.

We chose four school districts, representing a range of budget sizes and geographical areas:

1. SD No. 8 (Kootenay Lake)
2. SD No. 38 (Richmond)
3. SD No. 61 (Victoria)
4. SD No. 68 (Nanaimo-Ladysmith)

We are encouraged that these districts follow many of the good practices that we expected for developing their budgets and monitoring their expenses.

Accountability changes being introduced between government and the districts are designed to give districts increased flexibility to set goals most relevant to their individual circumstances. It also places greater importance on school districts' long-term sound strategic and financial planning because solid planning processes help ensure better spending decisions.



CAROL BELLRINGER, FCPA, FCA
Auditor General

AUDITOR GENERAL'S COMMENTS

We also found potential for improvement in a few key areas, such as communications and spending controls. Districts could increase communication of their strategic plans to their stakeholders to better link their budget decisions to their goals and outcomes. They could also provide better information to their respective school board so the board can make the best quality decisions. Finally, tightening some spending controls would help to curb over-spending.

For the government's part, the Ministry of Education is monitoring and guiding school districts well. It could provide even greater direction to districts around development of their strategic plans, which in turn would better inform the districts' budget development process.

This was not intended to be a conclusive audit of the whole public education sector; however, we made 8 recommendations - 6 for all school districts so they can consider improving their budget development and expenditure monitoring activities, and 2 for the Ministry of Education.

Our report also includes a list of 20 self-assessment questions, based on good practice principles, for school trustees to discuss with district management about the state of their budget development and expenditure monitoring, and where improvements might be made.


We wish to thank everyone we spoke to in the public education system for their cooperation and contribution to this report.



Carol Bellringer, FCPA, FCA
Auditor General
May 2016

REPORT HIGHLIGHTS

**\$4.7
BILLION**
budget for
60 districts
(2015)



Some districts struggle to
**MANAGE
THEIR
FINANCES**



Found **GOOD
PRACTICES &
areas to IMPROVE**

STUDENTS



**535,000
PUBLIC**




**81,000
PRIVATE**



**2,200
HOME SCHOOLED**
(2015)

Districts should set
**CLEAR DIRECTION
& REALISTIC
BUDGETS, and
MONITOR
SPENDING**

All districts can learn
from this report's
**SELF-ASSESSMENT
CHECKLIST FOR
SCHOOL BOARDS**
on page 20



Good
planning
ENSURES BETTER
spending
decisions

SUMMARY OF RECOMMENDATIONS

WE RECOMMEND THAT THE MINISTRY OF EDUCATION PROVIDE SCHOOL DISTRICTS WITH GUIDANCE, SUPPORT AND EXPECTATIONS FOR:

- 1** developing and communicating strategic plans that demonstrate how the priorities identified and goals set inform both operational strategies and budget decisions.
- 2** documenting and communicating the actual results achieved compared to the budget and the goals developed during the strategic planning process.

WE RECOMMEND THAT, WHERE APPLICABLE, EVERY SCHOOL DISTRICT:

- 3** develop a strategic plan that shows how the process for identifying priorities and setting goals informs operational strategies and budget decisions, and then communicate that plan to all stakeholders.
- 4** develop a long-term facilities plan that shows how capital decisions today are informed by the current condition of existing facilities, projected student enrolment, anticipated changes in land use, and other long-term factors, and then communicate that plan to all stakeholders.
- 5** document milestone dates and key deliverables in budgets, including deadlines and formal assignment of responsibility for completion of each milestone.
- 6** document the authorities and key responsibilities for managing and monitoring budgets.
- 7** regularly report forecasted results compared with actual budget results to the school board (or committee of the board), and provide an accompanying discussion and analysis, as necessary, to fully communicate financial performance and key risks.
- 8** implement more rigorous controls to prevent the initiation of unbudgeted purchases.

RESPONSE FROM THE MINISTRY OF EDUCATION

THE MINISTRY OF Education would like to thank the Auditor General and her staff for the report on Improving Budgeting and Expenditure Management in the K-12 Sector.

Since October 2014, the Ministry of Education has been working with school districts and provincial education partners to develop an improved K-12 Accountability Framework focussed on student learning. The draft [Framework for Enhancing Student Learning](#) reflects a public commitment by education partners to work together to continuously improve student learning for each student and to address long-standing differences in performance amongst particular groups of students, most notably Aboriginal students, children in care, and students with special needs.

With a clear focus on the [goals of BC's education system](#) (intellectual, human and social, and career development), meaningful and effective planning and communication of evidence, system-wide capacity building, and linkages with other local agreements to support Aboriginal learners, the Framework is an important new provincial structure that will help make local priorities and outcomes for enhancing student learning explicit. With this focus, we believe the Framework will assist school districts in their strategic planning that identifies priorities and sets goals informing local strategic and budgetary decisions and districts' continuous efforts to enhance student learning.

The Ministry accepts the two recommendations in the report directed towards the Ministry, and will work with school districts to implement the six recommendations directed towards them.

Working groups focusing on school district financial health and implementation of the Framework for Enhancing Student Learning will incorporate these recommendations into the work being done to strengthen the financial stewardship roles of Boards of Education.

The Ministry is partnering with the BC School Trustees Association to produce a series of resource guides for trustees to assist them in meeting their financial oversight responsibilities.

The first of these guides-The Guide to Audit Committees for Boards of Education-was distributed to all school trustees on March 15, 2016. The BCSTA will also be providing school trustee professional development opportunities. Additionally, both the BC Association of School Business Officials and the BC School Superintendents Association will continue to provide learning opportunities for their members in the area of financial governance.

School districts are making great efforts to provide the highest quality public education for BC's communities in a fiscally responsible way. The Province is committed to work cooperatively with school districts to the benefits of all students.

BACKGROUND

THE PURPOSE OF British Columbia's public school system is to enable all students in the province to develop their individual potential and to acquire the knowledge, skills and abilities needed to contribute to a healthy society and a prosperous and sustainable economy. In 2015, there were about 535,000 public school students, 81,000 independent school students, and 2,200 home-schooled children enrolled.

Sixty school districts, ranging significantly in the number of students served and size of geographic areas, deliver the education program. In 2015, the Ministry of Education (ministry) provided school districts with \$4.7 billion of education operating funding.

School districts are governed by a publicly elected board of education (usually referred to as a school board). Specific roles and responsibilities are set out under the *School Act*, the *Teachers Act*, the *Library Act*, the *First Nations Education Act*, the *Community Care and Assisted Living Act*, the *Special Accounts Appropriation and Control Act*, and accompanying regulations.

Ministry and school district co-governance roles

In delivering public education, school districts – and the school boards that govern them – are responsible for meeting the goals of the system, focusing primarily on student achievement. The ministry's role is to provide leadership and funding to the education system through governance, legislation, policy and standards. That role also involves co-governing the K–12 education system with the school boards. Under

the co-governance model, the ministry, school boards, and key stakeholders together determine the strategic direction of school districts.

Until this year, the goals of school districts were aligned with the goals of the ministry through Achievement Contracts. Starting with the 2015/16 fiscal year, however, the accountability framework has changed and Achievement Contracts and other related reports are no longer mandated. The intent of this change is to shift from a compliance model to one that allows school boards more flexibility and encourages good planning focused on the most relevant outcomes.

ACHIEVEMENT CONTRACTS

The Achievement Contract is a public statement of commitment by a school board to improve success for each student in the district. Each contract is developed collaboratively, on an evidence-based assessment of the needs and priorities of the students in the district. The contract identifies areas of focus for the improvement of student success, describes strategic actions, and outlines processes to monitor progress and make adjustments intended to improve results.

BACKGROUND

School district budgeting and funding requirements

School district funding is based, for the most part, on the number of students enrolled, with adjustments made for unique student needs and other district-specific factors. School districts prepare two budgets:

- ◆ a preliminary budget before the beginning of the fiscal year, and
- ◆ an amended final budget once September enrolment for the year is known and funding amounts are re-calculated.

A budget is essentially a financial plan. In any organization or sector, the budgeting process is important because budgeting decisions impact the financial health of an entity. A budget determines how funding will be allocated and how services will be delivered. When careful planning informs budgeting, funding decisions are more likely to support the strategies most critical to improving performance and achieving desired outcomes. A sound process for identifying priorities and developing goals provides the foundation for good budgeting decisions.

In the case of the education sector, after budgets are adopted, school boards need to be confident that revenues and expenses will be consistent with those budgets; and that, if deviations and risks emerge, board members will know early enough to be able to adjust course. This confidence can be achieved by having good controls in place and by regularly monitoring performance against budget throughout the year.

By law, school boards in the province are not allowed to budget for or incur an accumulated deficit in their operating and other funds, unless with permission from the Minister of Education. For example, at the end of each fiscal year, operating revenues from all past years must be more than operating expenses from all past years (resulting in an accumulated operating surplus). If a school board incurs an accumulated operating deficit, it will be required to reduce expenses in future years to eliminate the accumulated deficit.

The ministry's monitoring role

The ministry's School District Financial Reporting Branch (branch) monitors school board accountability and performs several budgeting-related duties.

The branch:

- ◆ works with school districts to monitor how their funding allocations are budgeted and spent
- ◆ coordinates, monitors and analyzes school board budgets, financial statements and other financial reporting
- ◆ updates budgeting, accounting and reporting policies and instructions for school districts
- ◆ updates budgeting and accounting reference material to improve school board accountability

BACKGROUND

WHY WE DID THIS AUDIT

Through our ongoing performance and financial audits in the public education system, we have been aware of variations in the quality of budgeting controls and the monitoring of expenditure risks.

Over the past decade, we have also seen several high-profile cases where school districts had budgeted for a modest surplus, but ended the year with significant unplanned accumulated deficits. The outcome of these deficits has included abrupt and unplanned layoffs, other cost-cutting measures that resulted in sudden changes to service delivery, and loss of confidence by the school district community and partner groups.

Past examinations by our Office and other agencies into the cause of such failures point to several common weaknesses:

- ◆ The school boards did not regularly receive reports from senior management on actual performance against budget, or the reports the boards did receive were not always accurate or reliable.
- ◆ Controls for monitoring overspending were not sufficient, resulting in overspending not being identified in a timely manner.
- ◆ Insufficient controls over hiring, resulting in staffing costs exceeding budget.
- ◆ Those individuals with budget responsibility did not have the right information (such as how much budget room remained) when making expenditure decisions, or their responsibilities were not clear.

- ◆ Deficient planning meant that growing fiscal pressures were not seen or understood and, therefore were not managed or budgeted for.

We therefore decided to carry out this audit to identify where good practices exist, and identify areas for improvement in budgeting and expenditure management that all school districts can learn from to avoid surprise deficits.

AUDIT SCOPE AND OBJECTIVES

WE CONDUCTED THIS audit to examine the processes and practices used by school districts to develop plans and budgets, and to monitor and control expenditures for a sample of school districts. We also examined whether the Ministry of Education is adequately monitoring and providing guidance to school districts in budgeting and expenditure management.

Specifically, we looked at whether school districts:

1. followed good practice in the development and communication of strategic plans,
2. followed good practice in the development of budgets,
3. regularly monitored and reported actual and forecasted results in comparison with budgets, and
4. had appropriate processes in place to prevent expenditures that were not in accordance with approved budgets.

While we examined the design and existence of these processes and controls, we did not conclude on their overall effectiveness (for example, we did not evaluate the quality of strategic planning or the decisions made).

We focused on a sample of four, chosen for the range of budget size and geographical area they represent:

- ◆ School District No. 8 – Kootenay Lake
- ◆ School District No. 38 – Richmond
- ◆ School District No. 61 – Greater Victoria
- ◆ School District No. 68 – Nanaimo-Ladysmith

We present results in this report for the sample as a whole, not by individual district (although we also provided each of the four districts with more detailed findings and recommendations about where their practices can be improved). During the clearance phase of the audit, we also consulted with others in the public education system on the relevance of our findings and the suitability of our recommendations.

While this was not an audit of the entire public education sector, we believe that many of the observations from the four school districts are applicable to other school districts. We also believe that this report will serve as a guide to good practice that all the districts can learn and benefit from.

Our audit work was completed between October 2014 and July 2015. We agreed on our findings with the audited entities and the ministry during the fall of 2015.

We developed our audit objectives and criteria based on review of good practice guidance and on advice received from the Ministry of Education and several subject-matter experts working directly in the school district sector. In Appendix A, we summarize the principles of good practice and include references to other sources of good practice.

AUDIT SCOPE AND OBJECTIVES

We conducted the audit in accordance with the standards for assurance engagements set out by the Chartered Professional Accountants of Canada (CPA) in the *CPA Handbook – Assurance and Value-for-Money Auditing in the Public Sector*, Section PS 5400, and under the authority of Section 11 (8) of the *Auditor General Act*.

AUDIT CONCLUSION

OVERALL, SCHOOL DISTRICTS are following many of the good practices we expected in developing budgets and monitoring and approving expenditures. However, three main improvements are needed:

- ◆ better development and communication of strategic plans, and the linkage to budgeting;
- ◆ better reporting to school boards of financial performance relative to budget; and
- ◆ stronger budgetary and expenditure controls, including expenditure initiation.

The ministry is actively monitoring and providing guidance to, school district boards and management, but the sector would benefit from further ministry support in a number of areas, including how better to align district strategic plans with ministry strategic priorities.

KEY FINDINGS

SCHOOL DISTRICTS CAN IMPROVE THEIR BUDGETING AND EXPENDITURE PROCESSES AND PRACTICES

Development and communication of strategic plans

The foundation for good budgeting decisions is a sound process for identifying priorities, developing goals, and setting these out in well-designed, well-informed strategic and operational plans. A budget that is linked with strategies to achieve goals improves the chances of realizing the desired outcomes.

An important part of a strategic framework is a long-term facilities plan. Such a plan is critical to ensuring not only that school facilities are used efficiently now, to minimize the cost of service delivery, but also that they are maintained and, as necessary, improved, to meet future school district needs. Without a long-term outlook, there is a risk of cost pressures that might have been anticipated (and therefore avoided) emerging and leading to budget problems.

An effective long-term facilities plan should demonstrate how capital decisions made today are based on the current condition of existing facilities, projected student enrolment, anticipated changes in land use, and other long-term factors.

What we found

We found that the school districts we audited were monitoring enrolment projections and consulting with stakeholders as part of the budget process. As well, the school boards generally appeared to understand the opportunities and challenges facing their district, and had focused their budgeting on student achievement and on what was needed at the school level.

However, the practice of developing and communicating a strategic plan was inconsistent. One school district in our sample had adopted and communicated a formal strategic plan; two had developed goals and strategies that were communicated in various documents; and one had not developed any goals and strategies beyond those in its Achievement Contract with the ministry.

Only two of the school districts had developed a long-term facilities plan, although the other two are developing plans now.

Views differed among the districts about the importance of strategic planning in shaping budgeting decisions:

- ♦ Limited funding, combined with pre-defined basic requirements (such as for legislated class size), means that discretion exists for only a small portion of the overall budget. As a result, some districts felt that a broader strategic planning process is of little benefit beyond the historical requirement to develop annual Achievement Contracts with the ministry (see [sidebar](#)).

KEY FINDINGS

- ◆ Other districts, however, did view strategic planning as adding value, and they were able to demonstrate how their strategies linked to decisions that ultimately affected the budget.

Reporting and otherwise communicating the linkages between goals, strategies and resourcing decisions was an area of weakness for all districts.

Beginning in the 2015/16 school year, the accountability framework for school districts is changing (see sidebar). The aim is to improve sector planning by enabling districts to shift from a compliance focus to a focus on achievement of the most meaningful and relevant outcomes. This new accountability framework is an opportunity for districts to work with their local education partners in developing meaningful goals and strategies for enhancing student learning, and can help inform related resourcing decisions to budgeting.

RECOMMENDATION 3: *We recommend that, where applicable, every school district develop a strategic plan that shows how the process for identifying priorities and setting goals informs operational strategies and budget decisions, and then communicate that plan to all stakeholders.*

RECOMMENDATION 4: *We recommend that, where applicable, every school district develop a long-term facilities plan that shows how capital decisions today are informed by the current condition of existing facilities, projected student enrolment, anticipated changes in land use, and other long-term factors, and then communicate that plan to all stakeholders.*

PLANNING AND BUDGET DECISIONS ARE BETTER SUPPORTED IN A HEALTHY CULTURE

Nurturing the right culture to support strategic planning is also an important condition for success. In our experience, a good working partnership between the financial and instructional leaders leads to a more collaborative process. This collaboration increases the likelihood that school district budgeting decisions will be supported, because it will be felt that those decisions were informed by an effective planning process that reflects an understanding of what is most important for educational outcomes in the context of existing resources.

Development of budgets

The main objective of developing a school district budget is to optimize student performance outcomes using available resources.

Although many of the costs in a school district are fixed, the budget must still be carefully prepared, controlled and analyzed to ensure that the top priorities are funded to the extent possible. This means that the people who are involved in the budgeting process should clearly understand their roles, the significant cost drivers, and the strategies, options and assumptions that are inputs to the process. The budget itself must be well structured and internally consistent, and must reflect the key risks identified by the school district and the strategies for managing those.

KEY FINDINGS

In the end, an effective budget should be both a strategic financial plan and an accountability document that will guide the district in:

- ♦ deciding how it will deliver on its learning priorities and how it will measure success
- ♦ communicating key decisions to its stakeholders
- ♦ dealing with new priorities and risks that emerge

What we found

We found that all four school districts in our sample followed a stakeholder engagement process when developing their budgets, and communicated significant budget-related decisions to stakeholders. All sampled school districts also had a budget calendar outlining stakeholder meetings, and key deliverables and milestone dates for the planning cycle.

Some of the sampled districts had documented their milestones in detail (including internal deliverables related to components of the budget) and clearly assigned tasks and deadlines to specific people.

Other districts in our sample, however, had not documented the process beyond the budget calendar, opting instead to rely on experienced staff who knew when tasks needed to be completed. This approach poses several risks. When responsibilities and deliverables are not formalized, decision-making authority may not be clear; the budgeting process may be reactive, not proactive; and important milestones may be missed. Also, when experienced staff leave, new staff may not be aware of important aspects of the budgeting process.

THE PROVINCE IS SHIFTING TO A NEW ACCOUNTABILITY FRAMEWORK FOR PUBLIC EDUCATION

In 2015, amendments to the *School Act* included changes to the accountability framework for BC's public education system. Up until that time, school districts had been required to produce a series of annual reports to show accountability for student achievement at the school district and school levels (Annual School Plans, Achievement Contracts, Superintendent's Reports on Student Achievement, and District Literacy Plans). The fixed processes of this approach to accountability will now be replaced with more targeted, co-constructed approaches to enhancing the system-wide focus on student learning.

The new approach is expected to improve the quality of strategic planning and accountability by enabling school districts to: have greater flexibility to do what makes sense locally; broaden the scope of planning; seek greater input from the community and partners; and increase the focus on the outcomes most relevant to them.

The ministry is now working with school districts and partner groups to develop the new accountability framework. Planning activities in 2016 will reflect the transitional nature of the move from the old framework to the new one, with full implementation expected in the 2016/17 school year.

KEY FINDINGS

The major revenue driver for school districts each year is the projected student enrolment (counted as “full-time equivalents” [FTEs]), because provincial funding is calculated largely on a per-pupil basis. Student enrolment in turn influences school staffing needs (also counted as FTEs) and salary composition – together being the major expense driver for school districts.

As we expected, evaluating enrolment projections and staff FTE and salary composition was the most significant part of the budget process at all four school districts.

A small component (generally less than 1%) of the total funding a school district receives each year from the ministry is an unallocated contingency (referred to as the holdback). We found that all four of the districts in our sample took the conservative approach of not including this revenue in the year’s budget. Instead, they used it to increase budget room in following years. This approach reduces the risk of deviation from the budget if the holdback is not received.

RECOMMENDATION 5: *We recommend that, where applicable, every school district document milestone dates and key deliverables in budgets, including deadlines and formal assignment of responsibility for completion of each milestone.*

Monitoring and reporting of actual results compared with the budget’s planned results

Carefully developed budgets based on well-designed strategic plans are the foundations for achieving school district goals. Effective monitoring of budget expenditures, together with timely reporting to key stakeholders on spending activity, helps ensure the goals are reached.

We therefore expected the school districts we audited to have:

- ◆ ensured that staff involved with budget compliance, monitoring and reporting clearly understood their roles and responsibilities and were appropriately trained and supervised
- ◆ put processes in place to ensure that:
 - actual spending was periodically compared with planned spending, and actual variances compared with plan figures
 - emerging risks relevant to forecasted spending were documented and reported to executive management
- ◆ in a timely way, approved decisions requiring amendments to budgets or plans and informed key stakeholders of those decisions

What we found

In most cases, we found that, for each component of the budget (such as by department or school), accountability for managing budget compliance and monitoring actual costs was appropriate and aligned with spending authority. “Alignment with spending

KEY FINDINGS

authority” means that the person who is accountable for budget monitoring and compliance also has the authority to approve spending from that budget.

Where this is not the case, there is an increased risk that spending could be approved without regard to the budget. When the person approving spending is also accountable for ensuring budget compliance, spending is more likely to stay within the budget.

Those responsible for managing a budget – a budget manager¹ – understood that they were accountable for that budget. However, we noted inconsistencies within some districts in their formal description of the authority and responsibilities of the budget manager. This creates the risk that monitoring and reporting will not be carried out consistently. It also means that the scope of the budget manager’s authority for decision-making is not clear; and that new staff in the role may not fully understand what their responsibilities are.

In our discussions with districts, we acknowledged that the risks associated with not formally documenting authority and responsibilities depended on the degree of centralized monitoring and control over expenditures used by each district. However, “decentralized control” means the district is more reliant on budget managers to ensure the district stays within budget and that the right decisions are being made. This makes role clarity even more important. Examples of centralized control are discussed in the next section.

¹ For the purpose of this report, we define a budget manager as someone who has responsibility for a component of the overall budget. In a school district, this would typically be a principal or department head.

At all four school districts, we also found that budget managers and district finance staff were monitoring performance against budget and could access current information on actual costs compared with budget. Doing this ensures that spending decisions are informed by an understanding of how much budget room is remaining, and that budgetary issues are identified as soon as possible. In one school district, we noted that consolidation of information into a monthly report of actual spending compared with budget (and of forecast spending to the end of the year) was being done in a cumbersome manual process. In the other three districts, such a report could be generated automatically by the accounting system when required.

All the school districts were reporting performance against budget to the board, or a committee of the board, on a set schedule. Two of the districts reported monthly, and all reported at least on a quarterly basis (once annual enrolment and funding were confirmed). Regularly reporting performance against budget is good practice, but we did note some aspects of reporting that could be improved.

At one school district, actual results compared with budget were presented to the board, but forecasted revenues and expenses to the end of the year were not. Forecasted results reflect actual results to date, plus what is expected to occur for the remainder of the fiscal year. This is important to know because revenues and expenses do not occur evenly throughout a fiscal year. For example, during the summer when school is out, costs are higher for maintaining and upgrading facilities (while students are away) and lower for salary and other costs associated with the delivery of

KEY FINDINGS

educational programs. This means that the comparison of budget with actual costs is alone insufficient for understanding how a school district is performing, and it increases the risk that budgeting pressures are not being understood or communicated.

At three of the school districts, budget variances and risk information were explained verbally, and not documented in budget reports to the board. Good practice is to include a discussion and analysis explaining what the results mean and where current and emerging risks exist. That way, board members are informed of key matters before the meeting and have time to better understand what the results mean and consider what questions to ask or views to express when the meeting does occur.

At all the school districts, significant changes to spending plans relative to the approved budget were taken to the board for discussion and approval. Those changes were communicated to stakeholders, internal and external to the school district, usually through public board meetings. Whether an issue is significant enough to raise with the board or not is a matter of judgement, and depends on the amount of money involved as well as on the matter's sensitivity or program impact. We encourage all school boards to share with management their views on significance.

RECOMMENDATION 6: *We recommend that, where applicable, every school district document the authorities and key responsibilities for managing and monitoring budgets.*

RECOMMENDATION 7: *We recommend that, where applicable, every school district regularly report forecasted results compared with actual budget results to the school board (or committee of the board), and provide an accompanying discussion and analysis, as necessary, to fully communicate financial performance and key risks.*

Prevention of unauthorized expenditures

School district financial management in the province may be very decentralized. In some cases, spending and monitoring are done by the schools themselves, rather than through the finance department of the district. Although this approach has benefits, it also creates a risk that certain expenditure transactions, such as hiring and contracting, could be initiated when they are not budgeted for.

To manage this risk, we expected to see appropriate controls in place over expenditure initiation and processing, aimed at preventing or detecting certain types of activities, such as unbudgeted hiring, contracting, or purchasing.

What we found

We found that all four school districts in our audit had appropriate controls over matters having significant budgetary impact, such as hiring of staff and approval of contracts.

KEY FINDINGS

However, three of the districts did not have appropriate controls for preventing the initiation of purchase transactions when there was not enough budget room. Instead, these districts relied on budget managers to do that. Finance staff in the school district head office monitor expenditures against the budget and are able to detect instances of non-compliance – though only after the fact.

In one district, finance staff reviewed all purchase orders and confirmed that sufficient budget was present before approving initiation of any purchase. Such a control to prevent overspending is more effective than monitoring alone, because it reduces the risk of non-compliant transactions occurring in the first place. (We have noted in other organizations outside the education sector that control over purchases can be embedded in the accounting system such that the system blocks a purchase initiation when budget room is insufficient.)

Relying on school budget managers to ensure purchases stay within budget is an example of a decentralized control. It means that responsibility for applying the control is delegated to many different people (all those budget managers) – not to just a few as occurs in a centralized system. And this means there is greater risk that the control will not be applied consistently, which can reduce its effectiveness. As we noted before, this risk could be lessened by ensuring that the school districts formally document the responsibilities and authority of all budget managers.

Training, performance management and other means of ensuring consistency within job positions are also especially important when an organization relies on decentralized controls.

We found that all four school districts had appropriate controls over expenditure processing, and over transfers between budget lines at the program level (and, in particular, for restricted funding). These controls reduce the risk that the budget in a system can be changed after the budget has been approved.

In all cases, we also found appropriate segregation of incompatible duties related to expenditure processing and budget functions. Segregation of duties means different people are made responsible for carrying out specific elements of financial activities, rather than the same person being permitted to do them all. This is important because it helps ensure that the systems of internal control and financial oversight cannot be bypassed by a single person either in error or with fraudulent intent.

RECOMMENDATION 8: *We recommend that, where applicable, every school district implement more rigorous controls to prevent the initiation of unbudgeted purchases.*

KEY FINDINGS

Overall, the ministry is adequately monitoring and providing guidance to school districts, but could make improvements

The ministry provides school districts with guidance and instructions on preparing a budget. Then the ministry monitors the budgets, quarterly reporting, financial statements and related information, and identifies school districts at risk of non-compliance with budget requirements. As well, ministry staff perform additional monitoring and compliance work for special-purpose funding and FTE enrolment figures reported.

If a school district is found to be in non-compliance or is having administrative difficulties in discharging its management duties, the ministry will intervene if necessary. And if a district incurs an accumulated deficit, the ministry will ask the board for a plan to recover the deficit, and will monitor that recovery. In some deficit circumstances, the ministry may also assign special advisors to help school districts recover. In very rare circumstances, it may even dismiss the school board.

Because responsibility for financial management is delegated to school boards, the ministry does not monitor or oversee the quality of budgeting or other financial processes at the school district level. If there are issues, the ministry may opt to intervene, but ultimately it is the board that is responsible for ensuring that processes at the school district level are sound.

What we found

The ministry and school boards are, in effect, co-governing the public education system. Thus, while strategic planning in a school district should reflect the needs and interests of the local community, it should also align with the ministry's strategic priorities. We concluded from our audit that the ministry could provide additional support and direction to school districts in developing strategic plans that inform budget decision-making. For example, the reporting of actual performance compared with planned performance (though not within the scope of this audit) is a natural extension of the planning process, and we believe it is integral to any guidance and support provided.

RECOMMENDATION 1: *We recommend that the Ministry of Education provide school districts with guidance, support and expectations for developing and communicating strategic plans that demonstrate how the priorities identified and goals set inform both operational strategies and budget decisions.*

RECOMMENDATION 2: *We recommend that the Ministry of Education provide school districts with guidance, support and expectations for documenting and communicating the actual results achieved compared to the budget and the goals developed during the strategic planning process.*

APPENDIX A:

20 QUESTIONS FOR SCHOOL BOARDS TO ASK ABOUT BUDGET DEVELOPMENT AND EXPENDITURE MONITORING

THIS IS A summary of the good practice principles and elements of budgeting and expenditure monitoring we used to develop our objectives and the criteria we used to assess the school districts. School boards may find this useful as a self-assessment tool to gauge the state of their practices, and areas where improvements may be needed.

1. Is our school district effectively monitoring the needs of the community and changes in our environment?
2. How well have we identified our opportunities and challenges in delivering on our mission?
3. Have we developed the right blend of goals and strategies to be successful?
4. Are we engaging our stakeholders effectively in our strategic planning efforts?
5. Have we properly approved, communicated and adopted our Strategic Plan?
6. Do we have a sound process for preparing and adopting our annual budget, including stakeholder consultations?
7. Have we developed detailed operational plans and evaluated our financial risks and options?
8. Have we made and communicated our required budgeting decisions?
9. Has management demonstrated that our budget is a consolidation of all approved responsibility centre budgets?
10. Are we clear about the roles and responsibilities for the budgeting process?
11. Can we demonstrate that management and finance staff have received adequate training, are competent, and set up to succeed? Is their performance appropriately monitored?
12. Are we getting timely, reliable information on spending compared to plans?
13. Are we getting timely and reliable information on actual and forecasted costs, including spending pressure points?
14. Are we getting budget reports in advance of meetings that help us monitor management's financial performance?
15. Are we set up to make timely decisions to adjust operational and capital spending plans as required?
16. Are we effectively engaging and communicating with our stakeholders about our budget performance and rationale for changes?
17. Can management demonstrate that the information provided on actual costs is accurate and reflects the most recent transactions?
18. Do we have confidence that the controls over expenditures, especially areas with the highest budgetary impact, such as salaries, are adequate and effective?
19. Are we comfortable with the current checks and balances to limit expenditure authorities, with the right balance of control and flexibility?
20. Can management demonstrate to us that there is adequate segregation of duties in the district to reduce the chance of fraud and errors?



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