

**REPORT OF THE SPECIAL ADVISOR**

**SCHOOL DISTRICT NO. 40 (NEW WESTMINSTER)**

**Prepared for:**

**Hon. Mike Bernier, Minister of Education**

**Prepared by:**

**David B. Greenan, CPA, CGA**

**August 17, 2015**

## **INTRODUCTION**

I was appointed by the Minister of Education on July 28, 2015 as a Special Advisor to School District No. 40 (New Westminster).

Terms of reference:

1. The special advisor will:
  - a. Obtain from the board of education for School District No. 40 its response to recommendations identified in the special advisor work performed in 2014;
  - b. Evaluate the board's progress in implementing the special advisor's 2014 recommendations;
  - c. Determine whether the fundamental budgetary process weaknesses identified by the special advisor have been corrected; and
  - d. Evaluate the board's progress in implementing the February 2015 deficit management plan.
  
2. The special advisor must submit his final report, to the Minister by October 2, 2015.

## **BACKGROUND**

During my work as special advisor to School District No. 40 in 2014 I discussed my findings and recommendations with the Secretary-Treasurer, Al Balanuik (retired from the District October 2014) and Superintendent of Schools, John Gaipman. The District implemented a number of these recommendations during my on-site work and prior to my report being written. Work continued on these recommendations throughout the 2014/15 budget year.

Additionally, the District provided the Ministry of Education staff regular updates on their progress in improving their budgetary processes, organizational structure and achieving the deficit elimination plan.

Despite all the work that was done by the District and updates to the Ministry staff, the Minister of Education decided that the results of the work by the District should be reviewed by the special advisor to ensure that the District has created a long-term sustainable fiscal environment that complies with the School Act and Regulations and Ministry of Education policy and can eliminate the deficit. This review is based on work completed in September 2014 and assists the District in determining if they have addressed all the recommendations contained in my report. The finalized report from September 2014 has been attached as an appendix.

**PROCESS**

The process used to collect the information required to form the basis for this report was gathered through:

1. An assessment of progress in implementing recommendations of the special advisor document provided to the District for completion.
2. Meeting with Superintendent of Schools and Secretary-Treasurer to review and discuss the assessment document and other documentation provided to me by the District.

Mr. Ian Aaron, Director, School District Financial Reporting Branch was also in attendance during my visit to the District on August 17, 2015.

**RESPONSE TO RECOMMENDATIONS**

The following is the assessment of progress in implementing recommendations for the special advisor document completed by the District. Included in this document is my assessment of whether the District has implemented each of the recommendations.

A progress assessment table for each recommendation is provided for easy reference. A review of this table indicates the District has done an excellent job in fully implementing the majority of the recommendations.

PROGRESS ASSESSMENT		PROGRESS ASSESSMENT		PROGRESS ASSESSMENT	
Rec 1	●	Rec 8	●	Rec 15	●
Rec 2	●	Rec 9	●	Rec 16	●
Rec 3	●	Rec 10	●	Rec 17	●
Rec 4	●	Rec 11	●	Rec 18	●
Rec 5	●	Rec 12	●	Rec 19	●
Rec 6	●	Rec 13	●	Rec 20	●
Rec 7	●	Rec 14	●		

● Fully/Substantially implemented or alternative action taken   ● Partially implemented   ● No progress

# ASSESSMENT OF PROGRESS IN IMPLEMENTING RECOMMENDATIONS OF THE SPECIAL ADVISOR TO SD40 (NEW WESTMINSTER)

## School District Comments summarizing progress

Several of these recommendations were implemented during the time of the Special Advisor's visit in 2014. Subsequent to his departure, work has continued on the recommendations. Details of individual actions are provided in response to the specific recommendations below. We are confident that these actions in conjunction with the established deficit reduction plan will place the district on a solid financial footing going forward.

## Recommendations:

CURRENT PLANNING AND BUDGET DEVELOPMENT PROCESS	
<p><b>Recommendation 1:</b> Management should modify the budget development process to provide opportunity for cost centre managers to provide detailed budget information to the Secretary-Treasurer. This process should include regular meetings with all management and cost centre holders for the purpose of broadening the understanding of budget expenditures and revenue analysis as well as improving communication and ownership of budgets.</p>	<p><b>Self-Assessed Status</b></p> <p><input checked="" type="checkbox"/> Fully or substantially implemented</p> <p><input type="checkbox"/> Partially implemented</p> <p><input type="checkbox"/> No action taken</p> <p><input type="checkbox"/> Alternative action taken</p>
<p><b>Actions taken, results and/or actions planned:</b></p> <p>All Department Managers and Principals have been given direct responsibility for their own budgets.</p> <p>The preliminary budget for 2015/16 was completed based on projections and work plans submitted by the Managers. A process has been established to meet with managers after Student counts are submitted in September to review budget planning and needs. Any required adjustments will be incorporated into the revised budget submitted in February. Department budgets are monitored on an ongoing basis.</p>	
<p><b>Special Advisor Assessment</b></p> <p>Recommendation implemented. Based on student counts budgets are increased or decreased. Increases to budgets are supported from revenue generated by additional students.</p>	

**Recommendation 2:** Management should ensure district and departmental budgets are zero based. Department budgets should include increases where specific additional needs have been identified and is a cost of doing business. These budgets should also include reductions where decreased need(s) are identified and should be purged of one-time costs.

**Self-Assessed Status**

- Fully or substantially implemented
- Partially implemented
- No action taken
- Alternative action taken

**Actions taken, results and/or actions planned:**

Except where no reasonable method of estimation other than historical data was available, the 2015/16 Budget was prepared based on projected student numbers and planned activities. Services and supplies budgets were established using clear cost drivers, such as the number of enrolled students.

**Special Advisor Assessment**

Recommendation implemented. All budgets were zero based.

**Recommendation 3:** Management should begin the budget process in November to ensure adequate time is available for gathering budget information and having meetings with all cost centre managers and the Board.

**Self-Assessed Status**

- Fully or substantially implemented
- Partially implemented
- No action taken
- Alternative action taken

**Actions taken, results and/or actions planned:**

The current budget process undertaken for the 2015/16 year is ongoing. The Finance Department will undertake budget planning and consultation with managers starting in October of each year.

**Special Advisor Assessment**

Recommendation implemented. I would encourage the District to develop and publish a budget development timeline indicating key dates in the budget process.

**Recommendation 4:** Management should compile its own internal budget working document that is very detailed and easily understood by the Board and staff. This document should include a summary of fte positions for all staff categories.

**Self-Assessed Status**

- Fully or substantially implemented
- Partially implemented
- No action taken
- Alternative action taken

**Actions taken, results and/or actions planned:**

Budget worksheets have been developed in Excel that forms the basis for the 2015/16 budget. We will continue to refine these tools as we work through the full Budget cycle.

**Special Advisor Assessment**

Recommendation implemented. Budget worksheets are detailed, easily understood and include a summary of fte positions.

**Recommendation 5:** Management should include a District Contingency line item in the budget for “unexpected” cost pressures that occur during the year.

**Self-Assessed Status**

- Fully or substantially implemented
- Partially implemented
- No action taken
- Alternative action taken

**Actions taken, results and/or actions planned:**

The Board has passed Policy 807.0 USE OF RESTRICTED SURPLUS to establish a restricted surplus that will provide essentially the same budgeting flexibility to deal with unexpected cost pressures.

**Special Advisor Assessment**

The alternative action taken does meet the intent of the recommendation.

**THE SUFFICIENCY OF FINANCIAL SPENDING CONTROLS**

**Recommendation 6:** Management should prepare a plan, including who is responsible, to monitor the effectiveness of internal controls. This plan should include post payment reviews in the major categories of spending (i.e. purchase cards, travel claims, purchase order, etc.) and include a review and monitoring of cost centre expenditures.

**Self-Assessed Status**

- Fully or substantially implemented
- Partially implemented
- No action taken
- Alternative action taken

**Actions taken, results and/or actions planned:**

Internal audits are completed through a shared services agreement with SD41 and all payment batches are reviewed by the Secretary-Treasurer or Director of Finance. In addition, the District is in the process of updating its software to provide increased systems controls on all transactions.

**Special Advisor Assessment**

Recommendation implemented.

**Recommendation 7:** Management’s approval process for purchasing should be strengthened to ensure monitoring of compliance with District policy.

**Self-Assessed Status**

- Fully or substantially implemented
- Partially implemented
- No action taken
- Alternative action taken

**Actions taken, results and/or actions planned:**

All purchasing methods now include a post review completed by the Secretary-Treasurer or Director of Finance to ensure compliance with district policy.

**Special Advisor Assessment**

Recommendation implemented.

**Recommendation 8:** Management should segregate duties to ensure that payroll staff does not have the ability to set up employees and make payments. Payrolls and reconciliations should be reviewed and signed off by the Secretary-Treasurer or his assigned designate. Management, beginning September 30<sup>th</sup>, should perform monthly reconciliations between fte staff budgeted, fte staff recorded by Human Resources and fte staff paid.

**Self-Assessed Status**

- Fully or substantially implemented
- Partially implemented
- No action taken
- Alternative action taken

**Actions taken, results and/or actions planned:**

The district has implemented a management review process on all Payroll transfers. In addition, the district is implementing new software that will provide the ability to reconcile data in the H/R management module with data in the Payroll module. The district is in the process of developing a tool to reconcile H/R staffing to the budgeted FTE.

Recommendation is partially implemented. While the new software allows a reconciliation of payroll to H/R reported staff, it does not reconcile to budgeted FTE staff. The budgeted FTE staff is monitored through the budgeted salaries. The district will be reconciling to the budgeted FTE as soon as an appropriate tool is developed.

**Special Advisor Assessment**

Recommendation is partially implemented. While the new software allows a reconciliation of payroll to H/R reported staff, it does not reconcile to budgeted fte staff. The budgeted fte staff is monitored through the budgeted salaries. The District should also reconcile to the budgeted fte staff as outlined in my recommendation. The District is enhancing its new software to include budgeted fte staff in their reconciliations.

**Recommendation 9:** Management should compare the average teacher salary used for budget preparation to the September 30<sup>th</sup> actual payroll costs. This comparison should then be done monthly.

**Self-Assessed Status**

- Fully or substantially implemented
- Partially implemented
- No action taken
- Alternative action taken

**Actions taken, results and/or actions planned:**

A monthly financial summary report has been developed that includes a budget to actuals comparison on teacher salary.

**Special Advisor Assessment**

Recommendation implemented.

**Recommendation 10:** Management should ensure that a monthly general ledger analysis is done.

**Self-Assessed Status**

- Fully or substantially implemented
- Partially implemented
- No action taken
- Alternative action taken

**Actions taken, results and/or actions planned:**

A financial summary report has been prepared and is provided to the board on a monthly basis. A variance analysis is completed prior to submission to the board.

**Special Advisor Assessment**

Recommendation implemented through alternative action taken. The general ledger is reviewed when the purchase is authorized and all accounts are reviewed as part of the year end procedures.

**Recommendation 11:** Management should improve the process for approval for additional spending and staff positions in excess of the Board approved budget.

**Self-Assessed Status**

- Fully or substantially implemented
- Partially implemented
- No action taken
- Alternative action taken

**Actions taken, results and/or actions planned:**

At a cost of \$30,000 the district increased the Director of Finance from part time to full time. No additional staffing is currently being approved or contemplated outside the budget process. If Staffing is required due to a statutory obligation such as class size, term staffing is authorized by the Secretary-Treasurer and Director of H/R until permanent staffing can be reviewed as part of the next budget cycle.

**Special Advisor Assessment**

Recommendation implemented.

**Recommendation 12:** Management should provide the Board regular updates on the effectiveness of the District's internal controls.

**Self-Assessed Status**

- Fully or substantially implemented
- Partially implemented
- No action taken
- Alternative action taken

**Actions taken, results and/or actions planned:**

Internal audit findings are shared with the board on an annual basis, as are internal control assessments completed by our external auditor. Any internal control issues identified through ongoing management oversight are shared with the board at monthly operation committee meetings.

**Special Advisor Assessment**

Recommendation implemented.

**Recommendation 13:** Management should change the reporting so that the Human Resources department and payroll staff report to the office of the Secretary-Treasurer.

**Self-Assessed Status**

- Fully or substantially implemented
- Partially implemented
- No action taken
- Alternative action taken

**Actions taken, results and/or actions planned:**

Payroll staff now report to the Director of Finance who reports to the Secretary-Treasurer. The H/R Department reports to the Secretary-Treasurer for all staffing processed and to the Superintendent for all Labour Relations activities.

**Special Advisor Assessment**

Recommendation implemented through alternative action taken.

**OPPORTUNITIES FOR SHARING ADMINISTRATIVE AND SUPPORT SERVICES AND ASSETS FROM OTHERS**

**Recommendation 14:** More in depth discussions on the sharing of services and resources should continue to take place between SD40 and SD41.

**Self-Assessed Status**

- Fully or substantially implemented
- Partially implemented
- No action taken
- Alternative action taken

**Actions taken, results and/or actions planned:**

The District continues to explore shared services with SD41 and other districts as appropriate, and utilises a shared service model with SD41 to complete our internal audit program. The district is also participating in the Employment Practices Liability Program and other shared service initiatives being undertaken by the Service Delivery Branch of the Ministry of Education.

**Special Advisor Assessment**

Recommendation implemented.

**EVALUATION OF THE SCHOOL DISTRICT MANAGEMENT INFRASTRUCTURE IN TERMS OF ITS SUFFICIENCY TO LEAD AND MANAGE THE SCHOOL DISTRICT**

**Recommendation 15:** That the Board hire full time qualified and experienced candidates for the positions of Secretary-Treasurer and Assistant Secretary-Treasurer.

**Self-Assessed Status**

- Fully or substantially implemented
- Partially implemented
- No action taken
- Alternative action taken

**Actions taken, results and/or actions planned:**

The board has hired a qualified CPA for the position of full time Director of Finance, and now has a qualified CPA in the position of Secretary Treasurer.

**Special Advisor Assessment**

Recommendation implemented.

**CAPITAL PLANNING AND FINANCE**

**Recommendation 16:** Management should develop budgets and accounting systems for capital projects and generate monthly reports. These reports should be reviewed monthly with the Director of School Facilities. Management should include a financial statement on the status of its capital projects as part of the monthly financial reports presented to the Board.

**Self-Assessed Status**

- Fully or substantially implemented
- Partially implemented
- No action taken
- Alternative action taken

**Actions taken, results and/or actions planned:**

All capital projects are managed according to the approved budget submitted to the Ministry as part of the planning process. The District is in the process of hiring a project manager, who will be reviewing and re-developing the district's monthly reporting process to include actual to budget comparative in the monthly Board reporting.

A monthly summary of capital project expenditures is provided to the board at each monthly operations committee meeting by the Director of Operations.

**Special Advisor Assessment**

Recommendation is partially implemented. The District is in the process of improving the Capital Account Report to the Board. This reporting will be further developed to include budgets versus actual expenditures to date as the District works to improve capital reporting.

**Recommendation 17:** The Secretary-Treasurer and Director of Facilities should take more responsibility in the development of capital planning and project management.

**Self-Assessed Status**

- Fully or substantially implemented
- Partially implemented
- No action taken
- Alternative action taken

**Actions taken, results and/or actions planned:**

The District is in the process of hiring a project manager to co-ordinate capital planning and project management in house. The project manager will report to the Secretary-Treasurer who will review the project accounting on a regular basis.

**Special Advisor Assessment**

Recommendation is met through alternative action taken. The Director of Facilities is involved in developing the long-term capital planning.

**BOARD OF SCHOOL TRUSTEES**

**Recommendation 18:** The Board needs to develop a budget process that involves all stakeholders but at the same time positions the District to achieve its goals of producing surplus budgets for each year and for the years required to repay its accumulated deficit.

**Self-Assessed Status**

- Fully or substantially implemented
- Partially implemented
- No action taken
- Alternative action taken

**Actions taken, results and/or actions planned:**

The district has developed a continuous budgeting process that involves stakeholders in consultation during the development of the preliminary budget each spring through open community consultation meetings.

**Special Advisor Assessment**

Recommendation implemented.

**Recommendation 19:** The Board should establish a policy and procedure on Use of Restricted Surplus.

**Self-Assessed Status**

- Fully or substantially implemented
- Partially implemented
- No action taken
- Alternative action taken

**Actions taken, results and/or actions planned:**

The Board has passed policy 807.0 that establishes parameters for the use of restricted surplus.

**Special Advisor Assessment**

Recommendation implemented.

**Recommendation 20:** The Board should meet with management to clarify the type and format of financial information they need to allow them to fulfill their responsibilities.

**Self-Assessed Status**

- Fully or substantially implemented
- Partially implemented
- No action taken
- Alternative action taken

**Actions taken, results and/or actions planned:**

The format and content of the monthly financial reporting to the board was reviewed by the board at their monthly operations committee when it was first presented.

**Special Advisor Assessment**

Recommendation implemented. Reports to the Board are clear and concise and provide the information required by the Board.

## **BUDGETARY PROCESS**

It can be seen from the recommendations that relate to budget process weaknesses (nos. 1, 2, 3, 4, 5, 15, 18) that all have been fully implemented or alternate action taken. The Secretary-Treasurer, on his appointment in December, 2014 undertook a complete review of the 2014/15 budget and in doing so used budget planning and techniques outlined in the recommendations.

The Secretary-Treasurer and Superintendent are continuing to build and improve on their budget process for the District.

It is my opinion that the budgetary process weaknesses have all been corrected.

## **DEFICIT ELIMINATION PLAN – EVALUATION OF BOARD’S PROGRESS**

In my previous report, I advised the Minister that I did not see any difficulties in the District implementing their Deficit Elimination Plan and meeting the targets the District had set out in its plan.

This has proven to be true. The 2013/14 fiscal year had a surplus and the 2014/15 fiscal year also resulted in a surplus. Two years of large surpluses has enabled the District to eliminate the entire accumulated deficit prior to the estimated date of June 2018.

## **CONCLUSION**

In my prior report, I wrote “I am confident that by staff working together under the leadership of the Superintendent of Schools and with the support of the Board the District can eliminate the accumulated deficit, annually develop balanced budgets and create a long-term sustainable fiscal environment that complies with the School Act and Regulations and Ministry of Education policy and that will effectively support the K-12 schools in School District No. 40 (New Westminster).”

I am pleased to report that these predictions have proven to be accurate.

The Board of School Trustees, Superintendent of Schools, Secretary-Treasurer and staff are dedicated to the district and have worked very hard to address all the recommendations in my report.

Respectfully submitted



David B. Greenan, CPA, CGA

**REVIEW BY THE SPECIAL ADVISOR**

**SCHOOL DISTRICT NO. 40 (NEW WESTMINSTER)**

**Prepared for:**

**Hon. Peter Fassbender, Minister of Education**

**Prepared by:**

**David B. Greenan, CPA, CGA**

**September 2014**

## **INTRODUCTION**

I was appointed by the Minister of Education on May 14, 2014 as a Special Advisor to School District No. 40 (New Westminster). This appointment is for a term ending September 30, 2014.

Terms of reference:

1. To assist the Board by:
  - (a) reviewing the financial history and practices of the school district, and
  - (b) presenting options and making recommendations for eliminating the deficit and creating a long-term sustainable fiscal environment to comply with the School Act and Regulations and Ministry of Education policy, and to most effectively support K-12 students in the New Westminster School District.
2. The review and options analysis must include, but are not limited to:
  - (a) reviewing the financial management functions of the school district and evaluating:
    - (i) current planning and budget development processes
    - (ii) the sufficiency of financial spending controls
    - (iii) the accuracy of accounting and reporting functions
    - (iv) the nature of district spending patterns relative to similar districts, and
    - (v) opportunities for sharing administrative and support services and assets from other school districts
  - (b) inquiring into the efficacy of the relations between the Board of Education and other community groups including local governments, parent associations and others as identified by the special advisor
  - (c) evaluating the school district management infrastructure in terms of its sufficiency to lead and manage the school district
  - (d) inquiring into the human resource, labour relations, and staffing policies and procedures in the school district
  - (e) evaluating the school district's progress in implementing the March 2014 deficit management plan and providing an opinion to the minister regarding the Board's ability to meet the targets set out in the plan, and
  - (f) identifying options and making recommendations to the minister and Board of Education respecting all matters set out above.
3. The special advisor must submit a report to the minister regarding the findings and recommendations by September 30, 2014 in respect of anything arising from his duties under section 2.

## **PROCESS**

The process used to collect the information required to form the basis for this report was gathered through:

1. Interviews with:

Superintendent of Schools

Secretary-Treasurer/Assistant Superintendent of Schools (herein called the Secretary-Treasurer)

Director of Finance

Director of Human Resources

Director of Learning Resources

Director of Student Services

Director of Facilities and Operations

5 CUPE staff

3 Principals

Secretary-Treasurer, SD No. 41 (Burnaby)

School Board Auditors

Weekly/daily telephone conversations with Superintendent of Schools, SD No. 40 (New Westminster)

Each person interviewed was advised of the purpose for the interview and the process I was undertaking to gather the information for this report. Each person was asked a series of questions. In addition, all interviewees had the opportunity to offer comments and suggestions outside my prepared questions. A number of interviewees had prepared for their interviews and presented documentation of budget and reporting issues supported by emails to and from the Secretary-Treasurer and Director of Finance.

2. Meeting with Board of School Trustees (no staff in attendance).
3. A self-reporting instrument completed by the Secretary-Treasurer and Director of Finance.
4. Follow up interviews and meetings with Superintendent of Schools and Secretary-Treasurer.

5. Review of various documents including budgets, internal control procedures, various reports, financial reports to the Board, capital budgets, budget and staffing tools, Board minutes, etc.

It should be noted that Mr. Aaron, Director, School District Financial Reporting Branch and I met on May 22, 2014 to review background information on School District No. 40. Mr. Aaron also was in attendance during my initial visit to the District on May 27, 2014.

### **CURRENT PLANNING AND BUDGET DEVELOPMENT PROCESS**

In the Fall of 2013 Mr. Al Balanuik, the Secretary-Treasurer, designed a budget process based on the model in use in SD 63 (Saanich) five years ago. On the appointment of Mr. John Gaipman as Superintendent of Schools in February 2014 the model was changed to reflect the budget process in use in SD 61 (Greater Victoria).

This budget model includes 9 public meetings affording the public the opportunity to communicate their thoughts on programs and services for students.

The process to gather projected enrolment figures, determine the number of classes required, determine teaching staff and education assistants numbers is well documented and provides for accurate budget estimates. The District reviews a comprehensive list of cost pressures that have to be included in their budget. These include utilities, statutory and non-statutory benefits, salary increases, teacher increments, teacher category changes, superannuation costs, insurance costs, various software licenses and hardware maintenance increases, etc. They have a budget model that allows them to generate and calculate the average salary and benefits for all employee groups. Additionally, included in the average teacher salary cost the District has a provision for “unexpected” cost pressures that might occur during the budget year. This amount is \$900,000.

The revenue detail is well organized and complete. It includes Ministry grants from enrolments, fee paying international students, fee paying continuing education and community education students and miscellaneous revenue.

The Board is informed of budget timelines and receive revenue and expenditure summary details outlining budget reductions and budget initiatives as part of the budget presentation.

The final part of the budget process provides the Ministry of Education budget statements to the Board for their approval.

**Recommendation 1**

**Management should modify the budget development process to provide opportunity for cost centre managers to provide detailed budget information to the Secretary-Treasurer. This process should include regular meetings with all management and cost centre holders for the purpose of broadening the understanding of budget expenditures and revenue analysis as well as improving communication and ownership of budgets.**

**Comment**

This process should result in greater transparency of the budget. It will also give cost centre managers ownership and accountability for their budgets and move the budget process from a top down approach to a more consultative model.

This allows a broad opportunity for input into budget decisions with better and informed results. It develops a budget that will serve as a plan based on educational goals rather than simply a number crunching exercise.

**Recommendation 2**

**Management should ensure district and departmental budgets are zero based. Department budgets should include increases where specific additional needs have been identified and is a cost of doing business. These budgets should also include reductions where decreased need(s) are identified and should be purged of one-time costs.**

**Comment**

Other identified needs should be dealt with through budget initiatives and be part of ongoing budget discussions.

**Recommendation 3**

**Management should begin the budget process in November to ensure adequate time is available for gathering budget information and having meetings with all cost centre managers and the Board.**

**Comment**

Good budget planning and involvement of others requires constant communication. The suggested time line provides for this.

**Recommendation 4**

**Management should compile its own internal budget working document that is very detailed and easily understood by the Board and staff. This document should include a summary of fte positions for all staff categories.**

**Comment**

This allows management to provide budget information to the Board in a clear and easily understood format. Trustees should be able to easily locate any object of expenditures item in the budget and find it understandable. This should build the Board's trust and confidence in the budget information presented to them.

**Recommendation 5**

**Management should include a District Contingency line item in the budget for "unexpected" cost pressures that occur during the year.**

**Comment**

The District should have a budget line item for an amount approved by the Board. This allocation provides transparency for the Board. Use of the contingency fund should be reported to the Board as part of the monthly financial reporting.

**THE SUFFICIENCY OF FINANCIAL SPENDING CONTROLS**

The District has implemented a number of processes and procedures required to safeguard the assets of the Board and to ensure that the financial risk to the District is mitigated.

There are proper controls in place for the accounting, payroll and purchasing procedures.

I reviewed the September 30, 2013 management letter from KPMG, Chartered Accountants, who are the Board auditors. The Board will not receive the audited financial statements and management letter until September 26, 2014. Therefore, given the timing of this report I could not confirm that all issues concerning internal controls raised in the September 30, 2013 management letter had been implemented.

The Secretary-Treasurer advised me that of the three control issues raised, one has been implemented and the other two are a work in progress due to staff shortages.

The accounts payable department ensures that all expenditures have appropriate signing authority and are properly coded. A file of all signatories and their respective accounts are retained in the accounts payable department. Any transfer of account responsibilities are signed off and recorded in accounts payable.

Purchase orders are initiated and signed by cost centre managers. The orders are then sent to the Secretary-Treasurer for signature and final approval.

Accounts payable processes allow for verification of data input by a separate employee to ensure the accuracy of data entry.

In December 2013, to enhance processes for monitoring schools, cost centres and the school district budget throughout the budget year, the District moved to a web-based dashboard tool. Dashboard

gives cost centre managers real-time financial information. Dashboard is a read-only tool that outputs data from the financial system.

The Secretary-Treasurer and Director of Finance have access to all cost centre managers budgets and allow lead time to work with the manager if the school or department is projecting a deficit in their individual budgets.

This program allows the senior financial managers to monitor Special Purpose programs as well.

I was advised that all dashboards will be operational by June 30, 2014.

To ensure that the Board approved budget is being expended as allocated and planned the District uses a number of tools. These include:

- Reports in the finance system that computes the variance between expenditures and budgets.
- An “Alert” in the financial system that tells the Accounts Payable clerks that the general ledger number they are trying to post or invoice to has insufficient funds.
- Dashboards at schools, departments and school district levels.
- Monthly financial warrants, with estimated expenditures to the end of the school year are presented monthly to the Board.

Purchasing cards are reviewed by the Secretary-Treasurer monthly. A log of all cardholders and approved statements with coding and back up are submitted to the Secretary-Treasurer by the cardholder each month.

While the District has implemented a number of internal controls, it is difficult to determine their effectiveness due to the timing of this report and the availability of senior management to monitor these controls.

The largest component of the budget is salary and benefit costs (88% of the school district budget). The District has good systems in place to control these costs. There is one significant risk as the senior payroll clerk has full access to the human relations and payroll systems and the payroll clerks processing the payroll are not having their payroll reconciliations signed off and verified by the Secretary-Treasurer. There is no independent check and balance. Theoretically staff has the ability to set up a fictitious employee and make inappropriate payments. This provides the opportunity to have a “horse” on the payroll.

The District reconciles fte teaching and non-teaching staff positions (i.e. fte position control) to actual staffing monthly.

Additional staffing, in excess of budgeted regular positions, must have the approval of both the Secretary-Treasurer and Director of Human Resources.

As noted elsewhere in this report the average teacher salary is calculated again September 30<sup>th</sup> and compared to actual payroll costs.

Benefit reconciliations are done regularly. Variances are investigated for corrective action by the Secretary-Treasurer and Director of Human Resources.

The coding to invoices and staffing are in accordance with the District chart of accounts. A review of documents indicated the coding, is for the large part, correct and is in accordance with budget allocation account numbers.

#### **Recommendation 6**

**Management should prepare a plan, including who is responsible, to monitor the effectiveness of internal controls. This plan should include post payment reviews in the major categories of spending (i.e. purchase cards, travel claims, purchase order, etc.) and include a review and monitoring of cost centre expenditures.**

#### **Comment**

While the District has implemented a number of internal control measures there is no individual responsible for the monitoring the effectiveness of these controls or whether these controls are being followed.

#### **Recommendation 7**

**Management's approval process for purchasing should be strengthened to ensure monitoring of compliance with District policy.**

#### **Comment**

Management should follow up on deliberate attempts to circumvent District financial processes. Subsequent infractions regarding purchases or expenditures should not be accepted as a District responsibility.

#### **Recommendation 8**

**Management should segregate duties to ensure that payroll staff does not have the ability to set up employees and make payments. Payrolls and reconciliations should be reviewed and signed off by the Secretary-Treasurer or his assigned designate. Management, beginning September 30<sup>th</sup>, should perform monthly reconciliations between fte staff budgeted, fte staff recorded by Human Resources and fte staff paid.**

#### **Comment**

This will ensure there is appropriate segregation of duties between Human Resources and the Payroll Department and payroll is reviewed at an appropriate level.

**Recommendation 9**

**Management should compare the average teacher salary used for budget preparation to the September 30<sup>th</sup> actual payroll costs. This comparison should then be done monthly.**

**Comment**

This will assist management in ensuring that the budgeted average salary is correct. Given the importance of this average salary to actual payroll costs it should be monitored against budget monthly.

**Recommendation 10**

**Management should ensure that a monthly general ledger analysis is done.**

**Comment**

This will improve the accuracy of the accounting and reporting functions.

**Recommendation 11**

**Management should improve the process for approval for additional spending and staff positions in excess of the Board approved budget.**

**Comment**

Currently additional spending for staff requires the approval of the Secretary-Treasurer and the Director of Human Resources. Additional spending only requires the approval of the Secretary-Treasurer. The Board should be informed of these additional expenditures through improved reporting by providing the Board a monthly variance statement and fte budgeted positions to actual.

**Recommendation 12**

**Management should provide the Board regular updates on the effectiveness of the District's internal controls.**

**Comment**

Given the District's past history of deficits and the implementation of many new internal control measures the Board should be advised of their effectiveness to mitigate risk.

**Recommendation 13**

**Management should change the reporting so that the Human Resources department and payroll staff report to the office of the Secretary-Treasurer.**

## Comment

Financial controls such as payroll reconciliations to budgeted staff are coordinated through the office of the Secretary-Treasurer. This would improve communications between these departments.

### **THE NATURE OF DISTRICT SPENDING PATTERNS RELATIVE TO SIMILAR DISTRICTS**

The Ministry of Education provided me a copy of their analysis of comparative staffing levels for School District No. 40, the Province and a subset of school districts with similar enrolments from 2006 to 2013. It appears 2013 is based on staffing levels as at September 2012.

I did not spend any time researching current district spending patterns for this report beyond what was provided to me by the Ministry. The figures for 2013 and 2014 are not available at the time of writing this report and given the scope of this report I decided to prioritize my review on key issues in terms of internal controls, budgeting, accounting, reporting as well as the management structure and ability of the district to have a sustainable fiscal environment as well as their ability to retire their accumulated deficit.

The staffing levels at this point are not that important as the District did use the Ministry analysis to assist them in their downsizing. I have attached, as an appendix, to this report a statement, showing fte positions for the 2010/11 to 2014/15 budget years which shows a downward trend in staff.

### **OPPORTUNITIES FOR SHARING ADMINISTRATIVE AND SUPPORT SERVICES AND ASSETS FROM OTHERS**

The District has a number of shared services in place with School District No. 41 (Burnaby). These include:

1. Internal audit on school trust accounts. Three schools are audited annually and over a 4 year cycle all 12 schools are audited. The District then reviews the audit findings with the school secretary and Principal and follow-up to ensure all recommendations are put in place.
2. Joint tender for student transportation. Savings for SD 40 are estimated to be \$15,000 to \$20,000 per year. The District moved from the use of taxis to buses for student transportation.
3. Joint purchase of 500 Lenova desk top computers. These computers were lease return computers, monitors and peripherals. Burnaby charged a 10% administration fee, however, the pricing of this equipment was significantly lower than if SD 40 tendered on its own. Estimated savings for SD 40 is \$25,000.

New Westminster and Burnaby School Districts are in discussions on the following shared services:

1. Occupational Health and Safety. New Westminister would contract 5 hours per week of Burnaby's Health and Safety Officer.
2. Assistance with migration from Group Wise to MS Outlook. This will ensure SD 40's data is intact and the transition is seamless.

3. Assistance with migration to Next Generation Network. SD 40 has to upgrade their computer hardware in order to take advantage of the Provincial Learning Network upgrades. Burnaby has the expertise and purchasing power to assist them.
4. Assistance with developing purchasing standards and procurement processes.
5. Participate in Burnaby's bulk food order for cooking classes at SD 40's secondary school. Potential annual savings of \$20,000.

The District has initiated a number of internal cost saving measures as well which include:

1. Participation in the Telecommunication Services Master Agreement (TSMA) effective July 1, 2013. This provides SD 40 purchasing power which results in reduced Telus rates for landlines and mobile phones. Annual savings of \$25,000.
2. Contract review of Xerox. Negotiations with Xerox has resulted in reducing the number of copiers in the District, providing newer and more cost efficient machines and reduced the cost of paper. Annual savings of \$100,000.

In terms of sharing administrative services there is a secondment agreement between School District No. 40 (New Westminster) and School Districts No. 49 (Central Coast) and School District No. 84 (Vancouver Island West) for the services of a Director of Business Operations for School Districts No. 49 and 84.

Other potential areas for sharing administrative and support services between SD No. 41 and SD No. 40 include:

- IT standards and support to develop SD 40 district standards similar to SD 41 rather than individual school standards.
- Warehousing services for purchasing.
- Energy management – use of SD 41's energy manager to review and make recommendations on SD 40 capital projects and existing schools and other facilities. This same opportunity exists to include Fortis natural gas savings energy review program.
- Facilities maintenance – use of SD 41 standards and procedures which could include development of SD 40 standards for cleaning levels, types of cleaning equipment, supplies, fixtures, planned preventative maintenance programs and asbestos abatement programs.
- Use of Burnaby's centralized purchasing system whereby New Westminster schools could be online and Burnaby could do all their buying on their behalf.
- Teacher on call dispatch.

It should be noted that while some of these potential areas of support and services would create some savings, a number would not. However the value to SD 40 would, in many ways, be improved quality systems and procedures which would assist overall in enhancing services to schools and the District.

The concept of sharing the services of the Secretary-Treasurer in Burnaby has been investigated. There are numerous issues that would have to be considered in such an arrangement. This list is not exclusive:

- Agreement of the Boards of School Trustees.
- Agreement of the current Secretary-Treasurer in SD 41 as well as future incumbents in this position.
- Impact of workload on the SD 41's Secretary-Treasurer due to doubling the amount of Board, committee and other related meetings he would be required to prepare for and attend.
- Increased cost for SD 41 to recognize backfilling requirements and expanded roles for some staff who may have increased duties and responsibilities resulting from a shared Secretary-Treasurer.
- SD 40 would require two senior financial management staff to manage the required work load in the district. One Assistant Secretary-Treasurer would not be sufficient manpower.
- This arrangement may provide growth opportunities in both school Districts for Assistant Secretary-Treasurers to expand their scope of work and responsibilities.
- This arrangement would require adjustments to the financial management teams in both districts.
- This concept does not recognize that the role and responsibilities of a Secretary-Treasurer extends significantly beyond financial management.

When the concept of value added to the districts is examined, the advantage would certainly be to SD 40. The value added to Burnaby would be seen as a positive contribution from one district in supporting and assisting another district.

Under this arrangement there would be no financial savings. As noted earlier, SD 40 would still require two senior financial managers, and there would be additional costs resulting from backfilling and expanded roles for some SD 41 staff.

#### **Recommendation 14**

**More in depth discussions on the sharing of services and resources should continue to take place between SD 40 and SD 41.**

## **EFFICACY OF RELATIONS BETWEEN BOARD AND OTHER COMMUNITY GROUPS**

The Board appears to have a very good relationship with the City of New Westminster. The District and City have worked cooperatively during their capital projects planning and have cooperatively engaged in land exchanges.

The City allows the District to use their council chambers and committee rooms for Board and other meetings as the District's current facilities do not have these amenities.

The Board's relationship with DPAC is undergoing a changed relationship. The Board advises me that previously it was adversarial, however now the Board and DPAC work cooperatively on a number of projects which include the development of the Special Education Handbook. The Board advises that there are still bridges to be built and feel they are going in the right direction. The Superintendent of Schools has been very helpful with improving the relationship with DPAC.

The Parent Advisory (PAC) has historically been very supportive of the Board. Trustees meet frequently with PAC's and enjoy positive and close communications.

## **EVALUATION OF THE SCHOOL DISTRICT MANAGEMENT INFRASTRUCTURE IN TERMS OF ITS SUFFICIENCY TO LEAD AND MANAGE THE SCHOOL DISTRICT**

There are a number of serious issues with respect to the current complement and make up the of District management infrastructure in terms of its sufficiency to properly manage the school district and avoid financial risk.

### **Recommendation 15**

**That the Board hire full time qualified and experienced candidates for the positions of Secretary-Treasurer and Assistant Secretary-Treasurer.**

### **Comment**

The District, regardless of whether they are in deficit or having surplus budgets require experienced and qualified staff to ensure a sustainable fiscal environment in the school district.

## **HUMAN RESOURCE AND STAFFING POLICIES AND PROCEDURES**

The District has a detailed staffing and hiring process. Procedures for teachers returning from leave, going on leaves for education, health, maternity, secondments, retirements, resignations and changes in teaching time are in place.

For enrolling students, class size ratios are determined for kindergarten, primary, 4-7, middle and secondary, etc.

For non-enrolling programs such as aboriginal education, English as a Second Language, Learning Assistance, Counselling, Library and other are budget driven and consider the specific needs of schools and programs.

The District receives projected enrolment figures from Barager and schools submit projected enrolment figures. The District has historically staffed at 98% of school projections. Staffing adjustments are made in September depending on the actual number of enrolled students.

Principal and Vice-Principal staffing levels are based on current (historical) assignments. Changes to these staffing levels form part of the budget discussions.

Clerical numbers have been fixed at a 2013/14 staffing assignment plan developed and approved by the Secretary-Treasurer. Any changes to these numbers must be approved by the Secretary-Treasurer and the Director of Human Resources.

A custodial formula drives the custodian staffing numbers. Maintenance staff is determined on a need basis and must receive the approval of the Secretary-Treasurer.

The staffing envelope for educational assistants was determined during the 2014/15 spring budget process. This envelope is discussed between the Director of Instruction, Student Services, District Administrator, the Secretary-Treasurer and Principals.

Changes to the education assignments during the school year are generated by the Principal through a Staff Requisition Form which is reviewed and approved by Student Services and forwarded to the Secretary-Treasurer for his approval and then returned to Human Resources for posting or transfers.

The District has FTE position management controls in place to ensure staffing is within budget.

## **BUSINESS COMPANY**

In 2002, SD 40 set up a business company incorporated under the Business Corporations Act and provides:

- Offshore school programs, through its school Canadian Wenzhou in China;
- Offshore English language training programs and education; and
- Education and training for teachers and education administrators working offshore.

The corporation was created with the intention of earning profits with which to subsidize the school district's educational programs.

The Business Company was audited by the Auditor General of B.C. in the spring of 2011. This audit resulted in a number of recommendations to the SD 40 Business Company Board.

The 2013/14 year projects a deficit in the amount of \$95,818 for the current year. Due to a July 1, 2013 opening surplus of \$269,392 the closing surplus on June 30, 2014 is \$173,574.

There are a number of issues in the operation of the company that could affect SD 40's operating budget if the company continued to operate in a deficit. However, the company is winding down effective September 30, 2014 and financial risk to SD 40 will be eliminated. Therefore I did not feel it necessary to make any further comments or recommendations with respect to the business company.

## **DEFICIT ELIMINATION PLAN**

In my opinion the District will have no difficulties in implementing their Deficit Elimination Plan in the amount of \$4,876,763 and meeting the targets the District has set out in its plan. There are a number of reasons for this:

1. 2013/14 operating budget surplus of \$3,400,000 (unaudited).
2. The new school board office will be completed and ready for occupancy in October 2015 creating a saving in the 2015/16 budget year of \$517,000 and in subsequent years of \$690,000 per year.
3. Annual savings in bussing of \$10,000 and Xerox \$100,000.
4. Rental revenue of \$10,000 per year. (Previously the District did not charge for rental of any school facilities.)

The Board, as a result of the 2013/14 year end results, will be submitting to the Ministry a revised Deficit Elimination Plan.

Due to the large surplus for the 2013/14 fiscal year the budget cuts were in excess of what was necessary to balance the current 2013/14 budget as well as make structural changes to its budget to begin to address the Deficit Elimination Plan. The 2014/15 budget also included significant reductions in services as well which should result in a large surplus in 2014/15. This could result in another large surplus to allow the accumulated deficit to be repaid prior to the scheduled repayment plan.

## **CAPITAL PLANNING AND FINANCE**

The development of capital plans is done primarily by an individual consultant. The consultant previously held a position with the Ministry of Education, Capital Branch and is very knowledgeable. The District's Director of Facilities works with this Capital Project Director in the development of these plans. The costs for this consultant are very expensive.

A large part of this capital planning should be the responsibility of the Secretary-Treasurer and Director of Facilities working with the Board's architect. Consultants should be used only in specific cases where the architect and District staff do not have the expertise.

The District's system for setting up capital budgets and proper account codes are very inadequate. The District has 3 major projects (secondary, middle and elementary) and all costs were incorporated into one account.

I was concerned that potential capital over expenditures could affect the operating budget resulting in a potential financial risk.

### **Recommendation 16**

**Management should develop budgets and accounting systems for capital projects and generate monthly reports. These reports should be reviewed monthly with the Director of School Facilities.**

**Management should include a financial statement on the status of its capital projects as part of the monthly financial reports presented to the Board.**

**Comment**

This is a straightforward system to set up and would ensure the district has proper finance accounting and reporting which will ensure capital projects stay within Ministry approved project amounts.

**Recommendation 17**

**The Secretary-Treasurer and Director of Facilities should take more responsibility in the development of capital planning and project management.**

**Comment**

This would reduce the expenditure the District spends on capital consultants. There are times when outside consultant services are required where certain expertise is required. In my experience most capital planning can be done effectively with District staff working with the Board's architect.

**BOARD OF SCHOOL TRUSTEES**

I met with the Board of School Trustees on July 3, 2014. Neither the Superintendent of Schools nor the Secretary-Treasurer were in attendance at this meeting.

The purpose of this meeting was to have the Board respond to specific questions I had prepared. These questions covered areas such as budget documentation they received, how it was presented and their understanding of its contents. We also discussed their ability to repay the Deficit Elimination plan and I offered my views on budgeting and reporting strategies that included suggestions with respect to budgeting for a planned surplus and creating a policy for a restricted surplus when finances allowed.

I also provided the Board the opportunity to ask me questions and comments they might have.

I requested that each trustee answer each question I asked. My purpose in doing this was to ensure the Board was in agreement on each issue I raised or at least there was consensus among them. I was pleased to discover that the Board was in total agreement on all questions and suggestions.

If trustees had had divergent opinions on key financial and management issues it would have been difficult for me to report positively to the Minister concerning the long term sustainable fiscal stability of the school district.

During the meeting the Board expressed strong confidence in Mr. John Gaipman, Superintendent of Schools, and praised him for his strong leadership in the district and assisting the Board in understanding their roles and responsibilities as policy makers versus the role of management.

The Board advised me that they feel for the first time in years they are working as a cohesive team and are committed to work with the Ministry of Education and their senior staff to get SD 40's financial house in order, both on a short and long term basis. From my discussions with the Board I feel they are sincere.

**Recommendation 18**

**The Board needs to develop a budget process that involves all stakeholders but at the same time positions the District to achieve its goals of producing surplus budgets for each year and for the years required to repay its accumulated deficit.**

**Comment**

Strategically the Board should strive to have a surplus budget each year.

**Recommendation 19**

**The Board should establish a policy and procedure on Use of Restricted Surplus.**

**Comment**

This would ensure that the District is protected financially from extraordinary circumstances which would negatively impact the education of students. By establishing a restricted portion of its accumulated surplus it would be used to mitigate any negative impact such circumstances might cause.

An example of a restricted surplus policy is School District No. 35's (Langley) which says in part ..."use could include the incurring of new cost pressures in a fiscal year that were not known at the time of budget development in excess of an established dollar amount (i.e. \$100,000), payment of severance in excess of \$100,000 upon termination of a non-union employee without cause, initial onetime cost outlays for education programs , extraordinary utilities cost pressures, replacement of equipment essential to the continuation of educational programming in schools, appropriation to balance the next year's budget, etc."

**Recommendation 20**

**The Board should meet with management to clarify the type and format of financial information they need to allow them to fulfill their responsibilities.**

**Comment**

The Board expressed concern that the financial information they receive is difficult for them to understand and it is essential that the Board receive timely, regular and accurate financial information.

I suggest management develop, for discussion with the Board, a financial warrant that includes a two to three page revenue and expenditure statement, a brief summary of the District's financial position, a staffing report comparing budgeted fte to actual staffing, and when necessary a budget variance statement.

## **CONCLUSION**

The District has initiated a number of improvements to their financial procedures, many of which are noted in my report. A summary of the major changes include:

- A revised budget process.
- Monitoring processes for cost centres.
- Development of training programs for all cost centre staff.
- Budgeting for teaching staff by fte.
- Monthly financial warrants to the Board and financial reports to cost centres.

The District has also implemented all the recommendations from the “Report of the Financial and Operational Review” prepared by Joan Axford (retired Secretary-Treasurer SD 63 (Saanich)) dated November 27, 2012.

During the writing of this report the District has appointed a qualified and experienced Assistant Secretary-Treasurer effective October 1, 2014. This individual has prior experience in two school districts. His experience and expertise will be invaluable in maintaining, monitoring and improving the budgeting and internal control procedures that have been implemented to create a long-term sustainable fiscal environment in the district.

I am confident that by staff working together under the leadership of the Superintendent of Schools and with the support of the Board the District can eliminate the accumulated deficit, annually develop balanced budgets and create a long-term sustainable fiscal environment that complies with the School Act and Regulations and Ministry of Education policy and that will effectively support the K – 12 schools in School District No. 40, (New Westminster).

Respectfully submitted,



D. B. Greenan, CPA, CGA

School District No. 40 (New Westminster)

FTE Query

Object	Description	Active Full-Time Equivalents By Year					Other
		2010/11	2011/12	2012/13	2013/14	2014/15 (Projected)	
105	Principals & Vice Principals	17.8	24.0	25.0	23.0	22.0	
110	Teaching Staff	365.9	384.1	388.7	361.2	336.6	Includes unfilled postings
120	Other Support Staff	144.9	160.2	166.6	156.2	143.3	Includes unfilled postings
123	EA's and CYCW's	134.4	186.6	178.4	148.6	144.2	Includes unfilled postings
130	Other Professionals	15.8	16.6	18.8	16.0	14.4	Includes unfilled postings
	TOTAL	678.8	771.4	777.5	705.0	660.4	

Object	Description	Percentage Change By Year				
		2010/11	2011/12	2012/13	2013/14	2014/15 (Projected)
105	Principals & Vice Principals		34.83%	4.17%	-8.00%	-4.35%
110	Teaching Staff		4.98%	1.20%	-7.08%	-6.83%
120	Other Support Staff		10.56%	4.00%	-6.24%	-8.26%
123	EA's and CYCW's		38.78%	-4.38%	-16.71%	-2.96%
130	Other Professionals		5.06%	13.25%	-14.89%	-10.00%
	TOTAL		13.65%	0.78%	-9.33%	-6.32%