

5 ACCOUNTABILITY OF SCHOOL BOARDS

BACKGROUND

- 5.1 In 1997, a significant restructuring amalgamated 22 district school boards into six Regional School Boards (RSBs) and the Conseil scolaire acadien provincial. Our 1997 Annual Report indicated that the accountability framework was clearly defined in the 1995 Education Act and the Regulations. At the time of our 1997 audit, it was too soon to examine how the framework was implemented. Now six years have passed and we believe that it is appropriate to examine the implementation of the accountability framework for the school boards. During 2001, two Regional School Boards (Chignecto-Central and Strait) experienced well-publicized problems relating to accountability which also impacted the scope and objectives of our audit.
- 5.2 The 2002-03 Government Business Plan (page 19) states specifically that the government will “continue to emphasize accountability at all levels of the education system.”
- 5.3 The Financial Measures (2002) Act received Royal Assent on May 30, 2002 and Part V included amendments to the Education Act to improve accountability of school boards. Clauses addressed conflicts of interest for staff, Ministerial approval of senior staff contracts, a new administrative structure and a senior staff compensation framework, establishing audit committees, and increased reporting to the Department of Education (DOE) to enhance accountability.
- 5.4 In 2001-02, \$664.4 million in grants and contributions was provided for public education funding. In that year, the six Regional School Boards reported excesses of revenue over expenditures (ranging from \$0 to \$731,916) and the Conseil acadien reported an excess of expenditures over revenue (\$938,993). The Province budgeted \$673.6 million in grants and contributions for public education funding in 2002-03.

RESULTS IN BRIEF

- 5.5 The following are the principal observations from this audit.
- School boards are generally complying with the original (1995) accountability requirements in the Education Act for submission of business plans, budgets, and audited financial statements. The Department has drafted Regulations and related policy and procedures for many of the new accountability reporting requirements which came into place with the May 30, 2002 changes to the Education Act included in the Financial Measures (2002) Act. We encourage the Department to complete this initiative by obtaining approval of the Regulations on a timely basis.

- The majority of recommendations made in two special reviews conducted in 2001-02 (Minister's Review Committee Report on Chignecto-Central and Strait Regional School Boards and a consultant's report on the Strait Regional School Board) are in various stages of implementation by the Department and by the Boards. Many of the Regulations have been drafted and we urge the Department to proceed with approval and implementation.
- Although the Department has many important accountability-related initiatives in progress, the detailed planning does not always include specific timelines for completion. We recommend that the Department improve its project management by ensuring that project plans always include timelines. The Department should also formally report on achievement.
- School board accounting policies do not comply with generally accepted accounting principles in certain areas. The Departments of Education and Finance and school boards have been working on a new Regional School Board Financial Handbook for a number of years. We encourage the completion of this initiative and the release of a new Financial Handbook which is totally compliant with generally accepted accounting principles.
- The implementation of a new financial accounting system for school boards was a significant undertaking. The project was completed as planned, by the target date and within the project budget.
- The Department has not been able to fully implement its new funding formula for school boards. For 2002-03, approximately 75% of the total funding allocation was from baseline dollars determined under the old formula and 25% of the allocation was from the new formula. A funding formula which is not applied is of limited value. We encourage the Department and the Education Funding Committee to complete the 2003-04 Department workplan which shows the funding formula as a priority, with a new formula to be implemented for 2004-05.

AUDIT SCOPE

5.6 The objectives of the assignment were to:

- review and assess the accountability structure, performance reporting, and compliance with the Education Act, including implementation of the changes resulting from the Financial Measures (2002) Act;
- determine if the Department of Education's school board accounting policies comply with generally accepted accounting principles;
- determine the status of initiatives identified in DOE's business planning documents;

- determine if DOE funding allocations to the school boards for 2002-03 were made in accordance with the formula, and if DOE receives sufficient and appropriate information to support the funding process; and
- review the status of the Department's efforts to address the recommendations from the reviews of the Strait Regional School Board and Chignecto-Central Regional School Board.

- 5.7** Our approach included interviews, review of documents and legislation, and discussions with management. Our fieldwork commenced in December 2002 and concluded in April 2003.
- 5.8** The criteria were taken from recognized sources including the Canadian Institute of Chartered Accountants *Criteria of Control Boards' Guidance on Control*, the Office of the Auditor General of Canada's *Financial Management Capability Model and Modernizing Accountability Practices in the Public Sector*.

PRINCIPAL FINDINGS

Accountability, Performance Reporting and Compliance with Legislation

- 5.9** The Education Act is a key document that establishes the accountability relationship between the Department and school boards. School boards are "accountable to the Minister and responsible for the control and management of public schools within its jurisdiction."
- 5.10** School boards are required to submit September 30 enrolment counts, commercial activity reports, salaries and expenses reports, budgets, audited financial statements and business plans to the Department. The requirement for some of the accountability documents noted above has been in place for many years, while the requirement for others is fairly new. The Department's Regional Education Officers monitor program accountability while the Grants and Audit Division provides support on financial matters and monitors financial accountability.
- 5.11** **Annual plans including budgets** - In our 2000 Report we recommended that "DOE work with Regional School Boards to establish the format for strategic and business plans" (page 70, paragraph 5.18). The Department worked closely with school boards to develop a template that would meet the needs of all parties involved. The template includes goals, reports of achievements, priorities and outcome measures.
- 5.12** School boards were first required to submit draft business plans to the Department in December 2001 for the 2002-03 fiscal year. All boards met this requirement. Final business plans were submitted following approval of the school board budget. Four of the seven boards have their business plans available on their websites.

- 5.13** School board business plans are approved by elected Boards prior to submission to the Department. The 2002-03 business plans were reviewed by the Department but not formally approved by DOE or tabled in the House of Assembly.
- 5.14** Department staff reviewed the business plans for compliance with template guidelines, and consistency throughout the document and with Department initiatives. The Department found that school board goals and priorities were consistent with Department goals and priorities. Three of the six Regional Boards actually noted the linkage to Department goals and priorities in business plans. Department initiatives are shared with school boards in advance as there is school board representation on committees which develop the initiatives.
- 5.15** School boards are required to prepare and approve a budget within 60 days of receipt of the Minister's statement of financial assistance. The Grants and Audit Division conducts detailed reviews of the budgets to confirm that the budget has been prepared in accordance with the School Board Financial Handbook and to provide the Department with budget information on a consistent basis to allow for comparison and analysis. Grants and Audit conducted the 2002-03 budget reviews throughout the July to September time period and found the school board budgets had been prepared in accordance with the Handbook.
- 5.16** **Audited financial statements** - According to Section 85(6) of the Education Act, school boards are to provide the Minister with copies of audited financial statements and the audit management letter within four months after year end (i.e., by July 31). Section 16(2) of the Provincial Finance Act requires audited financial statements by June 30 (3 months after year end) to prepare the consolidated financial statements for the Province. By mid-September 2002, three school boards had not provided copies of audited financial statements to the Department. These boards were sent requests for this information which was received by October 23, 2002.

Recommendation 5.1

We recommend that the Education Act be changed to include June 30 as the date by which school boards are required to file financial statements with the Department of Education. This change would provide for consistency with the Provincial Finance Act.

- 5.17** **Performance reporting** - School boards have typically reported on their achievements in annual reports. The Business Plan format has been designed to eliminate the need for a separate annual report. School boards report on the achievement of goals and priorities as well as outcome measures in the Business Plan. Two of the six Regional Boards specifically link their achievements to goals and priorities.

- 5.18** The Business Plan requires the inclusion of outcome measures with a corresponding target. Implementation of many of the Department of Education's targets was expected to take a few years because of the extent of change required in the school system. Outcome measures have not yet been reported for all targets because the target date for many initiatives is 2004-05 and it is too soon to report on achievement.

Special Reviews and Financial Measures (2002) Act Changes

- 5.19** As a result of problems that surfaced at two Regional School Boards during 2001, the Department of Education commissioned two special reviews; one at Chignecto-Central and Strait Regional School Boards by a Minister's review committee, and one at the Strait Regional School Board by external consultants. Both of these reviews include recommendations that are applicable to all regional school boards. The only public report related to the status of implementation was in September 2002 in *Learning for Life-Planning for Student Success* (see paragraph 5.21 below).
- 5.20** The recommendations are in various stages of implementation by the Department. The Department acted upon certain recommendations by instituting changes to the Education Act via the Financial Measures (2002) Act which are discussed below. Regulations supporting changes to the Act have been drafted but are not yet approved. In addition, some recommendations were also addressed to school boards which are responsible for implementation. We urge the Department and school boards to proceed with approval of draft changes and implementation.
- 5.21** The Financial Measures (2002) Act, given Royal Assent on May 30, 2002, brought about changes to the Education Act. It clarified the accountability relationship by modifying existing reporting requirements and instituting new accountability requirements such as commercial activity reports and conflict of interest policies. The Department developed a workplan to facilitate the process by identifying the required actions, the time frames and assigning responsibilities. There has been limited reporting by the Department on the achievement of this workplan. The Department's September 2002 publication *Learning for Life – Planning for Student Success* includes a status report but it has not been updated. Some of the time frames noted in that document were not achieved, and there has been no public reporting of revised time frames.
- 5.22** **Commercial activity reports** - Under 2002 amendments to the Education Act, school boards are not to engage in commercial activity without the approval of Executive Council. There is a new reporting requirement for the submission of commercial activity reports showing activities in which the school board is engaged. No time frame was established in the workplan but the Department is currently assessing the reports received to determine whether any action is necessary - Executive Council approval or withdrawal from the activity by the school board.

- 5.23** [Salaries and expenses reports](#) - The requirement for school boards to submit annual reports of salaries and expenses is not new. They have been required for a number of years. The reports have been reviewed by the Grants and Audit Division of the Department and no significant findings were noted.
- 5.24** As a result of the special reviews completed in 2001-02, the Department chose to be more specific in prescribing the manner and form of the report. These changes are to present areas of higher risk and facilitate the Department's review of the reports. The workplan did not specify a deadline but Regulations for the new format were to be in place for the fiscal year ending March 31, 2003. As noted in paragraph 5.20, Regulations have not yet been approved.
- 5.25** [Conflict of interest policy](#) - The 2002 amendments to the Education Act established the requirement for school boards to establish a conflict of interest policy. A working committee with representation from the Department and school boards was formed to review policies in place and develop a model policy consistent with existing Provincial policies, guidelines and legislation. The committee has drafted Regulations and is near completion on the development of a policy template consistent with those Regulations. The workplan established a time frame for completion in winter 2002-03, but it is now anticipated that the Regulations will be in effect and school boards will have established conflict of interest policies and educational material by fall 2003.
- 5.26** [Employment or personal-services contracts](#) - The May 30, 2002 changes to the Education Act include the requirement for all employment or personal-services contracts to be approved by the Minister. Department of Education management informed us that all employment contracts since that time have been submitted to the Minister for approval. A target date of winter 2003-04 was set as the deadline for all senior staff to have employment or personal-services contracts.
- 5.27** [Administrative structure and compensation framework](#) - The May 30, 2002 changes to the Education Act required school boards to implement an administrative structure and establish a compensation framework for senior staff as defined in the Regulations. No target date was established in the workplan and these Regulations are yet to be developed.
- 5.28** The Department has formed an Administrative Structure, Compensation, Contracts (SCC) Committee to oversee the development of these initiatives. Two sub-committees were formed from this Committee – one to focus on administrative structure and one to focus on compensation. The Committees have representation from the school boards, the Nova Scotia Public Service Commission and appropriate functional areas within the Department.
- 5.29** Integral to both initiatives is the definition of senior staff which has proven to be more problematic than originally anticipated. Factors such as negotiation and arbitration of the Provincial Collective Agreement and consultation with stakeholders on implementation issues have also hindered progress in the completion of these initiatives. Work is progressing but there is no target date

for the development of the new Regulations or the implementation of the new administrative structures and compensation framework. Establishment of a target date is necessary to achieve appropriate project management.

- 5.30** **Audit committee** - New with the May 30, 2002 changes to the Education Act is the requirement for school boards to establish audit committees as prescribed in the Regulations. Regulations respecting composition and terms of reference were to be developed. Department staff consulted with stakeholders to determine membership, roles and responsibilities of audit committees. Regulations have been drafted but are yet to be put in effect.
- 5.31** The changes required by the Financial Measures (2002) Act are necessary to improve accountability and control for school boards. Because these changes are critical, we believe the Department of Education should have a detailed implementation plan, including timelines. We also believe that the Department should report progress in achieving the plan.

Recommendation 5.2

We recommend that the Department of Education update the plan for implementation of changes required by the Financial Measures (2002) Act to include timelines for each initiative. The Department should also formally monitor and periodically report achievement of the plan.

Department Accountability and Performance

- 5.32** Since the mid-1990s, the Department has developed an annual business plan. The Department plan is approved by the Minister and Deputy for submission to Treasury and Policy Board.
- 5.33** The format for the Department business plan is determined by Treasury and Policy Board and includes such categories as planning context, strategic goals, priorities or initiatives and outcome measures. The Department establishes a working group with corporate representation to prepare the plan. The plan is reviewed by senior management and approved by the Deputy Minister. It is available on the Department website.
- 5.34** The Department identifies key initiatives that are fundamental to the achievement of outcomes. With the aid of a Key Departmental Initiatives Workplan the Department monitors initiatives every two weeks. Some initiatives are completed in a short span of time while others are more complex and are completed in stages over several years.
- 5.35** The Financial Measures (2000) Act established the requirement for department accountability reports. The Department of Education produced its first report on October 19, 2001 for 2000-01. Its second report, for 2001-02, was produced on July 24, 2002. Both are available on the Department website. The data is

collected by Provincial sources and reported with a Province-wide focus showing outcomes against the business plan. The reports are approved by the Minister and the Deputy.

- 5.36** The Department of Education also produced the *Minister's Report to Parents of the 2001 Student Assessment Results for Nova Scotia*. It follows from government's commitment to parents to improve student reporting systems. The Department intends to produce this report annually. The March 2002 report contains 2001 Provincial, national and international test results often shown by school board.

Accounting Policies

- 5.37** The Department of Education establishes, documents, and communicates its general accounting policies to the school boards through the District School Board Financial Handbook. The school boards utilize the financial handbook originally issued in 1987. The handbook has not been updated to keep pace with the many changes in generally accepted accounting principles (GAAP). The external auditors' opinions for all the school boards indicate the financial statements are in accordance with accounting principles included in the District School Board Financial Handbook. However, the school boards' financial statements are not compliant with current generally accepted accounting principles. Although the boards have not received qualified audit opinions to date as a result of the lack of compliance, it is likely, given current developments in the auditing profession, that future audit opinions will be qualified unless the boards adopt generally accepted accounting principles.
- 5.38** The 2002-03 Government Business Plan makes specific mention of a new financial handbook to guide policy and decision making for the school boards. The plan mentions that the new financial handbook will aid in adopting generally accepted accounting principles for school board financial statements. The Department has recently completed a draft of a new Regional School Board Financial Handbook (RSBFHB).
- 5.39** The recommendations of the Canadian Institute of Chartered Accountants and its Public Sector Accounting Board (PSAB) apply to governments and school boards. It is essential that the Department of Education's accounting policies for school boards comply with these recommendations. The current draft of the RSBFHB still includes some areas which are inconsistent with generally accepted accounting principles.
- 5.40** Major differences between current accounting practices of school boards and generally accepted accounting principles include the following:
- **Recording of outstanding purchase orders** - Currently, some school boards are recording purchase orders as accounts payable liabilities at year end. This practice of recording purchase orders at year end has been used by certain boards to reflect a break even result from operations where there would otherwise be a surplus.

- **Recording of accrued salary costs at year end** - Employees are paid every two weeks throughout the year. Historically, the salary costs for the period between the date of the last pay of the fiscal year and the year-end date have not been recorded as expenses. Teaching staff payroll amounts to approximately \$2.6 million per day. In addition, four school boards do not accrue non-teaching staff wage costs at year end. The Department has indicated this is approximately \$1 million at March 31, 2002.
- **Accounting treatment of reserves** - Many of the school boards' audited financial statements show reserves. These totaled approximately \$7.3 million on the March 31, 2002 financial statements. Historically, certain boards have adjusted the results of operations by transferring amounts to and from reserves, presumably to avoid reporting deficits or surpluses. The March 31, 2001 reserve balances reported by school boards totaled \$2.5 million. During the fiscal year ended March 31, 2002 total school board transfers to reserves were approximately \$5.7 million and transfers from reserves were approximately \$0.9 million. In some cases, transfers were included in calculating the annual surplus or deficit from operations. In addition, prior years' deficits were sometimes shown as a current year expense. This practice is not in accordance with generally accepted accounting principles which indicate that transfers to/from reserves should be viewed as equity transactions which do not affect reported results from operations.

5.41 **Inconsistent application of accounting policies** - In addition to accounting policies which do not comply with generally accepted accounting principles as noted above, there are areas where school boards apply policies differently. The difficulty in this situation is that the resulting financial statements, although technically compliant with GAAP, may not be comparable among boards. For example, comparison of school board financial statements indicates capitalization policies, thresholds, and repair versus capital treatment policies were inconsistent among boards. The new Regional School Board Financial Handbook is expected to give guidance and provide for consistency in these areas.

Recommendation 5.3

We recommend that the Departments of Finance and Education continue with efforts to ensure that school board accounting policies comply with generally accepted accounting principles as defined by the Canadian Institute of Chartered Accountants and its Public Sector Accounting Board. The Regional School Board Financial Handbook should be issued in final form as soon as possible. The Department and school boards should also establish a mechanism to ensure that the Handbook is updated as generally accepted accounting principles evolve.

Status of Department's Business Planning Initiatives

- 5.42** The 2002-03 Department of Education Business Plan identifies the following important initiatives:
- implement SAP finance, procurement, and business warehouse modules (page 82)
 - new Human Resources and Legal Services Division for Department (page 83)
 - investigate whether school board payroll functions and financial statement audit should be consolidated to achieve economies and efficiencies (page 83)
 - standardized policy framework for rental of school facilities (page 76)
- 5.43** The status of each of these initiatives is discussed in the following paragraphs.
- 5.44** [New Human Resources and Legal Services Division](#) - Division Management indicates that school boards spend between \$0.75 and \$1 million annually on legal fees of which approximately 66% is human resource related (contract negotiations, grievances or arbitration) and the balance represents other legal services. The work is not shared and there is a high likelihood of duplication, conflicting opinions, and other inefficiencies.
- 5.45** As a part of Education Renewal, established by the Department in 2001, there are a number of initiatives in development which call for Provincial standards of performance and accountability. School boards are expected to meet those standards to enable government to demonstrate accountability for quality and efficiency to both the stakeholders and the public. There are significant human resource, contract-related and legal implications associated with most of these initiatives.
- 5.46** As a result of the above, planning for a new Human Resources and Legal Services Division commenced in late fall 2001 and the Division became operational in early 2003. The Division provides legal and advisory human resource services to school boards and works closely with the Public Service Commission and the Department of Justice.
- 5.47** [SAP - finance, procurement and business warehouse modules](#) - The Department of Finance disbursed \$4.3 million to the Nova School Boards Association in the spring of 2001 to fund the Integrated Data Management Project (IDMP) implementation. The project scope included financial, procurement and business warehouse modules of the government's Central Financial Management System (CFMS) using SAP software.
- 5.48** The Department of Education assigned an internal project manager from within the Department. In addition, external consultants participated in quality assurance and project management. Regular progress reports were provided to the steering committee by the internal project manager as required by the plan. At the time the project went live on April 2, 2002 it was under budget by \$720,000 (17%). The surplus funds will be used, together with additional funds, to implement

the human resources and plant maintenance modules, and integrate student information. The committee will be considering which of the additional modules to implement as funding for all the modules is not in place.

- 5.49** There are approximately 170 users of the current system. Access to the financial information occurs through an agreed upon protocol between the Department and school boards.
- 5.50** The Department of Finance (Corporate Information Systems Division, SAP Systems Support group) took over the data warehouse responsibilities through use of a central agency server. A service level agreement between the Province and the school boards was developed. A post-implementation review of the controls related to access to finance and procurement systems was completed and its four key recommendations are as follows:
- improvement in segregation of duties is required;
 - restriction is required on use of super user access privileges;
 - additional training on SAP functions is required; and
 - review of user access is required.
- 5.51** All school boards engage public accounting firms to provide audit opinions on financial statements. Since all boards now use the same application and server for processing of financial data, it may be possible to eliminate some duplication of audit effort by hiring one auditor to provide an audit opinion on the controls over the data processing operation (service organization). Each of the financial statement auditors would then rely on the single audit opinion in forming their opinion on the financial statements.

Recommendation 5.4

We recommend that the Department initiate discussions with the school boards, the external auditors and the Department of Finance with a view to obtaining a service organization audit opinion.

- 5.52** **Consolidation of payroll and audit** - Although the Department's Business Plan identified appointment of a common financial statement auditor as an area for investigation of potential cost savings, the Department considered the issue and decided that, under the current governance model, there would be no benefit and that the school boards should continue to appoint their own auditors.
- 5.53** The motivation for consolidating payroll was to bring the service in-house at the Province, thereby building capacity and reducing costs and dependence on consultants and outside service providers. The payroll project is no longer an exclusive Department of Education project. Government has made a corporate decision to bring all payroll processing for the Province in-house. The payroll

project is being rolled out to the entire Province through a joint process involving the Departments of Finance and Education and the Public Service Commission. Following development and implementation, school boards will use the new SAP human resources module.

5.54 **Community access to schools policy** - In late 2001 the Department established a Provincial policy framework within which school boards may establish procedures governing use of school facilities, excluding P3s, for other than educational purposes and activities. The purpose of the policy is to set out a framework, within which school boards may manage and administer community use of schools, such that:

- access and user fees are reasonably consistent;
- participants have a common understanding of roles, responsibilities and accountabilities;
- scheduling, cleaning, supervision, security and liability issues are satisfactorily addressed; and
- new joint use/partnership agreements are encouraged.

5.55 A set of principles, established to guide school board development of system user fee schedules, roles, responsibilities and accountabilities, has been developed. Evaluation mechanisms will be used to monitor and evaluate the impact of this policy framework, and school boards' procedural administration of the policy. The policy remains in draft and the intention is to implement it in fall 2003.

Recommendation 5.5

We recommend that the Department of Education finalize the Community Access to Schools policy.

Funding Formula

5.56 Historically, grants provided to school boards each year were based on recommendations to the Minister of Education by the Education Funding Review Work Group (EFRWG). The group included representatives from all school boards within the Province. The EFRWG issued a report dated April 15, 1999 recommending a new funding model to be implemented over a multi-year time horizon. The formula was not officially accepted by the government.

5.57 A new work group called the Education Funding Committee (EFC) was established in 2000 as part of revised consultative structures, replacing the EFRWG. The EFC is responsible for providing advice and recommendations to the Education Consultative Forum on education funding for school boards and is guided by the established *Principles of Education Financing* (see Exhibit 5.1). The Education Consultative Forum includes the Superintendents of the school boards and the Deputy Minister of Education.

- 5.58** The Education Funding Committee consists of senior officials from finance, policy and program branches of the Department; the Chief Financial Officers and three senior program staff of the school boards; and representatives of the Nova Scotia School Boards Association. A Department senior official is the appointed Chair. The terms of reference require research undertaken by EFC to be consistent with the education objectives of the Department and it must be cognizant of the fiscal targets of the government for education funding.
- 5.59** At the time the EFRWG made the initial formula recommendation in 1999, it also recommended the EFRWG continue to meet “to better define and analyze components of the formula to ensure that it achieves the principles of education financing.” Because the EFRWG was replaced, this review did not occur. For 2002-03, the 1999 formula was not used. We note that fully applying the formula would have exceeded the government’s fiscal targets. The Education Funding Committee decided on a blend of applying the old baseline formula and the new formula, for the second consecutive year. Approximately 75% of the total funding allocation is from baseline dollars determined under the old formula and 25% of the allocation is from the new formula. This varies on an individual board basis. A funding formula which is not applied is of limited value.
- 5.60** We reviewed the Department of Education’s process for allocating funding among the school boards and assessed whether allocations were made in accordance with the formula and whether the Department received sufficient, appropriate information from school boards to support the process.
- 5.61** A major factor in the formula is student enrollment as at September 30 of the previous school year. This information is provided by the respective school boards, and is audited by the Grants and Audit Division. The student enrollment is related to pupil teacher ratio (PTR) standards established by the EFRWG when developing the formula in 1999. The 2001-02 student population and the PTR standards are the basis for allocation of school board funding for 2002-03.
- 5.62** Adjustments were made to the formula to reflect the unique nature of certain boards for such factors as higher transportation costs, higher teacher education levels, or lower pupil teacher ratios. These adjustments comprised approximately \$16.6 million or 2.4% of Provincial funding and were the subject of negotiations between the Department and all school boards.
- 5.63** Although certain components of the formula did not reflect the actual experience of various school board cost increases; for example, teachers’ salary and benefit cost increases, these cost pressures were funded by the Department as a separate line item.
- 5.64** We found certain sections of the formula no longer apply due to changes in the methodology followed within the Department, specifically transportation capital is no longer funded according to the formula.

- 5.65** The Department indicated the formula is overly complex and does not address the specific problems of individual boards. The Department's preference would be to have a formula which is sensitive to cost incurrence at the school level rather than the current method of funding based on enrollment and PTRs with no regard to the number and distribution of schools. A school-based formula would recognize the unique challenges of certain boards. The Department's Work Plan for 2003-04 shows the funding formula as a priority, with a new formula to be implemented for 2004-05.

Recommendation 5.6

We recommend that the Department of Education and the Education Funding Committee proceed with their plans to review the funding formula with a view towards establishing and implementing a formula which is consistent with the Department's *Principles of Education Financing* and available funding.

CONCLUDING REMARKS

- 5.66** Since 1995, the Department of Education has been focusing on the need to improve accountability for school boards. Improvements legislated in the 1995 Education Act have generally been implemented, but the Department and school boards continue to work towards implementation of many of the 2002 changes. We urge that implementation of these initiatives continue to be viewed as a priority.
- 5.67** The recommendations flowing from the two special reviews on Chignecto-Central Regional School Board and the Strait Regional School Board are in progress. Those from the internal review have generally been legislated through the Financial Measures (2002) Act but the detailed Regulations governing implementation have not yet been finalized. We encourage the Department to finalize the required Regulations and policy guidance. In addition, the Department should review implementation at the school board level and publicly report the status.
- 5.68** The financial statements of school boards do not currently comply with generally accepted accounting principles in certain areas. Compliance with generally accepted accounting principles was one of the initiatives in the Government Business Plan. The Business Plan mentions a new financial handbook to guide policy and decision making for school boards. The Department has completed a draft of the new handbook. We encourage the Departments of Finance and Education to resolve the remaining issues and issue the handbook to school boards.
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Principles Of Education Financing from the Education Funding Work Group Report, April 15, 1999

The Principles of Education Financing were first established by the Education Funding Review Work Group in 1993. These principles are meant as beacons to those reviewing education financing in Nova Scotia. The following principles were reviewed as part of this year's funding review process and again have proved useful in the development of funding formulas for the 1999-2000 fiscal year. Since these principles represent an ideal which should always be kept in mind when funding decisions are made, they will continue to be of value in future funding review processes.

Principle 1 – Equity

Three main components make up the principle of equity:

- Equity in horizontal access means the opportunity to receive quality core programs and related services must be equal across the province with minimal differences from region to region.
- Equity in vertical access means students with different needs must be afforded different approaches to programming and service delivery of the core program.
- Equity of taxpayer burden means the funding formulas must result in reasonable sharing of the costs of education for all taxpayers in Nova Scotia.

Principle 2 – Adequacy

Funding allocated through the provincial financing model must be sufficient to cover the actual costs of meeting current and evolving provincial education objectives and priorities. Secondly, the financing model must allocate sufficient funding to each school board to cover their actual costs of effectively delivering the core programs and related services in their respective regions.

Principle 3 – Responsiveness

The education finance model must be dynamic and change when necessary to respond to changing educational requirements, priorities and exceptional circumstances of certain school boards. This principle also means that the financing model must recognize the need for stability provided by the approval of multi year fiscal targets of each school board.

Principle 4 – Accountability

The education finance model must recognize and support an accountability framework that promotes effective long term business planning as well as efficient and effective delivery of education programs and services. This principle requires the establishment of an accountability framework which includes a statement of responsibilities, performance standards and reporting on those responsibilities that have been delegated and accepted.

Principle 5 – Involvement

Involvement is key to acceptance and success of the education finance model. To demonstrate involvement, the Department of Education & Culture must structure the Education Funding Review Work Group, both in membership and timing of the review process, to ensure there is an opportunity for meaningful input throughout the process.

Principle 6 – Interrelationship

This principle recognizes the fact that all of the preceding principles are interrelated. Therefore, any one principle cannot be addressed in isolation. Shortcomings in one principle impact all the other principles.

Summary

The Education Funding Review Work Group supports these Principles of Education Financing and believes these principles should continue to be the benchmarks against which success in education financing is measured.

DEPARTMENT OF EDUCATION'S RESPONSE

The Department of Education would like to acknowledge the quality and effort of the Auditor General in his review of school board accountability. Establishing and maintaining effective and transparent accountability relationships is a priority and a principal objective of the department and its education partners including regional and district school boards.

Significant improvements in accountability for school boards were brought forward by the Department in the *Financial Measures (2002) Act*. Since that time, the department has consulted extensively with school boards in drafting and supporting new regulations. As noted by the Auditor General, those regulations were in draft form at the time of their review. We are pleased to report that all new regulations are in place in all but one area. That area is the compensation framework for senior school board staff, which is expected to be concluded soon. Regulations for all other areas are completed including regulations governing the school board conflict of interest policy, a standardized school board administrative structure, new school board audit committees and revisions to the regulations which expand the scope of the existing mandatory financial reporting regulations. School boards have been advised that the department will follow up on implementation starting in the spring 2004.

We appreciate the Auditor General's acknowledgment of the efforts of our staff in each of the areas reviewed. The Auditor General's office recognized both the magnitude of the project to implement SAP financial, procurement, and business warehouse systems across all school boards and the department, as well as, the completion of that project on time and below budget.

On behalf of the department, I appreciate the opportunity to respond to selected portions of this review as part of the Report of the Auditor General for 2003. We will continue to work with school boards to ensure ongoing accountability for tax payer's dollars spent and for the quality of education provided to our students.