

Department Audits

4 HALIFAX REGIONAL SCHOOL BOARD - FOLLOW-UP TO 2000 AUDIT

BACKGROUND

- 4.1 In 2000 we conducted audits of the Halifax Regional School Board and Chignecto-Central Regional School Board, the two largest school boards in the Province. The assignment focused on financial management. In its response to that audit, HRSB invited us to revisit after a two-year interval to observe the improvements. We revisited HRSB in the fall of 2003 to complete a follow-up audit on the implementation of the recommendations provided in the 2000 Report.

RESULTS IN BRIEF

- 4.2 The following are the principal observations from this audit.
- HRSB has successfully implemented the recommendations made in our 2000 Report in the area of budgeting and financial management.
 - HRSB is generally in compliance with the legislation and policies dealing with the accountability relationship between HRSB and the Department of Education. However, some required documents were submitted to the Department after the deadline.
 - Regional School Board financial statements are prepared in accordance with accounting policies specified by the Department of Education and do not comply with generally accepted accounting principles in certain areas. For the March 31, 2004 financial statements, the auditors' reports are expected to reflect recent changes to the CICA Handbook and will likely indicate that the financial statements are prepared for the Department of Education and not intended to be used by anyone other than the specified users or for any other purpose. The lack of compliance with generally accepted accounting principles reduces the value of the school board financial statements to the House of Assembly and the general public.
 - One of the major differences between generally accepted accounting principles and the current HRSB financial statements is in the reporting of Reserve Funds. During 2001-02, HRSB established two new Reserve Funds. As at March 31, 2003 the reserves had balances of \$0.5 million and \$2.6 million, respectively. Transfers from operations to these reserves were included as deductions on the Consolidated Statement of Operations and resulted in the Board's recording of breakeven results rather than the surplus which would have otherwise been recorded. HRSB intends to make a change to the accounting disclosure in its 2004 financial statements to remedy this.

- A new financial system (SAP R/3) has been successfully implemented at the Regional School Boards including HRSB and a new SAP-based human resource and payroll system is in the developmental stage with planned implementation in August 2004. The Board is working towards improving the reports generated by the financial system.
- The new financial system for all school boards is processed on a single server which is hosted by the Province. In the 2003 Report of the Auditor General, we recommended that there was a need for the school boards, and the Departments of Education and Finance, to make arrangements for an annual audit of the data processing operation for the financial management system. A September 2003 management letter from the external auditors to HRSB includes a similar recommendation. The purpose of such an audit would be to eliminate duplication of audit effort by the financial statement auditors of all regional school boards using the system.
- Supplementary Funding for the Halifax Regional School Board is a historical legacy which requires extensive administrative effort and leads to unequal funding and program offerings in the three former municipal units comprising the Board. Legislative change may be required if the Board is to move towards becoming a single, cohesive unit.

AUDIT SCOPE

4.3 The objectives of this assignment were to:

- assess the progress made since 2000 in implementing improvements to HRSB's budgeting and financial management processes;
- review certain aspects of the accountability relationship between HRSB and the Department of Education for compliance with legislation and policies;
- review HRSB's audited financial statements and management letters for 2001 to 2003 and determine whether there are any related findings that should be reported to the House of Assembly; and
- determine the status of implementation of SAP at HRSB and future plans in this area.

4.4 Our approach included discussion and review of evidence supporting implementation of the recommendations from our 2000 audit and certain aspects of the accountability relationship between HRSB and the Department of Education. In addition, we also reviewed HRSB's audited financial statements, and management letters for 2001 to 2003 and reviewed the external auditor's files for 2003. Further, we discussed the implementation of SAP at HRSB with management and reviewed related documentation.

- 4.5 The audit criteria were taken from the *Education Act and Regulations*; Department of Education policies; the Canadian Institute of Chartered Accountants' *Handbook* and *Information Technology Control Guidelines*.

PRINCIPAL FINDINGS

Budgeting and Financial Management Improvements

- 4.6 Senior management acted on the recommendations flowing from our 2000 audit and commenced implementing changes in 2001. As a first step, the Board approved the Budget and Business Planning Policy and Procedures in November 2001. These are available on the Board's website. Management provided a status report on implementation of our 2000 recommendations to the Board in September 2003. The status report, which we did not audit, is reproduced as Exhibit 4.1 (page 35).
- 4.7 **Business planning** - The Board's policy includes a section on business planning which sets out the broad responsibilities in the area of longer-term business planning. The Board has held stakeholder consultations, established priorities and developed annual goals and objectives as required by the policy. We examined the Board's 2003-04 Approved Business Plan and Budget. Linkages from the Business Plan priorities to the goals and objectives in annual operational plans are readily apparent. Budget recommendations are cross-referenced to particular Business Plan initiatives. The Business Plan includes outcome measures and targets to be achieved.
- 4.8 **Budget process** - The Board's policy includes a section on budget procedures which clearly sets out the requirements of the budget preparation process and roles of those with budget responsibilities. The policies and procedures established are consistent with the recommendations from our 2000 audit
- 4.9 The Budget and Business Planning Policy requires assumptions to be provided to the Board for review; enrollment projections to be completed; a staffing formula to be approved; documentation standards and sign off procedures to be followed. The initial business plan and budget must be completed prior to commencement of the fiscal year, with final approval following receipt of approved funding levels.
- 4.10 We found that significant improvements had been made to the process of documenting assumptions included in the business plan and budget. Adequate information and analysis supporting the assumptions were available for our audit.
- 4.11 Student enrollment projections were completed based on student population growth and decline trends. These enrollment projections were utilized as the basis for staffing models and budgeted staffing allocations. We found that the staffing models and budgeted staffing allocations were completed in accordance with the Board-approved staffing formula and enrollment projections. Final completion

and approval of staffing models could not occur until after approved funding levels became known, shortly after the start of the new fiscal year.

- 4.12** Initial budgets were developed before the start of the 2003-04 fiscal year and submitted to the Department of Education for review. Government funding levels were not finalized through the Estimates process until April 28, 2003, after the fiscal year had started. The final budget was not approved until early June. The timing of government's approval of the Estimates prevents the Board from completing its budget responsibilities prior to commencement of the fiscal year.
- 4.13** We recommended in our 2000 Report that the RSBs continue to request annual and multi-year funding targets from the Province prior to commencement of the fiscal year. We note that the Province has recently provided multi-year funding targets to District Health Authorities. We continue to encourage the RSBs and Department of Education to pursue multi-year funding commitments and approval of final budgets prior to the start of the new year.

Recommendation 4.1

We recommend that the RSBs continue to request annual and multi-year funding targets from the Province prior to commencement of the fiscal year. This would facilitate Board approval of final budgets before the start of the fiscal year.

- 4.14** **Financial monitoring and reporting** - The Budget and Business Planning Policy includes a financial and forecasting procedures section which clearly sets out the responsibilities of those with budgetary roles. Monthly financial information including monthly and year-to-date actual to budget comparison; annual budget; year-to-date percentage; and prior year actual results is required to be reported. The policy is consistent with recommendations from our 2000 audit.
- 4.15** The monthly financial reports, commencing with October 2003, include the previous year's monthly and year-to-date actual information, monthly and year-to-date budget, and year-to-date percentages. Prior to October 2003, comparisons with the prior year were not included because restructuring within the Board contributed to delays in producing comparable information.
- 4.16** The policy also requires senior staff to explain significant variances and prepare forecasts monthly. Quarterly reporting at a summary level to the Board is required. We had recommended, in 2000, that variance explanations be written. Variances had been discussed by senior management and the Audit and Finance Committee, but written explanations have recently been provided.

- 4.17** We had also recommended in 2000 that the forecast to year end process should
- start early in the fiscal year so that corrective measures could be taken on a timely basis, and
 - include staff with budget responsibilities to ensure completeness and accuracy.
- 4.18** The Board's policy includes these recommendations. Financial Services staff and operational staff with budget responsibilities now meet with members of the Senior Management Committee, on a monthly basis from October to March each year, to discuss actual expenditures incurred and to prepare a forecast for their areas of operation.
- 4.19** During the first two quarters of the 2003-04 year the forecast to year end is equal to the original budget. Because the fiscal year (April to March) is different than the school year (September to June), management advise that forecasting is difficult before the new school year begins as key factors such as enrollments and staffing levels are not known with certainty until that time. The first revised forecast for 2003-04 was reported in February 2004, based on variance trends reported in the December 31, 2003 financial statements. If the forecasting process began earlier in the year, we believe that management and the Board would receive more current information and enhance the ability to take corrective action as required.
- 4.20** The HRSB is also required to submit financial forecasts to the Department throughout the fiscal year. The first revised forecast submitted to the Department in fiscal 2002-03 was in February 2003, although financial statements had been submitted monthly since October 2002. While the Department was informed there were no significant variances before this forecast was prepared, we believe financial forecasts should be prepared and submitted to the Department earlier in the fiscal year.

Recommendation 4.2

We recommend that the Halifax Regional School Board start the forecasting process by the end of the first quarter of the fiscal year.

- 4.21** Financial reports are given to management who may distribute the information to staff in their area. In 2003, HRSB began to provide training and online access to SAP to non-financial staff. These staff are now able to generate standard financial reports and perform on-line queries from the financial system.

Accountability and Compliance

- 4.22** The Education Act establishes the accountability relationship between the Department and the HRSB. Under the Act, the HRSB is required to submit a business plan, budget, audited financial statements, external auditor's management letter and other documents to the Department. In some cases, deadlines were missed due to delays in approval or receipt of external information but we noted no instances where the required documents were not submitted to the Department.
- 4.23** **Annual report** - Section 64(2) of the Education Act requires the HRSB to submit an annual report to the Department. The business plan format communicated by the Department requires the RSBs to develop outcomes, measures and targets and to report the level of achievement annually commencing in 2004-05. This business plan format was designed to eliminate the need for separate annual reports. The lack of consistency between the Act and the Department's practices, which do not require an annual report, needs to be resolved.
- 4.24** Currently, HRSB is providing narrative description on the achievement of priorities established through the business planning cycle. HRSB is also working towards defining the outcomes, measures and targets for 2004-05 and has included this information in its public 2003-04 Business Plan and Budget document. HRSB management indicated that the business plan does not report on achievement of performance targets because this information is not yet required by the Department.

Recommendation 4.3

We recommend that the Department of Education and HRSB ensure that the level of achievement of performance targets and outcome measures is reported in the RSB business plans.

- 4.25** **Personal-services contracts** - Section 64(3A) of the Education Act requires the Minister of Education to approve all employment or personal-services contracts. Ministerial approval of the HRSB Superintendent's personal-service contract occurred as required.
- 4.26** School boards are required to implement an administrative structure and establish a compensation framework for senior staff as defined in the Regulations. The Department has formed an Administrative Structure, Compensation, Contracts (SCC) Committee to oversee the development of this initiative.
- 4.27** The administrative structure of the HRSB was reorganized in early 2003 which resulted in the elimination of three assistant superintendent positions which were replaced by three Executive Director positions. HRSB has not been able to negotiate personal-service contracts with these staff as the SCC Committee has not completed its work. As a temporary measure, the Board developed an

appointment letter for these positions. The affected positions fall under the Collective Agreement between the Minister and the Nova Scotia Teachers Union so the salaries were unaffected by the lack of a personal-service contract. The appointment letter includes details of employee benefits for the positions.

- 4.28** In the 2003 Report of the Auditor General, Chapter 5 - Accountability of School Boards (paragraph 5.26, page 71), we indicated that the Department of Education had established a deadline of winter 2003-04 for all senior staff to have employment or personal-service contracts. We encourage the Department to complete the initiative.
- 4.29** **Audit Committees** - The Education Act Regulations were revised in November 2003 to require school boards to establish audit committees. Senior management of the HRSB recently completed a review of the Board by-laws to ensure compliance with the revised Regulations.

External Financial Reporting

- 4.30** In the 2003 Report of the Auditor General (paragraph 5.37, page 73) we noted that 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 school boards have indicated that 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
- 4.31** In the 2003 Report, we also indicated that although the boards have not received qualified audit opinions to date as a result of the lack of compliance, it would be likely, given current developments in the auditing professions, that future audit opinions would be qualified unless the boards adopted generally accepted accounting principles.
- 4.32** Recently, the Canadian Institute of Chartered Accountants has issued pronouncements which make the status quo unacceptable for the March 31, 2004 Regional School Board financial statements. Auditors can no longer give unqualified opinions on general purpose financial statements unless the statements comply with generally accepted accounting principles. The Department of Education and school boards have been discussing the implications and decided that compliance with GAAP is not possible for the year ended March 31, 2004. The Department has indicated that the financial statements will be viewed as financial statements prepared specifically for the Department of Education under the requirements of the Education Act - not for general users. This means that the Auditor's Report will include wording similar to the following:

“these financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles, are solely for the information and use of (the addressee) and; the regulator or legislator...for the (purpose(s)), and are not intended to be and should not be used by anyone other than the specified users, or for any other purpose...” (CICA Handbook 5600.17(d))

- 4.33** It is unfortunate that the school board financial statements will not be based on GAAP and viewed as general purpose financial statements. The current approach reduces the value of the school boards’ statements to the House and the general public. However, we understand the difficulty in changing accounting principles in a very short time frame. We acknowledge that it is unlikely that the Province’s consolidated financial statements, which include the school boards, will be materially misstated because of school boards’ lack of compliance with GAAP in this area. The Department of Education has informed us that it hopes to achieve compliance with GAAP by 2005-06. The Department has also indicated that school boards in Ontario are taking a similar approach.

Recommendation 4.4

We recommend that the Department of Education and School Boards work towards establishing Generally Accepted Accounting Principles as the basis of accounting for Regional School Boards.

- 4.34** One of the differences between GAAP and the current HRSB financial statements is in the reporting of Reserve Funds. During 2001-02, HRSB established two new Reserve Funds - the Program Resources Reserve and the General Fund Reserve. As at March 31, 2003 the reserves had balances of \$0.5 million and \$2.6 million respectively. Transfers from operations to these reserves were included as deductions on the Consolidated Statement of Operations and resulted in the Board’s recording of breakeven results rather than the surplus which would have otherwise been recorded. Recording transfers to reserves as deductions from operating revenue is not GAAP. The reporting of reserve funds obscures the actual operating results for the year.
- 4.35** Another difference relates to the exclusion of school-based funds (revenue collected at the school level for specific purposes) which is not included in the Board’s financial statements but would be required to be included under GAAP. Other differences are discussed in Chapter 5 of the 2003 Report of the Auditor General. Management has indicated that a closer alignment with GAAP is planned for the 2003-04 financial statements, particularly in the area of reporting of reserves.
- 4.36** HRSB’s annual financial statements are audited by a public accounting firm. We reviewed the auditor’s working papers for the year ended March 31, 2003 and found only one matter, reported in the auditor’s management letter to the Board, significant enough to report here. The auditors recommended improvements in control over revenues related to International Students, Summer School and Excel

including the need to reconcile the number of actual students in each program to the revenues recorded in the general ledger. A status report prepared by finance staff at HRSB in October 2003 indicated that the required changes had been made. This will be followed up by the financial statement auditors when they complete the March 31, 2004 audit.

Status of Implementation and Plans for SAP at HRSB

- 4.37** The Department of Finance provided funding to the Nova Scotia School Boards Association to fund the Integrated Data Management Project (IDMP) implementation. The project scope includes implementation of financial, procurement and business warehouse modules of the government's Central Financial Management System (CFMS) using SAP software at all school boards.
- 4.38** The project was directed by a steering committee at the Provincial level with representation from the regional school boards. Staff from the various boards were trained on the system and it was implemented at all boards in the Province effective April 1, 2002. As noted in the 2003 Report of the Auditor General, page 67, 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. At HRSB, the implementation was a collaborative effort between the Provincial implementation team and the Board staff.
- 4.39** HRSB is represented on a committee which has been tasked with developing standardized financial reports for use by all school boards in the Province.
- 4.40** Future plans include implementing a new human resources and payroll module through a joint Provincial project involving the Departments of Finance and Education and the Public Service Commission. Implementation of this module, planned to be active by August 2004, will allow the HRSB to more effectively monitor and report on salary and benefit costs.
- 4.41** At the current time, individual schools do not have access to the new system. Although HRSB would like to extend access to schools to improve financial information and controls at that level, it is unlikely that will happen in the near future due to the resources required.
- 4.42** The new financial system for all school boards is processed on a single server which is hosted by the Province. In the 2003 Report of the Auditor General, we recommended that there was a need for the school boards, and the Departments of Education and Finance, to make arrangements for an annual audit of the data processing operation for the financial management system. This would reduce duplication of audit effort at the school boards, and enable the individual financial statement auditors to rely on a common audit. A September 2003 management letter from the external auditors to HRSB includes a similar recommendation. HRSB has initiated discussions with the Department of Education but, to date, no progress has been made on this issue.

Recommendation 4.5

We recommend that the Halifax Regional School Board continue discussions with the Departments of Education and Finance with a view towards obtaining a service organization audit opinion on the data processing operation.

Other Financial Challenges

- 4.43** **Funding formula** - In the 2003 Report of the Auditor General, we commented on the Department of Education's application of the funding formula for school boards (page 77). The Halifax Regional School Board believes that it is underfunded as a result of the Department's practices and has expressed a desire for greater transparency in the funding formula. The Deputy Minister of Education attended a meeting of the HRSB in February 2004 to share with Board members some of the reasons why the Department believes per student funding comparisons are inappropriate. He also committed to review the funding formula during 2004-05.
- 4.44** **Supplementary funding** - Since its formation in 1996, HRSB has struggled with the issue of Supplementary Funding which arises because the Municipal Government Act specifies that tax revenues raised in the two former cities (Halifax and Dartmouth) for educational purposes must be spent in those areas. Exhibit 4.2 includes the relevant provisions of the Municipal Government Act. In 2003, the total amount of Supplementary Funding received from the Halifax Regional Municipality was \$20.8 million which was allocated among the three former municipalities as follows:
- Halifax - \$12.3 million
 - Dartmouth - \$5.2 million
 - Halifax County - Bedford - \$3.3 million
- 4.45** Because the HRSB has responsibility for education of students in all three former municipalities, the administration of Supplementary Funding according to the legislation is difficult and leads to unequal total funding allocations among students and schools. Exhibit 4.3 was included in the HRSB's approved 2003-04 Business Plan and Budget and is reproduced in this Report to demonstrate the impact of the Supplementary Funding on a per student basis.
- 4.46** HRSB prepares a separate Business Plan and Budget for the Supplementary Fund and keeps separate accounting records by former municipal unit. The Board also has an 11 page Policy and Procedures document to govern administration of the Fund. There is extensive time and effort required to administer these funds and the result is that program offerings are different in the areas served by the three former municipalities. Supplementary Funding is a historical legacy. Legislative change may be required if the Board is to move towards becoming a single, cohesive unit.

CONCLUDING REMARKS

- 4.47** We are very pleased with the action taken by the HRSB to address the recommendations from our 2000 audit. The Board has made extensive changes to successfully implement the improvements in financial management.
- 4.48** Audited financial statements are one of the most important components of a strong accountability regime for funding received by the Province. We continue to be concerned that the financial statements of all school boards in the Province are not based on generally accepted accounting principles. This seriously impedes the usefulness of the school board financial statements to the House of Assembly and the general public.
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**Status Report on Auditor General's 2000 Report - September 16, 2003
Unaudited - Prepared by Halifax Regional School Board**

Exhibit 4.1

OBSERVATION/ RECOMMENDATION	ACTION TAKEN/STATUS
<p>Business Planning</p> <p>HRSB has elements of a business plan but has not developed a formal plan.</p>	<p>The Board has completed annual business plans since 2001. The process is now firmly entrenched in both Board policy and Department of Education guidelines. The Board has received favourable response from the Department to the 2003-2004 business plan. Formal business planning is undertaken for the Supplementary Fund as well.</p>
<p>Budget Process</p> <p>1. Linkage of budget to long term and operational plans should be clear and well documented</p> <p>2. No documentation on presentation and approval of budget assumptions. The Board should require preparation and approval of budget assumptions as one of the first steps in the budget process.</p> <p>3. (a) HRSB improve the quality of the enrolment assumptions used during the budget process and that the staffing formula be specifically developed and approved by the Board.</p> <p>Board members be directly involved in determining the number of staff and average class sizes for the coming year.</p>	<p>The process of completing business plans and budgets has continued to evolve and improve since 2001. The 2003-2004 business plans and budgets have very clear and well documented linkages and this has now become an important and regular component of this process.</p> <p>The Financial Services Department prepares detailed budget assumptions and retains the supporting documentation. The budget assumptions are reviewed and endorsed by Senior Staff and other budget managers. The budget assumptions are reviewed with the Board at the Budget Workshops as the first step of Board review and approval. This is considered an appropriate approach to development, review and endorsement of budget assumptions.</p> <p>There is a formal staffing model that is used by Senior Staff and Board to allocate budgeted staffing. This model was reviewed and approved by the Board in April 2003 prior to final approval of the budget. Enrolment projections are done in the spring and have been very accurate in the past.</p> <p>Overall staffing formulas, enrolment projections and allocations were approved by the Board in April 2003. It is a formal policy that the Board approve the number of staff and staffing formulas as part of the budget process.</p>

OBSERVATION/ RECOMMENDATION	ACTION TAKEN/STATUS
<p>(b) Enrolment projections should be provided to the Board for review as part of the initial stages of budget preparation.</p>	<p>Enrolment projections are provided to the Board when complete. This was done in April 2003 for the 2003-2004 school year.</p>
<p>4. HRSB did not retain detailed support for the preliminary budget calculations. Support for the final budget should be retained.</p>	<p>Financial Services now retains all detailed supporting budget documentation.</p>
<p>5. There was inadequate supporting analysis in some cases:</p> <ul style="list-style-type: none"> - heating fuel budget - maintenance supplies & materials <p>with strategies and plans for achieving budget targets not documented.</p>	<p>This observation actually applied only to heating fuel. The maintenance budget is determined by available funding and Operations manages to that amount. The nature and extent of detailed supporting analysis for the budget has improved over the past two years and staff retains the detailed supporting analysis for all budget line items.</p>
<p>6. HRSB has no documentation standards, retention schedules, requirements for formal sign off or independent quality control reviews for the final budget.</p>	<p>Although the Board has not yet approved a broad based records retention policy, Financial Services retains all budget records for a 7- year period. We have not required departments to formally sign off the preparation of their first draft budgets but we do have a decentralized budget preparation process and all departments are asked to confirm their draft budgets before proceeding to Board approval. For independent quality control reviews, we have had the Director of Grants and Audit of the Department of Education review the budget prior to final Board approval.</p> <p>Human Resources will be undertaking the development of a broad based records retention policy in 2003-2004.</p>
<p>7. (a) HRSB Board was given inadequate information on which to base a budget related decision re the Community Collaboration & Partnerships Department.</p>	<p>There is disagreement with this observation and belief that the Board was given all the information it required to make an informed decision. It as a one-of situation that does not require follow up.</p>

OBSERVATION/ RECOMMENDATION	ACTION TAKEN/STATUS
<p>(b) Recommend that for profit centres, information going to the Board be prepared in accordance with appropriate profit centre accounting practices.</p> <p>8. Budgets should be completed and approved prior to commencement of the fiscal year.</p>	<p>The budget document has been modified to incorporate this recommendation, i.e., EXCEL, Facilities Rentals, etc.</p> <p>A final budget cannot be approved without official funding notification from the Province. The Board follows an acceptable timeframe for budget approval based on the timing of funding information and meets all legislated budget approval time requirements.</p>
<p>Information Systems</p>	
<p>1. HRSB does not include prior year actuals in their monthly statements for comparison with current results.</p>	<p>It was very difficult with the SRB system, which was formerly used by the Board, to provide prior years actuals. We have only used SAP for one fiscal year. It is easier to report prior years actuals with SAP and this will be pursued with the intention of including this information by the third quarterly report for 2003-2004.</p>
<p>2. HRSB does not have a formal policy for preparing written budget to actual comparisons and related variance explanations. There are no written criteria for what is considered a significant variance.</p>	<p>The Business Plan and Budget policy requires Board departments to investigate variances and for commentary on variances to be provided to the Board on a quarterly basis. We will ensure written commentary is provided where appropriate.</p>
<p>3. All staff who have budgetary responsibilities should be involved in reviewing financial information and preparing variance explanations.</p>	<p>These measures are included in the budget and business plan policy of the Board. All Board departments have greater responsibility in preparation and review of the budget and actual financial information.</p>
<p>4. RSB's should start the forecasting process early in the fiscal year.</p>	<p>The forecasting process is started after the first quarter, with a more concentrated effort beginning after the second quarter when the new school year has begun.</p>

Extract from Municipal Government Act**Funding of Halifax Regional School Board**

530 (1) The council of the Halifax Regional Municipality shall provide to the Halifax Regional School Board at least the amount of additional funding that was provided to the Halifax District School Board in the fiscal year beginning April 1, 1995, to be used solely for the benefit of the area that was formerly the City of Halifax.

(2) The guaranteed amount payable pursuant to subsection (1) shall be recovered by area rate levied on the assessed value of the taxable property and business occupancy assessments in the area that was formerly the City of Halifax.

(3) The council of the Halifax Regional Municipality shall provide to the Halifax Regional School Board at least the amount of additional funding that was provided to the Dartmouth District School Board in the fiscal year beginning April 1, 1995, to be used solely for the benefit of the area that was formerly the City of Dartmouth.

(4) The guaranteed amount payable pursuant to subsection (3) shall be recovered by area rate levied on the assessed value of the taxable property and business occupancy assessments in the area that was formerly the City of Dartmouth.

(5) Subject to subsection (6), the amounts guaranteed pursuant to subsections (1) and (3) may not be decreased by more than ten per cent of the amounts specified in subsections (1) and (3), respectively, in any year, beginning in the fiscal year commencing April 1, 1996.

(6) The council of the Halifax Regional Municipality and the Halifax Regional School Board may agree to reduce the amount of the guarantees at a faster rate than is permitted pursuant to subsection (5).

(7) Funding provided pursuant to this Section is in addition to funding provided pursuant to the Education Act, 1998, c. 18, s. 530.

**Extract from HRSB's Approved Business Plan and Budget 2003-04
Unaudited**

Exhibit 4.3

SUPPLEMENTARY FUND BUSINESS PLAN & BUDGET			
2003-04			
KEY FACTS			
	Halifax	Dartmouth	County/Bedford
Schools	34	24	81
Enrolment -			
September 30, 2001	13,055	9,957	34,465
September 30, 2002	12,945	9,745	34,275
2001-2002			
Residential Tax Rate	12.3¢	9.7¢	4.5¢
Weighted Assessment ⁽¹⁾	\$9,642,083,500	\$5,198,379,700	\$7,066,646,500
Funding	\$11,880,000	\$5,062,000	\$3,200,000
2002-2003			
Residential Tax Rate	11.75¢	9.5¢	4.4¢
Weighted Assessment ⁽¹⁾	\$10,463,475,550	\$5,505,238,250	\$7,532,196,500
Funding	\$12,295,800	\$5,239,200	\$3,312,000
2003-2004			
Residential Tax Rate	10.90¢	8.80¢	4.00¢
Weighted Assessment ⁽¹⁾	\$11,302,395,000	\$5,942,567,800	\$8,206,349,300
Funding	\$12,295,800	\$5,239,200	\$3,312,000
Funding per Student -			
2002-2003	\$950	\$538	\$97
Total Supplementary Funded FTEs (School Year 2002-2003)			
Teachers	155.35	63.15	37.35
Non-Teachers	64.15	32.80	29.11

Note 1: Weighted assessment is residential assessment plus 2.55 times the commercial assessment. This reflects the fact that the commercial tax rate is 2.55 times the residential rate. However, this does not currently apply to the County/Bedford area as it is still applied as an area rate and not a property tax.

HALIFAX REGIONAL SCHOOL BOARD'S RESPONSE

Thank you for the opportunity to comment on the reported results of this follow up audit. We appreciate that the Auditor General has examined the progress we have made in implementing previous recommendations and welcome the observations and recommendations from this follow up review. As noted, the Halifax Regional School Board was subject to an audit in 2000 and the Board extended an invitation to the Auditor General to return in two years to review progress taken on the recommendations from 2000.

The HRSB's goal is to have strong, efficient and effective financial management practices. We have made significant progress in that endeavour as evidenced by the observations of the Auditor General. However, it doesn't stop. The HRSB is making every effort to comply with generally accepted accounting principles in financial reporting. Financial policies for school boards are prescribed by the Department of Education and certain accounting and reporting issues are beyond the capacity of school boards to implement without Departmental support. However, the Department is working with all boards to address these issues.

Our response on the 5 recommendations in the report is:

1. **Multi-year Funding** - We fully support this recommendation and agree that multi-year funding permits schools boards to undertake broader long range planning. We continue to urge the Provincial government to provide multi-year funding.
2. **Budget Forecasting** - Due to the differences in the months covered by the fiscal year versus the school year, a new school year does not occur until the 4th month of the fiscal year. It can be difficult to get a firm projection for the balance of a fiscal year until a new school year has begun. For that reason, it makes sense to have the fiscal year and the school year cover the same 12 month period. However, the Board will undertake a more detailed review of projections much earlier in the year as recommended.
3. **Outcome Measures** - The format for the annual business plan is prescribed by the Department of Education. The HRSB has fulfilled the current requirements but there is agreement that more work needs to be undertaken to report on performance targets and achievement of results. This will be a focus of the board in preparation of the 2005-06 business plans.
4. **Generally Accepted Accounting Principles** - The HRSB is taking every step possible in achieving full compliance with GAAP. The Board will continue to work with

the Department of Education in meeting this objective within the next year.

5. **Service Organization Audit** - The HRSB is fully supportive of the government undertaking a service organization audit to provide assurance that there are appropriate controls over data operations at the provincial server.

The HRSB has embarked upon a Planning for Improvement initiative to improve student success. All aspects of Board operations contribute to the success of this initiative. Financial management is no exception and the Board continues to work on improvements in Financial Services that contribute to overall student success.

We would like to thank the team who completed the audit in 2000 and returned again this year to provide professional and balanced advice and observations. We will continue to seek their advice in moving forward on further improvement initiatives.