

9.

EDUCATION AND CULTURE - SCHOOL BOARDS - ACCOUNTABILITY AND AMALGAMATION

BACKGROUND

9.1 There have been significant changes to the education system in Nova Scotia in the past two years, including revisions to the Education Act which became effective in 1995 and amalgamation of 22 district school boards into six regional school boards and the Conseil Scolaire Acadien Provincial during 1996-97.

9.2 The revised Act combined the former Education Act and School Boards Act, and was seen as the first major overhaul of the education legislation in 40 years. The Act was preceded by a discussion paper outlining the need for reform titled *Education Horizons - Restructuring the Education System* which was published by the Department of Education and Culture in June 1995.

9.3 The Act recognizes the role and participation of students, parents, teachers, school board members and others in the education system. Public involvement in the education process is formalized through the introduction of school advisory councils. The Act also establishes the Conseil Scolaire Acadien Provincial for the purpose of providing a French first-language program.

9.4 The Province provided \$543.1 million in operating grants to the seven regional school boards during 1996-97. This represented approximately 81% of total revenue received by the boards and 77% of total Department expenditures during 1996-97. Summaries of board revenues and expenditures are included in Exhibits 9.1 and 9.2. Expenditures per student are shown in Exhibit 9.3 and student enrolment is shown in Exhibit 9.4.

9.5 During 1997 this Office examined the accountability framework for transfer payments to school boards under the Education Act, and certain aspects of school board amalgamation. The audit was conducted under Sections 8 and 15 of the Auditor General Act.

RESULTS IN BRIEF

9.6 The following are the principal observations resulting from our audit.

- The accountability framework for transfer payments to school boards is clearly defined in the Education Act and regulations. Key stakeholders in the education process are identified, together with their accountability and reporting requirements.
- Annual reports and audited financial statements are the primary accountability documents produced by the school boards. The Department has procedures in place to ensure these documents comply with guidelines established for their preparation, and that school boards are consistent in their treatment of various financial statement and budget items.
- Bridge financing was provided to two boards in 1996-97 to fund certain expenditures resulting from amalgamation, and in 1997-98 to cover deficits incurred during 1996-97. These amounts are non-interest bearing and are repayable over three to five years from future budget allocations. We have recommended that the Act be clarified with

respect to the ability of school boards to incur deficits, and also with respect to borrowing funds to finance these deficits.

- The Department has no specific plans to follow up and report on amalgamation efficiencies realized and redirection of savings.
- We obtained recent information from school boards indicating efficiencies associated with amalgamation are expected to be less than the \$11 million quoted in the *Education Horizons - Restructuring the Education System* document published in 1995.
- There were three severance payments to certain former district school board staff that were unusual in comparison to the other payments and do not represent due regard for economy and efficiency in the use of public funds. We recommend that, in any future amalgamations, the Province develop guidelines for payment of severance and that severance payments in excess of these guidelines be specifically approved by the relevant department. We also recommend that school boards should have written employment or personal service contracts with management employees if the terms and conditions of employment are different from those specified in relevant collective agreements and policy manuals.

AUDIT SCOPE

9.7 The objectives of this assignment were to:

- assess the accountability framework for transfer payments to school boards under the Education Act and determine whether there is compliance with key provisions of the Act;
- assess the Department's process for developing performance measures and reporting outcomes;
- determine the process for monitoring the costs and savings associated with school board amalgamation; and
- examine the most recent projections associated with implementing the recommendations of the amalgamation coordinators.

9.8 The following general criteria were used in our audit.

- The accountability framework for payments to school boards should be clearly defined in the Act and regulations.
- Payments made to school boards should comply with legislation, and controls should be in place to ensure payments made are complete and accurate.
- The Department should have a plan to review outcome measures to ensure they are complete and of continuing relevance to the Department's activities, and to report these outcome measures on a regular basis.
- The Department should have a process for monitoring and reporting the savings and costs associated with amalgamation.

9.9 Our approach consisted of interviews with staff of the Department of Education and Culture and examination of documentation surrounding payments to school boards and performance measurement. We examined the April 1997 *School Board Amalgamation - Co-ordinators' Reports* which summarize estimated efficiencies associated with school board amalgamation. In addition, we sent a questionnaire requesting information on amalgamation efficiencies and costs to management of each of the English regional school boards.

PRINCIPAL FINDINGS

Accountability - Transfer Payments to School Boards

9.10 The external accountability framework over payments to school boards is established by legislation. The Education Act and regulations define the accountability requirements for the key stakeholders in the education process and, where necessary, the reports to be prepared by these stakeholders are described in detail. Significant components of the external accountability framework are:

- The school board is to submit an annual report to the Minister. The format and content of that report is not specified in the Act or its regulations, but the format has been established and agreed upon between the regional school boards and the Department. We noted that there were transitional guidelines for the annual report for 1996-97, the first year of amalgamation. The annual reports prepared by the school boards were all received by October 15, 1997. The Department has established a committee to review these reports in order to assess compliance with the guidelines and to review the content of the boards' submissions. A program sub-committee and a finance and operations sub-committee will each review the annual reports for compliance in their respective areas, and will prepare a joint report to the Minister on their findings.
- Audited financial statements are due by July 31 each year in accordance with the Act, however, the boards required additional time to prepare these statements due to the impact of amalgamation. Five of the seven boards submitted audited financial statements by November 14, 1997. The other two boards are expected to submit their audited financial statements in early 1998.
- School boards must provide an approved budget to the Minister within 60 days of being notified of funding for the ensuing fiscal year. Boards were notified of funding on June 30, 1997 for the 1997-98 fiscal year. The budgets were all received by November 14, 1997. The delay in receipt was again due to amalgamation. Staff at the Department monitored the time frame for completion of the budgets with school board officials.
- The duties of the Regional Education Officers (REOs) are described in the Education Act. The REOs act as liaisons between the boards and the Department, and ensure the accountabilities and responsibilities described in the Education Act are discharged by relevant members of the school board community. The REOs do not verify that Provincial school curriculum is being followed - that verification process is undertaken by the Program Branch at the Department.

9.11 Payments to school boards are monitored by the Grants and Audit Division of the Department. In addition to providing funds to the boards based on their approved budgets, the Division has also established accounting policies for the school boards and included these in a

Financial Handbook. Budgets and audited financial statements of the boards are reviewed by the Division to ensure consistency in presentation, and accuracy.

9.12 Grants and Audit Division staff are also responsible for ensuring funds provided to school boards have been spent with due regard for economy and efficiency. Management acknowledged that the Division has not focussed on economy and efficiency audits due to the issues involved with amalgamation, but has plans to take a more proactive approach in planning and conducting these audits in the future. The Division is also responsible for auditing recipients of other grants provided by the Department.

Payments to School Boards

9.13 The grants provided to school boards each year are derived from a funding formula and based on recommendations to the Minister by the Education Funding Review Work Group. This Group and its terms of reference were established in 1993 although the terms of reference are modified annually by the Group members.

9.14 The Group recommends total funds to be provided to the boards for the next fiscal year, and also recommends the allocation of this amount among the funding formula components. These recommendations are noted in a formal report to the Minister, and the recommendations of the Group may be adjusted to reflect critical budget issues of the Department. School boards are provided with preliminary funding information and receive approved budgets once Executive Council approval has been obtained.

9.15 Many of the components of the funding formula are based on enrolment. The Statistics and Data Entry Section of the Department has developed audit procedures for enrolment verification. These procedures are performed annually by staff of the Grants and Audit Division and the Regional Education Officers. We verified enrolment statistics relating to 1996-97 payments to school boards for the five largest schools in the Province and found no errors.

9.16 Payments are made to the school boards monthly in advance. We tested payments made to school boards in 1996-97 and noted that the funds provided to two boards varied from the approved amounts. In addition to the approved amounts, one board received \$272,500 in grants and \$1,068,000 in advances to cover programming costs and the deficit of one of its predecessor district school boards; the other board received \$701,200 to finance renovations to the school board's offices.

9.17 We discussed these advances with management of the Grants and Audit Division. The advances do not bear interest and are repayable over three to five years from future annual grant allocations to each of these regional boards. These repayments were to begin in 1997-98, however, both boards have been given approval to defer payments on these advances until 1998-99. We have also been informed that the Department has agreed to provide bridge financing in 1997-98 to those boards which request it to cover deficits incurred in 1996-97. Repayments on this bridge financing will also begin in 1998-99. The advances made in 1996-97 totalling \$1,769,200 were recorded as accounts receivable which will be reduced when the amounts are recovered in future years.

9.18 With respect to school board deficits, the Act provides in Section 64(4) that “*..in any fiscal year a school board shall not incur or make expenditures that will result in the total of the amounts of expenditures being in excess of the total of the amounts of the school board's revenue from all sources in that fiscal year.*” Management has indicated they interpret this section of the Act to mean a school board may not budget for a deficit in its annual budget. We believe that this section also prevents a school board from incurring a deficit during the fiscal year.

9.19 In addition, we examined the Act to determine whether school boards have the power to borrow money to finance operations and were unable to locate any provisions for borrowing of this nature. We recommend that the Act be clarified with respect to the ability of school boards to incur deficits, and also with respect to borrowing to cover deficits.

Performance Measurement

9.20 *Education Indicators for Atlantic Canada* was published by the Atlantic Provinces Education Foundation and released in September 1996. We believe that it is a significant publication on outcome measures. This document will be issued every two years and will include the indicators presently being reported, and others identified as relevant to performance measurement in Atlantic Canada. The Department also publishes an annual statistical summary which contains some performance measures.

9.21 Management of the Planning and Research Division at the Department indicated that much of the information in the *Education Indicators* report was already known by the Department. For example, indicators related to academic performance were derived from the results of the standard achievement tests. However, certain non-academic indicators highlighted areas where action was required by the Department. For example, one indicator noted that 30% of Grade 8 students felt unsafe at school. As a result, a program was announced in February 1997 to provide funds for the development of school-wide programs to reduce violence and promote positive school climates. The projects receiving funds under this initiative were announced in June 1997.

9.22 Management and staff of the Department have also been involved in developing outcome measures included in *Government By Design*, both on a government-wide and Departmental level, and in the process of reporting on performance against these measures. This reporting will be included in a document titled *Nova Scotia Counts* which was to have been published in early fall 1997. Publication of this document has been delayed due to reasons more fully explained in Chapter 2 (page 14).

School Board Amalgamation

9.23 *Background* - There were many reasons for the decision to amalgamate 22 district school boards into six regional school boards and the Conseil Scolaire Acadien Provincial.

9.24 Declining enrollment, which affects school board funding, combined with fiscal restraint created significant challenges for all school boards. Especially hard hit were small rural boards, several of which were approaching the point where ability to deliver core programs and services was threatened. Amalgamation was seen as a means of achieving a more cost-effective and efficient board system and to address the problem of small boards that were no longer financially viable.

9.25 School boards, especially small boards, were finding it difficult to provide special services to students and staff such as speech pathology, psychological services and staff development. Amalgamation was seen as a means of achieving greater economies of scale to enable the delivery of these services.

9.26 The Canadian Charter of Rights and Freedoms, introduced in 1982, guarantees minority linguistic rights. Amalgamation was seen as a means of providing for these rights by providing equal French and English educational opportunities to Nova Scotians.

9.27 Page 4 of the June 1995 *Education Horizons* document states:

“... savings from streamlined administration alone are expected to reach approximately \$6 million. As well, significant additional savings of about \$5 million are anticipated from more effective regional management of large budget items such as student transportation, maintenance and use of facilities, for a total of approximately \$11 million in savings. Every dollar saved will be redirected to the classroom, to improve the quality of education offered young Nova Scotians.”

9.28 Staff of the Department of Education and Culture developed the efficiency estimates quoted in the *Horizons* document.

9.29 The Department hired amalgamation coordinators through a tendering process at a cost of approximately \$300,000. The coordinators were responsible for working with members of the former district boards to develop amalgamation plans. The coordinators were also asked to identify opportunities for efficiencies in administration, management and operations that could be redirected to support programs and services. Coordinators were not asked to identify one-time costs associated with amalgamation. Reports from six amalgamation coordinators were submitted to the Department outlining specific efficiency initiatives that the coordinators felt were possible.

9.30 The Conseil Scolaire Acadien Provincial (CSAP) was created to give entitled parents the right to educate their children in a French first-language program. Since it was a new entity and not formed by amalgamation, the coordinator was not asked to provide efficiency estimates.

9.31 Coordinators used different approaches in preparing the efficiency estimates. Therefore Department staff, in consultation with regional board staff, prepared additional analysis to provide a board-by-board comparison. The results of the individual coordinators' reports, plus the additional Department analysis, were published in a consolidated report entitled *School Board Amalgamation Co-ordinators' Reports* in April 1997. Efficiencies reported totalled \$11.1 million consisting of \$10.0 million in annual efficiency savings plus \$1.1 million in one-time savings from the sale of facilities.

9.32 Efficiencies associated with possible school closures were not included in the analysis because decisions on school consolidations require extensive study and community consultation and were therefore beyond the scope of the coordinators' assignment.

9.33 *Completeness of efficiency analysis* - The analysis of efficiency savings, published by the Department in April 1997, did not identify expected one-time costs associated with implementing amalgamation such as severance costs, moving expenses and the cost of facility renovations.

9.34 *Post-implementation follow-up by Department* - The Department has no specific plans to follow up and report on efficiencies realized and redirection of savings. Department management indicated that it would be very difficult to accurately calculate cost savings achieved with amalgamation due to the nature of the financial reporting and availability of records from former boards. School boards were not asked to respond, in writing, to the coordinators' efficiency estimates. One board expressed concerns about the calculation of efficiency estimates, contained in the consolidated coordinators' report, in a letter to the Department. The board informed us that the concerns were never adequately addressed by the Department. In addition, the Department has no specific plans for a post-implementation review. Such a review could report on improvements to programs and services made possible by amalgamation as well as follow-up on efficiencies realized.

9.35 Although the Department has no plans to formally report on amalgamation, Department management indicated that they carefully monitored implementation. All organization charts for central office structures were submitted, reviewed and approved before implementation to ensure appropriate administrative cost savings were occurring. However, school boards were completely responsible for determining cost savings to be implemented.

9.36 *Questionnaire sent to school boards* - We asked management of the boards for estimates of efficiencies achieved to date and those expected to be achieved in the future. We also asked board management to confirm one-time costs, including severance costs, associated with amalgamation.

9.37 We mailed a questionnaire to all six English boards. We did not mail a questionnaire to the Conseil Scolaire Acadien Provincial for the reasons cited in paragraph 9.30. All boards returned the questionnaire.

9.38 The boards reported that not all efficiency initiatives identified by the coordinators will be implemented. Some boards reported lower savings estimates for the efficiency initiatives that are planned for implementation. In total, boards identified \$6.7 million in estimated annual efficiencies from amalgamation plus an additional \$.8 million in one-time savings from the sale of facilities. These savings are summarized in Exhibit 9.5 on page 109. We did not verify the savings and cost estimates reported to us by the boards.

9.39 Additional costs associated with amalgamation were not considered by the coordinators. The boards, in their questionnaire responses, estimated the following costs associated with amalgamation.

- One-time severance costs of \$1.5 million of which \$1.0 million was funded by the Department. The Department generally funded 70% of severance costs.
- Other one-time amalgamation costs of \$.9 million including office renovations, computer hardware and software changes and moving expenses.
- One-time legal costs for blending collective agreements were identified by one board but not quantified.
- Another board identified potential additional salary costs associated with wage parity for non-teaching employees estimated at \$4.5 million per year for that board. Management of the Department of Education and Culture believes this figure is overstated. The actual amount will be determined by the outcome of the first collective agreement negotiations for the amalgamated boards.

9.40 Costs associated with amalgamation are summarized in Exhibit 9.5 on page 109.

9.41 Our questionnaire did not ask about the non-financial aspects of amalgamation. Department management noted the reintroduction of lengthened days for Primary grades at some boards as an example of amalgamated-related improvements to services.

9.42 *Severance payments to former district school board employees* - The questionnaires returned by the boards indicate a reduction of approximately 75 administration positions as a result of amalgamation. Of the 75 positions, severance payments were made to 34 individuals totalling \$1,607,896 of which the Department cost shared \$968,507.

9.43 We did not examine the employment contracts of employees who received severance payments. We understand that the decision to award severance payments to an individual and the amount of the award depended on the nature of the position and the provisions of any union or other

contract with the employee. We also understand that contractual requirements were a minimum obligation and additional payments, not required by contract, could be awarded if approved by the Board. In general, the amount of any severance payments varied depending on the individual's salary and the number of years employed by the board.

9.44 There were three severance payments that were unusual in comparison to the other payments and significant enough to bring to the attention of the House of Assembly.

- The Chief Executive Officer of a pre-amalgamation school board had an unwritten contract of employment with the board which extended to the year 2000. He was advised by the Amalgamation Coordinator that his employment contract would be honoured. This decision resulted in a commitment of three and a half year's salary or \$280,000 over the remaining life of the contract. He had been employed by the Board for six and a half years prior to amalgamation and the term of service included in the unwritten contract was sufficient to qualify for a pension under the Teachers' Pension Act upon completion in 2000. For the remainder of the contract period, he has been employed by the amalgamated school board on a part-time basis to work on special projects at the same annual salary as he was being paid by the pre-amalgamation board. The Department of Education and Culture is cost-sharing the salary with the amalgamated board on a 70:30 basis and it was included on a list of amalgamation-related severance payments provided to this Office by the Department.

Prior to making the decision to cost-share the salary, the Department of Education and Culture received a letter from the amalgamated board stating that the individual had "*...a personal services contract from his former Board that guarantees employment at his current salary until December 1999.*" The Department, on the basis of that letter and a similar letter from the Amalgamation Coordinator, believed that the individual's contract with the board was in writing and legally binding, and agreed to assist the board with the expenditure.

Our audit determined that the individual and the pre-amalgamation board had not prepared a written employment or personal services contract. However, there was a service award agreement between the former board and the employee dated September 1994 which provided for a service award payment of \$60,000 plus interest in the event of: termination (other than for just cause); death; school board amalgamation or consolidation prior to July 31, 2000; or retirement. This amount has been deposited to a trust account and will be payable to the employee in the year 2000 when he retires.

The question of whether there was a legal requirement to honour the unwritten employment contract in this situation cannot be answered without a legal opinion. We are not aware of any legal advice being sought to support the required payment.

We have three concerns with this arrangement:

- The school board did not have a written employment or personal service contract with this management employee although the terms and conditions of employment appeared to be different from those specified in the relevant collective agreement.
- The Department of Education and Culture is funding this salary as a severance payment although the individual remains an employee of the

amalgamated board. Salaries of all other board employees are funded by the Department as part of school board formula funding rather than through severance expenditures.

- The amount of the total payment to be received by this employee subsequent to amalgamation is significantly more than chief executive officers of other school boards received, particularly in relation to the relatively short length of service with the pre-amalgamation board.
- Two senior contracted staff of a second pre-amalgamation board received severance payments totalling \$89,577 although they were rehired by the amalgamated board on the day following severance. However, the salaries for their new positions with the amalgamated board represented significant decreases from their previous positions (reductions of 16% and 43%). The severance payments were paid from general board funds which include Provincial formula funding but were not directly cost shared by the Department of Education and Culture like other severance payments. The pre-amalgamation board sought and received legal advice and senior management of the amalgamated board has assured us that such payments were legally required.

Our concern with these payments is that, although they may have been legally required by employment contracts, they do not represent due regard for economy and efficiency in the use of public funds. Many other employees of all pre-amalgamation boards were rehired by amalgamated boards without payment of severance.

9.45 The severance payments noted above illustrate the differences in employment contracts and terms of severance which are negotiated between school boards and their employees. We are concerned by these differences because of the impact on due regard for economy and efficiency in the expenditure of public funds directed towards education. We recommend that, in any future amalgamations, the Province develop guidelines for payment of severance and that severance payments in excess of those guidelines be specifically approved by the relevant department. We also recommend that school boards formally document employment or personal service contracts with management employees if the terms and conditions of employment are different from those specified in relevant collective agreements and policy manuals.

CONCLUDING REMARKS

9.46 The revised Education Act focuses clearly on accountability in the education system and the related reporting requirements. We support the Department's efforts in monitoring compliance with this legislation through follow-up and review of accountability documents from regional school boards.

9.47 The *Education Horizons* document and the reports of the amalgamation coordinators made assertions concerning efficiencies to be gained by amalgamating 22 district school boards into six regional boards and the Conseil Scolaire Acadien Provincial. The monitoring of these efficiencies and reporting of outcomes, both financial and non-financial, are important to ensure proper accountability of the Department and to evaluate the success of the initiative.

Exhibit 9.1

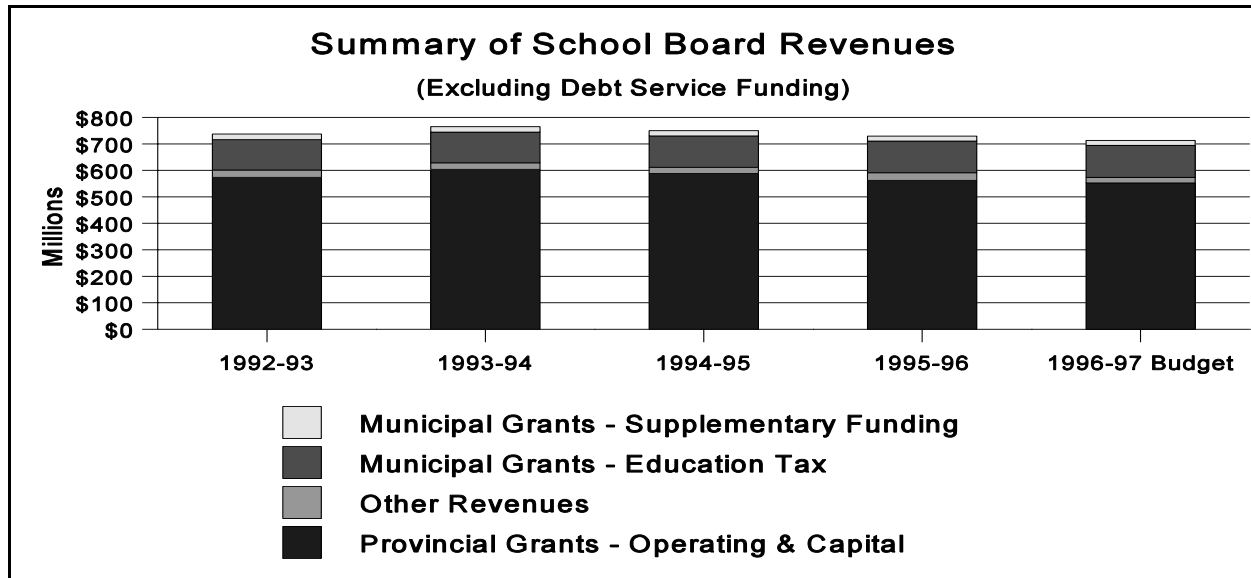


Exhibit 9.2

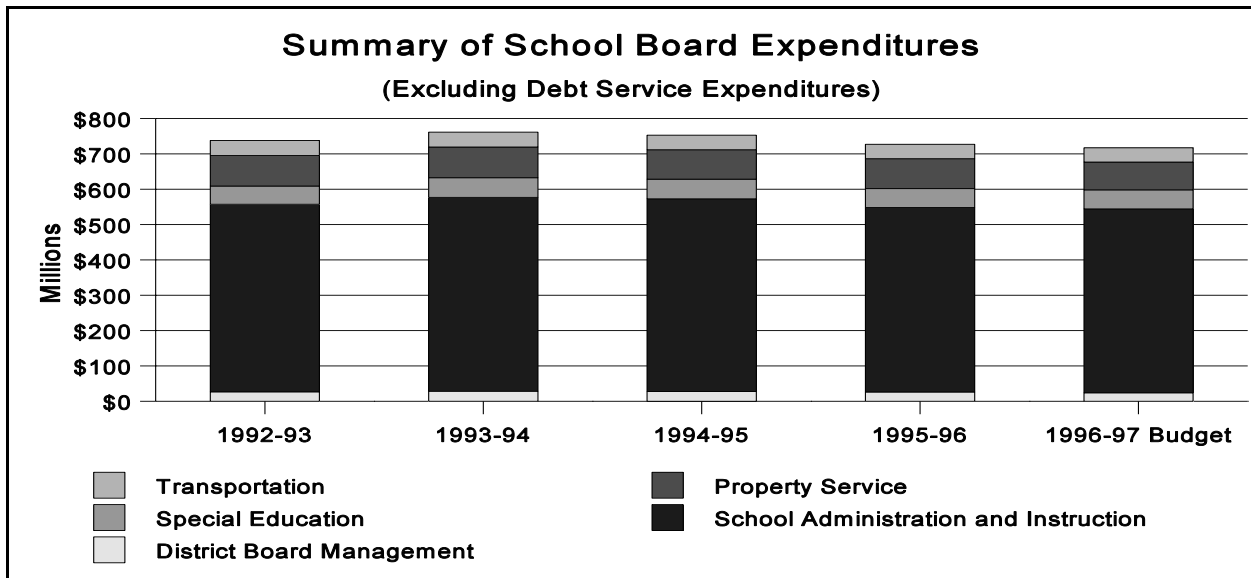


Exhibit 9.3

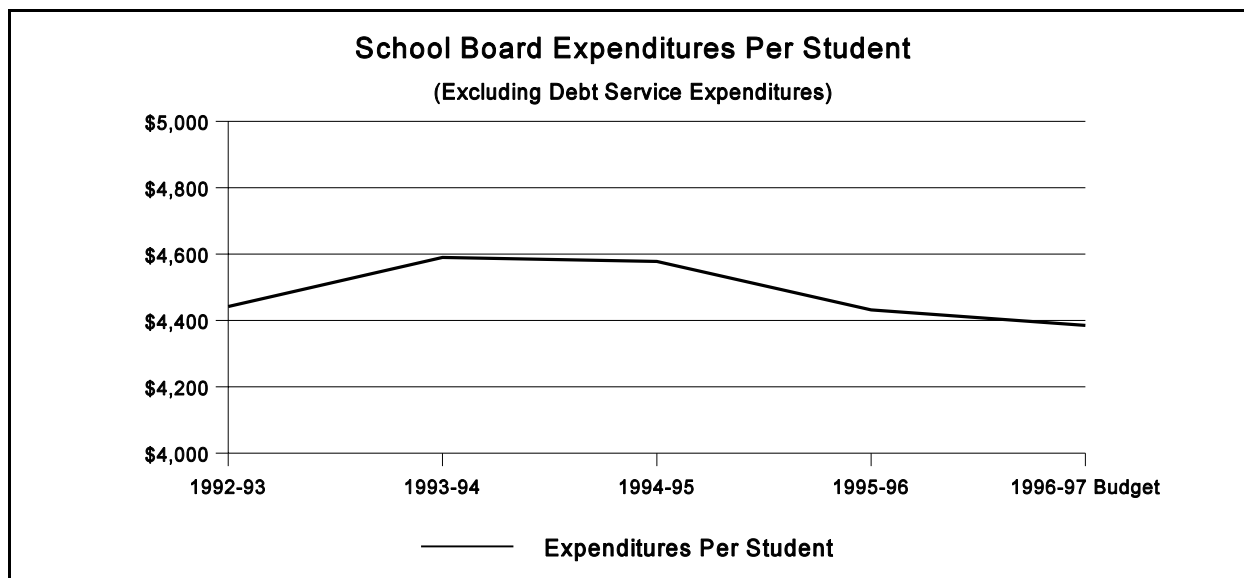


Exhibit 9.4

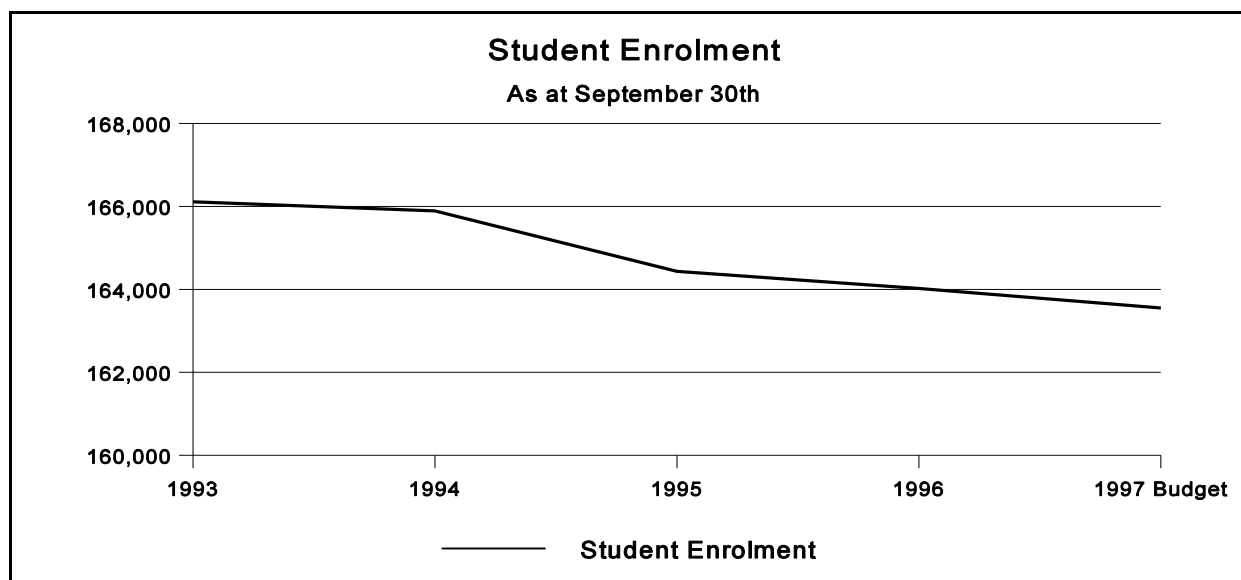


Exhibit 9.5

**SUMMARY OF ESTIMATED AMALGAMATION EFFICIENCIES AND COSTS
(REPORTED BY REGIONAL SCHOOL BOARDS - UNAUDITED)
NOVEMBER 1997**

Amalgamated School Board	Annual Efficiency Estimates		One-Time Savings from Sale of Property		Severance Costs	Other Amalgamation Costs Identified by Boards
	Per Coordinators	Per Board Questionnaire	Per Coordinators	Per Board Questionnaire		
Annapolis Valley	\$ 1,388,341	\$ 417,189	\$ Nil	\$ Nil	\$ 292,536	\$ 25,000
Cape Breton - Victoria	984,624	1,513,030	Nil	Nil	249,569	Note 1
Chignecto-Central	3,146,019	1,240,599 Note 2	Nil	Nil	412,000	Nil
Halifax	2,027,866	2,004,100	1,000,000	684,000	167,837	Note 3
Southwest	1,475,000	716,325	Nil	Nil	81,335	218,752 Note 4
Strait	982,656	832,700	100,000	100,000	327,947	700,000 Note 5
All Boards	<u>\$ 10,004,506</u>	<u>\$ 6,723,943</u>	<u>\$ 1,100,000</u>	<u>\$ 784,000</u>	<u>\$1,531,224</u>	Notes 6, 7

Note 1 - The Board reported possible legal costs for blending collective agreements. No cost estimate was provided.

Note 2 - Property services and transportation are subject to future review. Possible additional savings of \$300,000 for property services and \$350,000 for transportation.

Note 3 - The Board identified \$4.5 million in potential annual costs to bring non-teacher salary scales to parity across the Board. Management of the Department of Education and Culture believes this figure is overstated. The actual amount will be determined by the outcomes of collective agreement negotiations.

Note 4 - The Board identified various one-time amalgamation related costs including computer hardware, software and moving expenses.

Note 5 - The Board identified \$700,000 in one-time costs for construction and refurbishing of central offices.

Note 6 - Severance costs associated with amalgamation were partially funded by the Department in the amount of \$968,507.

Note 7 - In addition to the above severance costs, \$76,672 was paid by the Conseil Scolaire Acadien Provincial to an employee of a former board.