

## 5.

**EDUCATION -  
HALIFAX REGIONAL SCHOOL BOARD AND  
CHIGNECTO-CENTRAL REGIONAL SCHOOL BOARD -  
BUDGETING AND FINANCIAL MANAGEMENT PRACTICES**

**INTRODUCTORY COMMENTS**

**5.1** The Education Act requires Regional School Boards to prepare and achieve a balanced budget. Sections 64 (2)(v) and (ab) of the Education Act require boards to “...develop regional strategic and business plans;...” and “...provide for the effective and efficient management of the financial affairs of the board.” Section 64.4 states that Regional School Boards shall achieve balanced budgets: “...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.”

**5.2** Budgeting is an important tool for financial management in an organization. Budgets assist an organization in planning and evaluating performance, and may help Regional School Boards to achieve the legislated objective of having no deficits.

**5.3** The process of establishing an annual budget for a large public sector organization, such as a Regional School Board, can be challenging. Challenges faced by Regional School Boards include:

- *Government funding* - The amount of funding available to Regional School Boards is controlled by the Province and municipalities.
- *Revenue generation* - Regional School Boards have limited access to opportunities for revenue generation, so the focus of the budgeting process must be on balancing expenditure levels to available funding.
- *Demands for service* - There are persistent demands from the public for enhancements to services provided and opposition to any reductions in service.
- *Competing priorities* - Boards face many competing priorities. Exhibit 5.1 (prepared by the Halifax Regional School Board) illustrates some of the choices and priorities that Regional School Board members may consider when deciding on how to allocate funding.

**5.4** Boards require good information on which to base budgets and other decisions. If the information supporting the budget process and related decisions is inappropriate or inadequate, then the Board may have trouble setting an appropriate budget and achieving the budget targets.

**5.5** Because budgeting is an important factor in managing Regional School Board finances, we examined the process followed in preparing the 2000-01 budget, the financial management environment and the process for periodic monitoring and forecasting at two Regional School Boards - Chignecto-Central Regional School Board (C-CRSB) and Halifax Regional School Board (HRSB). We compared the budgeting practices of these two organizations and identified certain best practices or recommendations that could apply to all Regional School Boards in the Province.

## BACKGROUND

**5.6** *Chignecto-Central Regional School Board* - The Chignecto-Central Regional School Board was established pursuant to the Education Act of 1995-96 through amalgamation of three predecessor Boards.

**5.7** C-CRSB is the second largest school board in the Province, responsible for 93 schools, with approximately 3.4 million square feet of space. Schools are organized into families of schools. Each family consists of a group of schools in a geographic area led by a Family of Schools Supervisor. C-CRSB has one central office and five family of school offices. At September 30, 2000, C-CRSB had a student enrolment of 26,690.

**5.8** The governing Board of C-CRSB is comprised of 17 elected members. The Superintendent of Schools reports to the elected Board; with management of day-to-day operations falling under an 11-member Regional Support Team. C-CRSB has approximately 3,200 employees, including 1,572.5 teacher FTE's (full-time equivalents). Approximately 87% of C-CRSB's expenditure budget is allocated to salaries (see Exhibit 5.2).

**5.9** C-CRSB has not incurred a deficit since the Board was formed. Exhibit 5.3 shows the annual surplus as a percentage of total expenditures. Budgeted revenues and expenditures for 2000-01 are \$132.6 million. See Exhibit 5.4 for a comparison of budgeted and actual expenditures and Exhibits 5.5 and 5.6 for a summary of revenues and expenditures by major category. Total budgeted expenditures per pupil for 1999-2000 were \$4,922 (*Statistical Summary 1999-2000*, Nova Scotia Department of Education).

**5.10** *Halifax Regional School Board* - The Halifax Regional School Board was established pursuant to the Education Act of 1995-96 through amalgamation of three predecessor Boards.

**5.11** HRSB is the largest school board in the Province with 144 schools, one central office, three area offices and a maintenance office. The Board maintains more than 145 buildings with over 6.5 million square feet of space. The schools in HRSB are grouped into families of schools. A family is comprised of a high school and all junior high and elementary schools that feed into the high school. There are three area teams; each serving approximately 50 schools. As at September 30, 2000, HRSB had a student enrolment of 57,782.

**5.12** The governing Board is currently comprised of 14 elected members. The Superintendent of Schools reports to the elected Board. A 12-member Executive Council is responsible for the day-to-day operations of HRSB. HRSB employs approximately 5,000 staff including 3,421.1 FTE teaching positions. Approximately 84% of HRSB's expenditure budget is allocated to salary costs (Exhibit 5.2).

**5.13** For the 2000-01 fiscal year, HRSB budgeted revenues and expenditures of \$263.1 million (excluding expenditures financed by supplementary municipal funding). See Exhibits 5.5 and 5.6 for a summary of revenues (excluding supplementary fund revenues) and total expenditures (including supplementary fund expenditures) by major category.

**5.14** HRSB obtains a significant amount of supplementary fund revenues from the municipality (\$19.3 million for 2000-01). Supplementary funding is optional and expenditures from the supplementary budget support areas such as specialist staffing for arts programs, staffing for technological and French education, staffing to reduce class sizes or increase course options, among others. Exhibit 5.7 shows the breakdown of the supplementary budget by major category.

**5.15** HRSB has incurred deficits each year since amalgamation. Exhibit 5.3 shows the annual deficit as a percentage of total expenditures. See Exhibit 5.4 for details of budgeted and actual expenditures. Total budgeted expenditures, including Supplementary Funding expenditures, per pupil for 1999-2000 were \$4,969 (*Statistical Summary 1999-2000*, Nova Scotia Department of Education).

**5.16** HRSB has undergone significant changes since amalgamation, and change is still occurring at a rapid pace. During the last 18 months, 11 of 12 senior management positions at the Board, including the Superintendent and the Executive Director of Business Services, have been filled by new individuals. The issue of Supplementary Municipal Funding has received a great deal of Board and management attention and is still unresolved, although the Board has made significant progress in this area in the current year. Since Supplementary Funding is tied to the pre-amalgamation Board structure, it causes HRSB to provide different programs and services in the regions associated with the pre-amalgamation Boards. HRSB has also been attempting to eliminate its deficits. HRSB is still undergoing amalgamation-related changes, whereas C-CRSB appears to be more stable. This difference between the Boards audited is significant when interpreting the remainder of this report.

**5.17** Our most recent audit of a school board was of the former Halifax District School Board, reported in Chapter 7 of the 1994 Report of the Auditor General.

## RESULTS IN BRIEF

**5.18** The following are the principal observations from this audit.

- The timing of funding announcements is more critical for Regional School Boards than other public sector entities. If teaching positions need to be reduced, Boards have only a small window of opportunity to do this. Collective agreements require notice of termination of probationary teaching staff, effective July 31, to be given by late April. In addition, any savings from reductions in the number of teachers are not able to be achieved until the end of the school year in July, four months into the fiscal year. If the Province informed Regional School Boards of probable funding for the next several years, through multi-year funding announcements, these organizations could better plan for the future.
- Both C-CRSB and HRSB have elements of a business plan but neither Board has developed a formal plan. Additionally, the Department of Education (DOE) has not defined the format of strategic and business plans for Regional School Boards. We recommended that DOE work with Regional School Boards to establish the format for strategic and business plans. C-CRSB and HRSB could then work towards developing formal strategic and business plans as required by legislation.
- One of our objectives was to provide an overall opinion on the reasonableness of the Regional School Board budgets.

For Chignecto-Central Regional School Board, we were able to provide an unqualified audit opinion on the budget process and the budget document (see paragraph 5.27 below for explanation of terminology). We found that, as at the date of Board approval, the 2000-01 budget assumptions used by C-CRSB are suitably supported, consistent with the plans of the Board, provide a reasonable basis for the budget, and are fairly reflected in the budget.

In the case of Halifax Regional School Board, however, we encountered an audit scope limitation because certain critical pieces of information were not available. We, therefore, were unable to give an overall opinion on the budget process and the budget document (i.e. Denial of Opinion, see paragraph 5.27 below for explanation of terminology). We are unable to provide an opinion on the process because budget assumptions such as enrolment projections and targeted class sizes were not explicitly documented as part of the budget process and approved by the Board, and certain supporting budget documentation was not retained.

- We became aware of one instance where the members of HRSB were given inadequate information upon which to base a budget-related decision. We have recommended that Board members be given information which explicitly considers both revenues and expenses when profit centres are being discussed.

## AUDIT SCOPE

**5.19** The objectives of this assignment were to:

- review and assess C-CRSB’s and HRSB’s business plans as a foundation for the budgets, and the linkages between the business plans and the budgets;
- assess the adequacy of C-CRSB’s and HRSB’s financial management environment;
- review and assess the processes followed in the preparation of C-CRSB’s and HRSB’s approved 2000-01 budgets;
- review and assess the support for the approved budgets, including supporting calculations and assumptions;
- form an opinion on reasonableness of the budgets;
- review and assess C-CRSB’s and HRSB’s accountability relationship with the Department of Education as it relates to their budgeting processes; and
- review and assess C-CRSB’s and HRSB’s processes for periodic monitoring of financial results and forecasting results to year end.

**5.20** Supplementary funding from the municipality is unique to HRSB. The scope of our audit did not include a review of supplementary funding.

**5.21** Our approach consisted of interviews, examination of documentation and discussions with management and staff at C-CRSB and HRSB. We also examined the supporting documentation for a number of sample items. We reviewed the audited financial statements and management letters of the financial statement auditors for each Board. HRSB and C-CRSB have appropriate processes to ensure management letter recommendations are reported to the Board. Status of implementation of recommendations is also monitored and reported to the Board.

**5.22** The financial statement auditor for HRSB identified concerns regarding internal controls in the Community Collaborations and Partnerships Program. The Board engaged the auditor to conduct a forensic audit. The forensic audit was not included in our audit scope.

**5.23** Some of the criteria used in this audit originated from the Education Act. The remaining criteria were extracted from the Office of the Auditor General of Canada’s *Financial Management*

*Capability Model* (1999). This document is available on the Internet at [www.oag-bvg.gc.ca/domino/other.nsf/htm/99cmtoc.html](http://www.oag-bvg.gc.ca/domino/other.nsf/htm/99cmtoc.html)

**5.24** The objective of the Office of the Auditor General of Canada's work was "to build a modern framework that would describe the key elements departments and agencies need to achieve effective financial management - a framework that would also provide a basis for assessing the current state of their financial management."

**5.25** The general criteria utilized in this assignment are summarized as follows.

- The organization should establish an adequate financial management environment.
- Regional School Boards should, in accordance with the Education Act and regulations, develop regional strategic and business plans.
- The operational financial plan/budget should be developed according to a documented procedure, based on the expected operational outputs and resource requirements.
- Budgetary assumptions and risks should be documented.
- All budgetary estimates should be reviewed for reasonableness and to ensure they are supported by adequate analysis.
- Regional School Boards should comply with the Education Act and Regulations.
- Actual operating results, achievement of milestones, and resources used should be tracked and compared against operational and financial plans to assess progress in meeting goals and objectives.
- When operational plans change, all other related plans, budgets and work products should be updated so that any financial implications are understood.

## PROFESSIONAL GUIDANCE

**5.26** Our examination was made in accordance with the Standards for Assurance Engagements of The Canadian Institute of Chartered Accountants.

**5.27** Under those Standards, the auditor is obliged to conclude on whether the subject matter being audited conforms with the criteria and/or state any reservation the auditor may have. Effectively, the Standards (see Section 5025.78 of the Canadian Institute of Chartered Accountants' Handbook) permit the auditor the following options when reporting on the audit:

- *Unqualified Opinion* - A conclusion that the subject matter conforms with the criteria.
- *Adverse Opinion* - A conclusion that the subject matter does not conform with the criteria.
- *Denial of Opinion or Scope Reservation* - A reservation stating that the auditor is unable to obtain sufficient appropriate evidence to evaluate one or more aspects of the subject matter's conformity with the criteria.

**5.28** Budgets are future-oriented and, accordingly, based on assumptions about the future such as planned courses of action, and future economic conditions. Budgets reflect uncertainty. The Canadian Institute of Chartered Accountants' guidance for auditors suggests the following with respect to the inclusion of commentary on management's assumptions in the auditor's opinion on future-oriented financial information:

*“The opinion would state specifically whether:*

- (a) the assumptions developed by management are suitably supported and consistent with the plans of the entity, and provide a reasonable basis for the forecast;*
- (b) the forecast reflects such assumptions; and*
- (c) the financial forecast complies with the presentation and disclosure standards established by CICA.”* (Assurance and Related Services Guideline, AuG-6 Examination of a Financial Forecast or Projection included in a Prospectus or other Public Offering Document, paragraph 7)

**5.29** Our conclusions from our audits of C-CRSB and HRSB (see paragraphs 5.108 and 5.109) should be interpreted with reference to this professional guidance.

## **PRINCIPAL FINDINGS**

### ***Department of Education's Role and Approach to Funding***

**5.30** The amount of annual funding available to Regional School Boards is controlled by the Province through the annual grant process. The Province determines both the Provincial component of the funding and the Education tax rate for mandatory municipal funding. The majority of the funding of Regional School Boards is unrestricted or global in nature (i.e., the Regional School Boards can allocate total funding through their budget processes to various expenditure categories without restriction).

**5.31** Grants provided to school boards each year have been determined by government, after consideration of the recommendations of the Education Funding Review Work Group. In the past, this Group had representation from each of the key stakeholders in education funding - Regional School Boards, the Nova Scotia School Boards Association, municipalities and the Department of Education. The Work Group and its terms of reference were established in 1992 with annual changes in the composition of the group and modification of the terms of reference.

**5.32** The Work Group recommends a level of funding based on a model and underlying funding units and rates. The current model identifies the funding for educational programs, transportation, property services, learning resources, school board governance and administration.

**5.33** Following deliberations and consensus on recommendations, the Group produces a report with its recommendations. The Minister then considers the recommendations in light of the program objectives and fiscal targets of the Department, and makes a recommendation to Executive Council for decision.

**5.34** The 2000-01 Education Funding Review Work Group membership was not as broad-based as in prior years and consisted of representatives of the Department of Education and Regional School Boards. The Work Group met to consider the funding model, units and rates for the 2000-01 fiscal year. Minutes of the December 1999 meeting indicate that the Province wished to achieve

savings in School Board funding, and that “*A number of the boards expressed the sentiment that if the focus was going to be on cutting funding, then boards would be reviewing their participation at the meetings this year.*” In January 2000, the Department of Education informed Work Group members that meetings were postponed until further notice. There was another meeting in February 2000, and no further meetings were held until after the Budget Address on April 11, 2000. The Work Group did not make funding recommendations to the Minister as in prior years, but focused on implementation of the Province’s funding reductions.

**5.35** The Province announced its funding for Regional School Boards on April 11, 2000. The original level of funding announced by the Minister was deemed inadequate by Regional School Boards across the Province. Subsequently, following negotiations between the Department and all Regional School Boards, a revised funding level was announced. The final funding was formally communicated to the Boards on May 26, 2000, after two months of the fiscal year had passed and subsequent to the Collective Agreement deadline for giving notices to probationary contract teachers who would not be offered employment for the upcoming school year. During the period subsequent to April 11, the Department of Education approached the Nova Scotia Teachers Union to extend the Collective Agreement deadline for notices. The Union refused. An amendment to the Education Act was passed by the House which revoked the termination notices given prior to May 16, 2000.

**5.36** The government offered some specific suggestions to Regional School Boards during the 2000-01 budget process. For example, the HRSB funding information from the Province, received in May 2000, includes a line item titled Teacher Retirements with a corresponding funding reduction of \$1,479,600 when compared to the prior year’s funding. Although the number of teaching positions to be reduced by attrition was not formally documented by the Province, that specific line item is equal to the annual salary of approximately 41 teachers if the retirements occurred on August 1, 2000. We believe it is reasonable to interpret this line item as a suggestion from the Province to reduce the number of teachers by at least 41 for the 2000-01 school year through retirements. The C-CRSB funding information included a similar suggestion, although the amount was proportionately lower due to the Board’s smaller size. In addition, the Department provided options to teachers including early retirement, part-time work, and leaves of absence which would facilitate workforce adjustments. The final decision on the number of staff at each Board is made by the Board because (as noted in paragraph 5.30) the Provincial funding is global and not targeted to specific expenditures.

**5.37** Exhibit 5.8 shows funding from the Province to C-CRSB and HRSB for each year since amalgamation.

### ***Business Planning***

**5.38** As noted in paragraph 5.25 above, Regional School Boards are required to develop strategic and business plans.

**5.39** *HRSB’s planning process* - HRSB began a strategic planning process in 1997. The process included a planning team consisting of students, staff, board members, parents and community members. In February 1998 the team presented the first stage of a strategic plan. The plan included a mission statement, set of beliefs, objectives and strategies. By mid-1998, other planning teams presented action plans to accomplish the strategies. The strategic plan was approved with implementation to commence in September 1998.

**5.40** In an attempt to operationalize the strategic plan, a System Review was started in 1999. This consisted of a planned review of 23 facets of the organization. It also identified a number of goals and objectives to be achieved. Review and reporting on the different facets was substantially complete at the time of writing this report.

**5.41** The Superintendent tabled annual reports with the Board in 1999 and 2000. The 1999 report included a plan, *Students First*, which was "intended to focus attention on the board's inherent strengths, to acknowledge the high quality effort made to prepare a strategic plan and to identify factors requiring serious review by the Board". The plan highlighted a number of critical issues and recommendations, the majority of which had been identified in the Board's strategic plan. *Students First* was followed up in 2000 as a focus for review and action during the 2000-01 school year. The Board approved several program and budget priorities in 1999 and 2000 flowing from *Students First*.

**5.42** *C-CRSB's planning process* - In September 1996, following the formation of C-CRSB, staff conducted a comprehensive review of programs and services. This provided a regional profile of the programs and services as they existed.

**5.43** Staff, students, parents, board members, business and community members participated in the development of a mission statement, set of beliefs and critical issues. The critical issues identified were used to develop a list of priorities of the Board. Planning teams translated the priorities into goals and objectives. Action plans to bring about the desired changes were developed. This resulted in a formal *Regional Plan*, adopted for implementation in January 1999.

**5.44** By April 1997, following a review to ensure equity of resources across the system, a comprehensive equity plan was adopted and incorporated into the budgets for the next three years. In May 1999, 27 services were identified which required review and reconsideration of resources available to support them. The *Resource Allocation Formulae Report* is an extension of the equity review and is a direct response to the first priority identified in the *Regional Plan*.

**5.45** An external facilitator has been used to evaluate the status of implementation of the *Regional Plan* and interim and final reports have been presented. The facilitator noted that progress has been made, however more time is required to fully implement the plan.

**5.46** *Audit findings and recommendations* - Both C-CRSB and HRSB have elements of a business plan but neither Board has developed a formal plan. Additionally, DOE has not defined the format of strategic and business plans for Regional School Boards. Each Board has identified initiatives that will contribute to meeting their strategic objectives.

**5.47** We recommended that DOE work with Regional School Boards to establish the format for strategic and business plans. C-CRSB and HRSB could then work towards developing formal strategic and business plans as required by legislation.

### ***Description of Budget Process***

**5.48** *HRSB* - Due to HRSB's difficulty in achieving a balanced budget since amalgamation, the Department of Education and the Board completed a joint review of the Board's operations. This review was intended to assist the Board in its 1999-2000 budget deliberations by identifying the key cost drivers affecting the Board's expenditures. The *Cost Driver Report* was presented to the Board in June 1999 and followed up through the Audit and Finance Committee. The recommendations in the report relating to budgeting included:

- *"The Board needs to build a more rigorous challenge and review component in the budget process, and a more timely, vetted, comprehensive budget to enable Board discussion during the approval process.*
- *The budget for substitutes must include a review with Human Resources to determine how and why substitutes are employed.*

- *The 1999-2000 budget needs to reflect funding required to address EPA needs. The budget should only be adjusted when offsetting revenue sources or expenditure reductions are identified.*
- *The board must pass a budget and hold senior management accountable to implement the approved budget during the year.”*

**5.49** The Board’s Executive Council (senior management) discussed these recommendations and developed a process to address the report recommendations and implement corrective action.

**5.50** As a result of the joint review and the by-law requirement that the Audit and Finance Committee establish principles for preparation of the annual budget, a 24-point Budget Review process was established in the late summer of 1999. The process served as a timetable for completion of key outputs, identified milestones and assigned responsibilities to various individuals and committees.

**5.51** The following were key features of HRSB’s 2000-01 Budget process.

- December - review and approval of eleven program and budget priorities by Board.
- January - presentation of preliminary forecast of 2000-01 to the Board based on assumed funding levels from the Province, and identification of staffing adjustments at the high school level as a potential measure that could be taken to help achieve the forecasted budget target.
- March - instruction from senior management to financial planning staff to complete preliminary budget by March 31 based on the 1999-2000 budget “*with adjustments based on actual staff on payroll at February 2000 and other known factors*” as well as Board-approved program and budget priorities. Management verified FTE’s and determined non-salary costs.
- March 31 - completion of preliminary budget.
- early April - presentation of preliminary budget to Committee of the Whole following senior management review.
- April 11 - announcement of funding from DOE.
- after April 11 - senior management identification and prioritization of 15 expenditure reduction areas for consideration by the Board.
- early May - presentation of revised budget to Committee of the Whole following revisions by senior management to balance the budget.
- May 26 - receipt of notification of revised funding from DOE.
- June 27 - approval of budget by Board. Approval of budget by section sub-totals for School Services, Regional Board Management, Business Services and Corporate Services.

**5.52** *C-CRSB* - In August 1999, C-CRSB developed a Priorities and Budget schedule for the 2000-01 budget, including a timetable for the process, activities to be completed and assignment of roles and responsibilities.

**5.53** The following were key features of C-CRSB's 2000-01 Budget process.

- August 1999 - development of priorities and budget schedule identifying and assigning activities.
- Fall 1999 - review of Resource Allocation Study and Regional Plan by senior management to identify issues and priorities.
- Fall 1999 - completion of system evaluation model with review by Board.
- early December 1999 - development of enrolment projections for the next school year.
- December 1999 - usually distribution of budget forms, directions and description of process to be followed to senior management and budget managers with a return date of January 31. For 2000-01, replaced with instruction from senior management for Co-ordinator of Budget and Audits to prepare preliminary budget based on 1999-00 budget.
- January - costing of existing levels of program and services by Co-ordinator of Budget and Audits. Application of previously approved staffing formulae.
- February - on-going discussion of proposed budget by senior management.
- February - obtain Board direction on priorities and enrolment assumptions.
- April 11 - announcement of funding from DOE.
- after April 11 - senior management develops revisions required to balance budget.
- May 26 - receipt of notification of revised funding from DOE.
- June 14 - approval of budget by Board. Approval of expenditure total.

#### ***Audit Findings - Budget Process***

**5.54** *Linkage of budgeting and business planning processes* - Our expectations in this area were that strategic and business plans would be reflected in the Boards' annual budgets. Initiatives identified through the longer-term planning processes should be clearly identified in the annual budget documents.

**5.55** HRSB business planning documents include a strategic plan, *Students First* and System Review. The management trail from these documents, other goals and objectives, and the 11 program and budget priorities to the budget is not clear. The 15 major themes identified for expenditure reduction were more clearly linked to the budget although the linkage was not well documented. For example, the Board identified Quality Learning for All Students as its first budget priority for 2000-01. During our discussions with HRSB management, they indicated that this priority was interpreted as "direct as many dollars as possible to the classroom to achieve quality learning for all students." However, we could find no documentation that this was the Board's interpretation of this priority. There are other possible interpretations of this priority such as "achieve specific educational outcomes", or "maintain a certain staffing or pupil/teacher ratio." The interpretation of this priority is critical to understanding the budget document and was not documented in the manner we expected.

**5.56** Both C-CRSB and HRSB indicated that, due to funding reductions in the current year, the emphasis was on reducing expenditures and not on the priorities developed in the strategic planning documents. However, at C-CRSB, management's budget documents in prior years highlighted linkages to the Regional Plan and the Resource Allocation Formulae Report. HRSB management informed us that they plan to improve the linkage between strategic planning and the budget for 2001-02.

**5.57** *Timing of budget* - We have been advised by staff at both C-CRSB and HRSB that they are not able to present a meaningful budget prior to notification of Provincial funding. As stated in paragraph 5.35, funding was initially announced in the Provincial Budget on April 11, 2000 but final funding was not announced until May 26, 2000.

**5.58** The timing of funding announcements is more critical for Regional School Boards than other public sector entities. If teaching positions need to be reduced, Boards have only a small window of opportunity to do this. Collective agreements require notice of termination of probationary teaching staff, effective July 31, to be given by late April. In addition, any savings from reductions in the number of teachers are not able to be achieved until the end of the school year in July, four months into the fiscal year. Therefore for each position reduction, a Board only reaps 8/12 of the annual savings in the first fiscal year.

**5.59** Good financial management practices require that a budget be established prior to the start of the fiscal year. To enable Regional School Boards to accomplish this, they should be aware of Provincial funding earlier. If the Province informed Regional School Boards of probable funding for the next several years, through multi-year funding announcements, these organizations could better plan for the future. Management of the Department of Education indicated that multi-year funding announcements are difficult due to enrolment changes. If funding was announced for a period of years, and enrolments changed, the result could be inequity in funding among Boards. A possible solution would be announcement of multi-year funding per student, rather than total funding for each Board.

**5.60** *Budget assumptions* - As with any entity preparing a budget, Regional School Boards must be aware of and define certain basic assumptions regarding expectations for the upcoming year. These include enrolment levels, the specific programs which will be offered and the method of delivery, pupil teacher ratios and related staffing, facilities operations and support staff and pupil transportation, as well as the future costs of employing teachers and support staff and of operating buildings and vehicles. The assumptions must be reasonable and supportable - obtained from past performance or from expected future economic conditions. The quality of the budget is largely dependent on the completeness and reasonableness of the assumptions.

**5.61** To be reasonable, assumptions need to be consistent with the plans of the entity and reflect the expected economic effects of anticipated strategies, programs, and actions, including those being planned in response to expected future economic conditions. To be supportable, assumptions need to be based on the past performance of the entity itself, the performance of other entities engaged in similar activities, studies or any other sources that provide objective corroboration of the assumptions used. The process used to develop assumptions should be based on relevant information that is reasonably available at the time the budget is prepared.

**5.62** The documentation of assumptions used in the preparation of the budget is important to the auditor. The following extracts from the Canadian Institute of Chartered Accountants' Assurance and Related Services Guideline AuG-6 Examination of a Financial Forecast or Projection included in a Prospectus or other Public Offering Document illustrate the importance of projections to the auditor:

*“The public accountant [auditor] seeks evidence to establish that management has identified and supported all assumptions necessary for the preparation of the financial forecast and whether these assumptions, individually and taken as a whole, provide a reasonable basis for the financial forecast. [31]*

*...Failure to disclose all significant assumptions would prevent the auditor from issuing an unqualified opinion...” [18]*

**5.63** As part of the initial steps toward developing the budget, C-CRSB senior management define, document and present assumptions to the Board for their approval. These assumptions are also explicitly stated in the approved budget document.

**5.64** Certain preliminary budget assumptions were presented by HRSB management to the Board in January 2000. In addition, HRSB management indicated that other significant budget assumptions were verbally presented to the Board. Management indicated that this presentation took place at a full-day, offsite budget meeting between Board and management in May 2000. However, no documentation of the presentation and approval process was prepared. The assumptions are not disclosed in the budget document, and the Board-approved formal budget process does not explicitly require the preparation and approval of assumptions. We recommended that the Board require preparation and formal approval of assumptions as one of the first steps in its budget process.

**5.65** One of the most important factors which will affect a Board in the next year is the level of student enrolment. Projected student enrolment is important because it can have an impact on the number of staff required. The Department of Education and Regional School Boards prepare enrolment projections. We expected that Regional School Boards would clearly examine and integrate expectations and assumptions in this area as part of the budget process.

**5.66** C-CRSB senior management project student enrolment for the upcoming school year and provide this information to the Board. Senior management applies a teacher staffing formula to determine teacher requirements based on projected enrolments. The teacher staffing formula is unchanged since it was approved by the Board several years ago. Any revisions to the formula require Board approval. The teacher staff requirement is presented to the Board for approval during the budget process.

**5.67** HRSB also prepares detailed projections of student enrolment. However, the enrolment figure used in budget preparation is based on current students plus expected primary students. This would not include the impact of factors such as new housing developments and other demographic changes.

**5.68** HRSB has a staffing formula which is included in a Management Manual and all principals have a copy. However, it has not been formally approved by the Board. HRSB’s budget process begins with assigning an estimated cost for the upcoming year to the current staffing level. During the process, the Board considers possible funding reductions. Alternative staffing scenarios are costed, resulting average class sizes are considered, and management compares class sizes with the formula to determine if the reductions are acceptable. Management has indicated that Board members have a common understanding of the staffing formula which becomes the basis on which both management and Board members assess the acceptability of the resulting average class sizes.

**5.69** During the 2000-01 budget process, we saw evidence that the Halifax Board members considered detailed information on high school class sizes resulting from various staff reduction scenarios. High school staffing had been specifically identified as one potential option for meeting the funding targets and was studied in detail. However, the Board was not provided with formal, detailed information on class sizes at other grade levels. Management informed us that this

additional information had been provided verbally to Board members at an offsite meeting in May 2000, and that management intended to formally present the information to the Board at a later date but that it became somewhat redundant after the Province suggested the number of positions to be reduced (see paragraph 5.36 above).

**5.70** We recommended that HRSB improve the quality of the enrolment assumptions used during the budget process, and that the staffing formula be specifically approved to ensure a common understanding of the Board's objectives related to class sizes, and the acceptability of the class sizes resulting from the current budget.

**5.71** *Documentation and support* - We selected a sample of budget expenditures from each of the Boards to examine documentation, verify calculations and assess the adequacy of the supporting analysis for the budget.

**5.72** At C-CRSB, the detail supporting the preliminary budget was adequate. There was also a good management trail from the preliminary budget to the final budget approved by the Board. We were able to verify the budget calculation based on the documentation provided. The support for the final budget was adequate.

**5.73** HRSB did not retain detailed support for the preliminary budget calculations. We had difficulty following the documentation trail from the preliminary budget to the approved budget summary. It was necessary for staff to re-create documentation to enable us to verify the budget calculations. We believe that support for the final budget should be retained because it can provide useful information and explanations if actual performance is different from the budget, and it can provide useful input to the subsequent year's budget process.

**5.74** At HRSB there was inadequate supporting analysis in some cases, and strategies and plans for achieving budget targets were not always documented. For example,

- Although 1999-2000 actual heating fuel costs exceeded budget by approximately \$500,000, the heating fuel budget for 2000-01 was set at approximately the same amount as the 1999-2000 budget. We did not see strategies, plans or supporting analysis to achieve this level of expenditures.
- Actual costs in 1999-2000 for maintenance supplies and materials were \$4.3 million compared to the budget of \$3.1 million. The 2000-01 budget was again set at \$3.1 million with no clear strategy or plans in place to achieve this level of expenditure.

**5.75** C-CRSB and HRSB do not have documentation standards, retention schedules, requirements for formal sign-off or independent quality control reviews for the final budget and its supporting detail. Such controls are necessary to provide for quality and integrity of the budget document.

**5.76** Both Boards use current year salary data to support the salary budget for the upcoming year. Current year costs are adjusted for average increases expected as a result of collective agreement provisions. If funding is less than required to maintain the status quo, the number of position reductions is calculated based on the average teacher salary for the Board. Although these methods do not yield an exact salary cost for the upcoming year, the calculated cost should be materially correct.

**5.77** *Information to Board* - Our audit scope included a review of Board and Committee minutes and information presented to the Board. Good information is necessary to support good decision making. Board members should have current year comparative information to enable them to judge the reasonableness of budget requests.

**5.78** The budget document presented to the C-CRSB contains the budget for the upcoming year, current year budget and current year projection of actual costs to year end.

**5.79** The budget document presented to HRSB for approval contained only the budget for the upcoming year and current year budget. Senior management indicated that it was not practical to include current year actual or projected financial data on the budget document because of changes in reporting format and limitations of the financial reporting system. This information had been included on the budget document in the past and management decided to eliminate it for one year only. The Board, therefore, would need to consult other documents to obtain necessary comparative information. Management have informed us that they intend to re-establish this for fiscal 2001-02.

**5.80** HRSB has a formal process for presenting reports to the Board. A standardized format indicating the purpose, background, content, cost, funding, timeline and recommendations is completed for each submission. This format was utilized when preparing presentations on the 15 areas selected for expenditure reduction.

**5.81** We became aware of one instance where the members of HRSB were given inadequate information on which to base a budget-related decision.

**5.82** The Board's Executive Council approved a report for submission to the Board (dated April 10, 2000) which requested approval of the downsizing and termination of aspects of the Community Collaboration & Partnerships Department which had been responsible for delivery of programs including Summer School, Continuing Education, Adult English as a Second Language, and EXCEL (a child care program available to working parents). The report indicated a cost savings of \$1,611,000 if the recommendations were followed, and indicated an expectation that "... *most of the expense associated with programs can be reduced while the revenue can be retained*" (Community Collaborations & Partnerships Report, p. 5).

**5.83** The Board subsequently voted to accept the report's recommendations. However, the 2000-01 budget documents indicated that the termination decision had decreased expenses by \$1.6 million, and related revenues were also expected to decrease by \$1.3 million for a net saving of \$0.3 million (in comparison to the prior year's budget) rather than the \$1.6 million that had been reported to the Board.

**5.84** The Community Collaborations & Partnerships Department was different from most other Board departments in that it generated both costs and revenues (i.e. it was a *profit centre* as opposed to a *cost centre*). The appropriate accounting for profit centres would include explicit consideration of both costs and revenues, and we recommended that information going to the Board be prepared in accordance with appropriate profit centre accounting practices.

**5.85** The Superintendent indicated to us that there were factors in addition to the April 10 report to the Board associated with the decision to terminate the Community Collaboration & Partnerships Department. These factors included a potential legal case (see paragraph 5.22 above), and a recognition that some of the Department's programs served adults and were, therefore, outside the Board's primary mandate. Management indicated that HRSB wished to focus on provision of services to students in grades primary to twelve, rather than services to adults provided by the Community Collaboration & Partnerships Department.

**5.86** *Best practices/recommendations* - Best practices for Regional School Boards in preparing annual budgets include:

- Assumptions used to prepare the budget should be developed in the early stages of budget preparation. Senior management should provide these to the Board for their

consideration and approval. The assumptions should be disclosed as part of the budget document.

- Since staff is the largest Board expenditure, we recommended that Board members be directly involved in determining the number of staff and average class sizes for the upcoming year. Staffing formulae should be developed and approved by the Board. Variations from the staffing formulae should be reported to the Board.
- Enrolment projections should be provided to the Board for review as part of the initial stages of budget preparation.
- Linkages from long-term and operational plans to budgets should be clear and well documented.
- Regional School Boards should establish documentation standards, retention schedules and independent quality control reviews of the final budget, supporting analysis and supporting detail.
- Budget documents provided to the Board should include a projection to year-end of current year costs.
- Budgets should be completed and approved prior to commencement of the fiscal year.
- Regional School Boards should continue to request funding targets from the Province prior to the commencement of the fiscal year. Both annual and multi-year targets should be requested.

### *Information Systems*

**5.87** The Department of Education has implemented a financial reporting system for all school boards, known as SRB. Both C-CRSB and HRSB use the SRB system.

**5.88** C-CRSB and HRSB are both dissatisfied with the information provided by SRB. Regional School Boards and DOE recognize there are limitations in the current financial information systems and are presently involved in a review of alternate information systems. One of the limitations is the difficulty in incorporating prior year comparative data.

**5.89** C-CRSB utilizes a feature of SRB that does not allow the entry of purchase orders once expenditures have reached the budgeted amount. This feature allows staff to better manage their budgets. Staff are required to transfer funds from other budget areas for which they are responsible to cover an over-budget account. HRSB use of this feature is limited to managing school instructional supplies and materials accounts.

**5.90** Neither C-CRSB nor HRSB have an adequate Human Resources information system. Adequate systems would allow for timely reporting of key data such as FTE's, statistics on sick leave and use of substitutes which would facilitate budget costing and monitoring.

### *Description of Monitoring and Reporting Process*

**5.91** C-CRSB prepares monthly financial statements which are forwarded to the Regional Support Team and the Finance and Human Resource Committee of the Board. These statements show

expenditures for the current month, year-to-date expenditures, annual budget and any budget transfers that are required. Finance staff at C-CRSB also provide more detailed reports to budget managers including similar information to the monthly financial statements as well as outstanding commitments and percentage of budget utilized to date.

**5.92** HRSB prepares monthly financial statements in detailed and summary format. The detailed reports are forwarded to the Board's Executive Council for their comments and discussion. The summary report is first reviewed by the Audit and Finance Committee and then the Board. The reports show actual expenditures for the current month and year-to-date, annual budget and percentage of budget utilized to date as well as projected expenditures to year-end.

### ***Audit Findings - Monitoring and Reporting Process***

**5.93** *Monthly financial statements* - Neither C-CRSB nor HRSB include prior year actuals in their monthly statements for comparison with current results. Management of both Boards have informed us that this is a problem with the financial system and that they are exploring options to include prior year's expenditures in future reports.

**5.94** Budget managers at C-CRSB can access financial information through the Board's financial software. This access combined with the detailed monthly reports from Finance helps to provide staff with the information they need to closely monitor their budgets.

**5.95** HRSB adopted a new reporting format for 2000-01. Users note that the current reports are a considerable improvement over prior years. The new format provides more detail and is prepared on a more timely basis.

**5.96** *Variance explanations* - Neither C-CRSB nor HRSB have a formal policy for preparing budget to actual comparisons and related variance explanations. There are no written guidelines defining criteria for what is considered a significant variance.

**5.97** Under C-CRSB's current practice, monthly statements are reviewed by Finance for unusual items and the appropriate budget manager is contacted for an explanation where necessary. These explanations are not formally recorded and included in the report that goes to the Finance and Human Resource Committee. Including written variance explanations in the monthly financial statements would strengthen the role of the Finance and Human Resource Committee by providing additional information.

**5.98** HRSB prepares written variance explanations for the summary level report going to the Board. The detailed monthly financial statements are reviewed by the Board's Executive Council (i.e., senior management) and variances are discussed but written explanations are not prepared. Providing written explanations for variances at the detailed level would provide a good overview of the financial implications of issues HRSB is dealing with, a record of the explanations to refer to in the future, and backup for explanations in the Board report.

**5.99** In prior years, Business Services staff at HRSB prepared the variance analysis for all accounts. For the current year, HRSB plans to involve other staff in providing explanations.

**5.100** *Distribution of reports* - Finance staff at C-CRSB distribute monthly financial statements to members of the Regional Support Team, Family of Schools Supervisors and the Finance and Human Resource Committee. More detailed reports are distributed to budget managers. In our discussions with staff at C-CRSB, these reports appeared to be utilized by those with budgetary responsibility to help manage budgets and identify problem areas.

**5.101** HRSB distributes monthly reports from Business Services to the Executive Council of the Board, the Audit and Finance Committee and the Board. It is important to involve staff who manage day-to-day operations in reviewing financial information and preparing related variance explanations. In our discussions, we found that certain staff below the senior management level are involved in reviewing the reports while others are not. We recommended that all staff who have budgetary responsibilities be involved in reviewing financial information and preparing variance explanations. This could be achieved by distributing the report directly from Business Services to appropriate staff and establishing and communicating criteria for the provision of variance explanations.

**5.102** *Projections/forecasts* - We believe that regular monthly financial statements, including forecasts to year end, are necessary for appropriate monitoring of financial performance. This process must begin early in the financial reporting schedule to allow remedial actions to be taken.

**5.103** C-CRSB's forecasting process usually starts in September with Finance staff reviewing account summaries on a weekly basis and contacting budget managers to discuss areas of concern. The first forecast document including projections to year-end is usually produced in October or November. For the current year, the first forecast should be available in December. Various staff with budget responsibilities are involved in providing information to Finance to determine projected expenditures for the remainder of the year.

**5.104** For HRSB, we reviewed two financial reports prepared during the current year which request staff to inform Business Services of any changes in projections to year-end. In our discussions, we noted that certain staff at HRSB are not aware they are expected to update these projections. We are also concerned that staff feel it is early in the school year to be involved in forecasting to year-end. Business Services should stress the importance of forecasting and projecting financial results to year-end throughout the year. Delaying the update of projections to year-end until December or January could mean that corrective measures will have little impact on expenditure levels for that year.

**5.105** *Best practices/recommendations* - We have identified the following best practices for Regional School Boards in monitoring and reporting financial information:

- Monthly financial statements should provide a sufficient level of detail to allow staff to manage their budgets. Reports should include year-to-date and current month expenditures, annual budget, percentage of budget utilized to date and prior year's actual expenditures.
- Regional School Boards should establish and communicate policies governing budget to actual comparisons and set out criteria for the provision of written variance explanations.
- Staff with budgetary responsibilities should be involved in reviewing financial reports and providing written explanations for unusual items.
- The monthly financial statements prepared for senior management and the Board or Finance Committee should include written variance explanations.
- Regional School Boards should start the forecasting process early in the fiscal year. It is important to ensure that accurate projections to year-end are available on a timely basis so that corrective measures can be taken where necessary.

- Staff with budgetary responsibilities should be involved in developing forecasts or projections to year-end to ensure completeness and accuracy.

## CONCLUDING REMARKS

**5.106** Although the Province originally announced Regional School Board funding levels on April 11, 2000, the amounts were deemed inadequate by Boards. Negotiations followed, and the final Provincial funding was announced on May 26, 2000. This late date caused significant difficulty for those responsible for the financial management of school boards. The Province should announce final funding prior to the beginning of the fiscal year to give the boards time to make any necessary staffing adjustments prior to the deadline specified in the Collective Agreement. School Boards should continue to request the Province to make this announcement earlier. Because Board funding is not finalized by the beginning of the year, Boards do not begin monitoring their actual financial performance in relation to the budget early enough. Boards begin to look seriously at actual results being achieved for the year in September when almost half the fiscal year is gone. This monthly monitoring process should begin as soon as the fiscal year begins.

**5.107** Both Halifax and Chignecto-Central Regional School Boards are relatively new organizations. Both are still struggling with some of the issues associated with amalgamation. However, for the Halifax Regional School Board, the remaining amalgamation-related issues are more significant primarily because the future of Supplementary Municipal Funding remains unresolved. The resolution of Supplementary Funding depends on other levels of government, and is not an issue that HRSB can resolve alone. In addition, HRSB has been attempting to eliminate its deficits, and has undergone significant management changes over the past 18 months including new incumbents in 11 of the 12 senior management positions. These changes and outstanding issues have meant that HRSB management and staff have not had as much time as they would like to implement improvements to their financial management processes.

**5.108** For Chignecto-Central Regional School Board, we were able to provide an unqualified audit opinion on the budget process and the budget document (see paragraph 5.27 above). We found that as at the date of Board approval, the 2000-01 budget assumptions used by C-CRSB

- are suitably supported, consistent with the plans of the Board, provide a reasonable basis for the budget; and
- are fairly reflected in the budget.

**5.109** In the case of HRSB, however, we encountered an audit scope limitation because certain critical pieces of information were not available to us. We, therefore, were unable to give an overall opinion on the budget process and the budget document (i.e., Denial of Opinion, see paragraph 5.27 above). We were unable to provide an opinion because budget assumptions such as enrolment projections and targeted class sizes were not explicitly documented as part of the budget process, and certain of the supporting budget documents were not retained. Much of the budget support that was not retained could be recreated by HRSB staff. Although we cannot provide an overall opinion, we are able to make the following positive comments on certain aspects of the budget document and budget process:

- The Board has approved a budget which it believes to be achievable.
- Expenditure targets have been set for major programs and functions although the focus of the budgeting process is on allocating available funds among programs and functions, rather than determining the expenditure level required to accomplish objectives.

- The budget is based on the prior year's budget, adjusted for known cost increases, specific program initiatives, and specific cuts and other measures approved by the Board as part of the budget approval process.
  - There are processes in place to monitor performance in achieving budget targets.
-

*Exhibit 5.1*

**HALIFAX REGIONAL SCHOOL BOARD  
THE BUDGET MUST CREATE THE CAPACITY FOR EXCELLENCE**

*What Does a Million Dollars Buy?*

- *Lunchtime supervision for 20,000 students*
- *20 more buses*
- *500 computers*
- *15 sabbatical leaves for teachers*
- *8700 days of staff release time for professional development*
- *Assistance for several hundred special needs students*
- *Reading Recovery for 200 students*
- *25 Classroom Teachers*
- *40 Educational Program Assistants*
- *40 Secretaries*
- *40 Custodians*
- *30 Maintenance Staff*
- *Upgrade the facilities of one school*

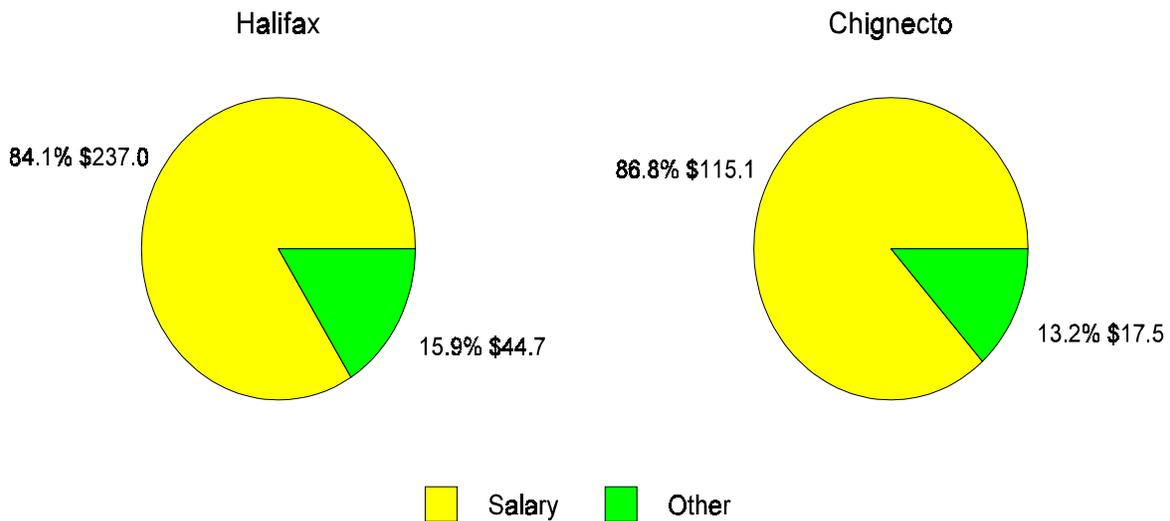
*What Do You Want to Buy?*

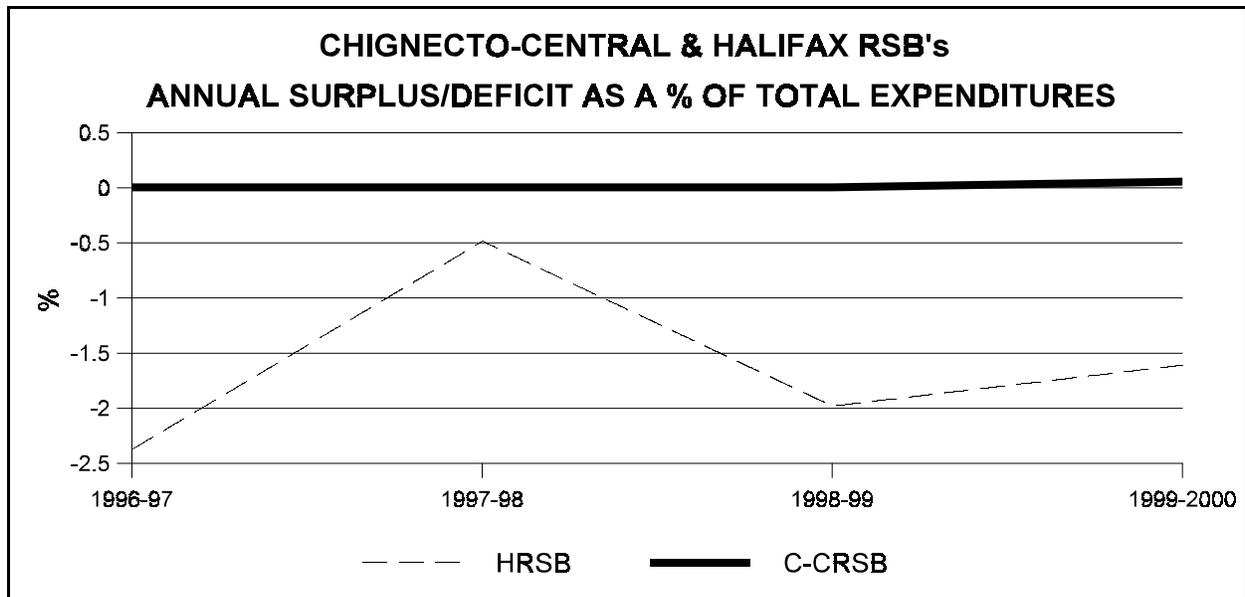
*Prepared by Halifax Regional School Board*

*Exhibit 5.2*

**BUDGETED SALARY COSTS AS A PERCENTAGE OF TOTAL COSTS**

\$ millions



*Exhibit 5.3*

*Exhibit 5.4*

**REVENUES, EXPENDITURES AND ANNUAL DEFICIT**

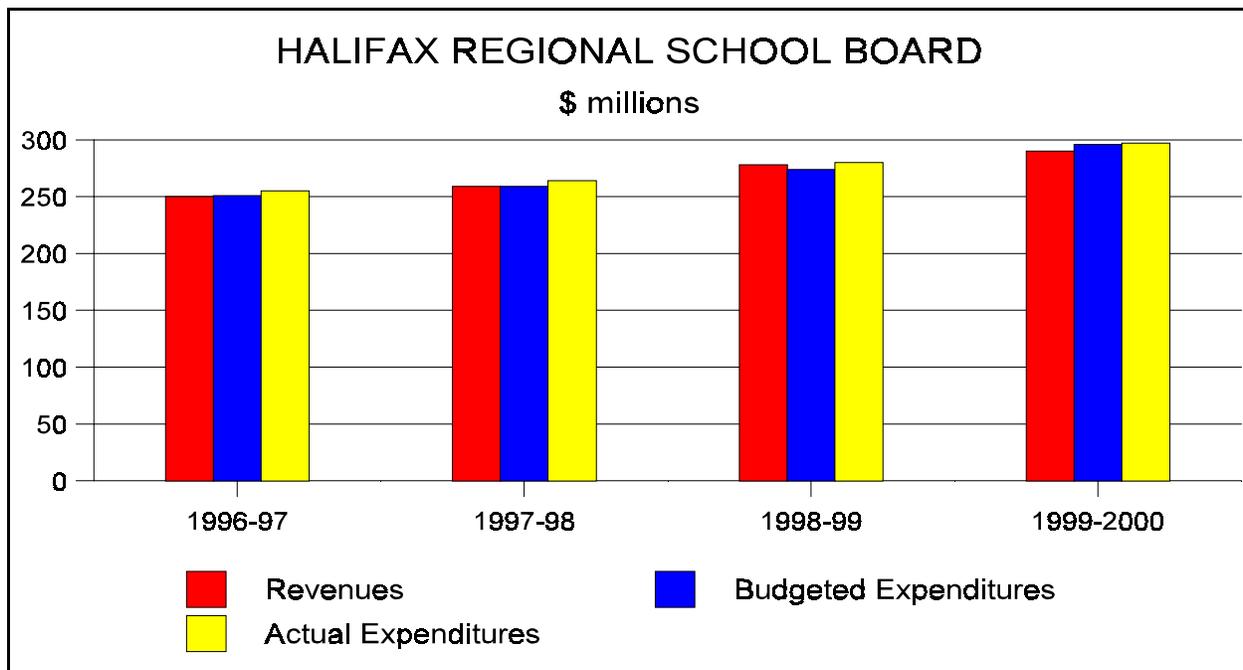
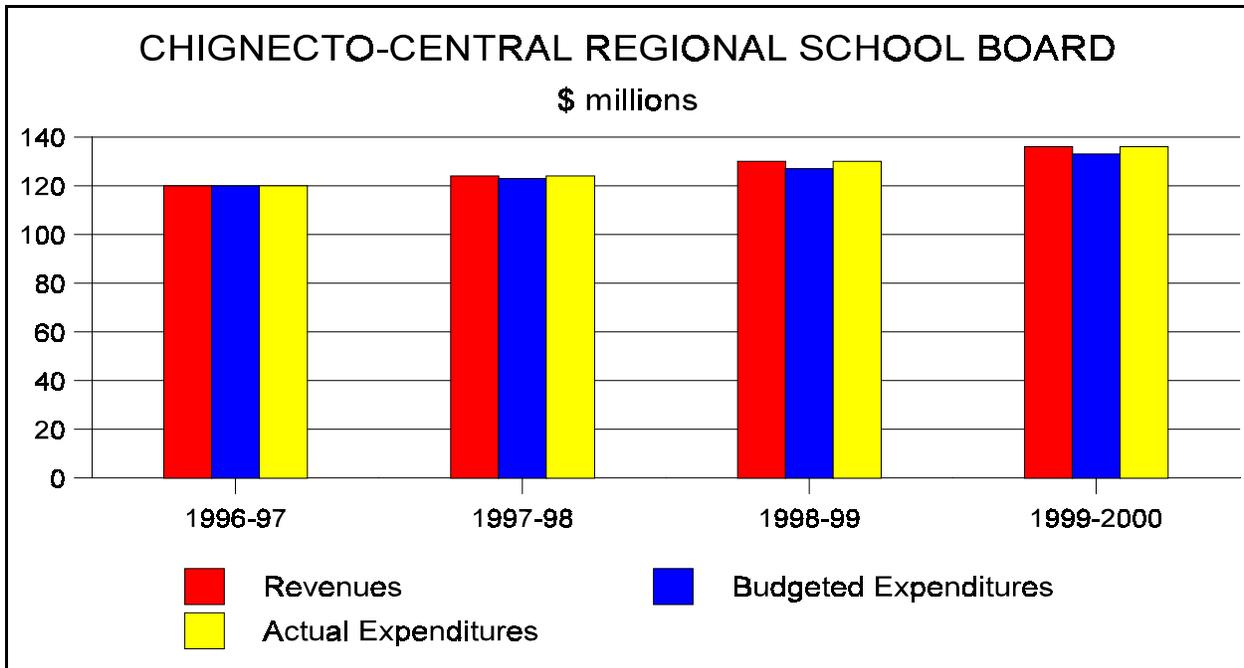
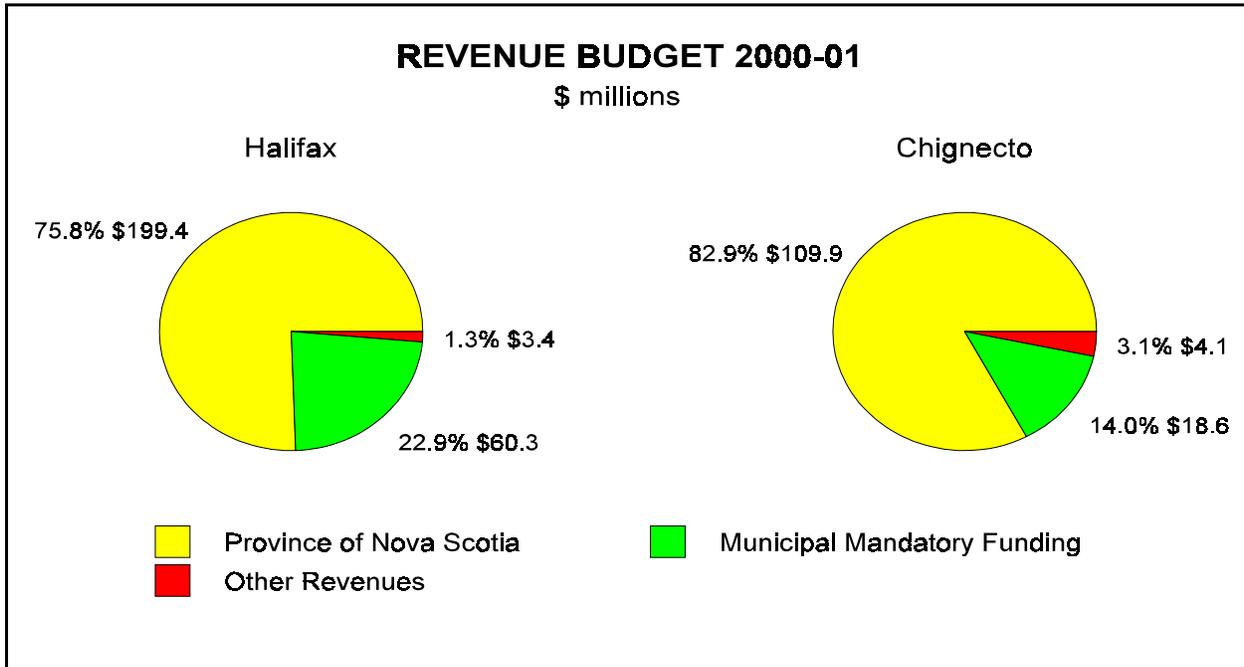
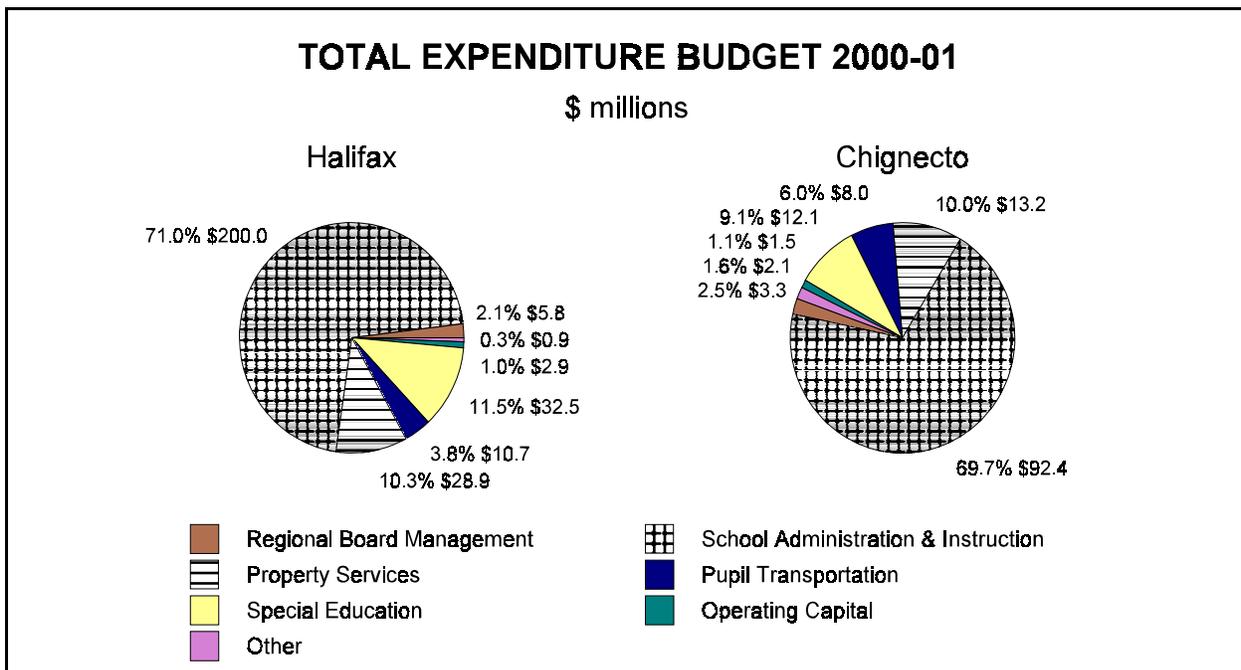


Exhibit 5.5

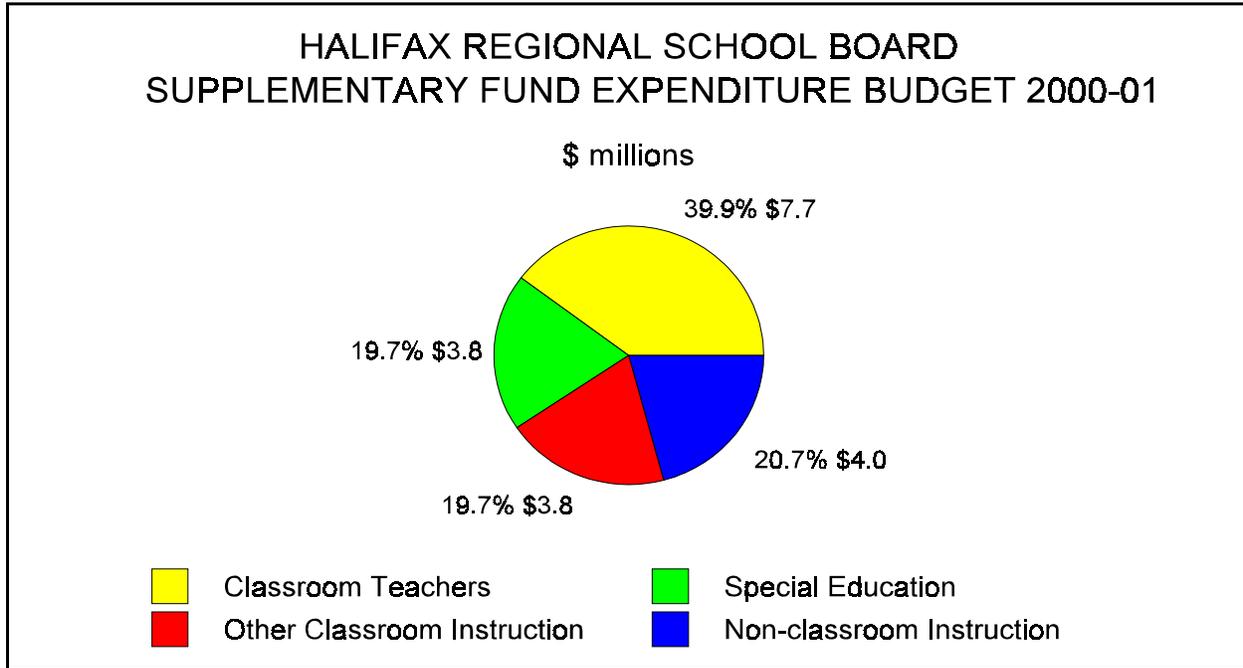


Note: HRSB also receives supplementary funding from Halifax Regional Municipality. For 2000-2001, the supplementary revenue budget is \$19,297,000.

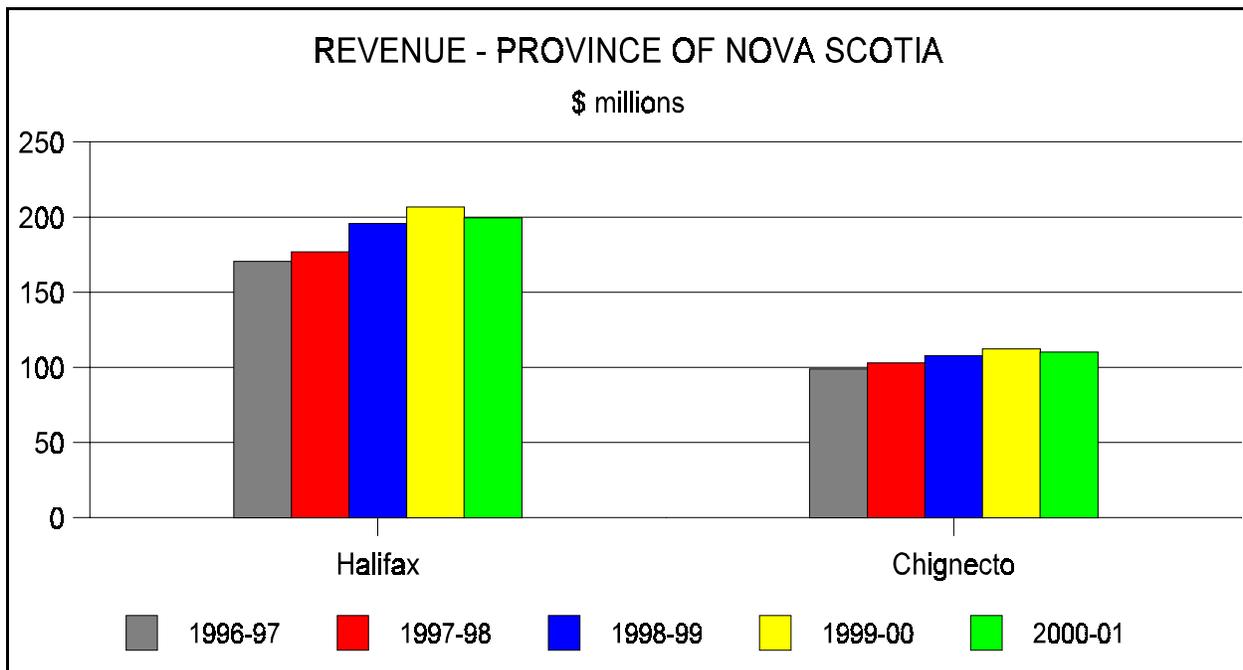
Exhibit 5.6



*Exhibit 5.7*



*Exhibit 5.8*



### **CHIGNECTO-CENTRAL REGIONAL SCHOOL BOARD'S RESPONSE**

*Although more than twice the geographic size of Prince Edward Island, the Chignecto-Central Regional School Board has consistently identified itself as a diverse, progressive, student-centered learning community. Decisions are made based on a number of well-articulated fundamental principles, through a strategic planning process, premised on the effective and efficient use of resources, while living within our fair share of available limited dollars.*

*The Auditor General's initiation of a review of the Board's budgeting and fiscal management practices caused - like all external audits - a degree of apprehension for staff in the system. We found staff from the Office of the Auditor General to be professional, thorough and helpful as the audit progressed. The audit was conducted on clearly identified and consistently applied principles and resulted in "an unqualified audit opinion on the budget process and the budget document". Recommendations for improvement contained within the report will be addressed quickly in consultation with the Office of the Auditor General and the Department of Education.*

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### **HALIFAX REGIONAL SCHOOL BOARD'S RESPONSE**

*Thank you for the opportunity to respond to your Annual Report article entitled "Education - Halifax Regional School Board and Chignecto-Central Regional School Board - Budgeting and Financial Management Practices". It is important that we provide additional information on certain observations in your report.*

*I am pleased that you have given recognition to the financial management challenges of school boards in Nova Scotia, as well as the particular problems facing the Halifax Regional School Board. The magnitude of the challenges facing HRSB from amalgamation in late 1996, as well as the management issues around supplementary funding, have made it particularly difficult to achieve rapid development of appropriate management information and financial control systems. Readers of this article have to place your observations in this context.*

*Section 5.5 states "We compared the budgeting practices of these two organizations..."*

*We question the value of this approach in the absence of a comparison of the provincial formula funding for the two boards. It is a fact that the Halifax Regional School Board receives considerably less funding per student than the Chignecto-Central RSB. In fact, the mandatory funding per student for the HRSB is the lowest in the province. It is important to note that the HRSB per student expenditure quoted in section 5.15 includes the supplementary funding so it is not comparable to the amount quoted for Chignecto-Central in section 5.9. The HRSB mandatory expenditure per student is actually \$4,678, which is \$244 less than Chignecto-Central. This additional funding permits other boards to accomplish much more than the HRSB in operations and services. This underfunding is also an important factor in the accumulation of deficits since amalgamation. It should be noted that the accumulated deficit has been eliminated, the HRSB has reduced expenditures by over \$15 million in the past 15 months and we are tracking a balanced budget in this fiscal year.*

*You indicate that you are unable to express an opinion on the reasonableness of the HRSB 2000-2001 budget process and budget document. In section 5.109, you justify this inability to express an opinion because budget assumptions such as enrolment projections and targeted class sizes were not explicitly documented, and certain of the supporting budget documents were not retained.*

*We believe that, in the preparation of this particular budget, enrolment and class size projections were clearly communicated but not a critical part of ensuring we had a reasonable budget. The HRSB was faced with significant reductions in expenditures, and indeed, reduced large numbers of school based staff to balance the budget. The HRSB used enrolment projections and a staffing formula throughout the budget process and determined the amount of funding available to distribute teaching resources. The basis upon which staff is allocated to schools is provided in numerous documents and reports available at the Board office. We firmly believe that for this particular budget, projected enrolment, as defined in your report, was not a critical piece of information and would not have led to a different decision in reaching a budget for teaching staff. In fact, the enrolment projection used in the staffing process was within 4 students of actual enrolment in September.*

*Secondly, you reference the absence of certain budget documents. From the first draft to the final budget, there were numerous changes. We agree that retention of some of the supporting documents should be implemented, however, we believe that overall, the Board had sufficient documentation and support in which to make a budget decision. The fact that some of the documentation had not been retained, does not necessarily mean that the budget was not built on sound data. Almost 90% of the budget is for salaries and benefits and the actual staffing and benefits has tracked very close to the approved budget.*

*The best way to judge the reasonableness of the budget is how well the actual experience compares to the budget. We acknowledge that some of the assumptions in the 2000-2001 budget did not precisely mirror actual conditions throughout the year. One key attribute to meeting fiscal targets is conservatism and building in a reasonable cushion to reduce the impact of changing conditions. The HRSB made a conscious decision not to build in any cushion for such uncertainties. If we had, it would have resulted in additional layoffs of staff. The board was well aware of the assumptions used in building the budget and was not prepared to make further reductions that would have severely impacted on students and learning programs.*

*You have stated your rationale for being unable to express an opinion on the reasonableness of the HRSB budget. We don't believe the reasons given were sufficient to warrant this conclusion and the actual results will support our conclusion. During the audit, your staff acknowledged the significant improvement in the budget process, financial practices and internal management processes. We acknowledge that there is more to accomplish and plans are in place to address these matters.*

*You have expressed another conclusion that you became aware of one incident where the members of the HRSB were given inadequate information upon which to base a budget-related decision. The implication of this statement is that, in this instance, the administration misled the Board. This implication is offensive and we firmly believe that the Auditor General's interpretation of the Board's report on this issue is incorrect.*

*The report to the Board indicated that most of the expenses associated with programs administered by the former Community Collaborations and Partnerships Department could be reduced while the revenue could be retained. The reduction in the expenditures associated with the program was a fact. The approximate expenditure savings of \$1.6 million is also a fact. The retention of net revenues from facility rentals and proceeds from the EXCEL program is a fact as well.*

*As staff of your office were informed during the audit, a concerted effort has been made by the new administration of the HRSB to address serious concerns with the management of the Community Collaborations and Partnerships Department. External auditors were engaged, internal review by the Board's General Counsel was initiated and contact with police authorities was made. Information provided from these processes resulted in disciplinary measures involving senior staff of the Board, a general reorganization of the department, significantly improved management practices, improved financial controls, and the termination of some programs and services that directly impacted on resources available to the classroom.*

*In our opinion, it was clear that the Board understood the full ramifications of their decision regarding Community Collaborations and Partnerships and the discussions at the Board meetings confirmed this understanding.*

*With regard to strategic planning, HRSB initiated a strategic planning process in 1997 and produced a vision for education and strategies intended to improve public education in this community. Unfortunately, the strategic plan lacked any significant advice on how to translate the recommendations into action. In the past 18 months, virtually every recommendation of the strategic plan has been translated into action. The SYSTEM REVIEW process has been very helpful in this regard.*

*In the past 18 months, the entire organizational structure of the Board has been transformed. This has resulted in significant improvements to the operation and control of the Board's financial affairs in every respect. New processes have been implemented to support budget decision-making, financial reporting and policy development. This has resulted in significant improvements to the management of the Board's resources.*

*We have also endeavoured to improve our communications and encourage greater public support for the efforts of the Board and its staff. We concur wholeheartedly with your statement in Section 5.4 that boards require good information on which to base budgets and other decisions. Your staff acknowledged the deficiencies in the Board's management information and financial systems which have had an impact on the quality of administrative systems and the availability of staff to provide appropriate support and achieve best practices in financial management. However, there is continual pressure to reduce administrative expenditures and this obviously has an impact on the Board's ability to address system deficiencies.*

*With the significant change that has been introduced in the past 18 months, we acknowledge that there are factors that need to be addressed. However, we believe that the Board has made significant strides in improving its financial management and that reasonable approaches were taken to prepare the budget in 2000-2001 and that sufficient and appropriate information was available for the Board to make an informed decision. We sincerely appreciate receiving your observations and recommendations from this audit and would extend an invitation to your office to return in two years time to observe the further improvements that will be made during this time.*

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### **DEPARTMENT OF EDUCATION'S RESPONSE**

*The Department of Education is pleased to respond to the Office of the Auditor General's review of the Halifax Regional School Board and the Chignecto-Central Regional School Board. As each school board is preparing its own response, our comments are limited to sections that pertain specifically to the Department of Education.*

*The report recommends that school board funding be provided on a "multi-year" basis. The department acknowledges that multi-year funding for school boards could offer some advantages, particularly in facilitating longer term planning by school boards. However, it is our position that this approach may have the effect of limiting the flexibility needed to allocate school board funding each year.*

*At present, the distribution of school board funding is determined annually by the Education Funding Committee, comprised of senior school board and department representatives. Collectively, they are tasked with identifying cost pressures emerging in public education, recommending funding levels to address those pressures, and determining how the available funding is fairly allocated to school boards.*

*In a multi-year approach, the Education Funding Committee would have to recommend the relative funding amounts for each school board for a number of years at a time. It would be very difficult for the committee to make adjustments in year two and beyond as circumstances change, for example, due to enrolment or other cost pressures that may disproportionately affect each board.*

*Such an approach reduces the responsiveness of provincial funding to address pressures arising in the system each year and, perhaps most importantly, reduces the ability to ensure a fair allocation to all boards.*

*We believe that the involvement and consultative input from boards in the funding process is of greater value than the advantages of multi-year planning. There are real tradeoffs involved in the adoption of a multi-year funding model, and that is the reason that other provinces in Canada operate under a similar model as Nova Scotia.*

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