

# Chapter 4

## Department of Education

### School Board Administration

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# Department of Education School Board Administration

## Background

4.1 In the 1992-93 Budget Speech, the government announced that “amalgamation of the School Boards will save \$5.0 million annually beginning in 1993-94.” Effective 1 July 1992 forty-two school districts were amalgamated to become eighteen districts.

4.2 Our Office had an interest in monitoring this major change initiative. We were able to achieve this through our annual review of the school board audit files of the Office of the Comptroller.

4.3 As part of our review of the Comptroller’s audit files we compared the actual administrative expenditures of the school boards to the proposed \$5.0 million in savings. We noted an increase, not a reduction, in the actual administrative expenses of the boards as reflected in their audited financial statements. Our analysis of the “School District Office” component of school board expenses showed that district office expenses in total increased from \$22.8 million in 1992 to \$24.8 million in 1994.

4.4 We discussed this apparent increase in district office expenses, and the difficulty the Department had in analyzing the differences, in our 1995 Report. (See paragraphs 4.104 - 4.108) We noted that the government had established and announced a target for administrative cost savings arising out of the amalgamation of school boards. We found it surprising that the Department was not able to provide us with a clear and detailed analysis of where these savings were actually realized.

4.5 Our 1995 Report was issued in February 1996. There was significant subsequent media attention despite the very short nature of this five paragraph section. Shortly after our Report was issued, the Minister of Education made a public statement on the administrative cost savings and noted the Department’s willingness to work with us to provide better information.

4.6 The administrative costs issue was also discussed at the Auditor General’s appearance before the Public Accounts Committee. At that meeting, the Auditor General informed the Committee of his intention to report further on this matter.

## Scope

4.7 Our staff met with Department of Education officials on a number of occasions beginning in February of 1996 to discuss follow-up reporting on our 1995 Report comments. The Department, with the assistance of

school district staff, prepared reconciliations of the proposed savings to actual results for four school districts. We reviewed the departmental analysis for the four districts and prepared summary exhibits. We discussed the results of the analysis for the four districts, the limitations of the data, and the constraints which made it difficult to expand the analysis to all eighteen districts. We also discussed the departmental approach in determining the original budgeted savings figure, a revised savings figure dated 9 December 1992, the “savings achieved” figure provided to the Board of Management in June, 1995 (which was essentially a confirmation of the 9 December 1992 savings figure), and the traditional reliance on budget allocations over actual financial statement results as a management and reporting tool.

## Results in brief

**4.8 Prior to 1 March 1996, school district financial results were not compared to the Head Office budget allocations. The budget to school districts was essentially a global budget that districts were relatively free to spend as determined by their boards.**

**4.9 The Department was calculating its proposed savings in administration based on the budget it had allocated to the districts. The Department’s calculations and the related budget speech announcement did not reflect what districts were actually spending on administration. Three of the four districts were overspending their administration budgets in 1991-92.**

**4.10 In December 1992, the Department decreased the announced savings of \$5 million by approximately \$400,000. This December 1992 figure for proposed savings was later used by the Department in reporting “savings achieved” to the Board of Management. The December 1992 figure forms the basis for the analysis in this chapter.**

**4.11 While one cannot conclude on all eighteen districts from the four districts analyzed by the Department, it should be noted that in these four the total planned savings were \$1.3 million while the estimated actual administrative cost reductions were \$1.2 million by 1993-94. Two of the districts exceeded the target, most likely due to the fact that they were overspending the 1991-92 budget. In other words, these districts had a larger “cushion” to begin making cuts from. Simply cutting back to the pre-amalgamation budget would have saved over \$500,000.**

**4.12 The 1995 *Report of the Auditor General*, and the exercise of preparing the analysis for four districts, has drawn the Department’s attention to the need to monitor the spending patterns before and after the round of change which began implementation effective 1 March 1996.**

**Budget not compared to actual prior to 1 March 1996**

4.13 **Given that the Minister of Education is responsible for the operations of the schools, the Department of Education now has sole responsibility to compare actual results to budget.**

4.14 In our discussions with the Department and the related work for this Report, we have formed the opinion that the Department, in a sense, viewed its financial task as done when the government reduced districts' budgets by \$5.0 million. The Department's main financial interest has been in the budget allocated to the districts. This is borne out by an April 1995 letter to us from the Department of Education which, in a discussion of the problem identifying the savings, noted "the Department has relied mainly on budget allocations to districts as a source of financial information and comparisons."

4.15 Actual financial results, which came in a year and a half or more later, were not routinely compared to budget allocations. The Department allowed the districts a considerable degree of autonomy in operating and financial matters. Funds budgeted by the Department for administration did not necessarily have to be spent by the districts in administration. There was no systematic analysis by the Department to "learn" from those districts whose actual spending pattern differed from budget.

4.16 This is illustrated by the example of the four districts chosen by the Department for analysis. Two of the four districts spent significantly more than their budget allocation on administration in 1991-92. One district, on the other hand, underspent its budget for administration in 1991-92 by approximately \$400,000. The Department of Education indicated that this district was already operating near the revised staffing standard prior to its implementation in 1992-93.

4.17 The Department was calculating its proposed savings in administration based on the budget it had allocated to the districts. The Department's calculations and the related budget announcement in 1992-93 did not reflect what districts were actually spending on administration.

**Department intends to monitor latest round of changes**

4.18 The Department is currently in the process of implementing another round of administrative changes. The eighteen districts presented their last financial statements as of 30 June 1996. The Department has begun operating eight administrative units in various regions of the province although all eighteen of the old district offices will remain open for various purposes.

4.19 We understand that the Department is in the process of capturing before and after pictures of the administrative costs. We commend this effort. The fact that the eight administrative units operate directly as part of the Department will make it easier for staff to compare planned expenditures to actual.

4.20 Furthermore, we believe that the problems encountered in determining administrative savings may have been lessened if the districts had a practice of presenting budget figures in the financial statements. Had budget figures been presented, it would have been clear in 1991-92 that district spending on administration did not tie directly to the Department's budgeting. We point this out as a practical illustration of the value of government's annual report policy requirement to include a comparison of actual expenditures to the budget, with variance analysis, in each annual report. Our reading of the policy indicates school boards were supposed to comply with its requirements.

### **Recommendation**

4.21 **We recommend the Department provide budget to actual comparisons of the results of the eight administrative units constituted under the new administrative structure and include the results in the annual report.**

### **Summarized analysis on four of the eighteen districts**

4.22 As stated in the Scope, the Department analyzed four districts with the assistance of district staff. We were pleased by the cooperation of the Department and the four school districts in preparing this analysis.

4.23 It should be noted that the timing of the analysis coincided with the Department's most recent reorganization of school district operations. Effective 1 March 1996, all school boards and community boards were dissolved and the operations of the school boards were transferred to the Minister of Education. Department and district staff faced increased workloads because of the transition.

4.24 Given this workload, the testing of additional districts had to be looked at from a cost-benefit basis. That is, would testing of another fourteen districts yield significantly different results from those apparent in the first four analyses?

4.25 The Department noted as well that some of the corporate memory had disappeared since the 1992 district reorganization. That is, given departures of district financial personnel in the 1992 reorganization, the Department believed some districts were better prepared than others to accurately detail the administrative spending patterns as they existed in 1992. The four districts tested were able to supply the necessary data for the analysis. It is possible that some of the fourteen others may have had more difficulty in fulfilling the task. In other words, had either our Office or the Department wished to do all eighteen districts, we may not have been able to complete the analysis.

4.26 We discussed these factors with the Department. Under these circumstances, we advised the Department that we would not ask them for analysis of additional districts. In addition, we determined it was not cost effective for us to audit the accuracy of the information provided by the Department.

4.27 The Department provided us with its analysis for the four districts tested (i.e. # 11 Richibucto, #18 Fredericton, # 5 Campbellton and #8 Saint John). The departmental analysis looked at the administrative costs for the districts for 1992 and compared them with the results for 1994. A number of reconciling items were offered as explanations or adjustments for determining revised figures.

4.28 The most significant adjustment in each district corrects for staff salaries which the Department believes were charged to the wrong account in 1991-92 and in 1993-94. The stated cause of the accounting misclassification is the lack of uniformity between school districts in recording expenditures for the salaries of certain groups of employees (i.e. Supervisors and Coordinators). Many of these employees were apparently charged as a direct educational expense when they should have been charged to the "School District Office". Recognition of the problem coincided with a more detailed code of accounts accompanying a new accounting system.

4.29 We believe it is important to distinguish between this accounting adjustment (i.e. staff charged to wrong account) and various one time adjustments (i.e. non-bargaining pay increases, rental situations). Exhibits 4.2 and 4.3 show these adjustments in separate columns so the reader can see the impact of both types of adjustments on the financial results.

4.30 We have summarized the results in Exhibits 4.1 through 4.4.

Exhibit 4.1

*Proposed savings in districts tested*

*Adapted from Department of Education Schedule "School District Reorganization - Comparison of Proposed Savings/Net Savings" (9 December 1992).*

	<b>District 5 Campbellton</b>	<b>District 8 Saint John</b>	<b>District 11 Richibucto</b>	<b>District 18 Fredericton</b>	<b>Total</b>
Pre-reorganization 1991-92 budget	\$1,238,654	\$2,387,939	\$1,481,806	\$2,282,215	\$7,390,614
Deduct post reorganization 1992-93 budget	1,004,350	1,973,825	1,230,769	1,899,705	6,108,649
<b>Proposed savings</b>	<b>\$ 234,304</b>	<b>\$ 414,114</b>	<b>\$ 251,037</b>	<b>\$ 382,510</b>	<b>\$1,281,965</b>

## Exhibit 4.2

*Estimated administrative expenses in districts tested - before reorganization*

	<b>District 5 Campbellton</b>	<b>District 8 Saint John</b>	<b>District 11 Richibucto</b>	<b>District 18 Fredericton</b>	<b>Total</b>
Expenses per 1991-92 audited statements	\$1,144,688	\$1,882,383	\$1,479,125	\$1,527,377	\$6,033,573
Adjustments proposed by Department: Add salaries of supervisors/coordinators <sup>1</sup>	438,829	407,498	371,870	382,087	1,600,284
Deduct salaries of professional support <sup>2</sup>	(72,000)	-	(159,972)	-	(231,972)
Add salaries of consultants <sup>3</sup>	-	135,350	-	-	135,350
Deduct F.H.S. photocopy costs <sup>4</sup>	-	-	-	(34,030)	(34,030)
<b>Revised administrative expenses</b>	<b>\$1,511,517</b>	<b>\$2,425,231</b>	<b>\$1,691,023</b>	<b>\$1,875,434</b>	<b>\$7,503,205</b>

<sup>1</sup> Salaries of supervisors and coordinators were charged incorrectly to "instruction" instead of "administration."

<sup>2</sup> Salaries of professional support staff were charged incorrectly to "administration" instead of "instruction."

<sup>3</sup> Salaries of consultants were charged incorrectly to "instruction" instead of "administration." District #8 is the only district which employed "consultants" per the Department.

<sup>4</sup> Fredericton High School photocopy costs were charged incorrectly to "administration" instead of "instruction."

## Exhibit 4.3

*Estimated administrative expenses in districts tested - after reorganization implemented.*

	<b>District 5 Campbellton</b>	<b>District 8 Saint John</b>	<b>District 11 Richibucto</b>	<b>District 18 Fredericton</b>	<b>Total</b>
Expenses per 1993-94 audited statements	\$ 743,612	\$1,859,300	\$1,515,490	\$2,003,702	\$6,122,104
Adjustments proposed by Department: Add salaries of supervisors/coordinators <sup>1</sup>	400,824	325,617	27,742	-	754,183
Deduct salary rate increases <sup>2</sup>	(26,285)	(57,264)	(29,071)	(33,839)	(146,459)
Deduct rent costs charged to wrong account <sup>3</sup>	-	-	(257,403)	-	(257,403)
Deduct rent costs exceeding budget <sup>4</sup>	-	-	-	(74,485)	(74,485)
Deduct costs of F.H.S. review <sup>5</sup>	-	-	-	(119,547)	(119,547)
<b>Revised administrative expenses</b>	<b>\$1,118,151</b>	<b>\$2,127,653</b>	<b>\$1,256,758</b>	<b>\$1,775,831</b>	<b>\$6,278,393</b>

<sup>1</sup> In 1993-94 some school districts were still charging salaries of supervisors/coordinators to "instruction."

<sup>2</sup> Salary rate increases for various district personnel deducted to return salaries to the 1991-92 base year rate.

<sup>3</sup> Rental of the school facilities for a community school board were charged incorrectly to "administration" instead of "instruction."

<sup>4</sup> The December/92 document referred to in Exhibit 4.1 anticipated District 18 would have a rental expense of \$103,878 in moving from a government-owned facility of approximately 8,400 square feet, at no cost to the District, to a leased facility of 11,487 square feet believed necessary to accommodate the staff of the new consolidated district. Actual lease expenses exceeded the estimate. Annual lease expenses for the new facility are \$241,227. The Department recommended an adjustment of \$74,485 to the actual expenses for purposes of this analysis as the lease was in effect for only part of the year.

<sup>5</sup> Cost of one time "Comprehensive Review of Fredericton High School" is deducted because of its exceptional nature.



## Exhibit 4.4

*Estimated actual savings in districts tested*

	<b>District 5 Campbellton</b>	<b>District 8 Saint John</b>	<b>District 11 Richibucto</b>	<b>District 18 Fredericton</b>	<b>Total</b>
1991-92 revised administrative expense per Exhibit 4.2	\$1,511,517	\$2,425,231	\$1,691,023	\$1,875,434	\$7,503,205
Less: 1993-94 revised administrative expense per Exhibit 4.3	1,118,151	2,127,653	1,256,758	1,775,831	6,278,393
<b>Revised actual savings</b>	<b>\$ 393,366</b>	<b>\$ 297,578</b>	<b>\$ 434,265</b>	<b>\$ 99,603</b>	<b>\$1,224,812</b>

4.31 We would caution against extrapolating these results to all eighteen school districts. Nonetheless, our observations from these tables are as follows:

- Exhibit 4.4 shows the total of revised actual administrative costs in all four districts reviewed were lower in 1993-94 than in 1991-92. Exhibit 4.1 shows the proposed budget reductions to administration for these four districts totalled \$1,281,965. The estimate of actual savings in administrative costs was \$1,224,812 by 1993-94 as per Exhibit 4.4.
- By comparing the "revised administrative expenses" line in Exhibit 4.2 to the "pre-reorganization 1991-92 budget" line in Exhibit 4.1, one can see that in 1991-92 Campbellton (#5) and Richibucto (#11) were spending significantly more than their budget allocation on administration. Campbellton was overspent by \$272,863 and Richibucto was overspent by \$209,217. District #18 - Fredericton, on the other hand, was underspending its budget for administration in 1991-92 by \$406,781. In the case of Fredericton, it would appear that most of the proposed reduction of \$382,510 in administrative funding would have had to have come from classroom spending. In effect, Fredericton was spending at the new budget level prior to its implementation.
- The two districts overspending by the largest amounts in 1991-92 also achieved the highest estimated actual savings. (See Campbellton and Richibucto). This is to be expected since these districts had the largest "cushion" in their 1991-92 administrative expenditure. Simply cutting back to the pre-amalgamation budget would have saved approximately \$500,000 in these two districts.
- In relation to the budget cuts imposed by the Department, a comparison of the "estimated actual savings" in Exhibit 4.4 to the

"proposed savings" in Exhibit 4.1 shows that two districts exceeded the target amount while two others reduced their expenditure by less than the proposed budget reductions.

**Departmental response  
to our observations**

4.32 We gave the Department an opportunity to review and comment on our observations. The following is an extract from the departmental response:

*The Department is of the opinion that your report outlines, in a fair manner, the difficulties which were encountered while attempting to provide to you a clear and detailed analysis of where savings were actually realized. This includes the inconsistencies in the reporting of administrative costs and also the global funding of school district operations which allowed for the reallocation of funds for administration prior to the abolition of local school boards in February 1996.*

*With the new education structure, district actual spending patterns versus amounts budgeted will be monitored in the same way as in other parts of government. The districts will be expected to live within administrative budgets and will not have the same freedom to take resources away from the classroom. The 1995 Report of the Auditor General, and the exercise of preparing the analysis for the four districts has highlighted the need for this type of accountability so that spending patterns that result from changes can be monitored and reported.*