

Review Summary

Internal Audit conducted a review of Expense Authorization Application at the Calgary Board of Education (CBE) from February 2014 to May 2014. Management requested the review to document and identify areas of improvement regarding the current state of both service unit and school-based leaders' decision-making process for expense authorization application.

The CBE spends approximately \$200 million annually on supplies and contracted services (August 31, 2013 Consolidated Financial Statements). There are numerous source documents detailing requirements for the expenditure of funds. As a public organization, the CBE is under considerable scrutiny therefore it is essential that the concept of accountability for expenses is well understood and applied.

The CBE receives funding from numerous sources generally in the form of grants, which often have additional spending and reporting requirements. Resource allocation and planning decisions exert considerable influence on expense authorization. In addition, the CBE is required to comply with several agreements including the Agreement on Internal Trade (AIT) and the New West Partnership Trade Agreement (NWPTA) among others. Internal policy and processes must align and comply with these agreements.

Our review was conducted in accordance with the "Standards for the Practice of Internal Auditing" published by the Institute of Internal Auditors (IIA). Internal Audit also used the Committee of Sponsoring Organizations (COSO) 2013-Internal Controls – Integrated Framework methodology. The COSO framework defines internal control as a "process, effected by an entity's Board of Directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance."

The review focused on spending associated with supplies and contracted services in both service units and school settings. Expense authorization application was in scope in relation to the following funding envelopes, including:

- School decentralized budgets;
- School generated funds;
- CBE service unit allocations;
- Provincial grants; and
- Corporate donations and partnerships.

Our review focused on the current state of expense authorization application and associated funding envelopes in stewarding funds, supporting the goals and values of the CBE and the impact on the effectiveness and efficiency of operations. Our procedures included a review of existing documentation provided by management, and a series of forty in-depth discovery interviews at all management levels. We developed an understanding of the current state of expense authorization application, associated risks and identified mitigation strategies and recommendations to address any deficiencies or concerns. Compliance with applicable laws and regulations and staffing allocations were excluded from the scope of the audit. Sample testing was not performed.

Based on the results of our approach we have categorized, for the purpose described above, the overall internal control environment associated with the Expense Authorization Application reviewed as:

Adequate Requires Improvement Inadequate Significant Weakness

Internal Audit – EAA Review

The current state of both service unit and school-based leader's expense authorization application is considered adequate largely due to the dedication of staff to student learning. Adoption of the identified recommendations will support the CBE to better facilitate the attainment of CBE's ultimate goals, alleviate pressure points and provide greater clarity within expense authorization application.

Our fieldwork revealed a theme of frustration with budget to actual reporting. As a result, several strategies are pursued to monitor the budget to actual process. Within the schools, some principals have crafted their own tracking mechanism often using Excel and within service units the Finance Representatives have designed customized reports. Ineffective monitoring can result in poor financial stewardship and/or unintended deficits. Within the schools, both outcomes may impact student learning. The impact on service units is similar – long term prioritized and planned actions may be delayed or partially implemented to maintain operational delivery and/or address immediate, unplanned requirements. While the current application is sufficient, we recommend the following be considered:

- Improve internal management reporting to support budget to actual reporting and provide effective information for management decision making.
- Consider implementation of cross functional reporting to improve transparency.

Interviewees expressed student needs as the most important priority in making any business decisions. Our inquiries revealed a theme of concern with achieving the best value for money expended and the limited funds available for program delivery. Further, concerns were raised regarding assets utilized well past their useful life. Finally, all interviewees from both service units and schools expressed dissatisfaction with the search capability of the "Staff Insite" portal and a general preference to phone a trusted contact for information and guidance. We recommend the following be considered to enhance search functionality and reference documents.

- Resource material should be more "quick guide"/ visually styled (for example decision trees, flow charts and trouble-shooting style documents).
- The "Staff Insite" should have menu tabs, with document links to reference material that responds to procedural type questions.

Our interviews indicated an unclear distinction between having the authority to commit the CBE to a contractual obligation and invoice approval authority. The delegation of signing authority matrix should provide for a clear distinction of what the approver has the ability to undertake on behalf of the CBE. We recommend an analysis of spending patterns be completed to evaluate the spending dollar thresholds and associated position for the delegation of authority. The matrix should also address non-budgeted capital projects and operational classifications such as system wide contracts, facility and learning based contracts.

Finally, we identified two potential efficiencies not specifically related to expense authorization application but we believe if adopted could provide operational efficiencies for the CBE. Firstly, all schools interviewed take advantage of additional grant funding to procure goods and services. Only some school principals proactively watch for these opportunities. We believe this is an opportunity for the central function to provide support to principals in the form of grant writing services to alleviate the workload burden. Secondly, high schools with Career Technology (CT) programming with specific program delivery risks, there should be formalized centralizing of maintenance and upgrading of CT equipment to alleviate the pressure on principals.

The observations and recommendations in this audit report would not be possible without the prompt cooperation of management and participants. We thank all those who provided their time, insight and candor in responding to our inquiries.



Shawn D. Hendry, CIA, CISA, CGEIT, CRMA
Partner
Sunera Canada ULC

Summary of Management Response

A recommendation to improve budget to actual reporting will be addressed through the implementation of CBE's new Corporate Performance Management system, Oracle Hyperion. Reports will be rolled out to service unit staff in 2015. A new "Finance & Supply Chain Help Portal" has been developed to provide one-stop shopping for easy to find and use help materials. Consultation with school-based staff is planned in 2014-15 to ensure that the Help Portal is meeting their needs.

A recommendation to review the use of School Development Plans as budget guiding documents is being reviewed with Area Directors.

A new signing authority matrix has been included in support of the revised Administrative Regulation 7001: Purchase of Goods and Services. The matrix delineates purchasing authority level by position.

A recommendation to review the "right to audit" clause in AR 5001 pertaining to "School Councils" with seeking legal clarification was taken forward to CBE's Legal Services, who determined that "School Councils" are not a legal entity capable of contractual relations with the CBE, nor do they exist at arm's length from the CBE and that it is appropriate for the CBE to have a policy allowing the Chief Financial Officer to request an audit. This policy is authorized by law and demonstrates responsible financial oversight. "School/Parent Societies", not School Councils, engage in the bulk of school based fund development (e.g. casinos). School/Parent Societies do exist at arm's length from the CBE and are not subject to CBE audit.

A recommendation that the P-Card policy be aligned and be directly addressed in the Administrative Regulations is being addressed via a project, which is in its infancy, pertaining to "Allowable Expenses". It is expected that an "Allowable Expenses" AR will be created.

The recommendations with respect to support for grant writing and centralizing maintenance and upgrading of CTS equipment were felt to be out of scope for the internal audit review. They will be referred to the appropriate departments for further consideration (Corporate Partnerships and Facilities & Environmental Services respectively.)