OFFICE OF THE
Auditor General
of British Columbia

623 Fort Street
Victoria, British Columbia
Canada V8W 1G1
P: 250.419.6100
F: 250.387.1230
www.bcauditor.com

November 16, 2017

VIA E-MAIL

Sylvain Allison
Secretaire-tresorier
School District No. 93 (Conseil scolaire francophone)
100-13511 Commerce Parkway
Richmond, B.C. V6V 2J8

Dear Mr. Allison:

Re: Financial Audit Findings and Recommendations – School District No. 93 (Conseil scolaire francophone)

Our Office has completed the audit of the financial statements of School District No. 93 (Conseil scolaire francophone) for the year ended June 30, 2017. The audit was carried out in accordance with Canadian generally accepted auditing standards. It was not a study designed specifically to determine if internal control is adequate for management's purposes or to identify and disclose defalcations or other irregularities.

As a result of the audit, we have a number of observations and recommendations. Other matters which arose during the audit were either satisfactorily resolved or were of a relatively insignificant nature.

Included for your information is the status of prior year recommendations.

We wish to express our appreciation for the excellent cooperation we received from your staff during the course of the audit.

Yours truly,

Russ Jones

Russ Jones, FCPA, FCA
Deputy Auditor General

LL/ah
Attachment

cc: Simon Couture, CPA, CGA, Directeur des finances

TABLE OF CONTENTS

1. CURRENT YEAR FINDINGS 3
2. STATUS OF PRIOR YEAR RECOMMENDATIONS 5

This report has been prepared solely for the use of management and should not be distributed to others outside the entity without our prior written consent. We disclaim any liability to any third party who may rely upon this report.

1. CURRENT YEAR FINDINGS

a) Amortization of Additions to Tangible Capital Assets and Deferred Capital Contributions

The Ministry of Education amortization tool used by the School District does not calculate amortization expense for additions added in the year for tangible capital assets or deferred capital contributions.

Public Sector Accounting Standards require that tangible capital assets of the School District be amortized over their useful life in a rational and systematic manner appropriate to its nature and use by the government. The Treasury Board Regulation 198/2011 for restricted contributions stipulates similar requirements for deferred capital contributions.

We recognize that amortization is an estimate established by management, however, relevant accounting standards and industry practice is to begin amortizing an asset as soon as it is put in use by the School District. In years where there are fewer tangible capital asset additions, the difference in amortization expense would not be a large amount. However, in a year where there are many additions, such as the completion of a new school building, amortization expense would be significantly understated. During the course of our work in the current year, we noted that amortization expense is approximately $150,000 understated.

Recommendation

We recommend that management consider applying amortization to additions in the year they are put in service by the School District or at least track the potential error generated by the amortization tool so that it is detected early enough to avoid a material error.

<u>Management's Response</u>

Yes, we will follow the recommendation from MOE how to do it.

b) Interfund Accounts and Special Purpose Funds

The School District uses fund accounting in order to maintain the records in a format acceptable to the Ministry of Education. Each fund contains its own set of records and interfund accounts are used to transfer balances between funds. The interfund accounts should net to zero. Although the interfund accounts should not appear in the financial statements, they are a useful tool in tracking movement between the funds and to ensure that each fund is its own set of records.

In addition, the School District receives funding from grants that form part of the Special Purpose Fund. The funds are generally spent in the year they are received, but certain grants can be deferred to future years. Each grant specifies whether the funds are to be spent on operating or capital expenditures.

During the course of the audit, we found that when grants within the Special Purpose Fund, such as the Annual Facilities Grant, are spent on capital items, the School District has not initially recorded the expenditures as tangible capital assets in the year. Instead, the entries to transfer the capital portion of the grants were recorded annually to interfund accounts, causing the interfund accounts to not net to zero. The resulting difference of $4.6 million formed part of the balance for tangible capital assets on the financial statements.

When tangible capital asset entries are prepared in this manner, it becomes difficult to track where the funds have been spent. This is important for tangible capital assets because they must be assigned to categories and amortized, and removed from the records at disposal. Without knowing what assets are in each category, it is impossible to track tangible capital assets accurately. This could impact the information available to the Board used to assist in its decision making related to capital assets.

Recommendations

We recommend that the interfund accounts be reconciled and reviewed monthly to ensure all transactions between funds appear in both interfund accounts.

We recommend that funds received for a specific purpose, such as the Annual Facilities Grant, be tracked and assigned when the funds are spent, rather than a journal entry allocation.

Management's Response

We will do it and fix the past also.

2. STATUS OF PRIOR YEAR RECOMMENDATIONS

Prior Year Recommendations	Current Year Observations
Fiscal 2015	
a) Deficiencies in SRB Education Solutions application user account management password change control compliance ***Recommendation:*** *We recommend the District enforce account password change controls for the SRB application account upon hiring, position transfer and at position termination*	This issue is resolved. We noted no issues in the current year.
b) Incomplete identification of related parties ***Recommendation:*** *We recommend the District implement a standard annual declaration process to collect information on the business interests of board members, key management personnel and their close family members.*	This issue is resolved. We noted that Board members annually disclose business interests. We also noted that policy P-609 *Conflit d'intérêts des membres du personnel*, is followed by all staff members including management, and should prevent related party procurement issues.
c) Lack of purchasing conflict of interest policy ***Recommendation:*** *We recommend the District implement a procurement conflict of interest policy.*	This issue is resolved. We noted policy P-609 *Conflit d'intérêts des membres du personnel* was adopted in November 2016.