

Review of Richmond School District

September 2016

**INTERNAL AUDIT
AND ADVISORY SERVICES**



**Ministry of
Finance**

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Review of Richmond School District

**Internal Audit & Advisory Services
Ministry of Finance**

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Abbreviations

| | |
|------------------------|---|
| AFG | Annual Facilities Grant |
| BCP | Business Continuity Plan |
| BCPSEA | British Columbia Public School Employers' Association |
| Board | Richmond School District Board of Education |
| the City | The City of Richmond |
| CPPM | Core Policy and Procedures Manual |
| CUPE | Canadian Union of Public Employees |
| the District | Richmond School District |
| DRP | Disaster Recovery Plan |
| EA | Educational Assistant |
| FTE | Full-Time Equivalent |
| HVAC | Heating, Ventilation, and Air Conditioning |
| ISP | International Student Program |
| IT | Information technology |
| K-12 | Kindergarten to Grade 12 |
| LRFP | Long Range Facilities Plan |
| the Ministry | British Columbia Ministry of Education |
| Province or Government | Government of British Columbia |
| Richmond | Richmond School District |

Subsequent Events



October 12, 2016

The following significant events have occurred subsequent to this report being finalized but prior to its release.

On September 21, 2016 the Ministry of Education removed the 95% utilization guideline as part of their school investment process.

On October 11, 2016 the Richmond School District terminated their school closure process that was considering the closure of three elementary schools.

A handwritten signature in black ink, appearing to read "Chris Brown". The signature is written in a cursive style with a horizontal line underneath.

Chris Brown, CPA, CA, CIA
Assistant Deputy Minister

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Executive Summary

Richmond School District (Richmond or the District) is one of 60 school districts in the province of British Columbia, each governed by an elected Board of Education. Boards represent the public interest and reflect local values in education while governing in accordance with Provincial legislation. Richmond's Board of Education (Board) consists of seven trustees who meet twice a month for the majority of the year and receive a fixed annual stipend comparable with similar boards.

Richmond is one of the larger school districts in the province that in 2014/15 had approximately 21,000 students enrolled. Over the past five years, Richmond's graduation rates have averaged 94%, some of the highest in the province.

In accordance with the Taxpayer Accountability Principles, the Ministry of Education (the Ministry) is working with school districts to reduce the cost of administrative overhead and maximize classroom resources and, in conjunction with this, Internal Audit & Advisory Services was directed to conduct a review of Richmond School District.

Working with a Deputy Ministers' Committee, Internal Audit & Advisory Services evaluated the District to identify opportunities for improvement, efficiencies and cost savings in overhead and non-instructional functions; and to examine planning, forecasting and financial performance.

In performing the review, Richmond was compared to a peer group made up of districts with similar characteristics in areas such as student enrolment, geographic size, and number of facilities.

Strategic Planning

Richmond conducts strategic planning and outlines its priorities and initiatives though there are opportunities to enhance this planning which would improve the overall effectiveness of the organization. Examples include: prioritizing initiatives, having measurable targets, and long-term financial goals, as well as conducting formal risk planning.

While Richmond engages and collaborates extensively with stakeholders to arrive at decisions, there is an opportunity to improve the analysis or business cases used to support key procurement decisions and initiatives.

In the last five years school administration costs have increased by 10%, while student enrolment declined 8% in the same period. Overall administration costs for the District are greater than their peer group average by \$1.4 million despite having similar student numbers.

Staffing

School districts consider many factors in determining the appropriate number of teachers, education assistants, school administrators and support staff required to deliver education. The decline in student enrolment in the District over the last five years has contributed to a reduction of full-time equivalents across all employee groups except for support staff which has increased by 9.6%.

Compensation

Compensation for excluded employees is generally comparable with their peers, though Richmond has a generous service recognition program for its excluded employees (other than principals and vice-principals), who receive a benefit of up to 17 days' pay for each year of excluded service.

Only one of the peer group school districts has a service recognition incentive which is only available to employees who retire at age 55 or later and is capped at 140 days after 20 years of service. In comparison, BC Public Service employees with 30 or more years' service receive 65.25 days upon retirement.

The District provides health and wellness programs for its staff, and recently implemented a new attendance management system which allows for better monitoring of employee absenteeism. Overall, District employees took an average of 8.6 sick days in 2014/15 which is comparable to the average of 8.8 days taken by BC Public Service employees.

Information Technology

The majority of the applications are approaching the end of their expected useful life so the District is upgrading their technology and software, including the implementation of a new enterprise resource planning system.

The review identified areas for improvement in a number of information technology areas such as better documentation of policies and procedures as well as developing formal business continuity and disaster recovery plans.

Procurement

Procurement practices in school districts are expected to meet the spirit and intent of Government's policies, including compliance with relevant trade agreements. Richmond has a policy and procedures manual to direct its procurement activities; however, it does not fully align with Government's direction.

There are opportunities to improve their practices, including assessing needs, ensuring decisions represent value for money and demonstrating fair and transparent procurement practices with competitive tendering of contracts.

Facilities

Richmond develops and maintains a study of the long-term capacity needs of the District taking into consideration enrolment forecasts. Between 2002 and 2005, Richmond closed four schools as a result of declining enrolment and currently has 10 secondary and 38 elementary schools, plus other facilities to support the delivery of education. Richmond's current utilization is 81% (4,500 surplus seats), much lower than their peer group average of 90% and the Ministry guideline of 95%.

Richmond has engaged in a public process to identify schools for closure which is nearing completion which should allow them to address their over-capacity. Enrolment is projected to increase in one area of Richmond and the District is planning to acquire land and build an elementary school to meet that need.

Closing underutilized schools would reduce the District's annual expenditures and potentially generate significant funds to address other capital needs such as the new school as well as necessary maintenance on existing facilities.

The District previously acquired seven residential properties for the purpose of building a school. Based on projections it is no longer required and these properties are surplus to their needs. In 2008, a third party independent appraisal, valued these properties at \$9.8 million if the land were rezoned for townhouses. The sale of these properties could also generate significant funds to assist the District in delivering on its long-range capital needs.

Capital Projects

Since 2005/06, the District has completed four major capital projects using Ministry funding and two projects funded locally. Project management practices could be strengthened by documenting key decisions at project progress meetings, using performance measures to track and monitor projects, and conducting post implementation reviews.

Evolving soil science and understanding how specific areas will react in the event of an earthquake have resulted in significant changes in seismic risk assessments in the District. In 2012, two Richmond schools were identified as seismically high risk, and in 2015 this changed to 25 schools in the District being identified as high risk, plus two that have already been upgraded.

Operations and
Maintenance

Richmond conducts most of its maintenance and repairs using in-house trade services. The process to track capital maintenance items does not have long-term projections of future work and management information systems could be strengthened in this area.

The District is active in energy management and reducing utility consumption. Energy management projects have contributed to estimated savings of over \$1.25 million since 2012 and utility costs per square metre are lower than their peer group.

Transportation
Services and
Fleet
Maintenance

The District owns and operates 15 buses and 75 maintenance vehicles. Student transportation is not a legislated requirement and the decision to provide student transportation is made by each school district. Richmond provides in-house student transportation services to just over 400 students, just 2% of total students.

While Richmond's eligibility criteria for students were comparable to other districts they offer service to a broader student group than comparable districts at a similar overall cost.

In 2015 the District replaced 22 vehicles, or 30% of its fleet resulting in an average fleet age of less than five years. There is an opportunity to better support procurements such as these through improved analysis or business cases.

Financial
Management

Richmond has had a surplus of at least \$5 million in each of the last five years. The majority of the revenue received is the provincial operating grant which includes an amount for each current student plus additional funding for specific circumstances (special needs, geographic, etc.). School districts with declining enrolment can also receive supplemental funding to assist as they adjust staffing levels and school capacity to lower numbers of students.

The Ministry withholds approximately 1% of the total grant available as a contingency to accommodate inaccurate enrolment estimates, or other unexpected events. Upon the final confirmation of enrolment, the holdback is released.

Accumulated
Surplus

The District's accumulated operating surplus has grown to \$9.8 million in 2014/15. Richmond advised that this is related to the timing of the contingency holdbacks, which the District does not budget for, and from the International Student Program generated surplus. While the education sector and the Ministry have had preliminary discussions regarding an appropriate level of accumulated operating surplus, there is currently no defined optimum amount.

The District has also transferred part of its operating surplus to local capital surplus, restricting it for future capital projects. The Local Capital Fund has grown to \$51 million in 2014/15, primarily a result of the sale of the Steveston School property in 2013 for over \$40 million. Some of these funds have been designated to assist with paying for the new school.

Of the amounts identified to be spent from the Local Capital Fund, some projects are specific and well supported (e.g. City Centre Elementary School); however for many projects, the District was not able to provide clear supporting documentation.

Budgeting and
Forecasting

Throughout the year, the Board is apprised of the operating budget and variances, with budget updates being a standing item at all Board meetings.

Richmond does not include the Ministry holdback into their budget projections, contributing to unspent revenue in many years. Over the last five years, the holdback received by Richmond has resulted in approximately an additional \$2 million each year. To improve financial management practices in school districts the Ministry should provide direction on how holdbacks should be budgeted for by school districts. One option is to include the actual holdback received in the previous year in the current budget to ensure certainty of the amount while preventing buildup of accumulated surplus due to holdback amounts not being fully utilized.

Despite the Ministry providing a longer term budgeting tool and the District having future enrolment estimates, Richmond does not develop long range forecasts. Budgeting for future years would assist the District with planning and forecasting strategic, capital, and operational needs.

Other Revenue

Richmond has an International Student Program that allows students from outside the province to study in British Columbia for a fee. In the past five years, Richmond's enrolment has grown from 525 to 780 students with revenue of just under \$13 million and generated a surplus of \$5.7 million in 2014/15.

Richmond collected \$821,000 in fees from short-term facility rentals in 2014/15. Space is offered to the public at a fee and is primarily used by childcare providers, with a surplus school and residential properties generating additional revenue.

Space is provided to school organizations and the City of Richmond (the City) for use by community groups at no charge through a joint use agreement. The District allows the City use of the facilities in return for the City providing grounds maintenance and repairs for all of the District's large field areas.

* * *

We would like to thank the management and staff of the Richmond School District as well as the other stakeholders who participated in and contributed to this review, for their cooperation and assistance.



Chris D. Brown, CPA, CA, CIA
Assistant Deputy Minister
Internal Audit & Advisory Services
Ministry of Finance

Introduction

Richmond School District (Richmond or the District) is one of 60 school districts in the province of British Columbia, each governed by their own elected Board of Education. Boards represent the public interest and reflect local values in education while governing in accordance with Provincial legislation.

School district funding comes primarily from provincial government grants. The total provincial grant distributed to all BC School Districts for the 2014/15 school year was \$4.7 billion.

The BC School Trustees Association (the representative for school boards in British Columbia), and the Ministry of Education (the Ministry) entered into a Memorandum of Understanding in December 2014. The Memorandum recognizes the individual and shared responsibilities of boards and the Ministry to effectively and efficiently manage public resources in a fiscally sustainable manner, and to support a strong and successful public Kindergarten to Grade 12 (K-12) education system.

Richmond is one of the larger school districts in the province that in 2014/15 enrolled approximately:

- 11,400 full-time equivalent (FTE) students in Kindergarten to Grade 7 at 38 elementary schools; and
- 9,600 student FTEs in Grades 8 to 12 at ten secondary schools.

Over the past five years, Richmond's graduation rates have averaged 94%, some of the highest in the province.

The City of Richmond (the City) is a culturally diverse community with significantly lower numbers of students who speak English as their first language when compared with the average of similar sized peer districts and the provincial average as shown in the following table.

| District | English | Chinese⁽¹⁾ | Other⁽²⁾ |
|--------------------|----------------|------------------------------|----------------------------|
| Richmond | 40.5% | 38.9% | 20.6% |
| Peer Group Average | 77.6% | 5.5% | 16.9% |
| Provincial Average | 75.9% | 7.1% | 17.0% |

(Source: Ministry data, Student Statistics Report 2014/15)

Note 1: Includes: Mandarin, Cantonese, and Chinese

Note 2: Includes: Punjabi, Pilipino, Korean, Vietnamese, Spanish, Persian, Japanese, Arabic, Russian, Karen, German, French, Hindi, Urdu.

In addition, the District has lower than average numbers of students with special needs and students of Aboriginal descent.

In providing educational services, the District has over 2,100 full-time equivalent employees (FTEs).

Purpose, Scope and Objectives

The purpose of reviewing school districts is to identify opportunities for improvement, efficiencies and cost savings in overhead and non-instructional functions and to examine planning, forecasting and financial performance within the districts selected for review.

Richmond was the first district selected as part of a number of upcoming reviews. The review evaluated and, as appropriate, made recommendations relating to the following:

1. Review of non-instructional functions, including:
 - a) staffing levels, to identify opportunities to redirect savings to benefit students; and
 - b) administration, operations and maintenance, transportation, and information technology.
2. School Districts' financial performance in non-instructional functions including:
 - a) operating costs, administrative costs and employee compensation;
 - b) forecasts, to help plan, budget and manage costs;
 - c) cost mitigation and shared services strategies, including the identification of potential non-instructional efficiencies and economies of scale;
 - d) short and long-term planning including utilization of capital and related resources; and
 - e) other matters that arose over the course of the review as deemed appropriate by the review team.

The findings and good practices identified in this and subsequent reports may be relevant and useful to inform other school districts and aid in making any necessary changes or improvements in their district practices.

School district governance structure and processes were excluded from this review as an independent review was completed in 2013 with recommendations for enhancement.

Approach

Internal Audit & Advisory Services conducted a broad review of the District, working with an Executive Steering Committee. The approach included:

- conducting interviews with key management and staff across the District, and related stakeholders;
- reviewing and analyzing legislation and policies;
- researching comparable information from other relevant organizations and other jurisdictions;
- reviewing and analyzing financial reports and variance reports; and
- reviewing and analyzing key operations, processes and information technology systems.

For the purpose of gauging the District's performance, the review compared Richmond to other British Columbia school districts using an average of all districts in the province (Provincial Average).

The Provincial Average includes districts with much lower density and distinct geographic and climate differences. These factors can significantly affect the various ratios used in comparison. To ensure more relevant comparison, the review also used a peer group made up of districts with characteristics similar to Richmond in areas such as student enrolment, geographic size, and number of facilities. The peer group used for comparison in this report is comprised of the following districts:

- SD23 Central Okanagan
- SD34 Abbotsford
- SD35 Langley
- SD41 Burnaby
- SD61 Greater Victoria

The Ministry requires school districts to submit cost and FTE data by functional area. Although this information is not audited, the Ministry provides sufficient guidance such that the data remains useful for district comparisons.

In some cases, comparisons amongst school districts were limited, as the financial reporting required by the Ministry does not provide enough detail to permit analysis of certain types of costs. For example, information technology costs are included under maintenance and operations, making detailed comparisons difficult.

A copy of the full report can be found on the Province of British Columbia's website at: <http://www.fin.gov.bc.ca/ias.htm>

Overall Conclusion

Richmond School District is one of the larger districts in the province with expenditures of over \$180 million, delivering K-12 education to approximately 21,000 students in 48 schools. While doing this the District has had surpluses of over \$5 million in each of the last 5 years yet retained some of the highest graduation rates in the province averaging 94%.

The District has had declining enrollment for a number of years and even though it closed some schools between 2002 and 2005, they have approximately 4,500 surplus seats. Their capacity utilization has dropped to 81%, which is substantially lower than their peer group average of 90% and the Ministry guideline of 95%. A process to identify schools for closure is nearing completion so the District should soon be able to begin planning for school closures as well as the seismic mitigation that needs to be done for a number of the schools that will remain.

Closing schools to eliminate excess capacity will generate significant savings on an annual basis which could go towards the maintenance and enhancement of remaining facilities, as well as general operations to support the education of current students. Funds from the sale of surplus properties, when combined with amounts already set aside in the Local Capital Fund (\$51 million) and the Land Capital Fund (\$6 million), mean the District is in a solid financial position to address the needed school in the City Centre area.

While compensation for excluded staff was generally reasonable the District has a very generous service recognition program that should be brought into line with other public sector organizations.

The review also identified opportunities for strengthening the District's management and operations through more consistent use of business cases and analysis to support decision making as information to support many decisions and initiatives was not readily available. Improved strategic planning and long-term financial forecasting would assist the District in being proactive in managing future challenges.

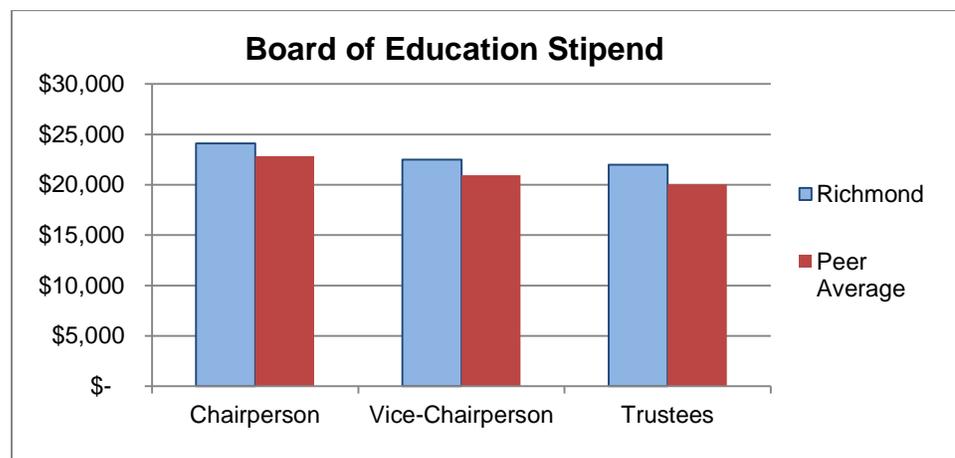
1.0 Administration

School districts are led by a locally elected Board of Education which provides strategic direction to senior executives who are responsible for the administration of the district and the schools. Administration includes all programs related to the governance and administration of educational, business, and human resource activities.

1.1 School Board

Richmond's Board of Education (Board) consists of seven trustees who were elected in December 2014. The Board meets twice a month for the majority of the year and receives a fixed annual stipend. As per the *School Act* and district policies, trustees authorize their remuneration annually, including making adjustments in alignment with the Vancouver Consumer Price Index. No additional benefits, such as extended health, are provided.

As illustrated below, Board remuneration is comparable with their peer average.



(Source: School Districts Statements of Financial Information 2014/15)

Board members receive professional development, such as a course the BC School Trustees Association offers, providing new trustees direction on their roles and responsibilities. In 2014/15, total costs for all trustee professional development and travel were approximately \$13,000. Based on samples reviewed, Board expenses were reasonable and in line with District policies.

1.2 Strategic Planning

The District conducts strategic planning and outlines its strategic priorities and initiatives under four Developmental Objectives:

| | |
|-------------------------------|--|
| Student Success | How can we enable all our students to do their best? |
| Organizational Sustainability | How can we ensure that the challenging work done by staff is sustainable for them? |
| Environmental Stewardship | How can we behave responsibly towards the natural world? |
| Communication | How can we communicate in a clear, timely and inclusive manner? |

The 2014/15 Developmental Objectives were approved by the Board and are considered to be the District's primary strategic plan. The Developmental Objectives include 38 initiatives each aligned to one of the objectives. One example of these initiatives is public engagement for the long range facilities review.

Effective strategic planning provides a roadmap for an organization in achieving its long-term goals. There are opportunities to incorporate the following best practices into the District's strategic planning which would enhance overall effectiveness of the organization:

- ranking or prioritizing initiatives to ensure that efforts are applied to the initiatives that will have the greatest impact first;
- integrating strategic initiatives into department goals to ensure efforts are aligned with the District's objectives;
- implementing time-bound deadlines and measurable outcomes to ensure accountability; and
- including long-term financial goals, and financial measures (e.g. savings targets) to ensure that the financial health of the organization is a priority.

Identifying key risks and detailing mitigation strategies are critical components of strategic planning. Developing and maintaining a risk register is fundamental to this process as it provides an overall picture of organizational risks and informs the strategic plan. The District discusses organization-wide challenges and risks in meetings with stakeholders, however does not currently conduct risk planning.

Stakeholder
Engagement

The District actively engages stakeholder groups such as the Richmond Teacher's Association, Canadian Union of Public Employees (CUPE), and the Richmond District Parent Advisory group among others. Input from these sessions is used for strategic planning activities including informing the development objectives and related initiatives. These meetings help board trustees and District staff understand local interests and values with regard to providing education. District staff also meet regularly with other districts and groups in the education sector to share best practices.

While Richmond engages and collaborates extensively with stakeholders to arrive at decisions, this process should inform and complement rigorous analysis. Some of the District's decisions or initiatives are well supported; however, in many instances across the organization, the District was unable to provide analysis or a business case to support key procurement decisions or strategic initiatives.

Business cases help decision-makers understand issues, options, risks, benefits and expected costs. A comprehensive approach to business decision making ensures expenditure decisions are supported to achieve their intended results and provides value in return for public resources.

Recommendations:

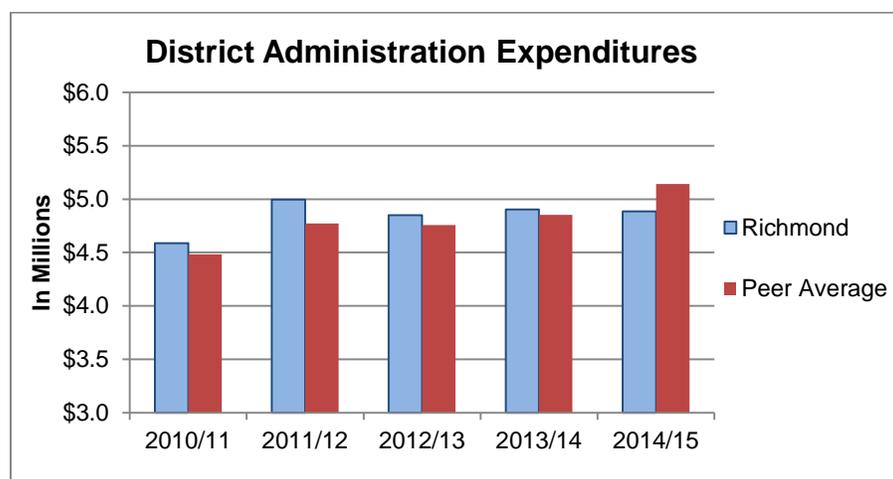
- (1) Richmond School District should ensure it has a comprehensive strategic planning process that integrates department and financial goals.**
- (2) Richmond School District should implement a formal risk planning process.**
- (3) Richmond School District should ensure business cases are developed to inform key investment decisions and initiatives.**

1.3 District and School Administration

District Administration includes activities related to the educational leadership and administration of the District including the business and financial operations. Some of the activities captured within this function include:

- Governance
- Strategic Planning
- Budgeting
- Human Resources Administration
- Payroll
- Purchasing

In 2014/15, Richmond's District Administration expenditures were \$4.9 million which accounted for 2.7% of total expenditures. This is comparable to the average among the peer districts. Although total District Administration expenditures have historically been greater than the peer group, Richmond has been able to limit the growth within this function over the past five years to 6% compared to an average of 15% among peer districts.



(Source: Ministry of Education)

School administration includes costs directly related to administering instructional and business activities at the schools in the District. All activities performed by office clerical staff and non-teaching time for principals and vice-principals are included.

In 2014/15, school administration costs were \$14.2 million which accounted for 7.8% of total expenditures. The District spent \$1.7 million more in this area than the peer average.

Since 2010/11, school administration costs have increased by 10%, despite a student enrolment decline of 8%. The District is in the process of evaluating options to address its excess capacity given declining student numbers. Reducing excess capacity across the District will allow for a reduction in school administration costs, bringing the District closer to its peer group.

As a result of higher school administration costs, the District's overall administration costs, including staffing, are greater than the peer group average by \$1.4 million despite having similar student FTE numbers. The following table details 2014/15 student enrolment and district and school administration costs:

| District | Student FTEs | District & School Admin Costs | Cost per Student | % of Total Costs |
|--------------|--------------|-------------------------------|------------------|------------------|
| Richmond | 20,539 | \$19,077,068 | \$929 | 10.5% |
| Peer average | 20,329 | \$17,616,989 | \$867 | 9.9% |
| Variance | 210 | \$1,460,079 | \$62 | 0.6% |

(Source: Ministry of Education)

Recommendation:

- (4) **Richmond School District should bring administration costs in line with peer districts.**

1.4 School District Staffing

School districts consider many factors in determining the appropriate number of teachers, education assistants, school administrators and support staff required to deliver education. Typical factors include the age of the students, the proportion of students within targeted categories and matching the student enrolment profile with the following maximum class size requirements of the *School Act*:

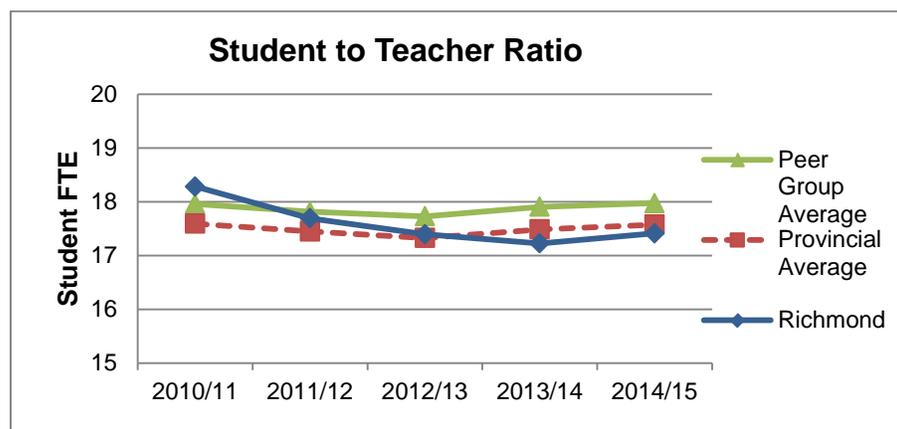
- 22 students for Kindergarten;
- 24 students for Grade 1-3; and
- 30 students for Grade 4-12 unless it is deemed appropriate for student learning or the class is in a prescribed category.

Richmond determines staffing using a number of factors including the number of students in a school, projected enrolment, and employee attrition rates.

The decline in student enrolment in the District over the last five years has contributed to a reduction of FTEs across all employee groups except for support staff.

Teachers

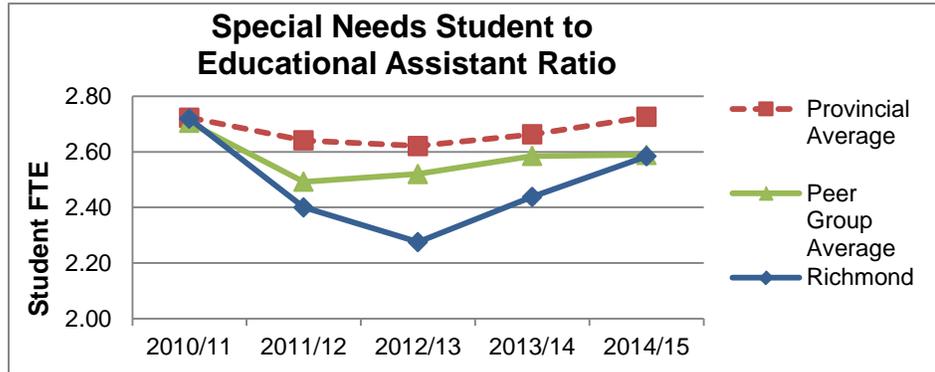
Over the last five years, student enrolment has declined 8% while teacher FTEs have declined by 2.7%. This has resulted in a student to teacher ratio slightly lower than its peer group over the past four years as demonstrated in the graph below.



(Source: Ministry provided data)

Education Assistants

Education Assistants (EAs) work with teachers to support students with diverse learning challenges and special needs. The District has 279 EA FTEs with a special needs student to EA ratio comparable to the peer group average in 2014/15.

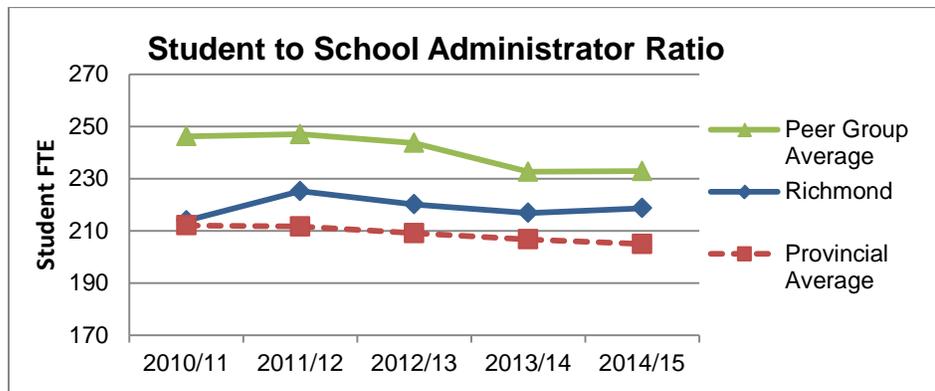


(Source: Ministry provided data)

School Administrators

School Administrators are allocated based on student FTEs at each school. Based on the District's target ratio, if a school requires less than one School Administrator FTE, the position responsibilities are supplemented to include teaching or other duties. Richmond does not split administrators between multiple schools.

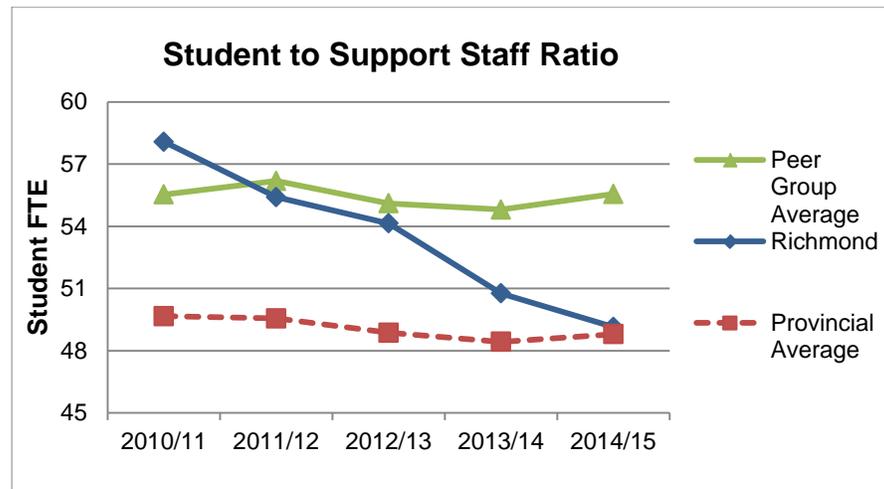
Over the last five years, the District has reduced its School Administrators by 9.5 FTEs while their peer group has increased by an average of 4.8 FTEs. Despite this, the District's student to school administrator ratio remains below the peer average as can be seen in the graph below.



(Source: Ministry provided data)

Support Staff

Support Staff includes a number of school district positions such as operations, maintenance and technology staff, as well as school based clerical staff. Over the last five years, support staff in the District has grown 9.6% from 375 to 411 FTEs. This increase relates primarily to facilities department staff. In 2014/15 the District's students to support staff ratio of 49.2 was much lower than its peers average of 55.6, and close to the provincial average as indicated in the following graph:



(Source: Ministry provided data)

Support Staff salaries are a significant factor in school administration costs, and could be a contributing factor to Richmond's costs being higher than its peers. In reviewing school administration costs for savings opportunities, the District should review staffing levels in these areas.

1.5 Compensation

The District spent approximately \$165 million in salaries and benefits in 2014/15, 91% of total operating expenditures.

Richmond School District has three employee groups:

1. Excluded management which includes the Superintendent, Secretary-Treasurer, directors, managers, principals and vice-principals;
2. Teachers and on-call teachers; and
3. Support staff such as school and non-school administrative support, as well as operations, maintenance and technology staff, and educational assistants.

Excluded management compensation follows the guidelines set out by the British Columbia Public School Employers' Association (BCPSEA) and approved by the Public Sector Employers' Council. Teacher compensation is determined by the Provincial Collective Agreement and support staff compensation by the CUPE Collective Agreement. The determination of the District Superintendent's compensation is the responsibility of the Richmond's Board of Education.

Total compensation for each of the District Superintendent, Assistant Superintendents and Secretary-Treasurer are all comparable with their peer group, the BC Public Sector, and a similar sized Crown corporation. Excluded employee salaries have not increased since the Province's directive to freeze salaries in 2012. The Superintendent's salary is determined by the Board and not included in the salary freeze and increased by 10% since 2012.

Richmond has a generous service recognition program for its excluded employees. A payment for service recognition is provided to employees who leave the District for any reason including retirement, termination or other employment opportunities. Excluded employees (other than principals and vice-principals) receive a service recognition incentive based on their years of excluded service.

Initially, service recognition was earned for all years of employment within the school district but, in 2008, was changed to years of excluded employment only. Eligibility begins after two years, and after twenty years, an employee receives 17 days' pay for each and every year of excluded service. For example, an employee with thirty years of service would receive a service recognition payment equivalent to 510 days' salary. After a minimum of five years of service, principals and vice-principals receive a fixed allowance of \$16,000 at retirement.

Prior to 2015, employees were able to receive payment of their service recognition while still active employees contrary to the Compensation and Employment Standards developed by BCPSEA. Over the past five years, the District paid out \$1.75 million in service recognition payments to 57 excluded staff, and one employee receiving over \$550,000. The District advised that the amount owing to staff for service recognition at the time of this report was approximately \$735,000.

Among the peer group school districts, only one has a service recognition incentive. This is capped at a maximum of 140 days after twenty years of service and is only available to employees who retire at age 55 or later. In comparison, BC Public Service employees with 30 or more years' service receive 65.25 days upon retirement.

Recommendation:

- (5) Richmond School District should align its service recognition plan with current public sector plans.**

1.6 Human Resource Management

Sick Leave Provisions

The District staff are eligible for 18 days of paid sick leave per year and unused sick days accumulate in sick banks with no maximum. Comparatively, provincial government employees can receive 75% pay on sick days up to six months, and cannot accrue a sick bank.

CUPE employees can draw from their sick bank up to a maximum of 180 days in a year and BC Teachers' Federation employees can draw up to 120 days. CUPE employees have the option to receive a payout of 50% of their sick bank (up to 100 days) after ten years of service. Teachers do not receive payouts of sick time when leaving the District.

Excluded employees can fully draw from their sick bank if needed but do not have the option of receiving payouts of any sick time.

Overall, District employees took an average of 8.6 sick days in 2014/15 which is comparable to the average of 8.8 days taken by BC Public Service employees. The District provides health and wellness programs for its staff, and recently implemented a new attendance management system which allows for better monitoring of employee absenteeism.

The Ministry has also begun a pilot in seven school districts to help guide best practices in the areas of attendance monitoring and the provision of wellness support. Once completed, this initiative is expected to provide common policies, procedures and guiding principles for implementation by all school districts, including Richmond.

Employee
Performance
Management

Performance evaluations are an important component in human resource management. The District conducts performance evaluations for all of its employee groups but these evaluations are not linked to the District's developmental objectives or initiatives. The frequency of evaluations varies between employee groups. Under the Collective Agreement, teachers can be evaluated once every five years unless the evaluation is rated as less than satisfactory. Excluded staff are to be evaluated at the end of their probationary period, and then no further evaluations are required. CUPE staff evaluations take place on an ad hoc basis.

In comparison, BC Public Service employees are required to complete performance evaluations on an annual basis. Regular and timely performance evaluations are a benefit to employees and the employer. They help ensure day-to-day actions align with business goals and objectives, document accountability and performance expectations, and form the basis for individual learning and career development.

Recommendation:

- (6) Richmond School District should conduct regular performance evaluations that link to the strategic plan.**

1.7 Information Technology

The information technology (IT) function is guided by a technology plan that was jointly developed by the technology leadership team, the learning department, and support staff from various departments. The plan includes specific objectives and action plans to guide IT decisions over multiple years.

The majority of the District's applications are approaching the end of their expected useful life. Because of this, the District has been engaged in upgrading its technology and software licensing, including the implementation of a new enterprise resource planning system.

Richmond does not require business cases for IT projects and had limited documentation available to support its IT purchases. Better documentation would help demonstrate the need for IT purchases, the expected benefits to be realized, and value for money.

Business Continuity and Disaster Recovery

A Business Continuity Plan (BCP) provides a roadmap to restarting critical business functions following an emergency. Closely related, a Disaster Recovery Plan (DRP) ensures controls and processes are in place to recover the IT systems of an organization in the event of a disruption (e.g., natural disaster, power outage, etc.). Once developed, it is important that organizations periodically test their BCP's and DRP's to ensure the processes work as planned.

The District does not have a BCP to minimize the impact of disruptions on key business areas or a DRP to recover its systems. Without such plans it is unlikely that the District would be able to recover its key processes and systems from significant incidents within a reasonable recovery time. The District is aware of this deficiency and is taking steps to address it.

IT General Controls

Richmond lacks documented policies and procedures for key IT processes such as change management, user account management, data classification and incident management.

The District has developed controls to help compensate for the lack of policies and procedures. For example, while there is not a documented change management process, the Technology Leadership Team meets weekly to discuss ongoing work requests and upcoming changes. However, implementing policies and procedures for its IT processes would help the District minimize reliance on key personnel and ensure its systems are secure and reliable.

Recommendations:

- (7) Richmond School District should develop, implement and periodically test business continuity and disaster recovery plans.**
- (8) Richmond School District should ensure that information technology processes and key systems are documented.**

1.8 Procurement

The District purchases goods and services for its schools, trades and for capital construction through its procurement department. Procurement staff assist business units in the preparation of solicitation documentation, negotiation of contracts, and drafting of agreements. Procurement practices in school districts are expected to meet the spirit and intent of Government's Core Policy and Procedures Manual (CPPM), including compliance with relevant trade agreements.

Richmond's procurement department has a policy and procedures manual to direct its procurement activities; however, it does not fully align with Government's CPPM. The manual does not address procurement practices such as vendor complaints, contract monitoring and management, and vendor performance. Incorporating these practices would strengthen quality assurance in the vendor selection process, and improve service delivery while supporting value for money procurement.

While the District advised that they perform many of these procurement activities, key documentation was not readily available for a number of the contracts sampled. Missing documentation included: evidence of planning, assessment of competitive bidders, and post-contract evaluations. In addition, the District directly awarded contracts without appropriate justification documented.

There are opportunities to improve procurement practices, including planning, tendering, and awarding contracts. Adequate planning includes an assessment of needs and alternatives, ensuring that purchasing decisions meet the organizational requirements and represent value for money. Competitive tendering and awarding of contracts demonstrates fair and transparent procurement practices and aligns with the spirit and intent of CPPM.

A review of payment timing was conducted on a sample of invoices and concluded that the District pays its vendors in a timely manner, averaging thirteen days from when the invoice is received. Contract payments are monitored to ensure payments do not exceed the contract values.

Recommendation:

- (9) Richmond School District should ensure its procurement policies, procedures and practices align with the spirit and intent of Government procurement policy.**

2.0 Facilities

Richmond has 48 schools, 10 secondary and 38 elementary, as well as other sites including the works yard, the administration building, the IT building, two empty lots, and sites containing residential properties.

School districts are responsible for determining the number of facilities to own and maintain. They need to strike a balance between current and future facility needs in order to minimize unnecessary costs and yet ensure adequate resources. Maintaining surplus facilities can cause unnecessary overhead costs and significant repairs on excess properties can add pressure to limited capital funding.

2.1 Facilities Planning

In identifying current and future capital needs, the District develops and maintains a Long Range Facilities Plan (LRFP) which is a study of long term needs undertaken every few years by school districts. This is in keeping with Government and Ministry direction for capital asset management.

The LRFP establishes the basis for a District's capital plans and investment decisions, and provides a district-wide framework for other key local decisions such as school consolidations and location of District programs. Key to a school district's LRFP is the capacity of their schools compared to the projected need.

Richmond undertakes extensive capacity utilization analysis, using both their existing schools and enrolment projections across the District. This analysis identifies current and longer-term capacity issues at schools and provides the necessary information to allow the District to respond appropriately to changing circumstances. Between 2002 and 2005, Richmond closed four schools due to declining enrolment.

The Ministry uses capacity utilization analysis to assist them in assessing capital funding requests from school boards, having a utilization guideline for school districts of 95%. Richmond's capacity utilization is 81% (equivalent to 4,500 surplus seats), substantially lower than the peer group average of 90%. In order to meet the Ministry guideline, approximately 3,300 of the surplus seats would need to be addressed through increased enrolment or school closures.

The District's current LRFP identifies issues with schools that are over and under capacity. To address these issues, Richmond has engaged in a public process to identify schools for closure, which is nearing completion and should allow them to move forward on closing surplus schools.

Although the District's overall enrolment has been declining, it is projecting an increase in the City Centre area of Richmond. As a result, existing schools in that area will not have sufficient capacity to accommodate expected growth. To address this, the District is planning to acquire land and build an elementary school within the City Centre area. This is the highest priority item in their 2015/16 Capital Plan with an estimated cost of \$50 million.

In 2013, the Steveston Secondary School site was sold for approximately \$41 million. These funds have been designated to assist with paying for the new school's land as well as construction of the new school.

Closing underutilized schools would reduce the District's annual expenditures and generate significant funds from the possible sale of those sites. These funds could then be used to address other capital needs such as the City Centre Elementary School and necessary maintenance on existing facilities.

Residential
Properties

Between 1997 and 2007, the District acquired seven residential properties for \$3.5 million for the purpose of building a school on the site. Based on projected capacity needs, a school is no longer required in that area, and Richmond considers these properties surplus to their needs.

In 2008, as part of a potential sale process, a third party independent appraisal valued the properties at \$9.8 million if the land were rezoned for townhouses. The sale process was terminated in 2009 following public displeasure with the proposed Official Community Planning Amendment and sale of the land. The sale of these properties could generate significant funds to assist the District in delivering on its long-range capital needs. The District advised that further work will be done on this once the current school closure process is complete.

Recommendations:

- (10) Richmond School District should resolve their school capacity issues in a timely manner.**
- (11) Richmond School District should sell surplus properties to free up resources for other capital priorities.**

The following significant events have occurred subsequent to this report being finalized but prior to its release.

On September 21, 2016 the Ministry of Education removed the 95% utilization guideline as part of their school investment process.

On October 11, 2016 the Richmond School District terminated their school closure process that was considering the closure of three elementary schools.

2.2 Capital Projects

Capital projects include the purchase of sites, construction of new schools, and additions to, or the renovations of, existing schools. These projects are directly funded by the Ministry or by school districts using their Local Capital Fund.

Each year, school districts are required to submit a five-year capital plan to the Ministry providing details on high priority capital projects and funding needs. Each of these proposed projects is supported by a high level business case explaining the need and urgency of the project. The Ministry analyzes the individual project requests to determine priority investments and approves funding for specific projects.

The Provincial Building Envelope Program identifies and remediates schools built between 1985 and 2000 that are encountering water damage resulting from premature failure of their building envelope. To date, 64 schools have been remediated across the province, including five in Richmond through this BC Housing supported program.

Seismic
Mitigation

The Provincial Seismic Mitigation Program provides funds to upgrade high-risk schools in BC. Since the program was introduced in 2004, the Province has spent or committed \$2.2 billion to replace or seismically upgrade 214 high-risk schools across the province.

Over the last decade, seismic assessments undertaken in Richmond have fluctuated significantly in attempting to determine schools that are high risk. The District and Ministry advised that this was due to an evolving understanding of the soil science in Richmond and how specific areas will react in the event of an earthquake.

In 2012, two Richmond schools were identified as seismically high-risk. Subsequently, an updated Seismic Structural Risk Ratings report in 2015 identified 25 schools in the District as high-risk plus two that have already been upgraded.

Completed
Capital Projects

Since 2005/06, the District has completed four major capital projects using Ministry funding. In the same time period, the District also completed two locally funded projects.

A review of sampled capital projects found that supporting approvals, business cases, and signed contracts were in place; and that the District had followed the required procurement processes. However, the District does not have strong document management practices for capital projects, making it difficult to gather all the appropriate documentation. Better document management practices would assist the District in tracking, managing, and monitoring information throughout all capital project phases.

The following areas were noted where project practices could be strengthened to improve the management of capital projects:

- Documenting key decisions at project progress meetings.
- Using performance measures to track and monitor projects to assist in timely delivery of key project phases.
- Conducting post implementation reviews of capital projects to verify that completed projects operate as intended.

Recommendation:

(12) Richmond School District should strengthen project and document management practices for capital projects.

2.3 Operations and Maintenance

Facility operations are responsible for the overall maintenance and repairs of the District facilities. Richmond spent \$23.9 million to operate its facilities in 2014/15, approximately 13% of its total operating expenditures. Over 60% of the amount spent relates to employee salaries with an additional 12% for utility costs, and 28% for subcontracts, parts and supplies. The department budget has been relatively stable, increasing by a total of 6% over the past five years.

Capital
Maintenance

In 2009, the Ministry began providing school districts with funding for facility improvements under an Annual Facilities Grant (AFG). Projects eligible for funding include:

- upgrading or replacing existing facility components such as boilers and roofs;
- enhancing the service potential, improving safety, or extending the life of an existing facility; or
- significantly lowering operating costs of an existing facility.

Richmond has received an average of \$2.6 million in AFG funding each year since 2009, and expects to receive \$3.8 million in 2015/16. In August 2015, the Ministry announced an additional one-time grant for routine capital projects of which the District received approximately \$1 million.

The District has a process to track capital maintenance items, and meets weekly to prioritize projects. The District does not have long-term projections of future work, and relies on a Ministry database that details the conditions of facilities in school districts. However, this database is only updated for a point in time, and cannot be updated by the school districts as maintenance work is completed. The database was last updated for Richmond in 2010.

Trades Services

The District conducts most of its maintenance and repairs using in-house trade services which include:

- plumbing;
- electrical;
- painting;
- carpentry and millwork;
- heating, ventilation, air conditioning (HVAC); and
- grounds maintenance.

Job quality is managed by hiring certified tradespeople, monitoring by supervisors and foremen, and through school administration feedback.

The required work is allocated among the trades using a customized work order system. This system is effective in the allocation and prioritization of work, including annual preventative maintenance activities but is not integrated with financial or human resources systems, limiting reporting of work completed and associated costs.

Having the ability to generate costing information could improve performance monitoring, and measurement. The District's management information would be further strengthened if it had inventory and asset management systems. Monitoring this information could improve budget management, permit trend analysis, improve materials management and allow for the assessment of outsourcing opportunities. Richmond acknowledges this and is planning improvements in this area.

Trades staff have an opportunity to mentor Grade 11 and 12 students through a program delivered in partnership with CUPE called the Student Trades Education Program. Interested students apply for this opportunity, and up to 24 successful candidates receive a one-week apprenticeship during which they are given hands-on experience with District facilities staff. In 2015, the District filled six casual summer positions from this student group.

Custodial
Services

Richmond conducts regular quality assurance inspections to monitor custodian services and cleanliness standards. In recent years the District has adjusted its custodian workload and schedules with a goal of improving efficiency. When analyzing the number of square metres that are allocated to each custodian on an average basis, the comparison peer group had higher utilization of custodians. This suggests that Richmond may have additional opportunities for savings.

Health and
Safety

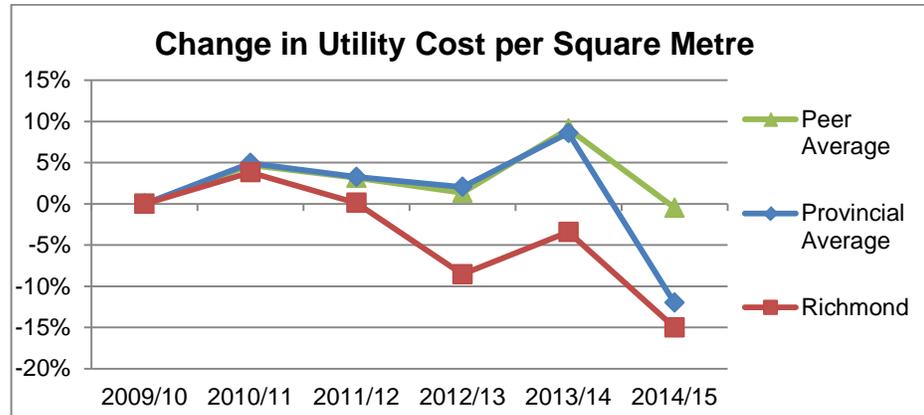
School districts are required to ensure they provide a healthy and safe environment, for both students and staff. The District has health and safety policies and procedures in place to ensure compliance with regulations, and to assist in facilitating a healthy and safe environment throughout the District. The District has regular internal and external inspections to strengthen the effectiveness of health and safety programs.

Energy Management

The District is very active in energy management and reducing utility consumption beginning in 2009 with BC Hydro's Energy Manager Program. The District's Energy Manager and specialist staff members are responsible for conservation and sustainability practices, as well as managing provincial greenhouse gas and carbon neutral reporting. The department positions are substantially funded by BC Hydro and FortisBC.

Richmond established a Green Fund for its energy projects which is financed through the calculated savings of previously implemented energy projects. Other sources of funding are vendor incentive rebates, AFG, the District's Local Capital Fund and the Ministry of Environment's Carbon Neutral Capital Program.

The District has completed a number of significant energy management projects including HVAC replacements, lighting improvements, and energy efficient roofing. The success of energy management initiatives has contributed to estimated savings in utility costs of over \$1.25 million since 2012. As a result of their efforts, utility costs per square metre have dropped considerably and are better than their peer group as shown in the graph below.



(Source: Ministry of Education provided data)

Note: Utility costs across the province were lower in 2014/15 due (in part) to job action.

When the program began, the District set a goal to reduce energy consumption by 25% by 2016. This target was achieved in 2015 and the District is in the process of setting new targets.

Recommendations:

(13) Richmond School District should develop and maintain a long-term capital maintenance plan.

(14) Richmond School District should improve management information in the operations and maintenance area.

2.4 Transportation Services and Fleet Maintenance

Student transportation is not a legislated requirement and the decision to provide student transportation is made by each school district. The Ministry has issued some guidance related to transportation for students with special needs; however no direction exists regarding the overall provision of bus service. Richmond provides in-house student transportation services to just over 400 students, 2% of the total students enrolled in the District.

The District owns and operates 15 buses and also utilizes 75 maintenance vehicles for facilities staff. Fleet maintenance is contracted out and fuel is purchased through a shared service agreement with the City.

The cost of providing bus services was \$1.1 million in 2014/15, of which 75% was salary and benefits.

Richmond has developed eligibility criteria for students applying for transportation service. These were comparable to other district's walk limits reviewed and include:

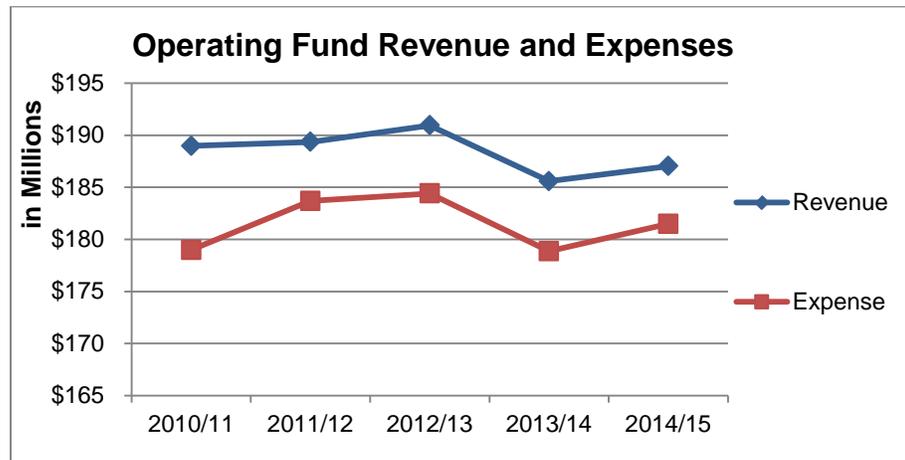
- walk limits:
 - students in Kindergarten to Grade 3 residing more than 4 km from their catchment school, and
 - 4.8 km for students in Grades 4-12.
- students with qualifying special needs, and
- limited Board approved courtesy riders:
 - for traffic safety reasons (i.e. no access to a safe curb or shoulder), and
 - siblings of other eligible riders.

Richmond's transportation services offer service to a broader student group at a similar cost to comparable districts, including others that use contracted services.

Maintenance vehicles are purchased by the District for use by facility and maintenance staff. In 2015, the District replaced 22 vehicles, or 30% of its fleet as part of its overall equipment replacement cycle. As a result, the average fleet age is less than five years. No business case was developed for the vehicle purchase. The District should ensure purchases of maintenance vehicles are justified through a business case that supports the quantity and nature of vehicles required.

3.0 Financial Management

In 2014/15 Richmond’s operating revenue was approximately \$187 million, with expenses of \$181.5 million. The following graph shows that District revenue has exceeded expenses by at least \$5 million (2.7% of total revenues) per year, resulting in operating surpluses over the last five years.



(Source: Audited Financial Statements)

While the District has been successful at staying within their budgets, opportunities exist to improve financial management practices including conducting long-term forecasting.

3.1 Operating Revenue

The primary source of revenue for Richmond is the operating grant it receives from the Province, which was \$171.2 million in 2014/15.

Provincial Grant

The Ministry determines total operating funding available to all school districts for that school year and allocates it based on a formula driven primarily by student enrolment. The formula includes a basic amount for each current student, and then additional funding for a number of specific circumstances including each district’s unique students’ needs, salary differential (i.e., school districts with an average teacher salary higher than the provincial average) and geographic factors.

Over the last five years, the Ministry’s basic grant per student FTE has increased 2.4% from \$6,740 to \$6,900 in 2014/15, with a further 3.7% increase to \$7,158 in 2015/16.

In 2014/15, the District's operating grant included \$22 million for students with unique needs, ranging between \$1,160 and \$36,600 per student. The provincial grant also included \$2.9 million for salary differential and \$835,000 for unique geographic factors.

School districts with dropping enrolment are eligible for supplemental funding referred to as enrolment decline funding, and funding protection. Enrolment decline funding is provided to school districts with an enrolment decline of at least 1% over the previous year. Funding protection is provided when a school district has a decline greater than 1.5% of their total operating grant over the previous year.

In the four years ending 2013/14, the District received an average of \$703,000 each year in enrolment decline funding. In 2014/15 Richmond received \$1.8 million in enrolment decline funding and funding protection, and is projected to receive \$2.3 million in 2015/16. This funding protection assists a district as it adjusts staffing levels and school capacity to lower numbers of students.

Holdback

The provincial grant is distributed based on projected enrolment provided by the school districts. The Ministry withholds approximately 1% of the total grant available as a contingency to accommodate inaccurate estimates, unanticipated enrolment or other unexpected events. This practice allows the Ministry to provide a more accurate allocation across the province once the actual enrolment counts are conducted. Upon the final confirmation of enrolment, the holdback is released.

In 2014/15, Richmond received just under \$2 million in holdback funding. For 2015/16, the actual enrolment counts at a number of school districts were higher than the original estimates and, as a result, the entire holdback was used to fund the unexpected basic grant in these districts. Richmond is not receiving a holdback in 2015/16.

3.2 Operating Expenditures

The District's operating expenditures are predominantly salaries and benefits (91%). Over the last five years, Richmond has been consistently under budget, within 4% of its forecast.

Overall, the spending and expense policies for items such as travel expenses, professional development costs, and dues and fees, are comparable to those in the BC Public Sector. Expenses sampled were generally found to be in line with the District's policies and well supported.

Administrative Savings Plan

In February 2015, the provincial government directed school districts across the province to find \$54 million in annual administrative savings by June 2017. Richmond's portion amounted to approximately \$2 million (\$1.05 million in 2015/16 and a further \$.95 million in 2016/17).

Richmond submitted its plan to the Ministry and advised that in 2015/16 they had:

- a) Reduced staffing by 11 FTEs (a savings of \$840,000) including vice-principals, a manager, as well as maintenance and clerical personnel.
- b) Identified savings of \$209,340 to be achieved through various shared services initiatives, and reductions in direct supplies and services. The District has been able to demonstrate they are projected to save over \$400,000 in utility costs for the current fiscal year through their energy management program. The expected savings from the shared services initiative implemented (i.e., group purchase contract for natural gas), had not been determined.

As of January 2016, the District has yet to determine where the incremental savings for 2016/17 will be found.

3.3 Accumulated Surplus

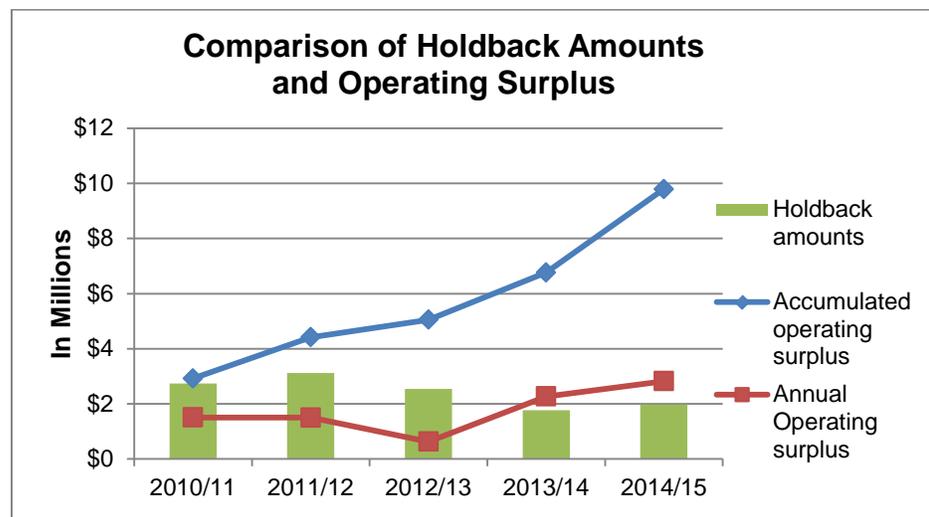
Accumulated surplus is the amount by which a school district's assets (financial and non-financial), exceed its liabilities and includes both operating as well as capital surpluses. Unlike the majority of the BC Public Sector, school districts have the ability to carry funding from one year to the next in the form of accumulated surplus for use in future fiscal years.

As of June 30, 2015 Richmond's accumulated surplus was \$176.9 million; \$167.1 million in capital surplus, and \$9.8 million in operating surplus.

Operating Surplus

The operating surplus is the amount that the District's revenue (provincial grant, tuition fees from international students and other sources) exceeds expenses in the year. For any given year, the District's expenses can only exceed revenues up to its accumulated operating surplus.

Richmond advised that the growth in the operating surplus over the last few years is related to the timing of the Ministry contingency holdbacks, which the District does not budget for, and from International Student Program (ISP) surplus. The graph below shows the holdback amounts, the annual operating surplus and the growth in the accumulated operating surplus over the last five years.



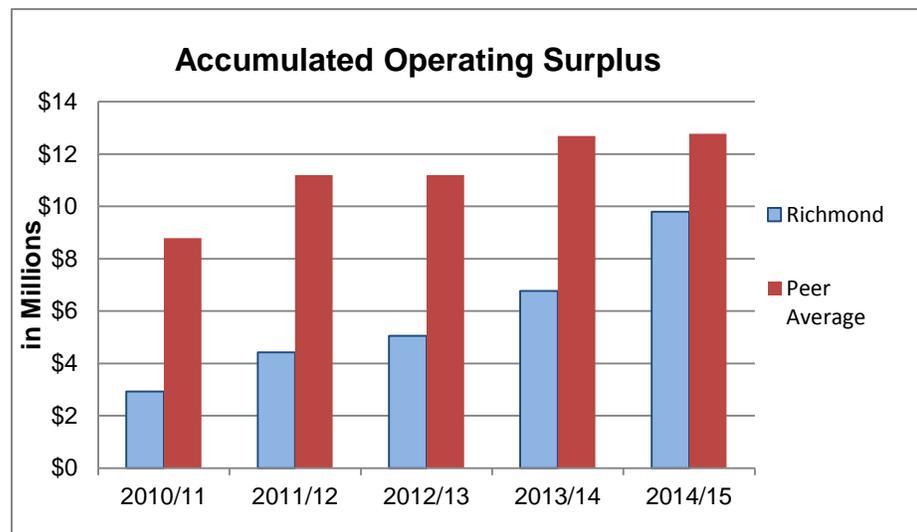
(Source: Final Operating grant Full-Year Summary; Audited Financial Statements 2010/11 – 2014/15)

In addition to the accumulated operating surplus as shown above, the District has chosen to transfer part of its operating surplus to local capital surplus, restricting it for future capital projects.

The District has restricted the majority of its accumulated operating surplus to specific programs and projects. However, they were not able to provide clear documentation to support some of these internal restrictions or demonstrate that the funds were subsequently spent as intended in all cases.

Growth of Accumulated Operating Surplus

The District's Accumulated Operating Surplus has grown significantly over the last five years, increasing from \$2.9 million to \$9.8 million in 2014/15. In 2014/15, Richmond's Accumulated Operating Surplus was 5.4% of that year's operating expenses, up from 1.6% in 2010/11. The graph below shows that the peer group's average Accumulated Operating Surplus is even more than Richmond's. This does not include the amounts that the Districts have transferred to local capital surplus.



(Source: School Districts' Audited Financial Statements 2010/11 – 2014/15)

The education sector and the Ministry have had preliminary discussions regarding an appropriate level of accumulated operating surplus but there is currently no defined optimum amount. The June 2015 Report commissioned by the Ministry on the Vancouver Board of Education states a reasonable threshold target for Vancouver Board of Education's Accumulated Operating Surplus is approximately 2% to 3% of operating expenses.

Accumulated Capital Surplus

The capital portion of Richmond's accumulated surplus is in two categories: tangible capital assets (e.g. land, buildings, vehicles, etc.) and local capital (Board restricted funds designated for specific capital purchases or projects). As of June 30, 2015, the District had \$116 million in tangible capital assets and \$51 million allocated to local capital.

The local capital amount has grown from \$7.7 million in 2010/11 to \$51 million in 2014/15 with the increase primarily coming from the sale of the former Steveston School property for over \$40 million in 2013. The average local capital balance of Richmond's peer group was \$2.7 million in 2014/15.

Projects require Board approval for funds to be spent from the local capital surplus. Of the amounts identified to be spent from the Local Capital Fund, some projects are specific and well supported (e.g. City Centre Elementary School); however, for many projects, the District was not able to provide clear supporting documentation.

In addition to the accumulated local capital surplus, the District also has three other capital funds which can only be used for approved capital projects:

1. Restricted capital – must receive permission from the Ministry to spend. (June 2015 balance, \$94,680)
2. Bylaw capital – money being transferred from the Ministry to a school district for a specific capital project. (June 2015 balance, \$2,152,600)
3. Land capital – municipality funding from developer fees used to purchase land for future school sites. (June 2015 balance, \$6,457,071)

The District expects to use the Land Capital account balance towards the acquisition of a school site for the City Centre project.

Recommendations:

- (15) Richmond School District should ensure the purpose of restricted surpluses are clearly documented and used as intended.**
- (16) The Ministry of Education should continue to work with the education sector to determine an appropriate level of accumulated surpluses in school districts.**

3.4 Budgeting and Forecasting

Budget Development

The budget process for school districts is relatively prescribed. School districts use a Ministry provided instruction manual and templates to complete their budgets, ensuring a consistent approach across the districts.

Legislation requires school districts have their budgets approved by their board and submitted to the Ministry by June 30, the end of their fiscal year. Districts may not develop a budget that results in an accumulated deficit without approval from the Minister of Education but can use their accumulated operating surplus to cover a budgeted deficit for the year.

The budget cycle begins in February when school districts submit estimated enrolment for the following school year to the Ministry. Based on the enrolment estimates, the Ministry advises the school districts of the preliminary funding they will receive, which represents approximately 99% of the provincial grant available for distribution.

Beyond its initial budget instructions, the Ministry's role in the budget development process is limited. The Ministry provides support for the school districts as needed, to ensure the templates are completed correctly and has developed a tool to assist districts in developing longer term budgets.

Budgeting at Richmond

Using the instruction manual and templates provided by the Ministry, Richmond voluntarily provides their budget to the Ministry for initial review to ensure completeness and accuracy. Before presenting the budget to the Board, workshops for the trustees are held to present key budgetary items and to prepare the Board for budget discussions. Throughout the year, the Board is apprised of the operating budget and variances, with budget updates being a standing item at all Board meetings.

In developing its budget, the District does not factor the Ministry contingency holdback into revenue projections, resulting in unspent revenue in many years. Over the last five years, the holdback received by Richmond has varied between 1.03% and 1.75% of its provincial grant, resulting in approximately an additional \$2 million each year. As the holdback allocation amounts are not known or guaranteed, Richmond does not factor them in when developing its budget for the current year.

The Ministry does not have a policy regarding budgeting of the holdback. An option that the ministry could consider is providing direction for school districts to include all of the prior year's holdback in the current year's budget to ensure certainty of the amount while preventing buildup of accumulated surplus due to holdback amounts not being fully utilized.

Despite the Ministry providing a longer term budgeting tool and having enrolment estimates for many years into the future, Richmond does not develop long range forecasts. Budgeting for future years would assist the District with planning and forecasting strategic, capital, and operational needs.

Recommendations:

(17) The Ministry of Education should provide direction to school districts on budgeting for holdback amounts.

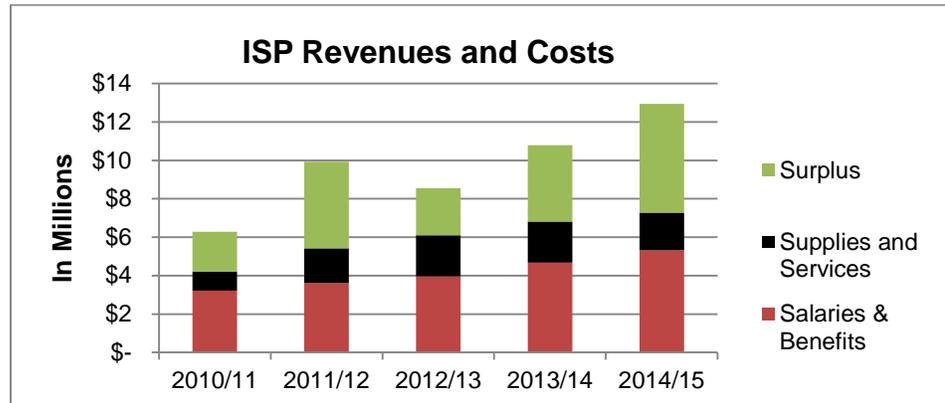
(18) Richmond School District should implement long range budgeting.

3.5 International Student Program

Many school districts have an International Student Program (ISP) that allows students from other provinces and overseas to study in British Columbia for a fee. The Ministry oversees activities related to international education in BC's public schools; however, the Ministry's involvement with the operation of ISP by school districts is limited.

In the past five years, Richmond's ISP enrolment has grown from 525 to 780 students with revenue more than doubling to just under \$13 million in 2014/15. With expenses of \$7.3 million, the program contributed \$5.7 million in 2014/15 to the District's year-end operating surplus. Fees charged for 2015/16 range between \$7,525 and \$24,000; depending on the length of the program, and the student's needs (i.e. custodianship and homestay).

Currently ISP has approximately 84 staff FTEs attributed to the program, with salaries and benefits making up 73% of the expenses. Other costs include supplies and services such as recruitment fees, commissions to agents, marketing, and other ancillary items. The following graph shows a comparison of the ISP expenses (broken out by salaries and benefits, and supplies and services) and net surplus generated by ISP activities.



(Source: Ministry provided data)

Although continued growth in ISP enrolment is expected, the District advised that they are seeking to balance the ratio between ISP and resident students to ensure the program’s long-term financial success without compromising the quality of instruction throughout the District.

3.6 Other Income

Facility Space Rentals

For 2014/15, Richmond collected \$821,000 in fees from short-term facility rentals. Available space is provided to school organizations and the City (who offer space to community groups, such as boy scouts and local sports teams) at no charge through a joint use agreement. Remaining space is then offered to the public at a fee and is primarily used by childcare providers.

The *School Act* limits the amount that can be charged to childcare providers to an amount that covers only the direct and indirect costs of leasing the space. The District does not track costs to that level of detail, and increase rates on an incremental basis. In 2015, the District increased various rental rates by an average of 4.5%, and approved scheduled increases to rates for childcare providers from \$7 per hour to \$7.75 by 2018/19. The current rate of \$7 an hour for a daycare operating 50 hours a week translates to roughly \$1,540 a month. Last year, childcare providers made up 65% of Richmond’s facility rental revenue.

The District allows the City use of their facilities at no charge in return for the City providing grounds maintenance including mowing, drainage and repairs for all of the District's large field areas. This arrangement is conducted through a joint use agreement that provides mutual benefit for both parties; however, Richmond was not able to provide a detailed analysis of the current costs incurred and benefits received.

Building Rentals

Richmond closed Alexander Kilgour Elementary School in 2003 due to decreasing District enrolment. With no projected need to reopen the school, the District currently leases the building, including custodial and maintenance services for \$240,000 annually for a French immersion school. Costs of maintaining and operating the facility were estimated to be \$205,000 in 2014/15.

In addition to space within school facilities, Richmond has surplus residential properties that it leases privately through a property management company. Rental income from these properties provided the District with \$45,700 in net income in 2014/15 after paying taxes and management fees of \$61,100.

Investment
Income

The majority of Richmond's cash balances (including cash within the operating and capital surpluses) are deposited with the Province, at a rate of interest of prime less 1%. The Province offers this investment return to school districts, allowing the Province to borrow less from other sources, and save on the difference in interest that would normally be paid to financial institutions or bondholders. In 2014/15 the District earned approximately \$800,000 in investment income from the Province through their cash deposits.

Appendix 1 – Summary of Recommendations

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| 1 | Richmond School District should ensure it has a comprehensive strategic planning process that integrates department and financial goals. |
| 2 | Richmond School District should implement a formal risk planning process. |
| 3 | Richmond School District should ensure business cases are developed to inform key investment decisions and initiatives. |
| 4 | Richmond School District should bring administration costs in line with peer districts. |
| 5 | Richmond School District should align its service recognition plan with current public sector plans. |
| 6 | Richmond School District should conduct regular performance evaluations that link to the strategic plan. |
| 7 | Richmond School District should develop, implement and periodically test business continuity and disaster recovery plans. |
| 8 | Richmond School District should ensure that information technology processes and key systems are documented. |
| 9 | Richmond School District should ensure its procurement policies, procedures and practices align with the spirit and intent of Government procurement policy. |
| 10 | Richmond School District should resolve their school capacity issues in a timely manner. |
| 11 | Richmond School District should sell surplus properties to free up resources for other capital priorities. |
| 12 | Richmond School District should strengthen project and document management practices for capital projects. |
| 13 | Richmond School District should develop and maintain a long-term capital maintenance plan. |
| 14 | Richmond School District should improve management information in the operations and maintenance area. |
| 15 | Richmond School District should ensure the purpose of restricted surpluses are clearly documented and used as intended. |

Appendix 1 – Summary of Recommendations (continued)

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| 16 | The Ministry of Education should continue to work with the education sector to determine an appropriate level of accumulated surpluses in school districts. |
| 17 | The Ministry of Education should provide direction to school districts on budgeting for holdback amounts. |
| 18 | Richmond School District should implement long range budgeting. |