

February 2014

SUMMARY REPORT: WINTER 2014

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OFFICE OF THE
Auditor General
of British Columbia



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The Honourable Linda Reid
Speaker of the Legislative Assembly
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Dear Madame Speaker:

It is my privilege to transmit under Section 11 (8) (b) of the *Auditor General Act* to the Legislative Assembly of British Columbia my *Summary Report: Winter 2014*.

My Office issues an annual summary report to be accountable for projects that we worked on during the past year that did not result in a typical audit report. In this summary report, we share the most important findings or recommendations from two projects.

The first project pertains to Health Shared Services BC (HSSBC), an initiative to centralize health authorities' non-clinical services in the province. Our initial project was to examine if HSSBC's projected procurement savings, due to their supply chain contracts, was an accurate and reliable indicator of providing this enhanced value. The work my Office did highlights some of the challenges of data collection from the numerous health authority data management systems. We are pleased that HSSBC and the Provincial Health Services Authority (PHSA) are starting to take some steps to address the limitations explained in this report.

The second project examines the K-12 Funding Allocation Model. We intended to produce an information resource that would help the public and legislators better understand how the K-12 funding model works. Early on, we discovered that the Ministry of Education already has a wealth of information about the funding model. If these materials were more accessible, they could inform stakeholders more effectively how the model works. In addition, given the importance of the education system and its significant portion of provincial funding, my Office anticipates future audit work in this sector.

I would like to thank HSSBC, PHSA, the Ministry of Health, and the Ministry of Education for their assistance and professionalism. One of my Office's primary goals is to build and maintain positive working relationships with the public servants of this Province. Publishing this summary report assists with this goal and recognizes the good work being done in Government, which may not otherwise be shared in a public realm.

Russ Jones, MBA, CPA, CA
Auditor General
Victoria, British Columbia
February 2014

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THIS REPORT INCLUDES SUMMARIES of two projects. The first project pertains to Health Shared Services BC (HSSBC), an initiative to centralize health authorities' non-clinical services in the province. The objective of HSSBC is to create enhanced value to the health care system. Our initial project was to examine if HSSBC's projected procurement savings, due to their supply chain contracts, was an accurate and reliable indicator of providing this enhanced value. The work my Office did highlights some of the challenges of data collection from the numerous health authority data management systems. We are pleased that HSSBC and the Provincial Health Services Authority (PHSA) are starting to take some steps to address the limitations explained in this report.

The second project examines the K-12 Funding Allocation Model. Since approximately 15% of the Province's budget goes towards K-12 education, we intended to produce an information resource that would help the public and legislators better understand how the K-12 funding model works. Early on, we discovered that the Ministry of Education already has a wealth of information about the funding model. If these materials were more accessible, they could inform stakeholders more effectively how the model works. In addition, given the importance of the education system and its significant portion of provincial funding, my Office anticipates future audit work in this sector.

I would like to thank HSSBC, PHSA, the Ministry of Health, and the Ministry of Education for their assistance and professionalism. One of my Office's primary goals is to build and maintain positive working relationships with the public servants of this Province. Publishing this summary report assists with this goal and recognizes the good work being done in Government, which may not otherwise be shared in a public realm.



Russ Jones, MBA, CPA, CA
Auditor General
February 2014



RUSS JONES, MBA, CPA, CA
Auditor General

BACKGROUND

IN FEBRUARY 2009, Health Shared Services BC (HSSBC) was created to centralize the province's health authorities' non-clinical services, such as supply chain management and employee, finance, and technology services.¹ As identified in HSSBC's mandate, the goal of this integration was to "create enhanced value to the health care system through increased process efficiency, standardization, capital avoidance, and leveraging of buying power."

A key element in creating enhanced value is HSSBC's ability to provide cost savings through its control and management of contracts, especially those relating to the supply chain function. The supply chain function is responsible for purchasing, inventory, warehousing, and delivery of health care supplies and accounts for over \$1.9 billion in expenses annually.

According to HSSBC, the projected procurement savings due to supply chain contracts from February 2009 to March 2013 is approximately \$230 million. HSSBC uses this publicly reported information as a performance metric to demonstrate that it is meeting its goal to provide enhanced value to the health care system.

We started planning an audit to determine if HSSBC's publicly reported projected procurement savings were reasonable and a reliable indicator of HSSBC meeting its goal to provide enhanced value to the health care system. We did not follow through with this audit proposal.

OBSERVATIONS

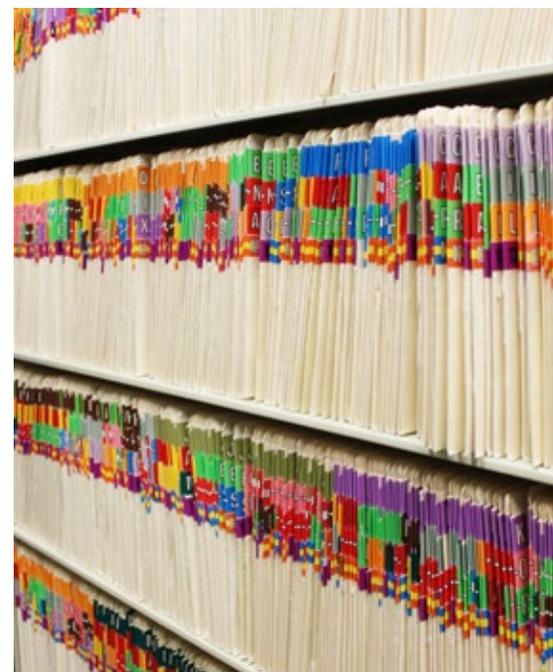
Projected procurement savings

Given the complexity and limitations of the process and systems used by HSSBC to calculate the projected procurement savings, we determined that conducting an audit of the reported savings would be too costly, and not an efficient and effective use of our limited resources. Also, the projected procurement savings reported by HSSBC is an approximation and not a precise figure.

Specific challenges and limitations of HSSBC which impacted our ability to conduct an audit included baseline measurements that have not been validated regarding cost savings for procurement because of:

- ◆ The manually intensive, time-consuming process required to extract and normalize data for the calculation from several different data management systems used by the health authorities. We estimated that it could take several months to extract data for a single product.

¹ HSSBC was initially launched in February 2009, as BC Health Authority Shared Services Organization, or SSO, but was renamed HSSBC in March 2010 when it was made a division of the Provincial Health Services Authority.



- ♦ Lack of universal coding for products entered into the systems, so the same product can have several different codes and descriptions.
- ♦ Extensive reliance on the judgement and experience of HSSBC staff who evaluate data used in the calculations for validity and completeness. Reliance by our Office on HSSBC staff would threaten the independence of our audit which must remain impartial and unbiased.

We are concerned that these limitations do not enable HSSBC and the health authorities to assess whether value for money is being achieved from the contracts and the overall shared services arrangement.

RECOMMENDATIONS

RECOMMENDATION 1: *We recommend that Health Shared Services BC enhance its public disclosure of projected procurement savings by:*

- ♦ *clearly indicating that the savings number is an approximation;*
- ♦ *including details about its calculation methodology; and*
- ♦ *identifying the limitations of reliance on this approximation as a performance metric.*

RECOMMENDATION 2: *The Provincial Health Services Authority work together with Health Shared Services BC to address the limitations noted in this report, including the capture of baseline information on a go forward basis for contracts that have not already expired since the creation of Health Shared Services BC.*

LOOKING AHEAD

HSSBC's management recognize the limitations of the projected procurement savings, including the difficulties of data collection from the numerous health authority data management systems and the lack of universal product coding. In addition, since the time of fieldwork, the Provincial Health Services Authority (PHSA) was given full operational accountability for HSSBC, and PHSA leadership is looking at how to address our concerns. Our Office will continue to monitor HSSBC's progress and may follow up with additional work in one year. We acknowledge that the challenges identified will take time to achieve.

During the planning of this audit we also considered including information technology shared services in our scope, as we heard a number of concerns from various health authorities in this area. Within the scope of technology services provided by HSSBC is oversight of contracts for Desktop Management Services (DMS) and the Kamloops Data Centre, acting as the agent for the health authorities. The contract for DMS is part of a provincial contract with IBM, and HSSBC/health authorities were mandated to participate. We will consider a future audit of the IBM IT shared services contract.

PROJECT TEAM

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THANK YOU FOR THE OPPORTUNITY to provide input into your report. We appreciate the time and consideration the Office of the Auditor General (OAG) has taken to review the issues raised. HSSBC continues to be committed to enhancing value to the health care system.

HSSBC accepts the recommendations and is pleased to provide the following comments in response:

RECOMMENDATION 1: *HSSBC enhance its public disclosure of projected procurement savings by:*

- ◆ *Clearly indicating that the savings number is an approximation;*
- ◆ *Including details about its calculation methodology; and*
- ◆ *Identifying the limitations of reliance on this approximation as a performance metric.*

RESPONSE: We acknowledge that this could be strengthened by indicating that the projection is based on using current and future pricing for a defined “historical” volume and that actual achievement is reliant on the health authorities using the contracts we negotiate. While this is clearly not a metric of actual savings within the health care system it is in our opinion a reasonable metric for HSSBC. HSSBC’s current mandate is to provide health care with the opportunity to reduce not to enforce the reduction in health care system costs.

RECOMMENDATION 2: *The Provincial Health Services Authority work together with HSSBC to address the limitations noted in this report, including the capture of baseline information on a go forward basis for contracts that have not already expired since the creation of HSSBC.*

RESPONSE: HSSBC and PHSA will continue to invest significant effort in finding solutions to these challenges. While we look forward with anticipation to PHSA’s support, it is important to note these challenges will only be fully resolved with a significant investment in a single system funded by the health authority partners.

Overall, HSSBC appreciates the fact that this report has highlighted some of the challenges the organization faces in meeting its mandate. We remain committed to developing methods to accurately measure and report the contributions HSSBC is making to healthcare in BC and collaboratively engaging with the health authorities in fully realizing that value.

BACKGROUND

BRITISH COLUMBIA'S Ministry of Education is responsible for funding the kindergarten to Grade 12 (K-12) education system, adult learning,¹ early education,² and in partnership with boards of education, is responsible for delivering quality education programs. In 2012/13 the Ministry of Education's budget was \$5.32 billion (14.9% of provincial expenditure), \$5.25 billion of which was for educational programming.

In 2012/13, 638,835 students were enrolled in BC schools: 564,530 in the public system and 74,305 in 350 independent schools. The public system is made up of 60 school districts across the province with varying characteristics.³ The dramatic variation in these characteristics includes geographic areas from 15 km² to 144,846 km,² student enrolments from 198 students to 67,729 students, and operating grants from \$5.58 million to \$557.15 million resulting in per student funding ranging from approximately \$8,200 to \$28,200.

PURPOSE AND SCOPE

The purpose of our examination of the K-12 education funding allocation system (K-12 funding model) was to produce an information resource that would help the public and legislators better understand how the K-12 funding model works. The question of whether there is enough money in the system and whether it is allocated effectively was not within the scope of this project.

CONCLUSION

When planning this project, we noted that the Ministry of Education has been proactive in making information about the K-12 funding model publicly available to meet the needs of users.⁴ However, this information was fragmented and not easy to find. Through our planning efforts, we concluded that the Ministry of Education, with some minor enhancements, could produce the information that members of the public and legislators need to better understand the K-12 funding model. Some additional materials are required and the websites can be better organized to make the information more accessible and understandable. Given that the Ministry of Education already provides the public with information on how the K-12 funding allocation system works, and is planning enhancements to make it easier to understand, we determined that completion of the originally intended project was not a good use of our Office's resources. We have provided the Ministry with our recommendations in the form of a management letter, to help them enhance the funding model information currently available.



1 <http://www2.gov.bc.ca/gov/theme.page?id=B8FE58BB8300F1E1BE88911299FEF364>

2 http://www.bced.gov.bc.ca/early_learning/

3 <http://www.newsroom.gov.bc.ca/ministries/education/factsheets/factsheet-school-district-profiles.html>

4 <http://www.bced.gov.bc.ca/ki2funding/>

This summary report documents the key observations arising from our analysis. Readers seeking to fully understand the complexities of the K-12 funding model are advised to refer to the [Ministry's website](#) for more information. Please see the Ministry's response included at the end of this report.

OBSERVATIONS

Publicly available funding model information

Through our research we found a great deal of information regarding the K-12 funding model is publicly available, but is spread across multiple ministry websites and documents. This information includes manuals explaining the workings of the funding model, budget tables with expected funding allocations by district, funding overviews and infographics. Some information was unique to a particular website while other information was available on multiple websites. The Ministry has been active in adding to the foundation of information.

Funding allocation

It is important to note that the amount of funding budgeted for the Ministry of Education, and the manner in which that funding is allocated, are separate matters. Legislators determine the total funding for the Ministry of Education and the amount to be spent on educational programs. Of the education program budget, the Minister is responsible for determining the amount⁵ of block funding for K-12 public school operating grants and has committed \$4.725 billion in block funding for public education for each of the next three school years up to and including 2015/16. The current funding model has been in place since 2001/02 and is used to apportion this block funding to each of the 60 school districts, based on a basic per student amount, and adjusted for unique district factors such as geography, student needs and enrollment trends. Final decisions on how the allocated funds are actually used are determined by each school district.⁶

Independent school funding

Public funding provided to independent schools is based on a percentage of the basic per student amount provided to public schools. The amount, either 35 or 50%, is determined by the Independent School Regulation.⁷ Since 2001/02, the number of students in the public system has decreased, but total funding has increased, resulting in an increase in the per student amount available to both public and independent schools. Over this same time period, enrolment in independent schools has grown at an approximate rate of 1 to 2% per annum. This combination of increasing independent student numbers and increasing per student amounts has meant that independent schools are receiving an expanding amount of available education funding.

⁵ <http://www.bced.gov.bc.ca/legislation/schoollaw/revisedstatutescontents.pdf>, Section 106.3, page 98.
⁶ Although each school district has autonomy over most of the spending decisions, there are some specific requirements for certain types of funding.
⁷ http://www.bced.gov.bc.ca/legislation/schoollaw/i/bcreg_262-89.pdf, Section 4.

According to the Ministry, in 2012/13, independent school funding totaled \$293 million. This increased funding to independent schools coupled with the commitment to maintain public school block funding at \$4.725 billion has constrained the availability of funds to support other educational programs and Ministry operations.

Funding model's relationship to costs

The funds allocated through the K-12 funding model are made in response to factors influencing costs, but are not directly tied to the actual expenditures anticipated for each school district or independent school. As a result, annual funding may differ from actual costs. Each school district and independent school must determine how it will meet its expenditures with its apportioned amounts.

LOOKING AHEAD

There are a number of important changes underway that could impact the K-12 funding model. For the first time since the inception of the current funding model in 2001/02, the Ministry is predicting an increase in overall K-12 student enrollment within the next two to five years, although the impacts will vary across school districts. It is unclear how the predicted increase in enrollment will ultimately impact the funding formula or how evolving enrollment trends will affect education funding on a larger scale.

The BC Government has drafted a new Education Plan⁸ which, when implemented, will change the way education is delivered in the province. Modifications to educational delivery, increased distributed learning,⁹ and technological advances may necessitate adjustments to the assumptions and variables within the funding model or the model itself.

Given the importance of the education system and its significant portion of provincial funding, we anticipate audit work in this sector in the future.

⁸ <http://www.bcedplan.ca/>

⁹ http://www.bced.gov.bc.ca/dist_learning/

THE MINISTRY OF EDUCATION is pleased to respond to the Office of the Auditor General's report, "K-12 Funding Allocation System," and it accepts all of the recommendations outlined in the management letter provided by the Office of the Auditor General.

Government funding to school districts is at a record level. The Ministry of Education is providing a total of \$4.7 billion to districts in 2013-14, an increase of 27 per cent compared to the \$3.7 billion in operating grants provided in 2000-01. The average per-pupil funding has risen by more than 38 per cent over the same period. As highlighted by the Office of the Auditor General, the Ministry recognizes that there are a number of factors that may influence school funding over the coming years, including changes to student enrolment trends and the way in which learning takes place in classrooms. The Ministry actively monitors these factors, and, with feedback from education stakeholders, will continue to consider adjustments to its funding allocation system as appropriate.

The Ministry also acknowledges the importance of providing clear, comprehensive and accessible information to the public, specifically, information on funding for K-12 education, independent schools and how the Ministry makes changes to its funding model. In the upcoming months, the Ministry will review its website and enhance its information online, so it can better meet the needs of education stakeholders, including students, parents, teachers and school districts.

The Ministry appreciates the opportunity to work with the Office of the Auditor General, and looks forward to collaborating with the Office of the Auditor General on future audit work in this sector.

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