

2018 Audit

Treasurer's Report

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## Executive Summary

In May 2017 the Skills Canada BC board developed a Strategic Plan for the 2017 – 2020. This newly minted Strategic Plan highlighted areas of growth and development for the organization.

An area not identified during the strategic planning phase was the organizations' need to update and modernize its operations so that it could build capacity and lower operating costs.

As the SCBC team began working with through the Strategic Plan, organizational deficiencies were identified that had been preventing the organization from growing and creating efficiencies.

Throughout 2018, many of these deficiencies were identified, analyzed and fixed. These changes have helped the organization grow. In fact, in 2019 SCBC reported an increase of 1,000 more competitors in its regional competitions than in 2018. This growth could not have been possible without the development and programming of a new, sophisticated registration system, digital platform upgrade and the implementation of streamlined processes and systems to facilitate online payments.

Expenses incurred in 2018 for the 2019 competition year were reported as 2018 expenses (\$74,852). This is important to note as the retooling of SCBC's digital platform, registration software and online payment automation will play a significant role in creating value and lowering operational expenses in years to come. The reporting of expenses in the 2018 operational year underlines the need for SCBC to change its year end from December 31 to May 31. Doing do will make it easier to analyze SCBC's financial performance during its annual audits from year to year. Changing the December 31 year-end date to May 31 will require a motion from the board.

## Challenges/Opportunities

Ongoing challenges to efficiently run SCBC operations lies in the seasonal nature of the competition cycles. Seasonal work creates challenges in keeping full time staff in place for the busy periods then finding cost effective solutions for lowering payroll expenses during the quieter months.

## HR/Staffing

The Regional, Provincial and National competitions, held January to June require full-time staff to plan, execute and administer. July and August tend to be quieter months while September to December are moderately busy months as staff prepare for the upcoming competition year.

In 2017 Skills Canada BC had three full-time staff, one contracted Director of Programs position and a contracted bookkeeping service.

The 2017 staffing model was not cost effective. Some staff lacked the skills needed to perform their roles well in an environment that was quickly becoming more technical. Other full-time staff weren't needed on a full-time basis throughout the calendar year which created financial liabilities during the quieter months.

SCBC's accounting and reporting system required upgrading which the part-time bookkeeping service wasn't able to oversee and implement. Additionally, there were staffing needs outlined in the Strategic Plan that identified SCBC should engage northerners to help position the Skills Canada BC as a truly provincial organization.

In 2018 SCBC hired a part-time Manager of Competitions who lives in the Northern Peace Region and was well acquainted with SCBC's northern partners and programs. This newly created part-time position will create cost savings for SCBC going forward.

SCBC's 1.0 FTE administrative support position was replaced with a part-time position and outsourced IT admin and web tech services that will create cost savings for SCBC.

SCBC hired a 1.0 FTE accounting position in 2018 that increased payroll expenses for the 2018 calendar year. This FTE played an integral role in implementing a new digital accounting platform that can accept online payments (receivables) and automate accountable payables. Once the retooling of the new accounting system was complete the 1.0 FTE position ended in November 2018 and was replaced with a contracted bookkeeping/accounting service that will produce cost savings for SCBC.

## Funding

### Provincial Government

Core operational funding is key to creating stability and growth for SCBC. In 2018 Skills Canada BC faced losing its core funding from its provincial government partners (the ITA and Ministry of Advanced Education). As the 2018 operational year progressed SCBC was able to convince its provincial partners of its value in helping them achieve their mandates and deliverables. This resulted in SCBC not only securing its core funding from its provincial partners but increasing its annual funding allotment from the Ministry of Advanced Education by \$100,000.

### The ITA

In previous funding cycles the ITA's funding to SCBC fluctuated between \$100,000 and \$150,000 annually. After a long, time-consuming negotiation period in 2018 the ITA finally agreed to secure SCBC \$150,000 in annual funding and not cut off all funding as planned. In order for SCBC to collect the \$150,000 annually from the ITA, SCBC needed to provide more complete data profiles for SCBC competitors and log competition trends in more detail than it had in previous years. SCBC's new registration system is designed to facilitate these new demands for reporting to the ITA which will secure this funding for SCBC for years to come.

### Ministry of Advanced Education

Like the ITA, the Ministry of Advanced Education in previous year provided funding to SCBC which fluctuated between \$100,000 to \$150,000 annually. Now, after considerable negotiations, starting in 2020, the Ministry of Advanced Education will now provide SCBC \$250,000 annually which is an increase of \$100,000 (annually).

### ESDC Funding

SCBC's federal funding accounts for approximately 1/3 of SCBC's total operating budget. The challenges in administering this funding throughout 2018 was in how this funding amount has fluctuated from the previous year. For example, in 2017 SCBC received \$287,583 in ESDC funding but in 2018 only received \$267,895 from ESDC – an decrease of \$19,688.

The difference in funding received between 2017 and 2018 operating years was traced to historic surpluses that the Skills Competence Canada Ottawa office would allow Member Organizations to apply when the fund had surpluses. In 2017 SCBC was able to apply for surplus funds but then could not in 2018. The 2018 budget was designed with the 2017 funding allotment which reflects as a deficit in the 2018 audited financial statements. Going forward, the ESDC funding has been slightly increased and locked in so SCBC can safely budget for \$271,742 per year in funding until September 2020.

## Sponsorship

SCBC operates in a dynamic, ever-changing environment. Changes in the marketplace put stress on some existing sponsors to be able to maintain previous sponsorship levels in 2018.

Updating sponsorship packages and working with other Skills Canada Member organizations to identify best practices in sponsorship will help SCBC be more adept in obtaining sponsorship in the years to come.

In 2019 SCBC brought in 6 new sponsors -- 5 at the Pathways Level (\$1,500) and 1 at the Elite Level (\$25,000) sponsorship. Bringing new sponsors into the revenue stream are important to grow and development the organization.

## Accounting & Reporting

Prior to 2018 SCBC didn't have an automated system in place to collect payments online. This created significant barriers and expenses to collect, process and report payments. It also created ongoing annual liabilities of uncollected revenues.

Existing systems and processes were weak for paying out subsidies and organizing regional and provincial expenses. Many of these issues were identified in 2018 so that going forward, more accurate controls could be put in place for approving and paying out regional and provincial expenses. This automation will also save hundreds of staffing hours going forward and will result in ongoing savings for years to come.

## IT & Automation

### Registrations

The key to efficiently operating a non-profit organization like SCBC with limited operational funding is to automate all routine tasks and reduce inefficiencies wherever possible. In 2018 many routine tasks that had been labour intensive and were not producing accurate reporting data were identified, reprogrammed and automated. This automation will save SCBC money going forward.

Setting up this automation to get ready for the 2019 competition year required time and resources which are reported as 2018 expenses.

Between 2016 and 2017 SCBC processed a combined average of 2,000 regional and provincial competitor registrations. This old registration system was glitchy and required manual input by SCBC administrative staff. This outdated system created the need to have a full-time administrative assistant on staff and resulted in countless data errors. Automating the registration processes has enabled SCBC to reduce its full-time administrative position to a half-time position. In 2019 the newly programmed registration system processed 3,750 competitor registrations with sophisticated data collection and reporting tools in place.

## Waivers

Another area of concern that required improvement in 2018 were the competitor waiver forms. The signing of these waivers is required for all SCBC competitors but SCBC didn't have good systems in place for collecting signed waivers and storing them for later access.

Additionally, if there had been an "incident" SCBC was not in a position to easily identify which competitors had signed waivers and which ones had not. This waiver system created significant exposure for SCBC.

In 2018 SCBC created an online waiver system and database for the 2019 competition year. Despite this work being done for the 2019 competition year, the work has been reported as 2018 expenses.

## Processes & Systems

During the 2018 operational year the following processes and systems were put in place.

- Stronger written communication with Regional Coordinators, Provincial and National Tech Chairs.
- Increased communication with key stakeholders.
- Implementation of database software that all staff were given access and training on so that inquiries from competitors, tech chairs, regional coordinators and schools can now be responded to in a timely manner.
- Systems now in place for reviewing signed waivers, completed/outstanding registrations.
- Accounting and reporting systems continue to be updated and strengthened.

## Budget Performance (2018)

To grow and develop SCBC planned to operate with a small deficit (\$50,000) so that the agency would have access to the funds it needed to grow and develop the organization.

This seed money from the SCBC reserves has created the following outcomes.

- New registration system that can accurately process thousands of registrations.
- New robust CRM system that has helped grow mailing list from 200 entries to 5,200 tagged contacts.
- New data collection tools.
- Increased data collection.
- Reduction of administrative costs.
- Automated competitor waivers process with online management system.
- Automated online payment system that collects more revenue and has reduced administrative costs.
- Restructured HR that will reduce labour costs and will increase efficiencies.
- SME engagement for digital platform building and IT administration.

- Retention and growth of provincial government funding.
- Engagement of new sponsors.
- Significant increase in Regional competitor participation.
- Overall faster administration and reporting system.
- Operating Inspire Program.

## Audit 2018

### 2018 Auditor's Notes

#### Changes in the Audit Plan

There were no significant issues or adjustments identified during our audit.

#### Significant Audit Risks

Our Audit did not identify any areas which we considered as significant audit risks.

#### Significant Financial Statement Disclosures

We did not identify any financial statement disclosures that are particularly significant, sensitive or require significant judgments, that we believe should be specifically drawn to your attention.

#### Significant Unusual Transactions

There were no significant or unusual transactions identified during our audit.

#### Disagreements with Management

We are pleased to inform you that we had no disagreements with management during the course of our audit.

#### Audit Adjustments and Uncorrected Misstatements

There were audit adjustments that were identified during the course of our audit, all of which were corrected by management.

#### Litigation, Legal and Regulatory Compliance

There were no significant litigation matters identified nor did our procedures identify any areas of material non-compliance with laws and regulations.

#### Difficulties Encountered During the Audit

We did not encounter any serious difficulties during our audit that should be brought to the attention of the Board of Directors.

#### Sponsorship Revenue

Sponsorship Revenue was down in 2018 (\$248,500) from 2017 (\$324,787) which is a difference of \$76,287.00. This is a result of \$50,000 sponsorship revenue from Kitimat LNG not being reported in 2018 but in 2019 when it was received. The outstanding \$26,287 was a result of lower booth sales in 2018 for in-kind sponsors that were "gifted" booths (not previously been recorded or identified) and the loss of 2 bronze (Kiewit and Viega) and 1 silver (LaSalle College) sponsors.



### **Registration Fees**

SCBC collected \$5,161 more in registration fees than in 2017. This increase is a result of improved accounting and reporting systems now put into place.

### **Revenue 2018**

Overall the difference in revenue generation between 2018 (\$846,581) and 2017 (\$875,065) was a difference of (\$29,484).

### **Competitions**

Competition costs are reported in the 2018 as being (\$74,852) higher than in 2017 (\$497,570) than in 2017 (\$422,718). This is a false/positive as revenue in the 2018 year, starting after the Nationals (June 2019) to begin building the new online registration, automated payment processing and digital waivers were underway to prepare for the 2019 competition year. Given that SCBC's year-end date is December 31 this (\$74,852) is reported as higher competition costs when in fact this money was spent preparing for the 2019 competition year. This expenditure reporting in the 2018 audit highlights the need for SCBC to change its year-end date from December 31 to May 31.

### **Wages and Benefits**

SCBC paid \$88,871 more in wages and benefits in 2018 than in 2017. This increase was a result of increased hours paid out to Director of Programs from 20 hours per week to 28 (\$23,871) increasing accounting and administrative staffing x 2 days per week (\$31,000) and paying out an employee claim (\$34,000).

### **Programs**

SCBC spent (\$18,366) less in program costs in 2018 (\$68,611) than in 2017 (\$86,977). This savings is a result of discontinuing cardboard boat races that required supplies and staffing to administer and operate.

### **Travel**

SCBC spent (\$26,601) less on travel in 2018 than in 2017. This savings is a result of less trips for staff and board to meet with government partners in Victoria and the Lower Mainland. Once these relationships were re-established with repeated in-person visits in 2017, they were maintained with significant cost savings to the agency in 2018.

### **Professional Fees**

The 2018 audit reports that in 2018 Professional fee spending was down from (\$115,424) in 2017 to (\$46,514). This change in fees is a result of hiring accounting services as staff in 2018 (\$65,424) and eliminating the need to hire consultants to help run the organization (\$50,000) as was reported in 2017.

### **Advertising and Promotion**

The 2018 audit recorded an increase of \$19,520 in 2018 (\$32,017) than in 2017 (\$12,497) for advertising and promotion. This increase is a result of the 2018 audit reporting expenses incurred for the 2019 competition year for expenses that include programming CRM and webpage application software (\$14,520) and sponsorship of the CES conference (\$5,000) in November 2018.

### **Telephone & Utilities**

Telephone and utilities spending increased by \$4,553 as the agency began compensating employees for use of their cell phones to carry out business operations and incurring teleconference expenses that had previously been covered by TELUS.

### **Memberships**

Membership expenses increased by \$1,600 in 2018. This increased expenditure is a result of SCBC becoming a member of the ICBA so that a new employee benefits plan could be established through this membership.

### **Deficiency of revenues over expenses from operations**

The 2018 audit reports a deficiency of \$224,412 in 2018 over expenses. This is a result of the following:

#### **Deficit Spending - \$76,311**

2018 SCBC spent \$76,311 (money spent in 2018 for the 2019 competition year but is reported as a 2018 expense in the 2018 audit)

#### **Kitimat LNG - \$50,000**

Sponsorship revenue to be paid before December 31, 2018. Money not actually received until 2019 and was therefore not recorded as 2018 revenue by auditors.

#### **ESDC Funding - \$19,520**

\$19,520 less in ESDC funding was received in 2018 (\$267,895) than in 2017 (\$287,583). This is a result of the ESDC fund in Ottawa having a surplus in 2017 that SCBC received but was not available to SCBC in 2018.

#### **Inspire - \$50,000**

No specific funding was received for the Inspire Program in 2018. Funding to operate the program throughout 2018 was taken out of general revenues. The board approved operating with this deficit as a way to build the Inspire Program.

### **3 Year Budget Planning (2020 – 2023)**

To build its reserves it is proposed that SCBC plan its next 3 budgets with \$50,000 - \$100,000 surpluses. Doing so will help SCBC create a buffer in the event of a downturned economy and could provide new opportunities for growth and expansion in future budget cycles.

### Revenue for the 2020 Operating year will include:

ESDC	\$271,742 (slight increase from previous years)
Provincial Government	\$250,000 (increase of \$100,000)
ITA	\$150,000
RBC	\$ 25,000 (new sponsorship for 2019 & 2020)
2020 Nationals (BC Govt)	\$ 50,000
Sponsorship	\$ 200,000 (Conservative estimate)
Registration Fees	\$ 25,000
Interest Rev	\$. 1,000
Misc Rev	\$ 4,000
<b>Total Budget Est.</b>	<b>\$981,742</b>

### Budget Planning 2020

Using 2018 budget figures	\$875,000
<b>Estimated surplus for 2020</b>	<b>\$106,742</b>

## Recommendations

Given that SCBC has run a deficit in the last two budgets (2018 – 2019) it is recommended that SCBC plan for surplus budgets in the amount of \$50,000 - \$100,000 for the next 3 years to build its reserves.

Building the reserves could protect the organization from a downturn in the economy.

Building the reserves could provide the organization with more options for programs and operational development in the future.