

BACKGROUND

- 5.1** In 1996, under the authority of the Maintenance Enforcement Act, the Province assumed responsibility for the administration and enforcement of maintenance orders issued by the courts. Maintenance orders require an individual to make spousal or child support payments. Prior to 1996, enforcement of maintenance orders was a function of the court.
- 5.2** The Maintenance Enforcement Program was created in the Department of Justice to administer the collection and disbursement of funds in accordance with the terms and conditions of maintenance orders. The Program's mission is defined as "to ensure that people who have maintenance orders enrolled in our program receive payments in full, on time, and in an efficient manner in accordance with the Maintenance Enforcement Act and Regulations." The enforcement of a maintenance order entails the use of authorized powers, as defined by the Act, to ensure collection of amounts due. In addition to enforcing maintenance orders issued by Nova Scotia courts, the Program also administers and enforces maintenance orders of other jurisdictions in accordance with reciprocal enforcement agreements.
- 5.3** The Maintenance Enforcement Act assigns responsibility for the administration of the Act to the Director of Maintenance Enforcement. All powers of the Act are vested in the Director. When an order is issued by a Nova Scotia court, it is forwarded to the Program's enrollment unit for automatic enrollment in the Program. At any time, individuals can request to have their case removed from the Program, subject to certain conditions and approvals. Cases can also be withdrawn for administrative reasons, such as when both the payer and the recipient leave the Province.
- 5.4** To facilitate administration and enforcement processes, each maintenance order is assigned a unique case number. Amounts received from payers are categorized as either 'flow-through' or 'pay-to.' Flow-through payments are received in the form of cheques or money-orders made out to the maintenance recipient, recorded by the Program, and subsequently forwarded to the recipient for deposit. The funds are not deposited to the Program's trust account. Pay-to payments are received, recorded, deposited to the trust account and subsequently disbursed from the trust account to the recipient.
- 5.5** There are seven maintenance enforcement offices located throughout the Province in Amherst, Dartmouth, Kentville, New Glasgow, Truro, Sydney and Yarmouth. The Maintenance Enforcement Program also has a central enrollment unit and a payment processing unit located in the Dartmouth office. A reciprocal enforcement unit has been established in the Sydney office to administer orders of other jurisdictions and monitor orders administered on behalf of Nova Scotia.

- 5.6.** The Program also operates an automated information line to facilitate communication between individuals and Program staff. The automated system allows individuals to provide and receive information on their cases.
- 5.7** As at March 31, 2007, there were 19,552 maintenance orders enrolled in the Program, including 3,273 orders pertaining to other jurisdictions. During 2006-07, the Program processed approximately \$57.4 million in payments, consisting of \$36.1 million in flow-through and \$21.3 million in pay-to payments.
- 5.8** The Maintenance Enforcement Program employed 48 people as of March 31, 2007. Thirty-six were engaged in enforcement activities and 12 were responsible for management, enrollment and payment processing functions. For the year ended March 31, 2007, the Program generated \$316,000 in fee revenue and incurred operating costs of \$2.6 million. Fees are charged to payers for various reasons such as payments in default.

RESULTS IN BRIEF

- 5.9** The following are our principal observations from this audit.
- Performance information is inadequate to assess the efficiency and effectiveness of the Maintenance Enforcement Program. There is an absence of sufficient information to enable an assessment of how well the Province has administered the Maintenance Enforcement Act. The only performance information prepared and reported by management is a collection rate and we found this statistic to be unreliable and inadequate.
 - The Province collects money from payers and then disburses these funds to recipients. These payments are deposited to a trust account. By acting as administrator of the trust account, the Province has established a fiduciary responsibility to ensure money collected is safeguarded and paid to the appropriate recipients. We found trust account assets were not adequately safeguarded because of deficiencies in internal control and the Province does not prepare annual audited financial statements or other information to demonstrate how it has discharged its fiduciary responsibility for the trust account.
 - There are inadequate collection processes to ensure the full and timely collection and payment of maintenance orders. We identified significant deficiencies such as a failure to adequately comply with policies and procedures, deficient management reports, and unreliable system data. Program systems contained 11,845 arrears cases in which case records indicated employment information was not confirmed. Management informed us that employment information is not always up-to-date and they do not always record employment confirmations in their system. As a result of this and inadequate documentation of key decisions by enforcement officers, we were unable to determine if garnishment of wages would have been

appropriate for 24 of our 60 sample items. Management identified 6,081 arrears cases for which the Program did not have a notice of federal intercept in place which would allow payments from the federal government such as income tax refunds to be applied against arrears. We were informed one of the reasons for not placing a federal intercept order is due to the lack of information required by the federal government to process orders, such as social insurance numbers. As discussed in this Chapter, we also found we could not rely on the Program's systems for accurately reporting the number of cases in arrears.

- There are significant internal control weaknesses over receipts and disbursements. These weaknesses appear to have been a significant contributing factor to the financial loss which occurred as a result of an alleged fraud within the Program. Prior to our audit, we were informed the alleged fraud was identified when internal audit advised management of a planned audit of the Program. Subsequent to the announcement of the audit, an employee of the Program told management she had made several unauthorized payments. Management terminated the employee and contracted an accounting firm to complete a forensic review. The firm provided management with a preliminary estimate of the loss resulting from the unauthorized payments. The loss was estimated to be approximately \$268,000, of which \$67,000 was related to trust fund assets and \$201,000 to Program fees. Several internal control deficiencies that appear to have contributed to the unauthorized payments had not been addressed as of the completion of our audit.
- The Program has complex financial and operating systems through which a large amount of money flows. The Director of Maintenance Enforcement is responsible for the administration of the Program and also has other responsibilities related to the operation of the Court Services Division. We noted that no professional accounting staff have been engaged to manage and control the financial operations of the Program. Based on the deficiencies identified during our audit, we believe there is a need to apply additional resources and expertise to the management and control of the Maintenance Enforcement Program.

AUDIT SCOPE

- 5.10** In March 2007, we completed a performance audit of the Maintenance Enforcement Program of the Department of Justice. The audit was conducted in accordance with Section 8 of the Auditor General Act and auditing standards established by the Canadian Institute of Chartered Accountants (CICA) and accordingly included such tests and procedures as we considered necessary in the circumstances.
- 5.11** Our audit of internal controls focused on significant computer and financial management controls over receipts and disbursements. We did not assess all

controls, and thus our conclusion and comments address only those systems and controls examined.

5.12 The objectives of the audit were to assess the adequacy of:

- performance information prepared and reported;
- systems and processes to administer and enforce maintenance orders on a timely basis; and
- internal controls to ensure receipts and disbursements are completely and accurately recorded and properly authorized.

5.13 Audit criteria were used to assist in the planning and performance of the audit. For the audit of performance information, criteria were obtained from the CCAF-FCVI Inc. publication *Public Performance Reporting - Reporting Principles*. Criteria for the audit of collection processes were developed based on past audits completed by this Office and other legislative audit offices. Criteria used in our audit of internal controls over receipts and disbursements were developed from *Internal Control Evaluation Questionnaires* and *Information Technology Control Guidelines* of the CICA, supplemented by information from other audit organizations including the Information Systems Audit and Control Association.

5.14 All criteria were discussed with and accepted as appropriate by senior management of the Maintenance Enforcement Program.

PRINCIPAL FINDINGS

Performance Information

5.15 **Conclusion and summary of observations** - Our objective was to assess the adequacy of performance information prepared and reported by the Maintenance Enforcement Program. We concluded performance information prepared and reported by management is very limited and does not provide sufficient, relevant and appropriate information to enable an assessment of the efficiency and effectiveness of the Program in meeting its stated mission. We determined the only performance information prepared and reported by management was the collection rate and we found this statistic to be inadequate and unreliable. We also noted information included in Statistics Canada's annual survey titled *Child and Spousal Support: Maintenance Enforcement Survey Statistics* indicated the Program was less effective than other jurisdictions.

5.16 **Performance information and reporting** - The Program's only significant performance indicator is its current collection rate. Statistics provided to us indicated a collection rate of 78% (\$53.4 million) for the period April 1, 2005 to March 31, 2006. This statistic includes active flow-through and pay-to payments. Our examination of the collection rate identified data integrity concerns. As a

result, we concluded the collection rate is unreliable (see paragraph 5.37) and does not provide an appropriate indication of collections. Further, a collection rate, by itself, is insufficient to measure Program performance.

- 5.17** Another indicator of collection performance is the change in amounts owing (arrears). As at March 31, 2007, management determined total arrears to be \$106.1 million, excluding arrears on withdrawn files which were estimated to be \$57.2 million. A portion of the total arrears relate to cases which entered the Program in arrears in 1996, but the amount was not available. As a result, we were unable to determine the growth in arrears since the implementation of the Program. We noted management does not track or report on the change in arrears, nor do they provide comments to explain the change in the arrears balance. We believe changes in arrears, along with explanations, are an indicator of performance which should be measured and reported.
- 5.18** Although we concluded performance information is inadequate, our audit identified information currently being maintained by the Program which could be used to make improvements in reporting. We noted monthly call statistics are tracked and complete case histories are maintained.
- 5.19** We also noted the Program provides information from its databases to support Statistics Canada's annual survey titled *Child and Spousal Support: Maintenance Enforcement Survey Statistics*. Our review of the report identified several indicators and measures of performance which could be used by management for internal and external reporting purposes.

Recommendation 5.1

We recommend the Maintenance Enforcement Program develop and report performance measures and targets for all key aspects of its operations to enable assessment of the efficiency and effectiveness of the Program.

- 5.20** We examined position descriptions for management and staff and found roles and responsibilities were generally well defined, assigned and communicated. However, roles and responsibilities for preparing and reporting performance information are not formally defined or assigned.

Recommendation 5.2

We recommend the Maintenance Enforcement Program clearly define, assign and communicate staff roles and responsibilities for performance information and reporting.

- 5.21** **Trust account** - The Maintenance Enforcement Program acts on behalf of parties to a maintenance agreement to facilitate the flow of court-ordered payments from

payers to recipients. By acting on behalf of these individuals, the Province has established a fiduciary responsibility. Our audit identified an absence of external reporting on how the Program has discharged this responsibility. The Department of Justice does not prepare annual financial statements for the associated trust account, does not have a financial statement audit performed, and does not prepare an accountability or annual report for the account. We believe an appropriate level of external reporting is essential to the accountability process. We strongly encourage the Department of Justice to implement such reporting for the trust account.

Recommendation 5.3

We recommend the Department of Justice prepare annual financial statements for the Maintenance Enforcement trust account. We further recommend that the financial statements be audited and publicly reported.

Collection Processes

- 5.22** **Conclusion and summary of observations** - Our objective was to assess the adequacy of systems and processes used to administer and enforce maintenance orders on a timely basis. We concluded the systems and processes are inadequate to ensure the timely collection and disbursement of support payments. We identified significant weaknesses such as unreliable system data, deficient reports and processes, and failure to adequately comply with policies and procedures.
- 5.23** Efficient and effective collection processes are essential to ensuring recipients receive support payments on a timely basis. Payers are obligated to make payments to the recipient. The Program is responsible to ensure payments are collected and disbursed. A failure to collect and disburse support payments can lead to financial hardship for recipients or make it difficult for them to collect amounts owed.
- 5.24** **Policies and procedures** - Well crafted and communicated policies and procedures are needed by the Maintenance Enforcement Program to guide its staff in the timely collection of maintenance payments. Policies and procedures also help ensure operational consistency throughout the Province. Our audit of the Program included assessing the adequacy of policies and procedures, as well as compliance. We also assessed the adequacy of the documentation maintained to support key decisions on cases.
- 5.25** We examined the Program's policies and procedures and concluded they are inadequate and do not provide staff with sufficient guidance. The following is a list of our concerns.
- The policy manual identifies policies which have not yet been drafted and contains several policies in draft form. We also noted the policy manual has not been subject to a complete review and update.

- There are inconsistencies between policies and there is a need to clarify the application of certain policies.
- There is significant discretion in the use of enforcement actions. However, the manual does not contain adequate guidance on which enforcement actions to use, and when to use them.
- Collection efforts are often affected by the employment status of the payer, but there is no requirement to confirm this information.
- There are no formal policies and procedures for the ongoing review of data entry, case work or enforcement actions.

5.26 We examined 60 cases for compliance with stated policies and procedures. We determined 75% (45 of 60) of these cases contained one or more instances of non-compliance. The following are the significant discrepancies.

- 37% of cases had an incorrect case status recorded (e.g., active, inactive, withdrawn).
- 17% of the inactive files were not reviewed by an enforcement officer as required by policy.
- 48% of the files were in arrears, but had no evidence of enforcement efforts within the past year.

5.27 In addition to the testing results noted above, our analysis of case data identified 162 withdrawn cases with fees still owing to the Program. The withdrawal of cases with outstanding fees is not permitted by current policy.

Recommendation 5.4

We recommend the Maintenance Enforcement Program develop and implement processes to improve upon compliance with its policies and procedures. We further recommend a review and update of the policies and procedures manual to ensure staff is provided with appropriate guidance to adequately administer and enforce maintenance orders.

5.28 Our examination of the 60 cases also identified 33 cases (55%) which did not contain adequate documentation to support key decisions made (e.g., decision to not employ specific collection procedures). We noted there are formal documentation standards. However, these standards do not address the documentation of key decisions for case files. We believe documentation of key decisions is a critical component of the case management and collection process and should be required.

Recommendation 5.5

We recommend the Maintenance Enforcement Program update formal case documentation standards to ensure support for key decisions is adequately documented.

- 5.29** **Case management** - The Maintenance Enforcement Act provides the Program with significant powers to facilitate the timely collection of support payments and fees. These powers include, but are not limited to, suspension of driver's licenses, seizure of property and other assets, collapse of pension funds, and garnishment of wages.
- 5.30** Decisions on the application of enforcement powers depend on various factors including a payer's employment situation. For example, a wage garnishment is only applied when there are amounts owing from a payer and it is confirmed that he or she has employment. We analyzed Program data and identified 15,088 arrears cases containing information on employment. However, based on case records, employment information was not indicated as confirmed for 11,845 (78%) of these cases. Management informed us employment information is not always up-to-date and the employment information confirmation indicator in the system is not consistently used. Since case records indicated employment information as not confirmed and key decisions were not adequately documented as discussed in paragraph 5.28, we were unable to determine if a wage garnishment would have been appropriate for 24 of our 60 sample items. We believe employment information is critical to the effective enforcement of cases in arrears and should, therefore, be kept current and accurate through communication with payers and confirmation with employers.
- 5.31** During our interviews, Program staff expressed concerns regarding difficulty in confirming employment income, identifying and confirming assets, locating individuals, as well as other administrative and enforcement challenges. Maintenance orders do not include information such as social insurance numbers, date of birth, employment information, business ownership, personal financial information (e.g., net worth) and other information which could assist in the administration and enforcement of a maintenance order. We believe inclusion of such information could facilitate the timely collection of payments and improve the efficiency of Program operations. For example, management advised us of 6,081 arrears cases which did not have a notice of federal intercept in place as of March 31, 2007. A notice of federal intercept order allows the Program to collect money from the federal government which would otherwise be disbursed to a payer, such as income tax refunds. We were informed one of the reasons for not placing a federal intercept order is the absence of information required by the federal government to process such orders.

Recommendation 5.6

We recommend the Maintenance Enforcement Program identify information which could help facilitate the effective administration and enforcement of maintenance orders, and initiate discussions with the courts to have such information incorporated into future maintenance orders.

- 5.32** **Review and approval** - Maintenance orders are recorded by enrollment staff prior to being assigned to an enforcement officer. As noted in paragraph 5.25, policies and procedures do not require a quality assurance review of data entry, case work or enforcement actions. Enforcement officers informed us they review the accuracy of data entered into the system by enrollment staff. Management advised us that there are some reviews of case files, however they are not formally required or conducted on a regular basis.
- 5.33** Review and approval processes are important for ensuring accurate data and consistent compliance with Program policies and procedures. We believe review and approval processes should be clearly defined and there should be a formal requirement to document reviews performed. Informal policies and procedures increase the risk of processes not occurring.

Recommendation 5.7

We recommend the Maintenance Enforcement Program develop, document and implement formal review and approval procedures for all significant processes. We further recommend a formal requirement to adequately document reviews and approvals.

- 5.34** **Computer systems** - All information related to the administration and enforcement of a maintenance order is recorded in the maintenance enforcement computer system. We examined the system and found it capable of recording and tracking maintenance orders. We did, however, identify some areas for improvement.
- 5.35** Our concerns over the system related primarily to internal controls and how information in the system was used. Our observations relating to internal controls are discussed later in this Report. Our concerns over information usage relate primarily to the lack of meaningful reporting to assist enforcement officers and management in their duties.
- 5.36** Management and enforcement officers informed us of concerns over the adequacy and usefulness of current system reports. Enforcement officers described types of reports they would find helpful but have difficulty obtaining. We also noted the current system does not provide management with a general ledger for the maintenance enforcement trust account, and information on trust activities is limited and not timely. Our analysis of system data determined more meaningful and useful reports could be produced if changes were made to the system or other software was used.

Recommendation 5.8

We recommend the Maintenance Enforcement Program review staff information needs and update system reporting capabilities to ensure timely and relevant information is available to assist staff in administration and enforcement activities.

- 5.37** **Data integrity** - Data integrity is critical to the effective decision making processes of any organization or program. We obtained an extract of all case records and transactions from the maintenance enforcement computer system and performed several analyses on the data. Our analysis and subsequent examination of case files identified significant problems with the integrity of the data. As a result, and due to noted weakness in controls over system data, we were unable to rely on the completeness or accuracy of the data in the performance of our audit.
- 5.38** Our analyses and testing identified errors in the recording of maintenance orders and reporting of arrears. For example, we noted amounts accruing on accounts which are no longer being enforced by the Program because payments are being made directly to recipients by payers. Management informed us many of the employment records referred to in paragraph 5.30 were old and inaccurate. Inaccurate case data make management and other reports unreliable and therefore inadequate for use in decision making. We believe reliable data is essential to the efficient and effective operation of the Program and our concerns in this area should be addressed in a timely basis.

Recommendation 5.9

We recommend the Maintenance Enforcement Program implement processes to correct inaccurate information in its computer system and ensure ongoing data integrity.

- 5.39** **Complaint process** - Our testing of the Program's complaint process noted complaints are documented and addressed within established time limits. However, we believe the communication of the complaint process to Program clients could be improved.
- 5.40** **Interdepartmental coordination** -The Department of Service Nova Scotia and Municipal Relations (SNSMR) serves as the primary collection agency for the Province and is responsible for the collection of amounts owed to the Province under various programs. We met with the manager of collections at SNSMR and identified similarities and differences between the collection processes used by the Department and those used by the Maintenance Enforcement Program. We noted SNSMR has access to information and resources which are unavailable to the Maintenance Enforcement Program, while the Program has enforcement powers which are not available to the Department. We also noted information on collection techniques and experiences is not shared between SNSMR and the Program. We believe there are opportunities for cooperation in areas such as

training and sharing of best practices. We also believe the potential costs and benefits of further cooperation should be investigated.

Recommendation 5.10

We recommend the Departments of Justice and Service Nova Scotia and Municipal Relations investigate the potential to share collection training and best practices, and examine the potential costs and benefits of further cooperation.

Internal Controls - Receipts and Disbursements

- 5.41** **Conclusion and summary of observations** - Our objective was to assess the adequacy of internal controls used to ensure Program receipts and disbursements are completely and accurately recorded and properly authorized. Our audit focused on the significant computer and financial management controls which would impact our objective and, as a result, did not examine all controls. Therefore, our conclusion and comments are limited to those internal controls which impact receipt and disbursement processes. Based on our examination, we concluded control over receipts and disbursements are inadequate. We identified significant deficiencies such as inadequate policies and procedures, staff with incompatible duties, computer access control deficiencies, as well as inadequate reconciliation, review and approval processes. The deficiencies identified represent a significant risk of financial loss or other negative consequences to the Program.
- 5.42** **Policies and procedures** - The Maintenance Enforcement Program has documented policies and procedures to guide staff. In addition to weaknesses previously discussed in paragraph 5.25, our audit identified policy and procedure deficiencies specifically related to internal controls. There is an absence of formal policies and procedures in areas such as electronic funds transfers, reconciliation processes and changes to computer access rights. Management informed us the Department of Justice has established a committee to develop a common format for manuals, prioritize the updating of manuals and develop an on-line manuals management system. However, the development and updating of Program policies and procedures remains the responsibility of maintenance enforcement staff. We believe internal control policy and procedure deficiencies should be addressed in a timely manner. See recommendation 5.4.
- 5.43** **Segregation of duties** - We identified a number of serious weaknesses related to inadequate segregation of incompatible duties. Staff who receive and disburse funds also have responsibility for recording these transactions. Certain of these individuals are also responsible for reconciliation processes. We determined certain staff could complete a disbursement, either by way of cheque or electronic funds transfer, without the involvement of another staff member. The ability to initiate and account for payments is inappropriate because it provides the opportunity to both initiate and conceal an unauthorized transaction. We did not identify adequate compensating controls to mitigate the risks associated with these incompatible duties.

Recommendation 5.11

We recommend the Maintenance Enforcement Program review its current staff roles and re-assign responsibilities or implement adequate compensating controls to address the segregation of duties weaknesses.

- 5.44** **Access controls** - In order to maintain effective internal controls, it is necessary to control access to an organization's information systems. Access rights need to be limited to those necessary for staff to effectively fulfill position responsibilities. Unrestricted or inappropriate access to systems and data can increase the risk of unauthorized transactions or system changes leading to financial loss and other negative consequences.
- 5.45** We examined access controls for the Maintenance Enforcement Program. Facilities where computers are located are adequately secured and computer access is protected by passwords. However, we identified a number of weaknesses in this area. The following is a list of our concerns.
- Seven individuals had more than one user profile, including an information technology support staff member who had two user profiles.
 - Staff had access to fields in the system not required to fulfill position responsibilities. This could result in unauthorized changes to system information.
 - One staff member had the electronic funds transfer user ID automatically entered when accessing the system.
 - There are no control logs or reports of changes to access rights.
 - There are no regular reviews or tests of access rights.
- 5.46** Control over computer access rights is a critical component of an internal control framework. We concluded there are inadequate controls to ensure all access rights are properly authorized and appropriate for each user. We were advised by management that action has been taken to address some of the concerns noted above, but we believe additional action is required.

Recommendation 5.12

We recommend the Maintenance Enforcement Program review all computer access rights and ensure staff members only have access rights necessary to fulfill position responsibilities. We further recommend regular monitoring of access rights and review and approval of changes.

- 5.47** **Program change controls** - The process to initiate a change to the maintenance enforcement computer program is not formalized. Authorized staff e-mail

requests to information technology staff who document requested changes. Only one information technology staff member is required to implement a program change. We were informed program changes are completed in a development (test) environment and tested by Program staff. Once accepted, the change is implemented in the production (live) environment. We noted program code changes are not independently reviewed or approved prior to implementation. We also noted program changes are not independently monitored. We concluded there are inadequate controls to ensure all program changes are authorized and properly performed. Without adequate control, unauthorized changes may occur either intentionally or in error, which could have negative consequences for the Program.

- 5.48** During our audit, we identified a computer program function which was not operating as intended. This error allowed information such as payee name, mailing address or direct deposit information to be changed by unauthorized staff. The issue was immediately addressed by management.

Recommendation 5.13

We recommend the Maintenance Enforcement Program formally document computer software program change procedures. We further recommend independent review and approval of program changes prior to implementation and monitoring of program change logs to ensure all changes are authorized and properly completed.

- 5.49** **Control over master data** - Good control over case master data is necessary to protect data integrity and confidentiality, and to ensure only authorized payments are made. We found unauthorized changes to case master data could occur and not be detected. We also noted changes to case master data are not independently monitored or reviewed.

Recommendation 5.14

We recommend the Maintenance Enforcement Program formally define critical case master data and ensure the ability to change such data is limited to appropriate, authorized staff. We further recommend logs of master data changes be maintained and independently monitored to ensure all changes are authorized and appropriate.

- 5.50** **Output controls** - Control over system outputs such as electronic funds transfer (EFT) files is essential to safeguarding the Program's financial assets. Failure to adequately safeguard these items can pose a significant risk of financial loss. We identified serious weaknesses in controls over EFT files. We found unauthorized EFT files could be created and unauthorized file changes could occur prior to the transfer of the file to the bank. We also noted an EFT could be completed from any computer at any location provided there was a valid user ID and password, though

Program management thought special software had to be installed on a computer to do so.

- 5.51** In addition, we noted access to blank cheques and the signature stamp was not logged or monitored. Accordingly, there is a risk of unauthorized disbursements. We concluded there are inadequate compensating controls to mitigate these risks.

Recommendation 5.15

We recommend the Maintenance Enforcement Program develop and implement adequate control over electronic funds transfer files and blank cheques.

- 5.52** **Computer edit controls** - Maintenance enforcement system application controls require a payer receipt be recorded before a payment to a recipient can be processed. This control is ineffective in preventing unauthorized payments because staff members with responsibility for recording receipts are also responsible for initiating disbursements. We concluded there are inadequate controls to ensure amounts recorded as received were actually received and deposited to the bank prior to the related disbursement.
- 5.53** There are no computerized edit checks to identify unusual balances, duplicate payments, or multiple payments to the same account. There are also no pre-programmed dollar limits for individual cheques or EFTs. Management advised us EFT amounts were limited to a maximum daily amount of \$300,000. We were unable to verify this due to a lack of documentation (see paragraph 5.64).
- 5.54** EFT risks are further increased because there is no payment processing delay to allow time to reconcile the payment file received by the bank to the Program's records. EFT payments are immediately processed by the bank once received. We believe the absence of both a programmed dollar limit on individual payments and a timely bank file reconciliation process significantly increase the risk of financial loss due to unauthorized payments.

Recommendation 5.16

We recommend the Maintenance Enforcement Program implement programmed dollar limits for individual cheques and electronic funds transfers. We further recommend bank processing of electronic funds transfers be delayed to allow for timely reconciliation processes to be completed.

- 5.55** **Bank reconciliations** - Bank reconciliations are essential for effective control over receipts and disbursements. Our examination of the Maintenance Enforcement Program bank reconciliation process identified the following serious deficiencies.

- Reconciliations for the trust account were not completed for several years. However, Program staff subsequently completed these reconciliations.
- There are no policies or procedures to ensure reconciliations are completed on a timely basis.
- Trust account reconciliations contain unreconciled differences and old outstanding cheques. Procedures have recently been developed to address old outstanding cheques. However, there are no processes to ensure unreconciled differences are investigated and resolved in a timely manner.
- Reconciliations are not signed or dated by the preparer.
- Reconciliations are not independently reviewed or approved.
- Reconciliations have not been completed for the Program's revenue and special bank accounts. Subsequent to the completion of our audit, management advised us the special account has been closed.

Recommendation 5.17

We recommend the Maintenance Enforcement Program complete reconciliations for each of its bank accounts on a timely basis. Unreconciled differences should be investigated and resolved, and reconciliations should be independently reviewed and approved.

- 5.56** As noted in recommendations 5.4 and 5.7, we believe reconciliation processes should be formalized to help ensure they are properly performed and approved. We strongly encourage management to immediately address the reconciliation deficiencies noted above.
- 5.57** **Review and approval** - Effective control systems include independent review and approval processes. In addition to the inadequate review and approval processes noted above, we identified weaknesses in management oversight processes relating to:
- electronic funds transfer reports;
 - disbursement variance reports;
 - Program revenues transferred;
 - bank deposits;
 - receipt of goods and services acquired using purchase cards to ensure intended goods and services have been received;

- IT support staff activities; and
- fee adjustments.

5.58 We previously recommended development of formal review and approval procedures for all significant processes. See recommendation 5.7

Other Observations

5.59 We made a number of additional observations during our audit which we believe should be addressed. These observations are discussed in the following paragraphs.

5.60 **Program management** - The Maintenance Enforcement Act assigns responsibility for the administration of the Act to the Director of Maintenance Enforcement. However, the Department of Justice has also assigned other responsibilities related to the operation of its Court Services Division to the Director of Maintenance Enforcement. Despite the complexity of the Program's financial operations and systems, and the large amount of money involved, there has been no professional accounting staff engaged to manage and control the financial operations of the Program. Based on the deficiencies identified during our audit, we believe there is a need to apply additional resources and expertise to the management of the Maintenance Enforcement Program.

Recommendation 5.18

We recommend the Department of Justice review and assess the managerial needs of the Maintenance Enforcement Program and apply sufficient resources and expertise to effectively manage the Program and adequately fulfill its fiduciary responsibility.

5.61 **General computer environment controls** - Control over an organization's general computer environment is critical to its overall control. Although we did not complete an audit of all general computer environment controls, we conducted several interviews and reviewed selected documentation related to general computer environment controls. We noted the computer systems of the Maintenance Enforcement Program are maintained and supported by the Department of Justice's Information Management Division. We found the Division has:

- a formal business continuity plan;
- policies and procedures to support the establishment, approval, communication and monitoring of IT objectives and plans;
- formal policies to address end-user computer applications, computer monitoring, virus protection and illegal software; and
- indicators and measures to track IT performance.

- 5.62** We also noted areas where improvements could be made. The Department should prepare a formal IT strategic plan and complete a formal IT risk assessment and management strategy. We believe the Department should also formally document all significant computer standards and operating procedures.
- 5.63** **Accounting** - Prior to our audit, we were informed an alleged fraud was identified when internal audit advised management of a planned audit of the Program. Subsequent to the announcement of the internal audit, an employee of the Program advised management she had made several unauthorized payments. Management terminated her employment and contracted an accounting firm to complete a forensic review. The firm provided management with a preliminary estimate of the loss resulting from the unauthorized payments. The loss was estimated to be approximately \$268,000, of which \$67,000 was related to trust fund assets and \$201,000 related to Program fees. The Province recorded a liability to the trust account for the estimated loss of trust funds, but did not record the receipt and loss of the Program fees. We advised that the receipt and loss of Program fees be recorded as required by generally accepted accounting principles.
- 5.64** **Banking agreements** - We requested a copy of the Program's agreement with the bank. Management was unable to locate a copy of the agreement and advised us the agreement was in excess of twelve years old, and preceded the Program's electronic funds transfer process. We advised management to update the current banking agreement and ensure it addresses all current banking activities, including electronic funds transfers. We further advised management to ensure the banking agreement addresses the controls the bank is expected to apply to ensure data security and confidentiality. Subsequent to the completion of the audit, management informed us they have received a copy of the banking agreement and are reviewing it.
- 5.65** **Payment options** - Currently, individuals can make support payments to the Maintenance Enforcement Program by cash, cheque or money order. The Program does not permit electronic payment. Service Nova Scotia and Municipal Relations staff informed us that they use electronic funds transfers in their collection efforts. We believe electronic payment options could improve the operational efficiency and effectiveness of the Maintenance Enforcement Program by reducing staff workloads. We suggested management further investigate this option.

CONCLUDING REMARKS

- 5.66** Performance information is inadequate to assess the efficiency and effectiveness of the Maintenance Enforcement Program. The Department of Justice should develop, implement and report adequate performance measures and targets for the Program. We also believe the Department should prepare annual audited financial statements for the trust account. The preparation and reporting of both financial and non-financial information are essential to the accountability process. Without this information, it is difficult to assess how the Department of Justice has managed the

Maintenance Enforcement Act and discharged its fiduciary responsibility related to the Program's trust account.

- 5.67** In this chapter we raise several significant concerns regarding internal controls and the administration and enforcement of maintenance orders. The deficiencies negatively impact Program operations and pose a significant risk to the Program.
- 5.68** The Maintenance Enforcement Program requires a substantial effort to address the deficiencies noted in our Report. We strongly encourage management to immediately prioritize and address these serious deficiencies.
-

DEPARTMENT OF JUSTICE'S RESPONSE

During late 2006 and early 2007, a performance audit of the Maintenance Enforcement Program was conducted by the Office of the Auditor General. This is the first comprehensive audit in the ten year history of the program. The report of the Auditor General underscores the complexity and enormity of the Maintenance Enforcement Program and has identified three main areas for improvement. The Department appreciates this opportunity to provide a preliminary response identifying steps that have been taken thus far to address deficiencies. The Department acknowledges the considerable work that remains to be done to ensure the continued effectiveness of the Program and is in the initial stages of developing an implementation plan for the remainder of the recommendations.

Key Findings

1. Performance Information

“Performance information” refers to the data which is collected and shared that demonstrates that MEP is doing its job properly. It was found that performance information in relation to MEP is limited and does not speak fully enough to the efficiency or effectiveness of the program. There is an identified need to:

- move beyond “collection rate” as a primary indicator and identify and report upon other performance indicators such as “change in arrears”
- develop processes to increase data integrity
- clarify responsibility for reporting performance information
- have prepared and report the results of independent, annual audits

Government Response

The following action has been taken to address recommendations regarding performance information:

- the Maintenance Enforcement computer system is in the process of being upgraded. The upgrade has included a intensive program review which has identified deficiencies, the correction of which will improve data integrity
- the Program is examining statistics currently collected and reported to identify which of those are appropriate performance indicators
- a MEP Logic Model outlining performance indicators and responsibilities of reporting has been adopted
- MEP Directors across Canada are working to identify national performance measures

- NS Court Services has created a Justice Indicators project to address performance management within the Division

2. Collection Processes

The “collection process” refers to how support payments are collected and disbursed. It has been determined that collection systems and processes could be improved. There is an identified need to:

- further develop and disseminate policy and procedure
- ensure compliance with policy and procedure
- increase sources of information to assist with collection
- develop processes for the review and approval of data entry
- enhance the MEP database to allow for more informative reporting
- develop processes to increase data integrity
- consult with partners to share information sources and best practices

Government Response

The following action has been taken to address recommendations regarding the collection process:

- The Department is currently reviewing system enhancements which will improve the reporting process
- a senior Program Officer has been assigned a Manual Renewals project and will be addressing the Maintenance Enforcement Program manual
- priority has been given to reviewing and updating policy and procedure
- enrollment information is being reviewed and verified for accuracy during the file intake process at the enforcement offices
- the *Maintenance Enforcement Act* was amended in 2006 to increase enforcement powers
- a “field officer” pilot project was successful in identifying additional collection information sources that continue to be used
- implementation of file review has successfully reduced the overall caseload and the arrears amounts

3. Internal Controls - Receipts and Disbursements

“Internal controls - receipts and disbursements” refers to technological and financial management. There is a need to increase management control over these areas by:

- developing policy and procedure to increase internal checks and balances
- segregating duties in relation to these controls
- increasing internal control over computer access and master data
- increasing internal control over electronic fund transfers and banking procedures

Government Response

The following actions have been taken to address the recommendations respecting internal control:

- there has been a segregation of banking duties and immediate steps are being taken to segregate other duties where appropriate
- computer access security has been increased
- internal controls have been developed in relation to the use of receipt books
- internal controls have been developed in relation to the use of trust cheques
- banking resolutions and signing officers have been updated and banking agreements are being reviewed
- internal controls have been developed in relation to the receipt of front counter payments
- internal controls have been developed in relation to access to the revenue account.