



Office of the Auditor General

Our Vision

A relevant, valued, and independent audit office serving the public interest as the Legislature's primary source of assurance on government performance.

Our Mission

To serve the people of Nova Scotia and the House of Assembly by making a significant contribution to enhanced public sector accountability and performance.

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Table of Contents

Introduction

1 Message from the Auditor General.....	4
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Performance Audits

2 Health: Electronic Health Records.....	5
3 Education: Contract Management of Public-Private Partnership Schools	8
4 Office of the Speaker: Members' Constituency and Other Expenses	12

Financial Reporting

5 Government Financial Reporting	15
6 Indicators of Financial Condition	20
7 Review of Agency Financial Statements and Management Letters.....	21



1 Message from the Auditor General

Summary

I am pleased to present my February 2010 Report to the House of Assembly on work completed by my Office in the summer and fall of 2009.

As the Province's Auditor General, my goal is to work towards better government for the people of Nova Scotia. As an independent, nonpartisan officer of the House, I and my Office help to hold the government to account for its management of public funds and contribute to a well-performing public sector. I consider the needs of the public and the House, as well as the realities facing management, in providing sound, practical recommendations to improve the management of public sector programs.

My priorities, during my term of office, are: to focus audit efforts on areas of high risk that impact on the lives of Nova Scotians; to contribute to a more efficient, effective, and better performing public service for Nova Scotia; and to foster better financial and performance reporting to the House of Assembly and the people; all while promoting excellence and a professional and supportive workplace at the Office of the Auditor General. This Report reflects this service approach.

I wish to acknowledge the valuable efforts of my staff who deserve the credit for the work reported here. As well, I wish to acknowledge the cooperation and courtesy we received from staff in departments, and board members and staff in agencies, during the course of our work.



2 Health: Electronic Health Records

Summary

Nova Scotia is working towards the development of a provincial electronic health record system known as SHARE. The province is participating in and has received funding from a federal program through Canada Health Infoway designed to further the development of EHRs in Canada.

While the SHARE system is expected to be operational by March 2010, additional health information systems will need to be developed and existing systems upgraded to achieve a province-wide EHR.

The Department of Health does not have an overall information technology strategic plan. IT projects may be undertaken because there is funding available rather than because the project has been ranked as the highest priority. Department management should identify those EHR initiatives which must be undertaken in the next three to five years and determine how these initiatives will be funded. We recommended the Department develop a formal IT strategic plan for EHR and determine funding for implementation of remaining EHR initiatives.

We examined overall project management of the SHARE system. We found the project was well-planned and well-managed. Planning documents and processes were consistent with established best practices for project management.

At the time of our audit, certain of the identified privacy and security issues related to the SHARE project had not been addressed. We recommended the Department ensure these issues are dealt with before the SHARE system is operational.

We examined a sample of SHARE project procurements. We found the Department complied with the Province of Nova Scotia Policy on Government Procurement and considered value for money when making these purchases.



Recommendations

Recommendation 2.1

The Department of Health should develop a formal IT strategic plan for electronic health records. This plan should detail how and when the remaining EHR initiatives will be implemented and funded.

Recommendation 2.2

The Department of Health should determine all systems necessary to an EHR in Nova Scotia. Further, the Department should ensure these systems are able to communicate and share information.

Recommendation 2.3

The Department should develop a detailed timeline to obtain baseline data and implement a performance indicator system.

Recommendation 2.4

The Department of Health should formally document the process to approve significant IT initiatives, including determining what central government approvals may be required.

Recommendation 2.5

The Department of Health should adhere to the documented SHARE project change control process.

Recommendation 2.6

The Department of Health should address inconsistencies in current legislation either by amending the legislation or creating a single piece of legislation to address personal health information. Furthermore, the Department should ensure the resulting legislation adequately addresses concerns expected in an electronic system.

Recommendation 2.7

The Department of Health should take appropriate action to address remaining risks identified in the privacy impact assessments and threat risk assessments before the SHARE system is operational.



Recommendations (continued)

Recommendation 2.8

The Department of Health should require an annual section 5970 audit report if HITS-NS manages services related to the SHARE system.

HEALTH:
ELECTRONIC
HEALTH RECORDS



3 Education: Contract Management of Public-Private Partnership Schools

Summary

The school public-private partnership contracts examined during this audit represent a significant financial obligation to the province totaling approximately \$830 million over their 20 year life. The magnitude of such contracts requires a very high duty of care which has not been adequately met by the Department of Education. Comprehensive contract terms and management processes and procedures which ensure services paid for are received are essential to protecting the public interest. Our audit identified significant weaknesses in both of these areas. As a result we cannot conclude on whether key calculations supporting contract payments are correct or whether many services paid for are received. The findings in our report should be carefully evaluated by government prior to entering into complex long-term contracts in the future.

Our audit identified instances in which child abuse registry and criminal record checks, fire safety inspections, and emergency first aid and CPR training were not completed by the developers as required under the service contracts. Contract terms do not address significant areas such as audit access for the Province; measurable levels for all services; monitoring compliance with contract terms including required documentation; and an adequate payment adjustment system when contract terms are not complied with. The Department's reliance on negative feedback to monitor contract compliance is not sufficient to ensure services are received.

Two developers subcontracted their responsibilities under their service contracts for certain schools to the regional school boards. These subcontracts effectively transfer the risks for the operation and maintenance of the schools assumed by the developers in the service contracts back to government. Regional school boards are delivering contracted services at a lower cost than that paid to the developers. Over the 20 year life of the contracts the estimated difference in payments between the developers and regional school boards is approximately \$52 million. In addition, regional school boards need to do a better job ensuring that all money owed to them by the developers is received. We noted instances in which amounts received by the regional school boards did not comply with contract terms; these will result in significant financial recoveries for the Boards.



Recommendations

Recommendation 3.1

The Department should ensure child abuse registry checks are completed prior to hire for all employees working in schools.

Recommendation 3.2

The Department of Education should ensure criminal record checks are completed prior to hire for all employees working in schools.

Recommendation 3.3

The Department of Education should ensure all employees working in schools have required emergency first aid and CPR training.

Recommendation 3.4

The Department of Education should ensure the developers are completing and documenting the results of all fire safety inspections required under the Fire Safety Act.

Recommendation 3.5

The Department of Education should ensure all preventive maintenance is completed in accordance with manufacturers' requirements.

Recommendation 3.6

The Department of Education should ensure adequate documentation is maintained to support the provision of required cleaning services under the contracts. The Department should review documentation to ensure cleaning is completed.

Recommendation 3.7

The Department of Education should ensure the developers maintain adequate documentation to show maintenance work is completed on a timely basis. The Department should review this documentation to ensure maintenance work is completed on a timely basis.

Recommendation 3.8

The Department of Education should establish adequate contract management processes to ensure contracted services are received. These processes should be followed for the remainder of the contracts.

EDUCATION:
CONTRACT
MANAGEMENT OF
PUBLIC-PRIVATE
PARTNERSHIP
SCHOOLS



Recommendations (continued)

Recommendation 3.9

The Department of Education should obtain appropriate supporting documentation from the developers for amounts used in calculating operating payments.

Recommendation 3.10

The Department of Education should establish adequate contract management processes to ensure payments made under the P3 contracts comply with contract terms. These processes should be followed for the remainder of the contracts.

Recommendation 3.11

The Department of Education should maintain a control copy of all significant contracts, which includes all approved changes and supporting documentation.

Recommendation 3.12

The Department of Education should monitor transactions processed through the sinking funds administered by the developers.

Recommendation 3.13

The Department of Education should monitor funds received from the developers concerning technology refresh and furniture, fixtures and equipment.

Recommendation 3.14

The Department of Education should develop a contract management manual for use by staff.

Recommendation 3.15

All significant new contracts between the Department of Education and service providers should include audit provisions for the Province.

Recommendation 3.16

The Department of Education should define measurable service levels for all services in future contracts and these should be included in the contracts prior to signing.



Recommendations (continued)

Recommendation 3.17

The Department of Education should ensure future contracts describe the contract monitoring process, including documentation requirements and sanctions for instances of non-compliance.

Recommendation 3.18

The Department of Education should work with the developers to assess the risk of not completing periodic record checks subsequent to hiring, determine the appropriate frequency of rechecks, and amend contract terms accordingly.

Recommendation 3.19

Strait Regional School Board should ensure all money due under its contracts with the developer is received.

Recommendation 3.20

Cape Breton-Victoria Regional School Board should ensure all money due under its contracts with the developer is received.

Recommendation 3.21

The Department of Education should consider the information highlighted in this Report when assessing its options at the end of the service contracts.

EDUCATION:
CONTRACT
MANAGEMENT OF
PUBLIC-PRIVATE
PARTNERSHIP
SCHOOLS



4 Office of the Speaker: Members' Constituency and Other Expenses

Summary

Members of the House of Assembly receive allowances and other payments to carry out their responsibilities as constituency representatives. We found serious weaknesses in the funding system for Members' constituency and other expenses which increase the risk of excessive and inappropriate expenditures by Members. Members receive significant funding for which they are not accountable; regulations and guidelines do not clearly outline the purpose of funds provided; and guidance on how funds should be spent is vague or does not exist. We have recommended that a comprehensive examination of the funding system for constituency and other expenses be conducted.

Inappropriate claims were made by some Members for personal items, expenses already covered by an allowance, items and services from ineligible relatives, and items previously claimed. These types of claims are not in accordance with the regulations.

The lack of clear and comprehensive regulations and guidelines has allowed a wide range in spending on the amount and types of advertising, furniture and equipment. Although not in violation of the regulations, we believe many of these expenditures were excessive and may not be reasonable for constituency work purposes.

Inadequate documentation, such as photocopies of invoices or no evidence of payment, hinders Office of the Speaker's staff's ability to ensure only appropriate expenses are processed for payment.

The Legislature Internal Economy Board (LIEB) regulates services and payments to Members. The LIEB established a payroll service through the Office of the Speaker for Members' staff but also allows Members to pay additional salary amounts through their constituency expenditures allotments. The current system has unclear lines of responsibility resulting in incorrect treatment of some salary payments. Some Members made additional salary payments to their staff in which required payroll remittances and federal legislative reporting requirements were not made. We are concerned there may be significant financial implications to the Province, the Members and the Members' staff related to these extra payments.



Recommendations

Recommendation 4.1

A comprehensive examination of the funding system for Members' constituency and other expenses should be carried out. The examination should address which expenditures should be funded, why, and to what extent, and should take into account *consider points* provided in this Chapter. Clear and appropriate guidance on expenditures should be developed and communicated to Members. Implementation of any changes should be effectively monitored.

Recommendation 4.2

Payments to Members for personal items, expenses already covered by an allowance, items or services from relatives defined in the regulations, and items previously claimed should be recovered by the Office of the Speaker.

Recommendation 4.3

Rules and guidance on advertising should clearly define acceptable nonpartisan practices. Partisan advertising should not be claimable by Members through their constituency expense claims.

Recommendation 4.4

Ownership by the Province of assets purchased with public funds should be clearly established. Assets purchased by Members beginning in 2006 and onward should be inventoried and properly accounted for.

Recommendation 4.5

Complete and proper documentation, including original invoices, evidence of payment, and purpose of the expenditure, should be included to support claims for reimbursement. Claims which are not properly supported should not be paid by the Office of the Speaker.

Recommendation 4.6

The LIEB should examine and reform the system and practices for compensating Members' staff and ensure responsibilities are clearly and properly established. These responsibilities should address proper administration, including necessary payroll remittances for all payments in accordance with federal regulations. Requirements for proper documentation to support additional salaries paid should also be addressed.

OFFICE OF THE
SPEAKER: MEMBERS'
CONSTITUENCY AND
OTHER EXPENSES



Recommendations (continued)

Recommendation 4.7

All additional salary payments to staff in 2009 should be properly reported and necessary submissions made prior to the February 2010 reporting deadline.

Recommendation 4.8

The purpose of per diems should be clearly established and communicated. Reimbursement for an expense should not be permitted more than once, whether the expense is governed by one or more Acts or regulations.

Recommendation 4.9

Late fees and other avoidable expenses should not be eligible for reimbursement to the Members.

OFFICE OF THE
SPEAKER: MEMBERS'
CONSTITUENCY AND
OTHER EXPENSES

5 Government Financial Reporting

Summary

Financial reporting is a key component of government's accountability framework. Financial reports must be reliable and accurate, and must be provided on a timely basis so that they are relevant.

Our review opinion of the 2009-10 Revenue Estimates included in the September 24, 2009 Budget Address was again qualified. Third party revenues were not estimated or included in the revenue estimates and therefore the budget was not prepared on the same basis as the consolidated financial statements. This is a requirement of generally accepted accounting principles (GAAP) for governments. We have again recommended these revenues be estimated to ensure compliance with GAAP.

During the fiscal year forecast updates are issued to forecast actual results to date to year end. A \$35.29 million adjustment made in preparing the December 19, 2008 forecast update was subsequently reversed at March 31, 2009 because government acknowledged the initial adjustment was made prematurely. We recommended adjustments to revenues or expenditures for future forecast updates be adequately supported.

The Minister of Finance tabled the Province's Public Accounts for the year ended March 31, 2009 on September 10, 2009. The Auditor General's opinion on the consolidated financial statements included in the Public Accounts was unqualified. In November 2009, we provided a management letter to the Minister of Finance with detailed audit findings and recommendations. While our quantitative findings were neither individually nor cumulatively significant enough to affect the audit opinion, all findings impact the integrity of the financial statements. In particular, we made recommendations concerning the Province's accounting policy on foreign exchange and improvements to the Province's general ledger.

In addition to the above findings and recommendations on government financial reporting, we also have comments on government's financial management processes and other matters.

We continued to express our concern regarding the amount and approval of additional appropriations. Additional appropriations totaling \$408 million were required for 2008-09. Since 2003-04, expenditures approved through additional appropriations have increased by \$307 million. We believe the process to approve additional appropriations reduces accountability to, and control by, the House



of Assembly. We also noted our concern with the practice of making advance payments on funding obligations as this potentially distorts future operating results. Advance payments for Assistance to Universities accounted for \$256 million of the 2008-09 additional appropriations.

We noted that the ability of the Office of the Auditor General to conduct audits of the Teachers' Pension Plan and the trustee of the Plan, the Teachers' Pension Plan Trustee Inc., is unclear from the wording of the Teachers' Pension Act. We have recommended the Minister of Finance amend this Act to ensure the Auditor General has the undisputed and unrestricted ability to conduct performance audits on the operations of the Teachers' Pension Plan.

Finally, we repeated our recommendation that Department of Finance management should obtain an independent external audit opinion on the governance and control framework of certain divisions within that Department, as a follow-up to an external audit conducted on those divisions in 2004 which resulted in a denial of opinion.

Recommendations

Recommendation 5.1

The Department of Finance should include estimates of all revenues of the consolidated entity in the Provincial budget in order to comply with Canadian generally accepted accounting principles.

Recommendation 5.2

The Department of Finance should take the necessary steps to ensure it is provided with the appropriate authority for completion of the revenue estimates.

Recommendation 5.3

All key economic and other assumptions used in the preparation of the revenue estimates should be approved by Treasury Board.

Recommendation 5.4

An independent analysis of the costs necessary to complete the remediation project of Sydney Steel Corporation and adjacent sites should be conducted. The balance of the provision should be adjusted to reflect this estimate.

Recommendation 5.5

The Department of Finance should require adequate support for adjustments to departmental budgets reported in the forecast updates.

Recommendation 5.6

Management should document internal controls for government and include these in the Management Manuals.

Recommendation 5.7

Management should assign roles and responsibilities for the design, implementation, operation and maintenance of internal controls as part of the documentation of internal controls.

Recommendation 5.8

The Department of Finance's Capital Markets Administration Division should prepare monthly reconciliations to trustee statements and the general ledger should be updated each month to reflect the results of transactions.



Recommendations (continued)

Recommendation 5.9

The Department of Finance's Capital Markets Administration Division should adjust the balance of the unamortized foreign exchange account to recognize all deferred gains and losses on monetary items that have been sold, and to ensure the account only includes deferred amounts related to existing monetary items.

Recommendation 5.10

The Department of Finance's Government Accounting Division should ensure all non-trivial known errors identified during the audit are corrected.

Recommendation 5.11

The Province's stated accounting policy with respect to unamortized foreign exchange gains and losses should be revised to ensure it is in accordance with GAAP.

Recommendation 5.12

The Department of Finance's Government Accounting Division should analyze all inactive asset and liability accounts to determine whether they should be maintained in the general ledger. Accounts which do not meet the definition of an asset or liability should be removed and the result recognized in operations.

Recommendation 5.13

The Department of Finance's Government Accounting Division should remove all inappropriate business areas from the Province's general ledger.

Recommendation 5.14

The Department of Finance's Government Accounting Division should ensure the business areas are appropriately reflected in the consolidated financial statements.

Recommendation 5.15

The Department of Finance's Government Accounting Division should simplify the general ledger accounts used to record SYSCO transactions.

Recommendation 5.16

The Department of Finance's Government Accounting Division should instruct departments of the specifics in determining the amount of contractual obligations at year end.



Recommendations (continued)

Recommendation 5.17

The Department of Finance's Government Accounting Division should monitor departments' progress, including significant divisions within departments, in providing information to the Office of the Auditor General as detailed in the schedule of audit deliverables.

Recommendation 5.18

The Department of Finance's Government Accounting Division should take appropriate steps to ensure all government reporting entities adopt the appropriate GAAP based on amendments to the Public Sector Accounting Handbook.

Recommendation 5.19

Department of Finance management, in conjunction with Executive Council, should ensure the Provincial Finance Act is amended to eliminate the existing inconsistency with respect to additional appropriations.

Recommendation 5.20

The Minister of Finance should ensure the Teachers' Pension Act is amended such that the Auditor General has the undisputed and unrestricted ability to audit the operations of the Teachers' Pension Plan.

Recommendation 5.21

We again recommend that Department of Finance management should obtain an independent external audit opinion on the governance and control framework of the Liability Management and Treasury Services, and Capital Markets Administration Divisions.



6 Indicators of Financial Condition

Summary

In 2009, the Public Sector Accounting Board (PSAB) issued Statement of Recommended Practices (SORP) 4: Indicators of Financial Condition. Information on financial condition is useful to users of financial statements by demonstrating how the government may be able to respond to changes in the economic climate.

The Public Accounts currently contain information on the economy but not information on how the Province is performing in that economy. That is the intent of the SORP. The SORP recommends that, at a minimum, indicators related to government's sustainability, flexibility and vulnerability to its economic climate be disclosed. Governments are not required to implement recommendations under the SORP.

The information included in this chapter is for consideration only. We feel it is important and useful to provide indicators of financial condition and, in doing so, we are following a trend in several other legislative audit offices in Canada.

The indicators we considered each demonstrate the improved financial condition of the Province, for the most part, from 2002 to 2008. One indicator, however, may best illustrate the shape of things to come. The annual surplus of the Province at March 31, 2009 is lower than at any other time this decade. This indicator demonstrates the risks facing government in maintaining the programs and services it currently provides as well as the policy and operational decisions it must make in light of its financial health.

7 Review of Agency Financial Statements and Management Letters

Summary

Under Section 17 of the Auditor General Act, we conduct a review of the audit opinions and related management letters of those agencies audited by private sector auditors. We consider those results, as well as results from our audits of agencies within the GRE, when auditing the consolidated financial statements of the Province. The purpose of this Chapter is to highlight matters of interest as a result of this review.

Although the majority of audits conducted on agencies within the GRE resulted in unqualified audit opinions, there were also a number of qualified opinions. The audit opinions for several of the school boards were qualified due to the inability of the auditors to verify the completeness of school-based funds. In our view, these qualified opinions do not diminish the usefulness of the related financial statements. However, the continuing qualification of the audit opinion of one of the Province's loan funds due to insufficient support for management's estimate of provisions on asset impairment, means those financial statements cannot be used to evaluate the performance of the fund.

During our review of management letters we found auditors had identified numerous internal control and information technology deficiencies. Many deficiencies identified by auditors in the prior year still existed in 2008-09. We noted that about 40% of the recommendations made in 2008-09 were repeated from 2007-08 and of these, over half had been reported in the prior year as well. Deficiencies were also identified in two provincial loan boards regarding documentation to support financial statement balances.

Control weaknesses will continue to be identified as auditors increase their awareness of the control environment in these agencies. Management should address the deficiencies identified by their auditors to ensure the integrity of their financial systems and financial reporting processes.