

REPORT OF THE

**AUDITOR
GENERAL**

1999

Honourable Murray Scott
Speaker
House of Assembly

Sir:

I have the honour to submit herewith my Report to the House of Assembly for the year ended March 31, 1999, to be laid before the House in accordance with Section 9A(2) of the Auditor General Act.

Respectfully submitted

A handwritten signature in cursive script that reads "E. Roy Salmon".

E. Roy Salmon, F.C.A.
Auditor General

Halifax, Nova Scotia
November 26, 1999

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INTRODUCTION

1.

OVERVIEW AND SIGNIFICANT ISSUES

INTRODUCTION

1.1 This Report contains the results of the work carried out by my Office during 1999. My objective continues to be to assist the members of the House of Assembly with their responsibility to hold the government to account for the management of public funds.

1.2 In performing our work we adhere to the standards promulgated by the Canadian Institute of Chartered Accountants. Chapter 14 of this Report provides a description of the mandate, mission, and strategic goals and objectives of the Office. It describes our core business functions, outcome measures and organization as well as providing a report on the Office's performance during the year.

1.3 A summary of the most significant findings resulting from this year's work is contained in this chapter. However, readers are cautioned that a full understanding of the issues can only be obtained from the detailed results provided in the individual chapters.

1.4 The activities of the Office in 1999 were influenced by the additional responsibilities acquired as a result of the amendments to the Auditor General Act passed in 1998. This is further described below and in Chapter 2. As well, the requirement to carry out two reviews of the Revenue Estimates contained in two separate budgets taxed our resources.

AUDIT MANDATE

1.5 The Auditor General Act requires me to table this Report of the Auditor General by December 31. It also requires me to report annually to the House of Assembly on the government's financial statements and to have that report included in the public accounts which must also be tabled by December 31. At the time of writing this Report those financial statements as well as my audit of them were being finalized.

1.6 The Auditor General Act also requires me to review the Estimates of Revenue contained in the Budget Address of the Minister of Finance and to report to the House of Assembly on the reasonableness of the Revenue Estimates. Such reports were included in the June 1, 1999 Budget Address and the October 14, 1999 Budget Address.

1.7 I am also permitted to table up to two additional reports during a year in order to provide the House of Assembly with more timely information. The resource issues outlined above were not conducive to such reporting this year but where appropriate such reports will be provided in the future.

ACCOUNTABILITY INFORMATION AND REPORTING

1.8 Government's efforts over the last several years to put in place a Planning and Accountability Framework have been encouraged and supported by my Office. The quality and usefulness of performance information has evolved and has provided an improved basis for discussion and debate of government's plans, priorities and resource allocation decisions. However, provision of such information continues to be discretionary and it is my strongly held view that requirements for it should be enshrined in legislation.

1.9 The government's announced decision to make significant changes to its accounting policies and practices is strongly supported by my Office. Most of these are being implemented in preparing

the financial statements for the year ended March 31, 1999 while others will be introduced in next year's financial statements. This decision accelerates the commitment made by government in June 1998 to implement changes in the year ending March 31, 2000.

YEAR 2000 UPDATE

1.10 As I write this report there are 36 days remaining until January 1, 2000. During the past year government continued to address the issue and to report on progress and plans. Although we have not performed an audit of government's actions we did monitor progress towards minimizing risks, planning for remediation actions and providing Business Continuity Plans for essential and mission critical services. Chapter 3 describes these efforts in some detail.

NOVA SCOTIA COMMUNITY COLLEGE

1.11 My 1993 Report contained the results of an audit of the college and described many significant deficiencies in governance and management. The government took action to address most of our recommendations including self-governance for the College. The College Board acted on virtually all of the remaining recommendations. A newly revised mission has been established for NSCC and this year's audit concluded that it is well prepared to achieve this mission. There is a need for the Department of Education and the College to define expected outcomes for the Province's funding to the College. These outcomes should serve as a basis for determination of the amount of Provincial funding which the College should receive.

PUBLIC-PRIVATE PARTNERSHIPS FOR SCHOOL CONSTRUCTION - FOLLOW-UP REVIEW

1.12 In 1997 and 1998 I issued three Reports on aspects of this major capital construction project. This year's audit activity was limited to reviewing progress and to assessing the accounting aspects of lease classification for four signed leases for purposes of the March 31, 1999 financial statements. The government intended to classify these as operating leases but, as a result of our opinion that classification as capital leases was more appropriate, government decided to account for them in that manner.

LIABILITY AND RISK MANAGEMENT

1.13 I have reported on Finance's policies and practices for managing the Province's debt and debt related activities in three previous Reports. During 1999 an external consultant was engaged jointly by my Office and Finance to undertake an audit of liability and risk management. Although many of our previous suggestions have been addressed certain issues remain outstanding. Finance continues to take action to enhance its policies and practices to manage the debt. Given the size and risks associated with this debt I urge government and the House of Assembly to monitor closely these issues.

NORTHERN REGIONAL HEALTH BOARD AND FOLLOW-UP TO 1998 COMMENTS ON RHBs AND NDOs

1.14 Governance and management of health care in the Province has undergone massive change and changes are continuing. We were conducting an audit of the Northern Regional Health Board in October 1999 when government announced that governance of the RHBs was being transferred to the Department of Health. Subsequently, government announced that District Health Authorities would be formed. Clearly defined responsibilities, effective planning and communication are essential to implementation of change. This audit identified serious problems in these areas at the

Department of Health that if not addressed will impede any efforts to improve the delivery of health care in the Province.

INFRASTRUCTURE WORKS PROGRAM - PHASE II

1.15 Audits of Phase I of this program were reported separately by the Auditor General of Canada and my Office in 1996. Phase II has been audited jointly with the Auditor General of Canada and the Provincial Auditor of Saskatchewan with an agreement to issue separate reports. There is no doubt that the program has been largely successful in achieving its primary objective of infrastructure renewal. The audit did identify opportunities to improve some aspects of program delivery.

PROPERTY MANAGEMENT

1.16 This audit focussed on the Real Property Services Division of the Department of Transportation and Public Works. The audit concluded that the Division gives attention to the economy and efficiency of its operations. However, the Division is limited in its ability to realize all cost reductions possible because of inadequate funding for preventative maintenance, insufficient property management information, unclear assignment of responsibilities and inadequate coordination of accommodation planning.

SNOW AND ICE CONTROL

1.17 This audit focussed on the snow and ice control operations of the Department of Transportation and Public Works as well as its practices for hiring trucks for road construction and maintenance activities. The audit concluded that the Department has made significant changes to achieve efficiencies and cost reductions while maintaining a consistent level of service. We recommended that the Department more formally analyze the feasibility of further cost-reduction initiatives, and be more strategic in the planning of snow and ice control operations.

CONCLUDING REMARKS

1.18 Significant changes occurred in 1999 in the manner in which government reports its financial results and in the role played by my Office in the audit of financial reports. I strongly support the accounting policy changes made by the government and am pleased with the role my Office now plays. However, I continue to urge that the positive initiatives that have been taken to provide better accountability information to the House of Assembly be embodied in legislation.

1.19 As is evidenced by the results of the audits contained in this Report, government's efforts to maintain or enhance delivery of programs to Nova Scotians while reducing expenditures are severely straining systems and resources. Current initiatives, including the efforts of the Fiscal Management Task Force, which are intended to propose solutions to the Province's fiscal dilemma will hopefully be successful.

1.20 As indicated earlier the Office was challenged in fulfilling its new mandate and responding to other demands. Resources were also impacted by uncontrollable events. In September we were devastated to hear that one of our managers, Angela Cook, had been seriously injured in an automobile accident. We have all been pleased with her continued progress in rehabilitation and look forward to her return early in 2000. I want to thank all my staff for their continued efforts and willingness to take on additional responsibilities when necessary.

GOVERNMENT-WIDE ISSUES

2.

ACCOUNTABILITY INFORMATION AND REPORTING

BACKGROUND

2.1 The need for quality accountability information and reporting, including the definition of basic accountability requirements in legislation, has been a topic of consideration in a number of jurisdictions. In its simplest terms, accountability means the obligation to answer for an assigned responsibility. An accountability relationship involves at least two parties, one who allocates or assigns responsibility, and one who accepts it, with an understanding to report upon results or outcomes.

2.2 Exhibit 2.1 on page 22 provides a relatively simple two-dimensional overview of the key elements of an accountability relationship, including the role the audit function serves within it. This overview or model can be used when considering accountability at various levels within Provincial operations. For example:

- government's accountability to the House of Assembly;
- departments' and crown agencies' accountability to government;
- deputy head's or board's accountability to a Minister; and
- management's accountability to a deputy head.

2.3 Exhibit 2.2 on page 22 provides an overview of the accountability organization with respect to the Provincial public sector. It is not intended to present all parties or relationships involved, but rather to emphasize the various levels that exist and that accountability to the public is relevant at all levels.

2.4 The purpose of this chapter is to provide updated summary comments on the quality of accountability information and reporting to the Members of the Legislative Assembly (MLAs), including the Province's financial statements. Adequate information and reporting on government's plans and performance (i.e., results or outcomes) are required, so that MLAs can hold government to account.

RESULTS IN BRIEF

2.5 The following are our principal observations this year.

- Government's plans and commitments for the continued evolution of the Planning and Accountability Framework should be formalized and communicated to the House. The provision of public performance information and reporting to the House of Assembly on a timely basis is to a large part discretionary (i.e., not required by statute).
- Auditor General's Reports on the 1999-2000 revenue estimates, required under Section 9B of the Auditor General Act, were tabled in the House on June 1, 1999

and October 14, 1999. In addition, summary comments and suggestions, as a result of our review procedures, were communicated to the Department of Finance.

- Improvements made to the Province's financial statements for the year ended March 31, 1999 have resulted in the Province's financial position and annual results being accounted for and reported more completely and understandably. Certain issues or concerns remain to be resolved for the year ended March 31, 2000.
- The Procurement Branch of the Department of Finance reports on policy exceptions and the results of its monitoring of compliance with the government's procurement policies to the Priorities and Planning Committee, but there is no requirement for the Priorities and Planning Committee to report to the House of Assembly. Accountability would be enhanced if a report on procurement policy exceptions was provided to the House of Assembly, and if such reporting was available on a timely basis.

SCOPE OF REVIEW

2.6 This assignment represents a continuous ongoing identification, review and consideration of various matters or issues relating to the status of action taken or planned by government to improve the quality of accountability information and reporting to the House of Assembly.

2.7 In addition to considering the status of accountability-related initiatives undertaken by government, we have reviewed and provided commentary on selected matters, including the Province's financial statements published in the *Public Accounts* for the fiscal year ended March 31, 1999.

PRINCIPAL FINDINGS

2.8 Our principal findings and summary comments on general or specific matters relating to the quality of accountability information and reporting are presented under the following headings:

- Planning and Accountability Framework
- Revenue Estimates in Budget Address
- Province's Financial Statements
- Other Matters

Planning and Accountability Framework

2.9 For the House of Assembly to hold government to account, and for government to hold departments and agencies accountable, there must be an adequate standard framework in place requiring the provision of sufficient, appropriate, understandable and timely reports. Such a standard has been defined and was being implemented in Nova Scotia. The *Planning and Accountability Framework* is a government-wide initiative being coordinated through the Priorities and Planning Secretariat. The information and reporting documents prepared as a result of the framework provide an increased focus on defined outcomes at both the overall government and departmental levels. The effective implementation and continued evolution of such information

and reporting mechanisms represent a significant challenge, requiring a sustained commitment by government.

2.10 The *Planning and Accountability Framework* is intended to support the provision of improved information and reporting on the plans and performance of government, including at the department or agency level. In this regard, we note that there is currently no statutory provision requiring such information on and reporting by government overall or by departments to be made available to MLAs on a predetermined and timely basis, or at all. For example, the information in the primary summary publications, *Government By Design* (i.e., the plans) and *Nova Scotia Counts* (i.e., the results, first released in fall 1998), is not required by statute, and was therefore provided to the members of the House of Assembly at the discretion of the government.

2.11 We understand that departments are expected to provide full versions of their business plans (including outcome measure tables) on their Internet web pages. Further, in addition to the *Government By Design* and *Nova Scotia Counts* publications, there are various other reports and publications currently available to the MLAs which can either directly or indirectly be utilized for accountability purposes. As noted in previous Reports, some of these are not required by legislation, and as such are also only available at the government's discretion. We do acknowledge that the business plans of crown corporations are required to be tabled in the House under the provisions of the Provincial Finance Act.

2.12 While as in previous years' Reports, we acknowledge government's initiatives under the *Planning and Accountability Framework*, we suggest that the government's plans and priorities for further implementation of this framework be formally documented and reported to the House.

2.13 In this regard, the October 7, 1999 *Speech from the Throne* and the October 14, 1999 *Budget Address* provided the following comments which provide evidence of the government's current overall commitments to accountability.

"Government must meet the highest standard in delivery of certain vital, well-defined public services." (page 2 of *Speech from the Throne*)

"Government must live within its means and ensure that Nova Scotians get the maximum benefit from every tax dollar spent." (page 2 of *Speech from the Throne*)

"Government must lead the way by setting an example of openness and accountability." (page 11 of *Speech from the Throne*)

"When our next budget is submitted to this House, this government will issue four-year targets for the public sector, including our partners in the health care and education systems." (page 13 of the *Budget Address*)

"We will give them the responsibility to provide Nova Scotians with essential services at a cost within taxpayers' ability to pay, and to submit a four-year business plan showing how they will meet that challenge." (page 13 of the *Budget Address*)

"..... the spring budget will include new legislation on fiscal accountability....." (page 13 of the *Budget Address*)

2.14 The impact or implications of the above, in terms of how or what the effect will be on the existing elements of the *Planning and Accountability Framework*, including the publication of accountability reports like *Government By Design* and *Nova Scotia Counts*, are yet to be determined.

Revenue Estimates in Budget Address

2.15 Section 9B of the Auditor General Act provides the Auditor General with the mandate below with regard to the government's annual revenue estimates. Until June 1998 this mandate had been included in Section 65A of the Provincial Finance Act. We first exercised this mandate, which is unique within the Canadian legislative audit community, in 1994. The Auditor General's unqualified reports on the 1999-2000 revenue estimates were tabled along with the supporting information for the June 1, 1999 *Budget Address* and the October 14, 1999 *Budget Address*. Our coverage and report on the 1999-2000 revenue estimates did not extend to the government's revenue projections for subsequent fiscal periods, nor did it include consideration of the expenditure estimates.

"The Auditor General shall annually review the estimate of revenue used in the preparation of the annual Budget Address of the Minister of Finance to the House of Assembly and provide the House of Assembly with an opinion on the reasonableness of the revenue estimates."

2.16 At the conclusion of each of our reviews of the 1999-2000 revenue estimates, in addition to providing a copy of the Auditor General's report on revenue estimates for Budget printing purposes, we also forwarded a letter to the Minister of Finance. For example, our letter dated October 12, 1999 provided the following summary comments on matters regarding the 1999-2000 revenue estimates included in the October 14, 1999 *Budget Address*.

I would like to draw your attention to the following considerations with respect to the 1999-2000 revenue estimates:

- *There is a formal HST/GST dispute between the Nova Scotia Gaming Corporation and the casino operator. A resolution of this dispute in favour of the casino operator could have a negative impact of more than \$25 million on the 1999-2000 revenues.*
- *The tobacco tax revenue for 1999-2000 has been estimated taking into account a planned tax increase effective during fall 1999, which is not specifically disclosed in the assumptions and outlook information to be released with your budget address. Based on the information provided to us, the planned increase is expected to contribute approximately \$3.4 million additional tobacco tax revenue in 1999-2000. In our view, it is preferable for such revenue measures to be specifically highlighted as part of the supporting information for the revenue estimates. However, we understand the circumstances and rationale for limiting, at this time, the nature and extent of the disclosure of this planned tobacco tax increase.*

In addition to the above specific matters, certain of the more significant line items of the revenue estimates are prepared using, to some extent, information from the Federal government. As you know, formal updates to Federal government information are received at various times during the year. It is our understanding that your staff prepared the 1999-2000 revenue estimates using the most current information available to them from the Federal government or other sources. Formal updates to certain of the Federal government information may be available later this month or early next. In this regard, at this time it is not possible to reliably predict what affect this new information will have on the 1999-2000 revenue.

Province's Financial Statements

2.17 The Members of the Legislative Assembly (and the public) require financial information on and reporting of the Province's financial position and results - both plans and performance - on a complete, understandable and timely basis. This view is consistent with the recommendations made by the Public Accounts Committee (PAC) in its sub-committee report which was tabled in the House of Assembly in December 1996. Among other things, that report provided recommendations dealing with improvements to the Province's financial statements, including consolidation and timely release.

2.18 As a result of amendments to the Provincial Finance Act and the Auditor General Act passed in June 1998, the Auditor General audits and reports to the House of Assembly on the Province's annual financial statements beginning with the year ended March 31, 1999.

2.19 Since 1993, the Report of the Auditor General has included commentary on the Province's annual financial statements, one of government's primary financial accountability documents. We have previously identified concerns relating to the completeness and adequacy of the Province's financial statements. Improvements made to the March 31, 1999 statements have resulted in the Province's financial position and results being accounted for and reported more completely and understandably. Exhibit 2.3 on page 23 provides summary information on the status of action taken or planned for the more significant issues identified in last year's Report.

2.20 During May and June 1999, the Office conducted detailed audit procedures directed at reporting on the Province's traditional non-consolidated financial statements by the end of July. The June 17, 1999 election call delayed the finalization of the 1999 financial statements.

2.21 On September 28, 1999, the government released a *Year End Forecast Update*, which included then current forecast information for the 1998-99 fiscal period. Prior to the release of this report, the government had decided to make significant changes to the accounting policies and practices used to determine and report the Province's financial position and results of operations for a fiscal period.

2.22 In summary, the initial paragraph of the *Update* indicated that the "*Government of Nova Scotia is making significant changes in the way it presents its budgets and financial statements. The commitment is to present the information in a complete and straightforward manner...prepared in accordance with Generally Accepted Accounting Principles, with one consolidated final "bottom line."* For provincial governments in Canada, generally accepted accounting principles (GAAP) include the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA), supplemented where appropriate by CICA's private sector accounting standards or other pronouncements.

2.23 Government's decision to move to GAAP as a basis of accounting is significant, and consistent with the intentions outlined in *Financial Accountability: Blueprint for Success* which was released along with the *Budget Address* on June 4, 1998. It will remove a number of long standing concerns relating to the completeness of the Province's financial reporting. GAAP provides an authoritative foundation or source from which government can both choose and defend its accounting policy and practice decisions. Further, the use of GAAP, along with a short-form auditor's report from the Auditor General on the Province's financial statements, should allow Members of the Legislative Assembly and other interested readers to focus more on *what* the reported financial position and results are, rather than on *how* they are reported.

2.24 The implementation of many of the changes for the March 31, 1999 financial statements, a year earlier than intended in *Blueprint*, afforded government accounting staff at Finance and our

audit staff an interesting and at times complex challenge during fall 1999. The commitment and effort of the staff involved are acknowledged. The results of their contribution and sacrifice (i.e., in terms of additional hours and effort) should represent a lasting legacy in terms of improved financial reporting by government. As indicated in the notes to the March 31, 1999 statements, further changes or adjustments will be implemented as at March 31, 2000 so the Province's financial statements are more fully prepared and presented in accordance with GAAP. The following is a summary of the more significant accounting policy related matters that government has yet to fully resolve. To the extent appropriate, we will be providing support or advice to Finance staff in their efforts to resolve these for purposes of the March 31, 2000 financial statements.

- Pension costs and obligations
- Long-term disability plan deficiency
- Other post-employment benefit costs and obligations
- Tangible capital assets
- Environmental site clean-up costs & obligations
- Statement presentation and disclosure considerations

Other Matters

2.25 The comments in this section relate to a variety of matters of an accountability or control perspective that may be of interest to the Legislative Assembly.

2.26 *Emerging financial accounting and reporting issues* - Standards and practices for accounting and financial reporting are not static. They have and will continue to change, and this will impact upon what constitutes appropriate financial accounting and reporting for provincial governments.

2.27 There are usually various topics or issues being reviewed and studied by accounting standard setting bodies. At this time, there are issues being considered (or reconsidered) by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants which may have an impact on financial accounting and reporting by the Province including government partnership arrangements; employee future benefits; consolidation; foreign currency translation; and leases.

2.28 Finance recognizes the need to consider emerging issues, and it has a strategy in place to deal with such topics. Further, staff from Finance and this Office monitor, and in certain instances make individual contributions to, these standard setting activities.

2.29 *Nova Scotia Gaming Corporation* - Under the heading *Contingencies*, in Note 9(c) to its March 31, 1999 financial statements the Nova Scotia Gaming Corporation (NSGC) provided background information on a significant dispute between NSGC and the casino operator. The dispute, which is the subject of arbitration under the casino operating contract, relates to the fact that since "April, 1, 1998, the Operator has taken the position that neither HST nor GST is payable out of casino revenues, and therefore, must be paid by the Corporation out of its net income." As at March 31, 1999 the amount in dispute totalled \$20,896,113. Further as discussed in paragraph 2.16 of this chapter, if this matter is resolved in favour of the casino operator, the negative impact

on NSGC's (and therefore the Province's) results for fiscal year ending March 31, 2000 would be more than \$25 million.

2.30 During the course of the audit of NSGC's March 31, 1999 financial statements, it was determined that \$10 million had been transferred from the casino account and invested with a related party of the Operator. As a result of additional supporting information we obtained from the Operator, NSGC management was able to complete its investigation of the discrepancy. Note 3 to NSGC's financial statements provides the following information on this matter and its resolution.

“On March 19, 1999 Metropolitan Entertainment Group invested \$10,000,000 of the Cash and Short Term Investments in Casino Accounts in a short-term investment with Starwood Canada Corp., the majority partner in Metropolitan Entertainment Group. The investment is evidenced by a promissory note in the principal amount of \$10,000,000 and bears interest at a rate of 5.15% per annum with principal and interest payable on September 2, 1999. The amount invested represented a portion of the amounts in dispute between the Corporation and Metropolitan Entertainment Group (see Note 9(c)); however, the investment was not specifically provided for under the Operating Contract. By agreement between the Corporation and Metropolitan Entertainment Group the note was fully repaid to the Casino Accounts on June 22, 1999.”

2.31 As this matter dealt with the receipt and disbursement of public funds, in our view, the Operator's decision to invest surplus funds from the casino account should have been subject to advance review and approval by NSGC management and Board.

2.32 *Corporate financial management system (CFMS)* - On April 1, 1997, the Department of Finance implemented a new corporate financial management system (CFMS) running on its in-house Hewlett Packard resources.

2.33 The CFMS consists of a number of integrated modules for general ledger, budgeting, funds management, cash management, accounts payable, project accounting, procurement, goods receipt, inventory, and accounts receivable. Personnel, payroll and related administrative functions continue to be processed through the Province's existing human resource management system (HRMS), which runs at the Systemhouse Limited Halifax Outsourcing Centre.

2.34 The 1997 Report of the Auditor General included observations and comments from a preliminary review of CFMS and the CFMS project. The objective of that review was to gather project-related documentation and information, and to identify and develop lines of inquiry to support planning for more detailed audit coverage. Our primary concern expressed in that Report related to several significant control issues that had not been dealt with prior to implementation of the CFMS on April 1, 1997 and still had not been addressed at the time of writing that Report, some six months later. We commented that those control issues “...may represent significant risk to the system of internal control as it relates to the accounting for public funds.”

2.35 During 1998, this Office and the Department of Finance jointly commissioned a national public accounting and consulting firm (the consultants) to conduct a review of the business control environment surrounding CFMS and the CFMS implementation project. This review, performed in March 1998, identified a number of areas or opportunities, some significant, for improving the level of control over the CFMS and related processes and functions.

2.36 In our 1998 Report we commented on the resulting report by the consultants, which was finalized in September 1998, and included the following principal observations:

- *“Government requires significant improvement to the level of automated and manual controls to achieve control objectives. Improvements to the controls are required to ensure the integrity of information and allow for proper management trails to support recorded transactions.”*
- *“Government has implemented appropriate controls in several key areas, such as system startup parameters. However, we also noted several opportunities for improving the SAP [CFMS] control environment.”*
- *“We identified several areas where improvements to the IT environment could be considered.”*
- *“Most users have not achieved an acceptable level of understanding of the system required for their position, and still have a number of misunderstandings and questions about the system.”*
- *“It is not possible, as at the time of this review, to judge whether CFMS has resulted in benefits for the government.”*

2.37 The consultants’ report provided more than 220 specific recommendations for consideration by Finance and government generally. These recommendations were listed in Exhibit 9.1 on page 105 of our 1998 Annual Report.

2.38 Senior management of the Department of Finance recognized that a formalized and structured approach was required to effectively deal with each of the recommendations. On October 29, 1998 a Project Manager was appointed for a four-month period to analyze the requirements associated with each recommendation and to prioritize them and report back to the CFMS Steering Committee.

2.39 This appointment was extended by approximately one month and an updated status report was provided to the CFMS Steering Committee dated March 29, 1999. Subsequently, responsibility for coordinating and monitoring the status of the recommendations was assigned to staff of Finance’s Corporate Information Systems (CIS) Division. Information contained in the March 29, 1999 status report indicated that 61 of the recommendations had been completed.

2.40 We recently met with management of the CIS Division and obtained a detailed status update as at October 1, 1999. This most recent status update indicates that 104 items had been completed. In addition we were informed that senior Department management have established a goal for completing all remaining items by December 31, 1999. In order to support this renewed effort, the CIS Division seconded a senior computer services officer from the Technology and Science Secretariat to coordinate the remaining activities on a full-time basis. As well, Finance’s Internal Audit Division has been assigned the responsibility to review and sign-off on each of the implemented solutions in an effort to fulfill a quality assurance role.

2.41 In closing, we repeat our comments of last year that specific strategies and plans need to be formulated, approved and acted upon, if government is to make appropriate progress towards realizing the potential business process improvements and other benefits from a system like CFMS.

2.42 *Provincial data centre services* - In the early 1990s, the government entered into contract arrangements to outsource its Provincial Data Centre processing requirements. Those arrangements were renewed effective October 1998 for a five-year term with EDS Systemhouse Inc. The arrangements call for annual review by an independent audit function on the control procedures in place for the resources used for the processing of Provincial systems.

2.43 Since the programs, processing and data for significant Provincial systems reside at the data centre (e.g., including HRMS, RMV, OASIS, JOIS), we believe that the results of an independent control review would be of interest to the Members of the Legislature. Exhibit 2.4(a) on page 25 is a copy of the most recent *Auditors' Report on Control Procedures* as it relates to the Province's outsourced data centre services, and Exhibit 2.4(b) on page 26 is the *Description of Control Objectives and Procedures for the Government of Nova Scotia Mainframe Partition* to which that report refers.

2.44 *Procurement policies and reporting* - It is our understanding that, while planned statutory provisions relating to authority of the government's procurement policy are not yet in place, all Provincial bodies are expected to adhere to the procurement policies established by the Province. Further, all exceptions from the procurement policy are to be reported to the Procurement Branch of the Department of Finance, which subsequently must report to the Priorities and Planning Committee.

2.45 To assist in the attainment of the policy objective on procurement (see Exhibit 2.5(a) on page 30), the Procurement Branch has undertaken several initiatives. During the year, two new policies and procedures were developed by the Procurement Branch to assist in the procurement process. There were also four policies finalized and made available during the year. Exhibit 2.5(b) on page 31 provides a summary listing of the current publications of the Procurement Branch as well as the status of the publications for the government and Provincially-funded entities such as academic institutions, school boards, hospitals and crown corporations commonly referred to as the ASH sector.

2.46 *The Province of Nova Scotia, Policy on Government Procurement, Section 12, Information and Reporting*, issued January 1, 1996 states "where a procurement is to be undertaken that is an unsolicited proposal, is sole sourced, or is to be for a price other than the lowest tender, the Deputy Minister in the client department or equivalent officer must submit it to the Priorities and Planning Committee for approval." Section 12 further requires that if the Priorities and Planning Committee grants approval, the Minister and Deputy Minister of the Department of Finance must be formally notified.

2.47 To ensure Section 12 is complied with, Finance's Procurement Branch undertakes bi-weekly audits of transactions processed through the government's internal corporate financial management system (CFMS). Irregularities noted are provided to departments for explanation and action. The Procurement Branch reports exceptions to the Priorities and Planning Committee. At present there is no requirement for the Priorities and Planning Committee to report to the House of Assembly. Accountability would be enhanced if a report on procurement policy exceptions was provided to the Members of the House of Assembly, and if such reporting was available on a timely basis.

2.48 *Supplement to the Public Accounts - The Supplement to the Public Accounts* (Supplement) includes detailed information on staff salaries and other payments made for government departments and certain agencies which use the government's corporate financial management system (CFMS). We are not aware of any statutory provision or current policy directive requiring this level of detail to be published. Further, we note that the *Supplement* only covers departments of government (i.e., similar information is not published for all crown corporations, agencies or other Provincial public sector entities).

2.49 The reporting thresholds (i.e., the amounts above which detailed information is provided) for the *Supplement* were as follows:

Salaries	\$ 25,000
Travel	\$ 3,500
All other payments	\$ 5,000

2.50 These reporting thresholds have not been updated or amended in a number of years, and as a result the *Supplement* continues to grow.

2.51 We suggest that after consideration of the information and accountability needs of MLAs and other interested parties, government establish compensation and other disclosure standards applicable to all departments, crown corporations, agencies and other Provincial public sector entities. For example, implementation of disclosure standards similar to those established by security or other financial regulatory bodies for executive and management compensation would provide meaningful information to MLAs and other interested parties.

2.52 Finance indicated that in addition to continued availability on the government's Internet website (<http://www.gov.ns.ca>), the Department is considering improvements to the content and presentation of the *Public Accounts*, including the *Supplement*. Finance's goal is the provision of useful information, using what other jurisdictions provide as a reference point.

CONCLUDING REMARKS

2.53 An effective accountability framework should provide or result in an appropriate balance of information and reports to the House of Assembly on the plans and performance of government overall and individual departments or agencies, both from a financial and a program delivery or service perspective. The goal is better information and reports, not just more.

2.54 There have been a number of significant initiatives undertaken to improve the quality and timeliness of information and reports available on the government's plans and priorities. The Department of Finance and the Priorities and Planning Secretariat have taken, and are still planning to take, steps to improve the nature and quality of the information and reports available.

Exhibit 2.1

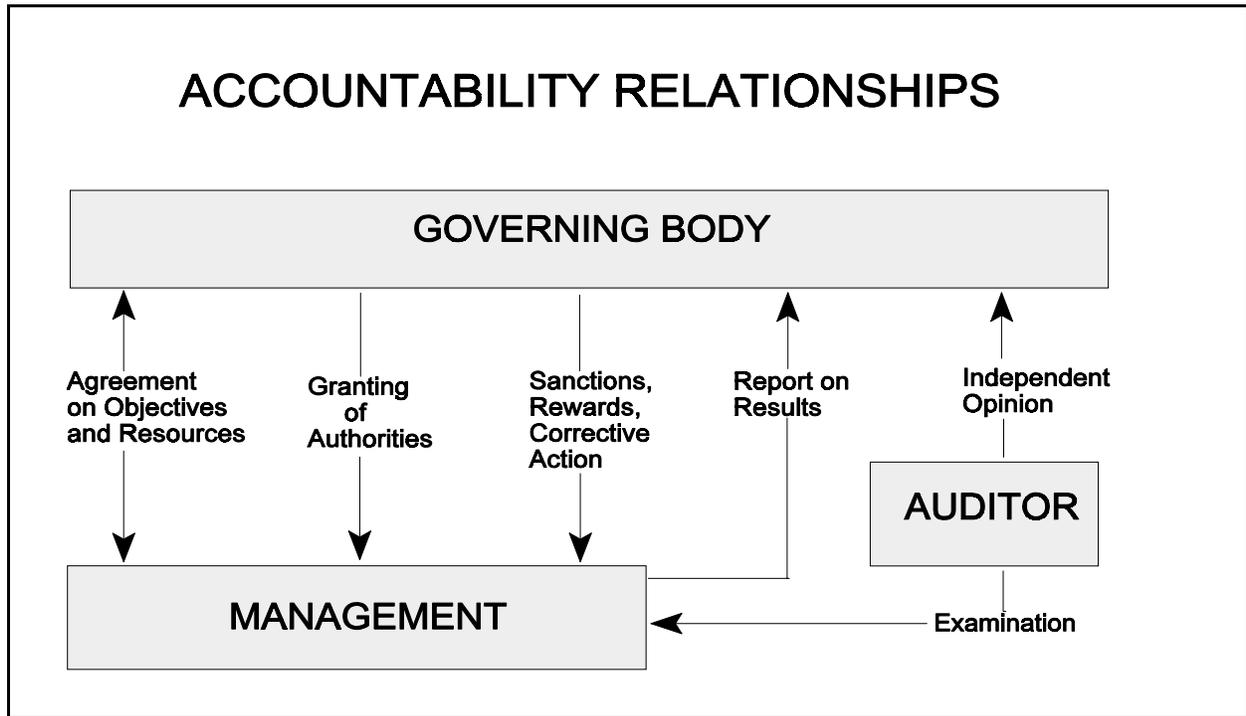


Exhibit 2.2

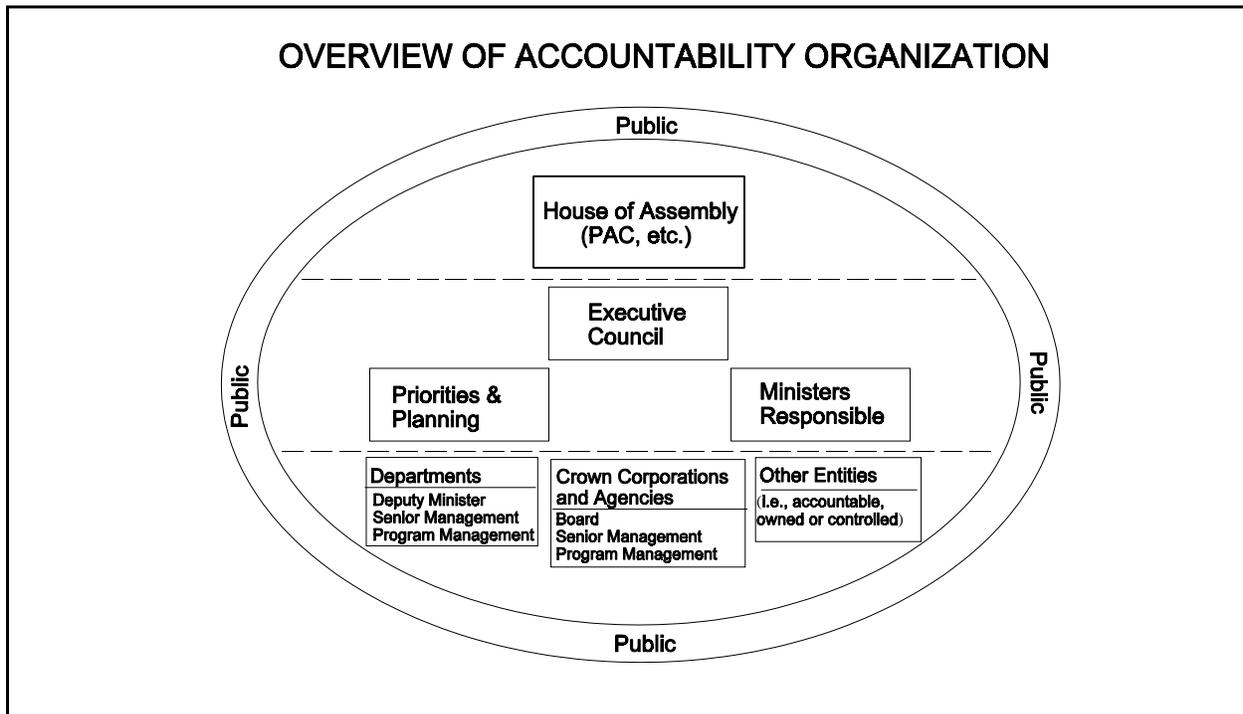


Exhibit 2.3

PROVINCE'S FINANCIAL STATEMENTS STATUS OF PREVIOUSLY IDENTIFIED OPPORTUNITIES FOR IMPROVEMENT		
1998 AG Observations	Status	Notes or Comments
<p>Consolidated financial statements - Full consolidated financial statements should be a primary financial accountability report for government. Consolidated financial statements, should be available publicly on a timely basis. The need for consolidated budget information will require further consideration as part of the move to full consolidated financial statements.</p>	Planned for 1999	Decision announced in September 1999, to move to generally accepted accounting principles, including consolidated financial statements for the year end March 31, 1999.
<p>Reporting entity - Finance continues to review the Province's reporting entity for financial statement purposes. Among other considerations, this involves assessing which Provincial public sector entities should be included for consolidated financial reporting, and which of those will be accounted for as government organizations or alternately as government business enterprises. The implementation of a financial reporting entity in accordance with current CICA recommendations will result in the Province's financial position and results being presented on a more complete and appropriate basis.</p>	Planned for 1999	As part of meeting the requirements for the above decision by government, Finance management and staff undertook an extensive review to determine which public sector entities should be included in the government's reporting entity (GRE) for financial statement purposes.
<p>Reporting of annual results - ...in the absence of extraordinary or retroactive adjustments due to changes in accounting policies, the annual surplus or deficit should be the only factor causing a change in the Province's net direct debt. All other items should flow through the <i>Statement of Revenue and Expenditures</i>, and be included in the determination of the reported surplus or deficit for a fiscal year. ...implementing such a policy would represent some further challenges to the annual budget preparation process.</p>	Planned for 1999	Other than the changes planned for 2000 re: tangible capital assets and pension costs or obligations, this concern is to be addressed in the 1999 financial statements.

Exhibit 2.3 (cont'd)

1998 AG Observations	Status	Notes or Comments
<p>Accounting for pension costs and obligations - The accounting for annual pension costs is currently done based on contributions, which may or may not result in an accurate measure of the cost of services. Finance has previously indicated that since items such as annual or periodic pension valuation adjustments do not lend themselves to accurate and reliable budgeting, it is appropriate for them to be recorded to net direct debt rather than in the calculation of the annual surplus or deficit. While such items may be challenging to determine, both from a budgeting and an accounting perspective, they still represent items that should be considered when assessing the government's fiscal performance.</p>	Planned for 2000	<p>Current and emerging accounting recommendations and practices for employee and post-employment benefits will need to be more fully considered prior to a decision on changes to be made in this regard.</p> <p>Move to summary consolidated financial statement expands the scope of this consideration to public sector entities and considerations not previously incorporated into the government's accounting.</p>
<p>Accounting for tangible capital assets - Alternatives and issues relating to the... accounting for and reporting of tangible capital assets by governments are being studied and worked on by Finance, with input from this Office and departments.</p>	Planned for 2000	<p>Initial note disclosure of the government's tangible capital assets (TCA) is planned for the 1999 statements, with more complete implementation intended for the 2000 financial statements. How the implementation of TCA accounting will affect the annual budget process is yet to be finalized.</p>

*Exhibit 2.4(a)***AUDITORS' REPORT ON CONTROL PROCEDURES**

To Halifax Outsourcing Centre
SHL Systemhouse Inc.

We have examined the accompanying description (pages 16-21) of the stated internal control objectives of the Halifax Outsourcing Centre ("HOC") of SHL Systemhouse Inc. and the control procedures designed to achieve those objectives and have performed tests of the existence of those control procedures as at February 24, 1999. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Our examination was limited to control objectives relating to the mainframe partition used for the Government of Nova Scotia processing.

In our opinion, the control procedures included in the accompanying description were suitably designed to provide reasonable, but not absolute, assurance that the stated internal control objectives described therein were achieved and the control procedures existed as at February 24, 1999.

The description of stated internal control objectives and control procedures at Halifax Outsourcing Centre of SHL Systemhouse Inc. is as of February 24, 1999, and information about tests of operating effectiveness of specific controls is only as at February 24, 1999. Any projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the control procedures in existence. The potential effectiveness of specific control procedures at the Halifax Outsourcing Centre of SHL Systemhouse Inc. is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions to future periods, based on our findings, is subject to the risk that changes required because of the passage of time, such as systems changes to accurately process data in the year 2000, may alter the validity of such conclusions.

As our testing of control procedures was limited to a point in time, our opinion on the effective operation of those control procedures is similarly limited.

Halifax, Canada
February 24, 1999

Ernst & Young, LLP
Chartered Accountants

*Exhibit 2.4(b)***DESCRIPTION OF CONTROL OBJECTIVES AND PROCEDURES
FOR THE GOVERNMENT OF NOVA SCOTIA MAINFRAME PARTITION****Information Security Administration****Control Objective**

- An information security organization exists to develop and institute policies and procedures to protect facilities, operations and client information.

Control Procedures

- An information security policy defining security responsibilities exists.
- An information security administrator has been appointed with specific monitoring and policing responsibilities.
- The organization structure is consistent with good information security practices.

Logical Access**Control Objectives**

- The capability exists to restrict access to the client's data and programs.

Control Procedures

- Effective logical information security to prevent inadvertent or unauthorized access to application programs and client data exists and is monitored.
- The information security administrator manages the definition of userIDs, access privileges and access rules for major security related software products.
- Access rules to sensitive information security control files are periodically reviewed by the information security administrator.
- Information security violations are detected and reported daily to the information security administrator.

Business Continuity Planning**Control Objective**

- A business continuity plan is in place and tested regularly.

Control Procedures

- A business continuity plan for the HOC has been developed.
- The HOC has established guidelines for its clients in determining the priority of recovery for their programs and data in the event of a disaster.
- The plan is updated as the environment changes.
- A test schedule has been established, with tests conducted twice a year.
- Clients are encouraged to participate in testing programs along with the HOC operations personnel.

Exhibit 2.4(b) Cont'd**Personnel****Control Objective**

- Controls provide reasonable assurance that procedures for the hiring and termination of employees are adequate.

Control Procedures

- Prospective employee's previous employment record is verified and missing or inconsistent data is investigated.
- Documentation, manuals, access cards and logical access privileges are returned by resigning or terminated employees.

Operations**Control Objective**

- Procedures exist to prevent or detect accidental errors within the operations area.

Control Procedures

- The master console for each processing system is under control of a qualified systems operator.
- Procedures exist to notify operations staff of changes to practices or problems occurring while they are off shift.
- Requests for shipping tapes to off-site locations are validated and logged.

Facilities**Control Objective**

- Adequate facilities and physical security exist over computer hardware, programs and files.

Control Procedures

- Fire alarms and fire extinguishers are situated throughout the building and are highly visible.
- Visitors are issued visitor badges, required to sign in and out and must be escorted while at the HOC. By prearrangement with HOC management, regular visitors may be issued badges allowing unescorted access to the computer operations and office areas.
- The air cooling system is adequate to handle the generated heat load.
- The cooling system is inspected regularly and measurements are taken to ensure performance is within specifications.
- The uninterruptable power source is of sufficient capacity to meet peak load demand and withstand a protracted outage of local electrical service. The equipment is tested regularly.

Data Communications**Control Objective**

- Controls provide reasonable assurance over the integrity of data in the telecommunications network.

Control Procedures

- Modifications to the existing network configuration must go through a formal change control procedure.
- Access to the Network Operations area and Modem Room requires management authorization.
- Inactive sessions on leased lines are logged off after a period of inactivity.

*Exhibit 2.4(b) Cont'd***Systems Development****Control Objective**

- Controls provide reasonable assurance over the development, testing, implementation and maintenance of system software.

Control Procedures

- New system software is tested internally on a test environment prior to being put into the production environment.
- Updates to production software are approved by management and follow a formal documentation and change control process.
- The creation of new APF libraries is authorized by the Operations Director.
- SAF exits are activated for all products in which the vendor has provided the facility.
- All changes to the operating system code or exits are made under the control of SMP/E.
- System modifications require management approval before introduction into production systems.

Insurance**Control Objective**

- Appropriate insurance coverage, as determined by senior management at the corporate level, is maintained.

Control Procedures

- Insurance policies and procedures are developed and maintained for all SHL locations (including the HOC).
- MCI has umbrella insurance coverage for all its facilities which exceeds the coverage required for the HOC.

Problem Management**Control Objective**

- A facility is maintained to accept problem reports and log and track their resolution.

Control Procedures

- Problem reports are logged and promptly assigned to a qualified person for resolution.
- Open problems are reviewed daily by Operations Services personnel and reviewed by management weekly.

Change Management**Control Objectives**

- All proposed changes to system software, communications and hardware are documented and approved by management prior to acceptance and installation.

Control Procedures

- Weekly change control meetings are held to review all proposed changes. This meeting is attended by departmental managers.
- Emergency changes may be made when conditions warrant. Following an emergency change, a change control document must be completed and discussed at the next weekly change control meeting.

Exhibit 2.4(b) Cont'd

- A change administrator is responsible for coordinating all changes with affected parties and providing fallback procedures.

CLIENT CONTROL CONSIDERATIONS

The HOC's control procedures cover only a portion of the total transaction processing systems; clients perform other portions. It is not feasible for all of the control objectives relating to the processing of transactions to be completely achieved in any one portion of the system. It is necessary for client organizations to apply the internal control structure policies and procedures contemplated in the design of the HOC's policies and procedures to achieve the control objectives specified in this description. Clients and their auditors when making assessments of control risk at client organizations should take the information below into consideration. Control objectives applicable only to client's applications systems are defined by the individual clients and must be achieved solely by the client.

- Unless specific arrangements have been made, clients are responsible for their own application development and maintenance.
- It is the responsibility of clients to ensure that only authorized personnel from their entities have on-line access capabilities.
- System access through the on-line network relies heavily upon the integrity of userIDs and passwords. Each client is responsible for establishing procedures to ensure that on-line input transactions and file maintenance transactions originating from its terminals are authorized, accurate and processed correctly. Such controls should include:
 - Restricting access to on-line terminals and keys
 - Establishing and monitoring procedures to ensure that only appropriately authorized individuals have userIDs and passwords and that they are confidential
 - Requiring periodic changes to user passwords
 - Restricting terminals to specific sensitive application functions
 - Ensuring that individuals are authorized to submit only those transactions necessary to perform their assigned duties.
- In the event of a complete system failure at the HOC, clients are responsible for re-entering, at a minimum, transactions in process at the time of the system failure. Additionally, clients should have a plan to process transactions manually until data processing has been restored at the back-up site. The HOC's clients should develop business continuity plans to recover their own operations in the event of a disaster that affects them but does not disable the HOC's primary facility.
- Clients are responsible for establishing a schedule for periodic application and data file back-ups and should have their own policies, procedures and contingency plans for their applications and data files.
- Clients are responsible for defining critical jobs and for insuring that the HOC has an up-to-date list in order of priority.
- Clients are responsible for notifying the HOC of data set names required for recovery from a disaster and to ensure that timely back-ups of these critical data sets are maintained at the off-site location.

Exhibit 2.5(a)

**EXTRACT FROM
POLICY ON GOVERNMENT PROCUREMENT**

POLICY OBJECTIVE

The objective of this policy statement is to establish and maintain a high level of confidence in the procurement process by ensuring that procurement is carried out in an open, fair, consistent, efficient, and competitive manner.

The Government of Nova Scotia is committed to

- *ensuring that the government's requirements for goods, services, construction, and facilities are met through an open and fair process that provides the highest degree of competition and value to the Province*
- *ensuring that all bidders have reasonable notice and opportunity to tender*
- *fostering economic development by giving every capable Nova Scotia supplier the opportunity to do business with the government*
- *encouraging Nova Scotia businesses to be competitive and to sustain quality product development*
- *adhering to the Agreement on Internal Trade and the Atlantic Procurement Agreement, which create economic opportunities for Nova Scotians*
- *being accountable to the public for procurement decisions*

Exhibit 2.5(b)

POLICIES AND GUIDELINES FOR PROCUREMENT		
(As of November 1999)		
<u>Document</u>	<u>Status</u>	<u>Date Released or Estimated Release</u>
Policy on Government Procurement	Available	January 1996
Environmentally Responsible Procurement Policy	Available	December 1996
Government Procurement Process	Available	January 1997
Government Procurement Process - ASH Sector	Available	January 1997
Procurement and the Nova Scotia Economy	Available	January 1997
Departmental Guide to the Preparation of a RFP	Available	January 1997
Departmental Guide to the Evaluation of a RFP	Available	January 1997
How to Complete a RFP - The Proponent's Guide to RFP Preparation	Available	January 1997
Guide to the Submission & Evaluation of Unsolicited Proposals	Available	July 1997
A Process to Develop Cooperative Business Solutions	Available	October 1997
Procurement Manual Policies and Procedures	Available	October 1997
Engineering/Architect Procurement Process	Available	March 1998
Facilities Procurement Guide	Available	April 1998
Construction Contract Guidelines	Available	December 1998
Availability of Surplus Government Assets for Non-Profit Organizations	Available	December 1998
Supplier Complaint and Dispute Settlement Process	Available	January 1999
A Procurement Process to Support the Development of Public Private Partnerships	Draft	January 1999
Tenders - Procurement Branch Brochure	Available	July 1999

3.

YEAR 2000 UPDATE

BACKGROUND

What is the Year 2000 issue all about?

3.1 The approaching change of century brings with it a potential realization of significant risks for computers and equipment or devices containing microchips. A great deal has already been written and reported about the Year 2000 and its possible worldwide impact. In summary, the risks are characterized by the manner in which dates had been captured allowing only two digits for the year (i.e., 1999 would typically have been recorded and stored as 99). When the century changes to the year 2000, under the old format the year would be recorded as 00. Computers and/or microchips may then interpret this to be the year 1900 or some other system base year. As a result, computations or processes dependent on dates may be performed incorrectly or not at all.

3.2 Year 2000 is not just an information technology (IT) problem. It has long been recognized as a business problem which may have an impact on many facets of an organization's operations and the dependencies among and between business partners. Even where an organization can achieve its own Year 2000 compliance, it still needs assurance that its business partners will do so as well. Therefore, there will always be risks that are external to an organization and beyond its control.

How well has the world been progressing during 1999?

3.3 In August 1999, GartnerGroup, an independent research firm, released its "Year 2000 World Status, 2Q99: The Final Countdown". In that report, it commented

"In the comparatively brief period between our 4Q98 survey and this one, the basic self-reporting survey material shows an unprecedented level of progress. Many countries and industry sectors appear to show a level of progress in three months that it took others a year or more to achieve. However, when self-reporting is compared to other data sources, the reason for this apparent progress seems clear: the level of self-reporting bias has escalated to the point at which self-reporting has become less reliable. The effect is particularly noticeable in the developing world, where GartnerGroup analysts have become aware through many other sources of the sudden engagement of governments and trade associations that have realized that developed trading partners are likely to scale back operations where there was seen to be little willingness to tackle the problem."

3.4 That being said, it is also important to note that GartnerGroup surveys over the past few years have consistently shown Canada among the leading countries in the world in relation to Year 2000 preparedness.

3.5 A representative of the U. S. Central Intelligence Agency (CIA) in an appearance before the Special Senate Committee on the Year 2000 Technology Problem in October 1999 stated the following in relation to foreign preparedness:

"Russia, Ukraine, China and Indonesia are among the countries most likely to experience significant Y2K-related failures. Countries in Western Europe are generally better prepared, although we see the chance of some significant failures in countries such as Italy. Major economic powers such as Germany and Japan are making great strides in Y2K remediation, but their late start and the magnitude of the effort suggest that even these

countries are at risk of some failures. Canada, the UK, Australia, Singapore and Hong Kong are very well prepared and have a lower chance of experiencing any significant Y2K failures.”

3.6 In March 1999 Statistics Canada released the results of a cross-Canada survey comprising more than 10,000 organizations. The survey, conducted in February and March 1999, indicated that

“Completion of Year 2000 preparations was expected to continue until late in the year for some organizations.

Many organizations appeared to be targeting June or September for completing various phases of their Year 2000 projects. As a result, some 23% of large organizations said they would not complete all Year 2000 preparations required to ensure the continued delivery of products and services until after September. This compared to 20% for small organizations and 18% for medium.

Similar results were observed across all industrial sectors. The only exception is the health sector, where 49% of large hospitals said they would not complete their preparations until sometime during the last quarter of this year.

Some providers of municipal services were also leaving Y2K-related work until late in the Year. Among large municipalities, some 34% of police, 9% of ambulance, 22% of fire, 17% of water and 17% of sewage services said they would not finish critical preparations until after September.”

RESULTS IN BRIEF

3.7 The following are our principal observations based upon information available to us up to the end of October 1999.

- In the past year, the government has reported significant progress in dealing with the Year 2000 issue in terms of both remediation efforts as well as the provision of Business Continuity Plans for essential and mission critical services.
- Many lessons have been learned, tools developed and management and technical skills acquired and enhanced. It would be appropriate to take the opportunity to review, identify and share the many and varied experiences (positive and negative) encountered during the efforts. In that light we strongly suggest that the government consider conducting a post-implementation review of its Year 2000 efforts both at the corporate and departmental levels.

SCOPE OF REVIEW

3.8 The objective was to review and update the general status information related to the preparedness of the Nova Scotia government in its plans and actions to deal with the Year 2000 issue. We did not perform an audit and consequently cannot provide assurance as to the preparedness of the government.

3.9 Since the tabling of our 1998 Report in early January 1999, we have continued to monitor the government’s progress in its preparations for Year 2000. The nature and extent of our review comprised the following activities:

- We monitored the departmental status reports detailed on the Province's Year 2000 web site and updated monthly.
- We met with management of the central Year 2000 Project Office to discuss status and issues.
- We participated in an advisory capacity on the Provincial Internal Audit Committee's (PIAC) Year 2000 Sub-Committee. This sub-committee was established to gather information and formulate a common audit strategy for internal auditors to use in reviewing and assessing departmental Year 2000 projects.
- We reviewed the reports of the internal auditors to the extent that they were performed and the results provided to us.
- We reviewed the minutes of the Year 2000 Working Committee, comprising members of the Year 2000 Project Office as well as the departmental Year 2000 Coordinators.
- We continued to monitor and research other sources of information related to Year 2000 including review of:
 - other legislative auditors' reports dealing with the Year 2000 issue; and
 - independent published surveys such as GartnerGroup and Statistics Canada.

PRINCIPAL OBSERVATIONS

Has the Nova Scotia government made sufficient progress in the past year?

3.10 Over the past year, since the completion of our last Report and based primarily upon the progress being reported by each department, there has been very significant progress reported across the government. Status reports posted on the Government's Year 2000 web site indicate that at the end of October 1999:

- 87 of the 99 departmental *Essential and Mission Critical Services* are reported as "Ready".
- 93 of the 99 departmental *Essential and Mission Critical Services* related Business Continuity Plans are reported as "Ready".
- 140 of the 209 other departmental Projects are reported as "Ready".

3.11 Further, in regard to these statistics, the following additional comments are important in order to clarify the Province's overall readiness.

- The *Essential and Mission Critical Services* which were not yet completed at October 31, 1999 are scheduled for completion by November 30, 1999.
- The other departmental projects may be categorized in the following ranges of completion at October 31, 1999:

- Ready	140
- 90% - 99% Complete	45
- 80% - 89% Complete	7
- 70% - 79% Complete	6
- less than 70% Complete	11

- Many of the remaining departmental projects are scheduled for completion by November 30, 1999.

3.12 In regard to the Health Care Organizations which comprise four Regional Health Boards and four Non-Designated Organizations (QEII, IWK, Cape Breton Healthcare Complex and Nova Scotia Hospital) the following is the status at October 31, 1999 as reported on the Province's Year 2000 web site:

- 24 of the 64 *Essential and Mission Critical Services* are reported as "Ready".
- 25 of the 64 *Essential and Mission Critical Services* related Business Continuity Plans are reported as "Ready".
- 3 of the 8 organizations' other projects (not *Essential and Mission Critical Services*) are reported as "Ready". In this regard, each organization is summarized as a single project.
- The organizations' other projects may be categorized in the following ranges of completion:

- Ready	3
- 90% - 99% Complete	5

3.13 It is important to note that these organizations collectively utilized a different risk assessment methodology than the government in identifying and assessing Year 2000 risks and priorities. Therefore, although they have reported their summary status on the government Year 2000 website using the government reporting model, as summarized above, they have also reported their summary status on the Department of Health website in accordance with their reporting model. This reporting model focuses on five key areas or services common to each of the eight organizations as follows:

- Biomedical equipment
- Laboratories
- Diagnostic imaging
- Facilities
- Information systems

3.14 Each of these areas or services is then reported by each organization in relation to four milestones as follows:

- Remediation
- Implementation
- Contingency plans created
- Contingency plans validated

3.15 A more detailed reporting of the Year 2000 status of these organizations using their reporting model as at October 31, 1999, was provided to us by Health's Y2000 Project Coordination Office. It is attached as Exhibit 3.1 on page 39.

3.16 In regard to the projected total costs of the Province's Year 2000 efforts, the status reports at October 31, 1999 show those at approximately \$70.9 million (\$38.6 million for the health care organizations and the balance of \$32.3 million for departmental efforts).

What strategy was used in 1999 by the government to refocus its efforts?

3.17 Since last year, when there was one primary category of projects for each department which encompassed all Year 2000 related activities, a new strategy emerged. First, the government appointed the Business and Technology Advisory Committee (BTAC) to function as the Year 2000 Steering Committee. This elevated the priority of the government's efforts since BTAC is comprised of selected Deputy Ministers. In this capacity, BTAC was constantly kept apprised of the progress and issues and was responsible for all strategic decisions regarding the government's efforts.

3.18 Secondly, early in 1999 the government adopted a new risk management methodology which was deployed across all government departments. This risk management methodology provided the criteria for departments to review and assess their business functions in terms of importance. Business functions were assessed into four categories:

- impact on Nova Scotians;
- impact on obligations;
- impact on employees; and
- financial impact.

3.19 The category *Impact on Nova Scotians* was then used as the basis for defining all *Essential and Mission Critical Services*. The specific criteria used to measure this level of impact consisted of those services which directly affected the health, safety, security and economic well-being of Nova Scotians as well as those which directly impacted on the environment. All services meeting these criteria are ones for which any interruption could have serious consequences for Nova Scotians.

3.20 In late February 1999, a final listing of *Essential and Mission Critical Services* was prepared and submitted by the departments to BTAC for review and approval. It was then presented to the full Committee of Deputy Ministers on March 1, 1999 and was then presented to, and approved by, Executive Council. The consolidated listing for the departments comprised 99 high priority services.

3.21 Once the *Essential and Mission Critical Services* were reviewed and approved, the Year 2000 Project Office began tracking progress on these services as a separate category. From that point on,

the web site provided monthly status updates on both *Essential and Mission Critical Services* as well as all other departmental Year 2000 Projects.

3.22 The nature and timing of the status updates on the Province's web site made it much easier for Nova Scotians to periodically check on the progress of the government and it also made our general monitoring efforts much more efficient.

What were the government's primary Year 2000 related accomplishments in the past year?

3.23 The following is a summary of the primary accomplishments by the government in the past year related to the Year 2000 issue, based on the information and representations provided to us by the Year 2000 Project Office.

- In the publications, *Government By Design 1999-2000*, and *Crown Corporation Business Plans 1999-2000* there were 16 of 17 departments and 10 of 26 crown corporations/agencies for which the Year 2000 issue was specifically identified as a priority. These publications represent two of the key government planning documents and this level of recognition of the Year 2000 as a priority is a substantial increase over 1998-99 when there was very little recognition of the issue as a priority in these documents.
- The risk management methodology, approved and acquired late last year, was deployed and implemented across all government departments. The full risk management assessment was performed and completed in February 1999 with final approval by the Deputy Ministers Committee on March 1, 1999. It was subsequently presented to, and approved by, Executive Council.
- The Project Office in consultation with the departmental Year 2000 Coordinators continued the weekly Year 2000 workshops and technical sessions, where information was shared and issues raised and discussed. Several focused workgroups were established to research and provide guidance on issues of common interest.
- The Year 2000 Project Office, led by the Deputy Minister of the Technology and Science Secretariat, appeared before the Public Accounts Committee on March 31, 1999 in an effort to provide information on the government's progress and issues to the House and to the public.
- The Year 2000 Project Office enhanced the information provided on both the government Intranet site as well as the public web site as a means of supporting departments in their Year 2000 projects and providing information and references specific to the issue.
- The Project Office continued monitoring departmental progress reports, which were updated and published on the public web site each month.
- The Department of Health continued its central Y2000 Project Coordination Office in support of the Province's health care organizations.

How should we look back on this very unique experience?

3.24 The Year 2000 issue and all of its associated and often complex interdependencies presented the government, and indeed the whole world, with a very unique set of circumstances and challenges, the likes of which may never again be seen. While the Year 2000 issue is analogous to a potential disaster of world-wide proportions, it was predictable in that everyone knew that it was

coming and specifically when it would arrive. Granted, from a global perspective, organizations were very late in rising to the challenge, however many countries and organizations invested significant time and resources and will in fact succeed in minimizing the potential risks associated with the century change. Those who largely ignored the issue, on the other hand, may not fare so well.

3.25 The Year 2000 issue forced government to put its departments and agencies under a microscope, to identify and assess Year 2000 risks and to work together as a cohesive team with a single common goal. The process in itself provided a very unique opportunity to gain a much more indepth understanding of not only business functions, but also, and perhaps more importantly, the dependancies among and between other organizations.

3.26 Many lessons have been learned, tools developed, and management and technical skills acquired and enhanced. It would be appropriate to take the opportunity to review, identify and share the many and varied experiences (positive and negative) encountered during the efforts. In that light we strongly suggest that the government consider conducting a post-implementation review of its Year 2000 efforts both at the corporate and departmental levels. Such a review should not be performed until the project teams have substantially completed their efforts and the actual impacts of Year 2000 are known, probably in and around the summer or fall of 2000.

CONCLUDING REMARKS

3.27 We have not performed an audit of the Government's Year 2000 efforts and accordingly we provide no assurance as to the completeness and adequacy of those efforts.

3.28 Over the past year, significant progress has been reported across the Nova Scotia government in preparing for the Year 2000. Year 2000 represented a very real threat to government and its ability to provide complete and uninterrupted service upon the turn of the century. The Nova Scotia government took steps to minimize the potential risks through a combination of remediation efforts completed, as well as provision of Business Continuity Plans for essential and mission critical services.

3.29 The unique nature of this problem, and in particular the potential risks to the government, should continue to be of significant and on-going interest to Members of the House of Assembly beyond January 1, 2000. Accordingly, we repeat our recommendation from each of our last two Reports that it would be appropriate for the Year 2000 Project Office to continue providing periodic status reports so government and the Members of the House of Assembly may continue to be kept current on the progress of this very important issue.

*Exhibit 3.1***HEALTH CARE ORGANIZATIONS
REMEDIAATION, IMPLEMENTATION AND CONTINGENCY PLANNING SUMMARY**

Health Care Organization	Remediation % Complete	Remediation Completion Date	Implemented % Complete	Implemented Completion Date	Cont.Plans Developed % Complete	Contingency Plans Created Date	Contingency Plans Validated	Contingency Plans Validated Date
CBHC Cape Breton Healthcare Complex								
Biomed	90%	Nov-99	90%	Nov-99	90%	Nov-99	25%	Nov-99
Lab	90%	Nov-99	90%	Nov-99	90%	Nov-99	25%	Nov-99
DI	85%	Nov-99	85%	Nov-99	90%	Nov-99	25%	Nov-99
Facilities	70%	Nov-99	70%	Nov-99	90%	Nov-99	25%	Nov-99
IS	90%	Nov-99	90%	Nov-99	90%	Nov-99	25%	Nov-99
CRHB Central Regional Health Board								
Biomed	98%	Nov-99	95%	Nov-99	100%	Complete	100%	Complete
Lab	98%	Nov-99	95%	Nov-99	100%	Complete	100%	Complete
DI	98%	Nov-99	95%	Nov-99	100%	Complete	100%	Complete
Facilities	90%	Nov-99	90%	Nov-99	100%	Complete	100%	Complete
IS	80%	Nov-99	80%	Nov-99	100%	Complete	100%	Complete
ERHB Eastern Regional Health Board								
Biomed	100%	Complete	100%	Complete	100%	Complete	70%	Nov-99
Lab	100%	Complete	70%	Nov-99	85%	Nov-99	40%	Nov-99
DI	100%	Complete	100%	Complete	100%	Complete	90%	Nov-99
Facilities	90%	Nov-99	90%	Nov-99	90%	Nov-99	70%	Nov-99
IS	75%	Nov-99	70%	Nov-99	85%	Nov-99	30%	Nov-99
IWK-Grace IWK Grace Health Centre								
Biomed	100%	Complete	90%	Nov-99	100%	Complete	60%	Nov-99
Lab	100%	Complete	90%	Nov-99	100%	Complete	60%	Nov-99
DI	100%	Complete	90%	Nov-99	100%	Complete	60%	Nov-99
Facilities	100%	Complete	100%	Complete	100%	Complete	60%	Nov-99
IS	90%	Nov-99	80%	Nov-99	100%	Complete	60%	Nov-99
NRHB Northern Regional Health Board								
Biomed	100%	Complete	100%	Complete	100%	Complete	100%	Complete
Lab	100%	Complete	100%	Complete	100%	Complete	100%	Complete
DI	100%	Complete	100%	Complete	100%	Complete	100%	Complete
Facilities	100%	Complete	100%	Complete	100%	Complete	100%	Complete
IS	100%	Complete	100%	Complete	100%	Complete	100%	Complete
NSH Nova Scotia Hospital								
Biomed	100%	Complete	100%	Complete	100%	Complete	95%	Nov-99
Lab	100%	Complete	100%	Complete	100%	Complete	95%	Nov-99
DI	100%	Complete	100%	Complete	100%	Complete	95%	Nov-99
Facilities	100%	Complete	100%	Complete	100%	Complete	95%	Nov-99
IS	100%	Complete	100%	Complete	100%	Complete	95%	Nov-99
QEII Queen Elizabeth II Health Sciences Centre								
Biomed	100%	Complete	100%	Complete	100%	Complete	40%	Nov-99
Lab	100%	Complete	100%	Complete	100%	Complete	40%	Nov-99
DI	100%	Complete	100%	Complete	100%	Complete	40%	Nov-99
Facilities	100%	Complete	100%	Complete	100%	Complete	40%	Nov-99
IS	100%	Complete	100%	Complete	100%	Complete	40%	Nov-99
WRHB Western Regional Health Board								
Biomed	90%	Nov-99	85%	Nov-99	100%	Complete	25%	Nov-99
Lab	95%	Nov-99	85%	Nov-99	100%	Complete	25%	Nov-99
DI	95%	Nov-99	85%	Nov-99	100%	Complete	20%	Nov-99
Facilities	100%	Nov-99	90%	Nov-99	100%	Complete	25%	Nov-99
IS	85%	Nov-99	85%	Nov-99	100%	Complete	40%	Nov-99

DEPARTMENTAL AUDITS

4.

EDUCATION - NOVA SCOTIA COMMUNITY COLLEGE

BACKGROUND

4.1 An Act Respecting Collège de l'Acadie and the Nova Scotia Community College was assented to January 11, 1996. The Act may be cited as the Community Colleges Act. Prior to this Act being passed, the community college activities were administered through the Department of Education and Culture under the Nova Scotia Community College Act (1990).

4.2 The legislation separates Collège de l'Acadie from the Nova Scotia Community College (NSCC). The legislation provides for separate boards, administration, presidents, annual reports, and annual estimates for each of these two organizations.

4.3 We completed an audit of certain aspects of the Community College in 1993 with follow up in 1994. As with our previous audit, the current audit did not include Collège de l'Acadie.

4.4 Our 1993 audit identified many significant deficiencies in governance and management of the College. Subsequent to that audit, the government took action to address most of our recommendations. Those actions included self-governance under a Board of Governors, and implementation of the results of a major internal program review which led to changes in program offerings and the number of campuses. Exhibit 4.1 on page 56 is a document prepared by NSCC which summarizes progress in the 1994-99 period in addressing the recommendations of the 1993 audit. The 1993 audit and the implementation of the related recommendations illustrate how the government, the NSCC and the Auditor General can work together to achieve positive change in the public sector.

4.5 The total revenue of the College for fiscal 1997-98 amounted to \$76.7 million while expenditures were \$76.3 million resulting in an excess of revenue over expenditures of \$0.4 million. Exhibit 4.3 is a reproduction of the Statement of Revenue and Expenditures for the year ended March 31, 1998.

4.6 NSCC's expenditure budget for the 1998-99 fiscal year amounted to \$76.6 million. Staff levels consisted of 520 full-time faculty, 297 extension faculty and 571 non-faculty. There were 6,643 full-time students enrolled at September 30, 1998 and 131 regular part-time students. The numbers of apprentice and customized training students fluctuated throughout the year depending on demand. Last year there were approximately 13,000 in this category.

4.7 The 1999-2000 funding arrangements for the College had not been finalized by the Department of Education and the College at the time of writing this Report. However, in his October 14, 1999 *Budget Address*, the Minister of Finance (when referring to the defeated budget of June 1999) said "*It is fair to say there were some initiatives, such as the increased funding to expand seats at the Nova Scotia Community Colleges, that all parties agreed with. The commitments have been kept on those items.*"

4.8 The NSCC has 2 million square feet of space under administration in 14 sites at 13 campuses in Nova Scotia. Previous to passage of the present Act, there were 19 campuses and efforts have been ongoing to consolidate the campuses.

RESULTS IN BRIEF**4.9** The following are the principal observations from this audit:

- Our 1993 audit identified many significant deficiencies in governance and management of the College. Subsequent to that audit, the government took action to address most of our recommendations. Those actions included self-governance under a Board of Governors, and implementation of the results of a major internal program review which led to changes in program offerings and the number of campuses. The Board acted on virtually all of the remaining recommendations. The 1993 audit and the implementation of the related recommendations illustrate how the government, the NSCC and the Auditor General can work together to achieve positive change in the public sector.
- The Department of Education and the NSCC need to define expected outcomes for the Province's funding to the College including expectations regarding accessibility, enrollment levels and costs to be borne by students. Expected outcomes are essentially public policy decisions dealing with what the government expects to achieve from the funding provided, and agreed-upon outcomes should serve as inputs to the process of determining the amount of funding which the College should receive. A funding methodology for the Province's contribution to NSCC should be established and roles and responsibilities for the budget process should be clarified.
- The Board has established appropriate processes for governance of the College in most areas. The Board has established an evaluation process for the President.
- A strategic plan was approved by the Board in May 1999 and is currently being implemented. The College also has a new mission statement which has been reproduced in Exhibit 4.2.
- Until recently, there has been lack of compliance with the legislation which requires an annual report to be produced by management and tabled in the House. The first Annual Report which covered 1996-97 and 1997-98 was completed in November 1998 and has yet to be tabled in the House of Assembly.
- The College is not able to accept all applicants. Consultants have been engaged to recommend ways to increase capacity. As well, management has issued a request for proposals for a centralized application system.
- The introduction of the Student Information System is a significant improvement since our last Report, however, there is no verification process applied to the demographic information entered and no linkage to the accounting information. Our tests revealed errors in the information recorded. Management has issued a request for proposals for a system to satisfy the College's future needs.
- The definition of expected outcomes and reporting on outcomes achieved needs to be improved. In addition to employment outcomes currently reported, information should be reported on other outcomes such as enrollments, waiting lists, retention rates, drop out rates and graduation placements. The College has recently issued a request for proposals to replace its core administrative information systems. Improvements in these systems should enhance the ability of the College to report on outcomes.

- The Y2K plan and identified milestones had not been achieved at the time of our visit. The risk assessment and resulting budget implications have now been completed. Status reporting of Y2K issues to the Board has been informal.
- A needs assessment has recently been completed, by facilities management staff, on the buildings and equipment of the College. The needs assessment forecasts a total shortfall of \$10.4 million in funding for required capital maintenance over the next five years.
- The financial statements of the College do not include all costs of operating the College. Costs borne by the Province include building maintenance and amount to approximately \$1.5 million annually.

AUDIT SCOPE

4.10 The overall objectives of this assignment were to review compliance with the Act, adequacy of the control systems and due regard for economy and efficiencies in certain areas. Our objectives also included examining the governance and accountability framework for the Nova Scotia Community College by reviewing:

- overall governance of the Board and accountability to the Minister and the Legislature, and
- some key aspects of the College's systems to examine the specific accountability framework in effect.

4.11 Key areas reviewed included planning, enrollment, student outcomes, organizing and applying resources, and information systems.

4.12 The audit did not include the Collège de l'Acadie.

4.13 The criteria used for this audit are summarized as follows:

- There should be clearly defined responsibilities and accountabilities for the NSCC.
- The reporting system should be adequate to ensure that key results and achievement of objectives are addressed in periodic reporting to the Minister and the House of Assembly.
- There should be a vision statement and plan that clearly explain the linkages between the legislation established for the NSCC and its vision, values, mission and objectives.
- There should be performance indicators which help determine whether students have achieved appropriate outcomes.
- There should be systems in place to provide for obtaining, organizing and administering resources to achieve desired outcomes at a reasonable cost.

4.14 For the audit of governance and accountability we made use of the following sources of criteria:

- *Guidance for Directors - Governance Process for Control* - published by the Canadian Institute of Chartered Accountants;
- *Guideline for Improved Corporate Governance in Canada* - published by the Toronto Stock Exchange Committee on Corporate Governance in Canada; and
- *Reporting on Effectiveness in Colleges and Institutes - A Proposed Accountability Framework for the British Columbia Public System* - published by the Canadian Comprehensive Auditing Foundation.

PRINCIPAL FINDINGS

Governance and Accountability

4.15 *Board of governors* - The Act specifies the composition, function, duties and powers of the Board. The bylaws, approved in January 1997, also set the standing committees and general terms of reference for each.

4.16 The Board composition is in accordance with the Act and includes two students of the College elected by the students of the College, one academic staff member of the College elected by the academic staff members of the College, one administrative staff member of the College elected by the administrative staff members of the College, one support staff member of the College elected by the support staff of the College, not fewer than five and not more than seven persons nominated by the Minister, and not fewer than five and not more than seven persons appointed by the Board.

4.17 An orientation package has been developed for newly appointed Board members. The Board has established a meeting schedule, well in excess of the legislated requirement of a minimum four meetings each year. The Board usually meets bi-monthly.

4.18 Calling of meetings, notice to Board members and the public, conduct of business at meetings, and the conduct of the business and affairs of the College are regulated through the bylaws. The bylaws are open to examination by the public during the normal office hours of the College. Meetings of the Board are open to the public. However, the members of the Board are not prevented from meeting in private to discuss matters such as those related to personnel; the acquisition, sale, lease and security of property; labour relations; and legal opinions. Several in camera sessions during regular Board meetings have occurred.

4.19 The Board, through the bylaws, has established three standing committees; an Executive Committee, a Programs and Services Committee, and a Finance and Audit Committee. All of these committees have terms of reference broadly defined in the bylaws and all have been active. The terms of reference have been approved by the Board.

4.20 There are also a number of task committees established for various purposes, one of the most significant presently being the steering committee for the strategic planning process.

4.21 The Finance and Audit Committee is primarily responsible for review of the quarterly financial statements, appointment of auditors, review of operating and capital budgets, and receipt of the annual audited financial statements and management letters from the independent auditors.

4.22 Internal audit reports have been addressed to the principal and the President. The minutes of the Finance and Audit Committee do not include any comments or discussion on the various internal

audit reports completed. These reports should form part of the Committee's responsibility. The internal auditor reports functionally to the Vice-President of Finance but has a direct reporting relationship to the Board through the Finance and Audit Committee. The internal audit position had been vacant since the summer of 1998 and has been recently filled by a professional accountant.

4.23 The Board has established a self evaluation process. A self evaluation questionnaire was developed dealing with the Board's performance in several areas. The questionnaire was circulated to Board members for completion in each of the past two years and the results tabulated.

4.24 The Board is authorized to appoint and determine the terms and conditions of employment of a President, who shall be the Chief Executive Officer of the College. Subject to the direction of the Board, the President is responsible for the general management and direction of the College including:

- the policies, programs and services of the College;
- the business affairs of the College; and
- such other matters as may be delegated by the Board to the President.

4.25 The term of office of the President shall not exceed five years and the President may be re-appointed. The process adopted by the Board for the appointment, review and removal of a President is subject to the approval of the Minister.

4.26 The Executive Committee is responsible for selection, review and termination of the President. The Committee had expressed concern that the Board had not developed a formal evaluation process for the position. The Committee recommended annual adjustments in remuneration of the former President without a formal evaluation process in place. A new President was appointed in October 1998 following the completion of a selection process adopted by the Committee, including the utilization of a consultant. A statement of expectations has been mutually agreed to, and the Board has established a formal evaluation process for the President.

4.27 The College's two Vice-Presidents, Executive Assistant, the Director of Student Services, the Manager of Public Affairs, and the Manager of Human Resources comprise the central office senior management team. All campus Principals report to the Vice-President of Program Services. At the campus level, management is comprised of the principal, department heads, the Manager of Administration and the Community Education and Training Officer (CETO).

4.28 *Relationship with government* - The Act sets out the duties and responsibilities of the Minister of Education, the Board and the President (CEO).

4.29 Section 71(3) of the Act states that the Minister may approve the annual fiscal year estimates of sums required for purposes of the College as submitted by the Board. Section 71(4) states "*or may, after consultation with the Board, amend the estimate and the Board shall adopt the annual estimate as approved or amended by the Minister.*"

4.30 The Board is required to submit to the Minister, in the form and at the time determined by the Minister, its annual estimate of all sums that are required for lawful purposes of the College for the fiscal year. Further, this estimate is to be prepared before the beginning of the fiscal year and is to be consistent with the multi-year operating and capital plans of the College. The Board has positioned itself to approve the budget prior to the commencement of the fiscal year, however delays in receiving the Minister's approval have prevented this.

4.31 Funding for the NSCC from the Province is approved as part of the Estimates approval process and represents part of the vote for the Department of Education (DOE). The 1998-99 funding is reflected in the Estimates under DOE, Training and Financial Assistance.

4.32 The budgeting process for the 1998-99 fiscal year was difficult for both NSCC and the Department. In March 1998, while trying to resolve budget funding difficulties, the Deputy Minister of Education pointed out that the NSCC and DOE should hold discussions to clarify their respective roles in the budgeting process. No meetings have occurred relative to defining the roles and responsibilities and we have recommended that such meetings be held. In April 1998 the Minister indicated his reluctance to go forward with a \$400 tuition increase recommended by NSCC until a thorough review by DOE of the College's budget. The Department's role in reviewing the NSCC budget was not clear to NSCC. In June 1998 the Board approved its budget based on correspondence in late May from the Deputy Minister indicating the Department's financial commitment to the College. The Board-approved budget included a \$200 increase in tuition, although this had not yet been approved by Minister nor the Governor in Council as required by Section 63(1)(o). The \$200 increase was subsequently approved by order in council. In September 1999, the Governor in Council approved an additional tuition increase of \$300 to \$1,500.

4.33 The Department and the College have not defined expected outcomes for the Province's funding to the College including expectations regarding accessibility, enrollment levels, and costs to be borne by students. Expected outcomes are essentially public policy decisions dealing with what the government expects to achieve from the funding provided, and agreed-upon outcomes should serve as inputs to the process of determining the amount of funding which the College should receive. The Department of Education has indicated that it has been working with the Council of Ministers of Education (CMEC) on the development of an articulated series of expectations for post-secondary institutions. The Department says that output and outcome measures will be formulated in consultation with the NSCC drawing upon the best practices applied and tested in other jurisdictions. The Department intends to have a substantial part of this work completed for the 2000-01 fiscal year.

4.34 The Department and College have not developed a methodology to be followed in determining the appropriate funding to be provided by the Province to meet the College's requirements. Lack of an appropriate funding methodology causes considerable difficulty for the Minister, the College and the Department in planning financial affairs. Consideration should be given, as recommended in our previous Reports, to improving this situation by developing a funding methodology acceptable to government and the Department, linked to the strategic and operational plans.

4.35 *Annual report* - Section 72 of the Act requires an annual report be presented to the Minister, "by a date determined by the Minister." The Minister shall table the annual report in the House of Assembly or, if the House is not sitting then, table the annual report with the Clerk of the Assembly. The annual report contents are defined in the Act to include audited financial statements of the College and any other information the Minister requests.

4.36 The College's first annual report for the years 1996-97 and 1997-98 was completed in November 1998 and has yet to be tabled in the House of Assembly.

4.37 The annual report is the formal reporting document to be provided to the Minister and the House of Assembly. It should be tabled annually on a timely basis (usually within six months of year end) and include the vision, mission, goals, objectives, plans and the achievements of the College. Progress in achieving planned outcomes and targets should be clearly reported.

Planning

4.38 *Strategic planning* - The Board and the College have been engaged in the development of a strategic plan since May 1997. A revised mission statement along with vision and values statements, as set out in Exhibit 4.2, were developed by the Board and College management as part of a rigorous strategic planning exercise. The original mission statement of 1992 was inherited from the Department of Education. The vision statement was accepted by the Board in November 1997, following several submissions and reviews, and the strategic directions were approved by the Board in February 1998.

4.39 In October 1998, the newly appointed President issued a memorandum to faculty, staff and students outlining the establishment of a steering committee for the strategic planning process. The steering committee composition was defined and included representation from all areas of the College. The plan was developed, presented and accepted by the Board in May 1999.

4.40 As of the fall of 1999, management has indicated that the strategic plan is being implemented. Specific objectives and key performance indicators College-wide or for individual campuses have not yet been developed. The plan has not yet been linked to long-term or annual operating goals and objectives. Indicators and linkages are part of the implementation process.

4.41 The strategic plans should incorporate government's expectations of the College, particularly in terms of student enrollments and student outcomes. As stated in paragraph 4.33 above, expected outcomes should be defined by the College and Department. These expected outcomes should then be incorporated into the strategic planning process.

4.42 *Student enrollment* - Each campus has capacity levels established for each program based on space limits, equipment and safety limits. These levels are based on standard class sizes and the traditional academic year and teaching methods for the program. The College does not know what the expanded capacity could be if new technologies and teaching methods were introduced. The same points were made in our 1993 Report on the Community College.

4.43 The ratio of qualified applicants to total capacity is not known by the College, but for 1998-1999 there were 20,000 applications received from 15,094 applicants, and enrollment at September 30, 1998 was 6,643. The College does not collect any information nor complete any reports about the 8,451 applicants who are not enrolled. In the short term, to increase capacity, management has plans to modify classrooms, class schedules and shifts, and the establishment of the virtual campus, available electronically. In the longer term, the College has engaged a consulting firm to provide recommendations on increasing the College's seating capacity by 50%. The assignment is in progress and the report expected by the end of 1999.

4.44 Students apply to individual campuses using a standard College-wide application form. At the time of our audit, there was no formal process to ensure rejected, but qualified, students were informed of vacancies at other campuses. As suggested in our 1993 Report, the potential for a common centralized application system for the campuses should be examined. The College has recently started producing new enrollment information and sharing more information among campuses. Management has indicated that there is now a process to ensure rejected students are informed of vacancies.

4.45 Prior to January 1998 the College maintained student demographic records manually. The College tested a computer package prior to 1998 but found it did not meet its needs. The Student Information System (SIS) was then developed in-house to allow for computerized data collection and reporting. The SIS is capable of collecting a variety of information on student demographics. This was an area where significant improvement has been noted since our 1993 Report. Management

has indicated that the system does not adequately satisfy the College's future requirements and there is a plan to replace it.

4.46 Demographic information is entered into the SIS at the campus level, and is not verified for accuracy by either the campus or central office. Data regarding age and gender of students is currently being properly collected. Information regarding home county and prior education of the student is not being completely collected. Enrollment information submitted to central office is partially verified through the preparation of class lists from the SIS. The lists are compared to attendance and discrepancies between the list and those students in the class are examined. This procedure only verifies the number of students in each class; the demographic details about those students are not verified in any way.

4.47 We completed tests on a limited basis tracing demographic information from the student application to the SIS database. Two errors were found with regard to foreign students' status. The students should have been classified as foreign students and should have paid the foreign student tuition of \$7,500 not the Canadian tuition of \$1,200. Testing and review of student demographic information should be completed by internal audit and, as pointed out by external auditors, reconciliation of tuition fee revenue should be completed. The internal auditor has indicated that these items are included in the scope of a new audit plan.

Student Outcomes

4.48 A key measure of success for community colleges should be whether students have achieved expected outcomes. The NSCC has no policies or procedures outlining what outcome information should be tracked or how information could be collected. The College should decide on appropriate measures of student outcomes and set standards and targets for those indicators. Data should be collected and analysed as necessary to enable reporting on achievement of outcomes.

4.49 The only measure of student outcomes which is produced for the College is the *Graduate Follow up Survey*. This survey is prepared by the Department of Education and the results are given to the College. The survey provides information on the employment rate of graduates approximately one year after graduation. This information is not received by the College until approximately 18 months after the students have graduated. The results of the survey are used in the program review process. The survey results have historically indicated employment rates of graduates in the range of 70%.

4.50 Some campuses also conduct a survey of students prior to graduation to determine employment status. The information collected from these surveys is not submitted to central office. Detailed information is collected by individual programs on employment of graduates. This information is used by the campus in preparation of the *Existing Program Assessment Form* for the program review process but is not forwarded to central office. Central office should investigate to determine which survey provides the most accurate and timely information, and then review whether the other methods need to be continued.

4.51 There is no information reported on retention rates, drop out rates, or graduation placements. Central management indicated that the new SIS will assist in collecting this information. Information on waiting list by program is collected at the campus level. This information is not reported to central office, although central management indicated a general understanding of information contained on waiting lists. Reporting on information collected by the College is limited and needs to be improved. The improvements suggested here and in the section on student enrollment should enable the College to more fully comply with Section 63(1)(s) of the Act. This section requires the Board to publish an annual academic report that includes student information respecting enrollment, attrition, graduation and graduate employment placement and such other information as the Minister requires.

4.52 We believe that the information collected regarding employment should be supplemented with information focussing on factors such as acquisition of skills, attitudes and knowledge since employment is only one of several potential outcomes for the College.

Organizing and Applying Resources

4.53 *Policies and procedures* - Management has developed a draft Financial Management manual. Some sections such as procurement policies and procedures have been completed and distributed to the campuses for implementation. Draft policies and procedures for other areas such as cash handling and banking procedures relative to tuition fees, and customized training and apprentice training have also been developed. Policies and procedures with regard to the implementation of the financial system have also been completed and distributed to the campuses. Areas such as budgeting and fixed asset management have not been formalized for inclusion in the manual.

4.54 *Planning and budgeting* - A new strategic plan was approved by the Board in May 1999. Annual operating plans and budgets have not yet been linked to longer-term and strategic plans.

4.55 The budgeting process is not formalized in the Financial Management manual. Written instructions are issued by senior management, usually in the fall, to the campuses. As part of these instructions campus budgets are to be submitted to central office in a specific format and by a specified date. A meeting of principals and business managers occurs, usually in mid September, at which senior management provides advice on the timing and process to be followed in submitting the annual operating budget. This budget is required to be returned by November which is well in advance of the commencement of the fiscal year.

4.56 The annual operating budgets submitted by the individual campuses are reviewed and challenged by central senior management. Documentation indicated budget negotiations with central office were still occurring in late April, albeit for a small amount relative to the campus budget request. Throughout the year, actual to budget comparisons are made on a campus by campus basis.

4.57 Timeliness of budgeting decisions is a problem for the College. The College cannot complete its budgeting process until it can estimate its revenues which depend primarily on government decisions regarding grants and tuition fees. The Department of Education should inform the College of its approved funding prior to commencement of the fiscal year. The campuses should also be aware of their approved budgets prior to commencement of the fiscal year.

4.58 In addition to funding, the Province supplies additional resources for facilities maintenance which have averaged approximately \$1.5 million annually. The level of these costs is negotiated by the College and the Department of Transportation and Public Works.

4.59 *Control over revenues* - The Financial Management manual contains draft policies and procedures to control revenues and related cash and banking policies and procedures.

4.60 Cash registers, invoices, work orders, segregation of duties and written policies and procedures provide the basic internal control framework. Internal audits have been conducted at various campuses and the related reports have been forwarded to the respective principal and business manager for implementation of recommended improvements. Required improvements in cash handling and control of revenue were identified at several campuses.

4.61 The internal audit position which was vacant for some time has recently been filled. Follow-up of recommended improvements has not occurred due to the vacancy but should occur in the future.

4.62 *Cost comparisons* - A detailed cost comparison of courses and programs has been produced on a campus and program basis for several years. The costs include the direct and indirect costs of the academic programs. Campus administration costs are also compared campus by campus. These reports have been provided to and reviewed by the Board.

4.63 While this type of detailed information is being provided on a course and program basis, we did not see any evidence of comparison to national benchmarks. Management advises that the College is currently participating in a related study sponsored by the Association of Canadian Community Colleges and that no benchmarks currently exist.

4.64 There are several complex public policy issues related to the College that need to be dealt with by government. These include accessibility, the desired level of enrollment, the portion of costs to be borne by students and government, and the role of private institutions versus NSCC in post-secondary education. There are many options for dealing with these issues, and the solutions frequently conflict with each other. For example, tuition fees impact several public policy issues and can be the same for all programs, or reflect differences in program costs or employment prospects. Costing information and benchmarks are necessary inputs for these public policy decisions. Currently, the Department of Education does not have a policy setting out the share of costs a student would be expected to bear. As mentioned in our 1993 Report, the Department of Education indicated a national average of 15% of costs being borne by students through tuition. Exhibits 4.5 to 4.7 set out the trends of Provincial funding, student enrollment and average funding per student from 1991 to 1999.

4.65 In addition, cost comparisons on a campus by campus basis are completed for the maintenance and utilities costs. These range from a low of \$2 per square foot to a high of \$6 per square foot. Management explained that the differences exist partially because of the types of expenditures each campus classifies as maintenance expenditures. Standardization of accounting classification among campuses should be pursued to ensure that cost comparisons are relevant among campuses. Significant variances should be investigated.

Sale of Customized Training

4.66 Customized training is administered by the principal and the Customized Training and Education Officer (CETO) at the campus level. The CETO liaises with the Coordinator, Customized Training at central office. A marketing plan has recently been developed. Exhibit 4.4 provides a summary of customized training financial information for the fiscal year ended March 31, 1998.

4.67 At mid-November 1998, the coordinator of customized training became directly responsible for all aspects of this area. Revised draft policy and procedures manual sections have been developed. The coordinator has adopted a formula for use in pricing customized training which leads to recovery of direct costs and a small contribution to overhead. The coordinator has indicated that standardization of systems at the campus level is a priority.

4.68 At the time of our review, the College did not have a computerized accounts receivable system and did not record revenue at the time of invoicing. This resulted in inaccurate comparisons of revenues and costs during the fiscal year. At year-end necessary adjustments were completed to provide for a proper matching of revenues and expenses. Control over accounts receivable from customized training rested with the individual campuses. Internal and external auditors have made recommendations for the improvement of internal controls in the area of invoicing and receivables.

4.69 The College has recently acquired and implemented a computerized accounts receivable system. In addition, the Board required the financial statement reporting package to be expanded to include information on the customized training revenues and costs on a campus by campus basis. This was operational for the September 30, 1998 second quarter financial statement report.

4.70 We note significant amounts are received from purchasers of customized training as reimbursement for expenditures related to building modifications to provide required training facilities. These modifications represent betterments which are included as expenses in the financial statements. These reimbursements had been included in customized training revenue but are now recorded as recoveries which are netted against the expense. Alternatively, these betterments and related reimbursements could be recorded as capital expenditures and amortized over time which would better reflect their cost to the College as the related benefit is consumed. The invoicing to the purchasers of customized training does not differentiate between reimbursement of expenditures and training revenue. Consideration should be given to the accounting policy relative to customized training revenues and expenditures.

Information Systems

4.71 Discussions were held with management regarding the adequacy of the financial information systems currently used throughout the Community College. The College uses the Department of Education SRB system which is used by the school boards in the Province. Overall, NSCC management indicated that the financial system has a very limited ability to produce customized reports. Customized reports can only be produced by the Manager of Information Systems using alternate software programs which require additional effort and resources.

4.72 Management recognized inefficiencies and inadequacies in the information systems. Informal discussions and reviews occurred and recently management decided to formally review its information systems. Consultants were engaged by the College to conduct a feasibility study for the replacement of the core administrative information systems and set out options for dealing with information needs. The core information systems consist of student administration, human resources and financial management systems. The overall conclusion from the consultants was that "*The College needs to improve its administrative information system environment.*" The report recommended that the College "*Initiate a project to select, acquire, and implement the 'best' available enterprise package suite.*" The College has issued a request for proposals (RFP) for an integrated system. The RFP requirements are for the vendor to propose the system, develop the schedule and complete the implementation. Any additional hardware requirements are anticipated to be in the area of communications to enable the system to function properly.

4.73 Senior management has completed a Y2K plan which assigns responsibility at the campuses to Y2K coordinators. A review of relevant information noted that task milestones as described in the plan had not been achieved. The plan called for detailed lists of affected inventory by August 1998 from all campuses. As of October 1998 no campus inventory listings had been received. By December 1998, four campuses had provided lists of affected inventories and all campuses subsequently complied. Central office has completed its list of affected inventory.

4.74 Delays in receiving the listing of affected inventories caused delays in preparing the risk assessment and quantifying the resulting budget implications. Also, there were delays in verification with vendors of year 2000 compliance of suspect inventory. Recently, risk assessments have been completed and reviewed with each campus and vendor verification of suspect inventory has been performed. Budget implications of risk assessments have been identified.

4.75 The status reports that are received from the campus Y2K coordinators are produced only at the request of management. To date no formal regular reporting schedule has been developed. Management provides informal updates to the Board.

Purchasing

4.76 The College has developed a policies and procedures manual for procurement and public tendering as required by Section 63(j) of the Act. The manual was developed by utilizing the

Provincial Procurement Policy as a guide with certain modifications peculiar to the College. The policy for purchases under \$1,000 requires approval by the Business Manager or Principal of the campus. In practice, the approval for purchases under \$1,000 is at the discretion of the Principal who may give approval authority to the department heads. Purchases between \$1,000 and \$10,000 must be approved by either the Manager of Administration or the Principal of the campus. Purchases over \$10,000 must be approved by the Principal and the Vice President. Public tendering, through the central office, is required for purchases of goods over \$25,000, services over \$50,000 and construction over \$100,000. Three written bids are obtained by central office for purchases below these thresholds.

4.77 Procurement activity and exceptions to the policy have not, but should be, reported to senior management on a regular basis. We completed limited tests of purchase transactions and found these to be in compliance with the procurement policies of the College.

4.78 The inventory recorded in the financial statements at March 31, 1998 represents the inventory in the various campus bookstores. All other consumable supplies are expensed at the time of purchase. The physical control over consumable inventories for programs is the responsibility of the individual faculty and monitored by the Manager of Administration at each campus. The quantities of consumable inventories from the various educational programs as well as campus bookstores are recorded on perpetual inventory systems and a year-end physical inventory is completed and agreed to the perpetual records. There is no complete reporting of inventory values College-wide. Internal audit reports, completed to the time the position was vacated, had indicated a lack of physical controls of the book inventory at certain campuses.

Fixed Assets

4.79 At the time of incorporation, the Province transferred title to all furniture, fixtures and equipment to the NSCC. Title to land and buildings was maintained by the Province. The College has responsibility for management of 2 million square feet contained in 14 sites throughout the Province. While ownership of the land and buildings has remained with the Province, no formal agreements on the term and use of these facilities have been established. Without formal agreements, expenditure classifications can be unclear. For example, expenditures by the College to extend the asset life which should be capital in nature, may be classified as an annual expenditure and the costs of annual operations may be overstated in that year. We note that in 1997-98 there are several million dollars classified as repairs expense which we believe are clearly capital in nature. Note 2b of the financial statements deals with significant accounting policies and states that *“because the land and buildings are owned by the province improvements made to the buildings are therefore expensed.”* The Board should negotiate an agreement with the Province regarding ownership and/or terms and conditions of use.

4.80 The Canadian Institute of Chartered Accountants has recently defined the accounting principles for public sector entities and not-for-profit organizations. The most significant change is the accounting treatment of tangible capital assets which should appear on the balance sheet and be amortized over time. The College has complied with the revised principles relative to certain furniture and equipment acquired after March 31, 1996 but the change has not been applied retroactively as the College believes that the information for retroactive treatment is not readily available. In addition, the College financial statements do not include costs relative to buildings and benefits received from the Province in regards to building maintenance. Inclusion of all costs incurred to operate the College on the financial statements would enhance the value of the financial statements to decision makers.

4.81 Maintenance of the structures forms part of the Department of Transportation and Public Works (DTPW) fiscal and functional responsibility. Annual estimates relative to the building

envelope for each campus are prioritized and submitted, as requested, to DTPW. These expenditures have been limited to approximately \$1.5 million annually, a condition of DTPW budget allocation. Section 66(3) states “*where property is owned by Her Majesty in right of the Province and used by the college for purpose of the College, the Board shall assess the need for new buildings and repairs or alterations to existing buildings and make recommendations to the appropriate Government department.*” A full needs assessment on the buildings and the equipment of the College has recently been completed by facilities management staff of the College. The needs assessment forecasts a total shortfall of \$10.4 million in funding for required capital maintenance over the next five years. We did not audit the calculation and support for the forecasted shortfall.

4.82 Completion of the needs assessment and the strategic planning process should permit senior management and the Board to more adequately deal with capital budgeting.

4.83 The College continues to use the Inventory Data Base system (IDS), as provided by DTPW to maintain the fixed asset perpetual inventory, and the staff of DTPW assist in reviewing the fixed asset inventories and the internal controls over fixed assets. The College is not charged for the service. A formal agreement has not been established to outline the services to be provided and the compensation to be paid. There are plans to discontinue this arrangement and replace the system with an alternate including an internal audit function.

4.84 Contrary to the Community Colleges Act, DTPW is given the deemed surplus furniture, fixtures and equipment and receive the proceeds on disposal. Management has indicated that these items have little/no value and that there could be costs incurred to dispose of these items. There is no review by the College of the proceeds from surplus disposal and there is no record at the College as to the proceeds received. A cost-benefit analysis has not been performed to determine whether the arrangement is advantageous to the College.

4.85 A report completed in mid-1998 by internal audit at one campus indicated a weakness in internal control as additions, transfers and disposals were unrecorded on the IDS. The items were recorded in the financial SRB system. Two independent systems, such as the SRB and the IDS, require a procedure to ensure that transactions are recorded on both systems. A single integrated system would be more efficient.

CONCLUDING REMARKS

4.86 Virtually all of the more significant recommendations from our 1993 report have been initiated or are being addressed by the NSCC Board and the Department of Education. Our overall conclusion is that the NSCC is well prepared to achieve its newly revised mission.

4.87 Expected outcomes for the College need to be defined and agreed to by government and the College. Public policy decisions regarding what the government expects to achieve from the funding provided should be communicated to NSCC by the government for appropriate inclusion in NSCC plans. These are complex decisions, and the related discussion needs to include such items as tuition fees, enrollment levels, and the role of other providers of post-secondary education. We urge the College, as part of completion of the strategic planning process, to establish related objectives and outcome measures and to submit them to government for approval because government is the major provider of funding to NSCC.

4.88 The accountability of NSCC to the Department of Education is not clear particularly in the area of financial management and budgeting. There is a need to define roles and relationships in these areas.

Exhibit 4.1

**PROGRESS IN ADDRESSING RECOMMENDATIONS OF 1993 AUDIT
(DOCUMENT PREPARED BY THE NOVA SCOTIA COMMUNITY COLLEGE)**

The Foundation Upon Which NSCC is Building (1994-99)

The Auditor General's Report on the Community College in 1993 provided, in essence, the first Strategic Plan for the NSCC. The situational analysis was highlighted by the stark observation at the conclusion of the Report:

At the present time, we believe that management of the Community College is unable to take the required action. Until Government makes key decisions, such as those relating to governance, the report on Program Review and the two unions, or empowers the College to make those decisions, the system is unable to move from the status quo.

The Auditor General identified seven areas of specific concern:

- Board governance
- Long-range strategic plan
- Central administrative structure
- Improved accountability
- Program renewal
- One union
- Adequate management information systems

The College is pleased by the progress that was made in the ensuing five years.

- *Board governance* was achieved in 1996, and the College is now the beneficiary of leadership from membership that spans Nova Scotia's community and industry sectors.
- The NSCC just completed a new *Strategic Plan* that sets forth directions that are unique to post-secondary institutions in Canada.
- The basic functions for an *administrative structure* are in place, and the College is progressing with the remaining functions of alumni and development, applied research, library services, and student services.
- *Public accountability* has been enhanced through the combined efforts of the Board, College, and Department of Education. The NSCC Strategic Plan contains a commitment to progress further through the development of key performance indicators and a revised Annual Report format.
- The NSCC has completed five years of *program renewal* that has resulted in over 40% new programming linked to Nova Scotia's labour market needs.

- The College and *unions* completed a process with the Labour Relations Board that resolved the complications of having more than one union representing College bargaining units. Agreements have been signed with the new bargaining agents, which are appropriate to a post-secondary environment.

The One outstanding item is the *management information system*. The Board and management of the College will continue to have difficulties in attaining the levels of reporting and analysis of the finances, human resources, and student information that it requires with the current systems.

*Exhibit 4.2***NOVA SCOTIA COMMUNITY COLLEGE
MISSION, VISION AND VALUES****Mission**

Building Nova Scotia's economy and quality of life through education and innovation.

Vision

Our approach to educate will be one that engages Nova Scotians in new ways to apply knowledge and skill. We will integrate our education with community building and economic development. The College experience will inspire confidence, reflection, and self-reliance, challenging people to make use of what they learn, for their own benefit and for the benefit of us all.

Values**Student Success**

We support, recognize, and celebrate student success.

Accessibility

We are committed to providing greater access to educational opportunities.

Service

We reach out to people to help connect our programs and services to their needs.

Respect

We develop our working and learning relationships from a foundation of mutual trust and respect.

Collaboration

We reward collaboration, diversity of expression, and decisiveness.

Diversity

We believe that diversity in the College community is a strength that must be cultivated.

Innovation

We value innovative ideas and actions that engage students, employers, and communities in learning and development.

Public Accountability

We are responsible and accountable for the public's trust.

Exhibit 4.3

**NOVA SCOTIA COMMUNITY COLLEGE
STATEMENT OF REVENUE AND EXPENDITURES
FOR THE YEAR ENDED MARCH 31, 1998**

Revenue	
Province of Nova Scotia	\$ 44,971,000
Government of Canada	6,638,863
Tuition and fees	7,419,844
Customized training	9,761,049
Amortization of deferred revenue related to capital assets	667,000
Other	<u>7,222,109</u>
	<u>76,679,865</u>
Expenses	
Salaries and benefits	47,511,706
Operating supplies and services	14,453,830
Equipment, rentals, other	6,366,183
Utilities and maintenance	5,638,512
Early retirement incentive program	1,248,100
Amortization	<u>1,088,792</u>
	<u>76,307,123</u>
Excess of revenue over expenditures	<u><u>\$ 372,742</u></u>

Note: Revenue - Province of Nova Scotia above differs from Total Provincial Funding on Exhibit 4.5 as the Revenue above is presented on the accrual basis of accounting while the information on Exhibit 4.5 is presented on a cash basis.

Exhibit 4.4

**NOVA SCOTIA COMMUNITY COLLEGE
CUSTOMIZED TRAINING AND CONTINUING EDUCATION
SUMMARY FINANCIAL INFORMATION
FOR THE YEAR ENDED MARCH 31, 1998**

Revenue

Customized Training and Continuing Education	<u>\$ 9,761,049</u>
--	---------------------

Direct Costs

Customized Training	6,641,495
Continuing Education	1,059,039
Community Economic Training	<u>670,301</u>
	<u>8,370,835</u>

Contribution

\$ 1,390,214

Exhibit 4.5

**NOVA SCOTIA COMMUNITY COLLEGE
TOTAL PROVINCIAL FUNDING**

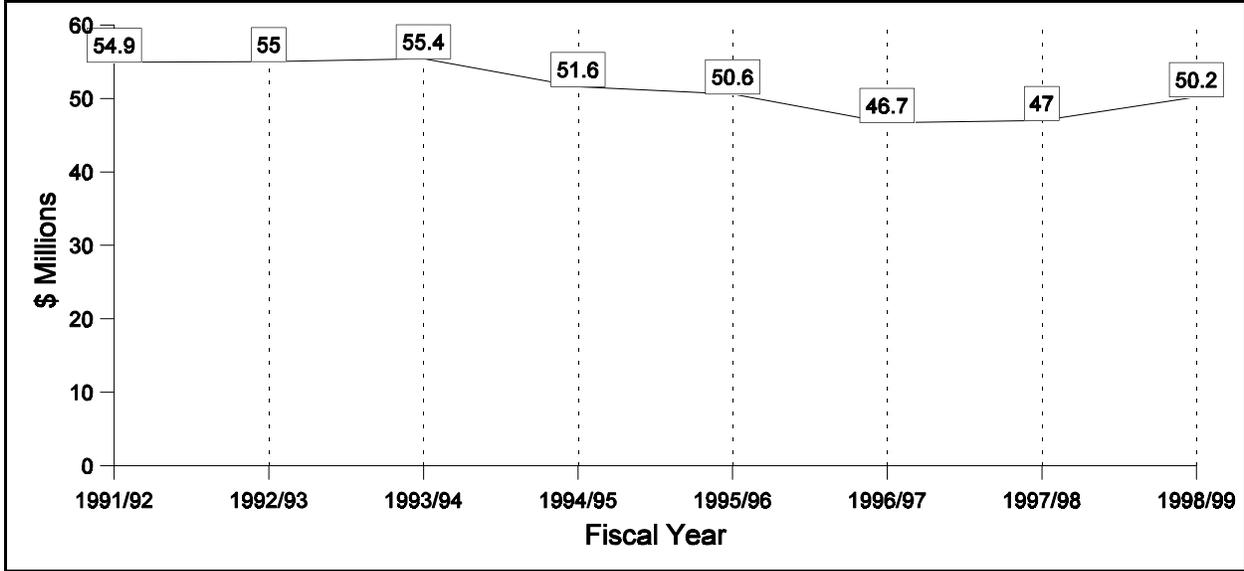


Exhibit 4.6

**NOVA SCOTIA COMMUNITY COLLEGE
AVERAGE PROVINCIAL FUNDING PER STUDENT**

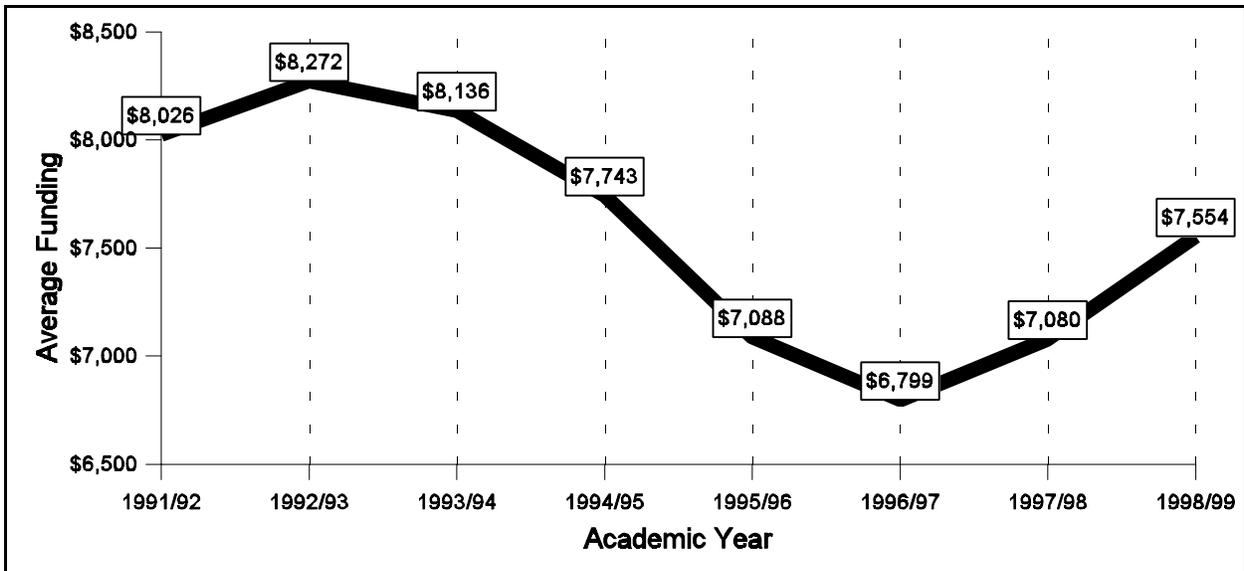
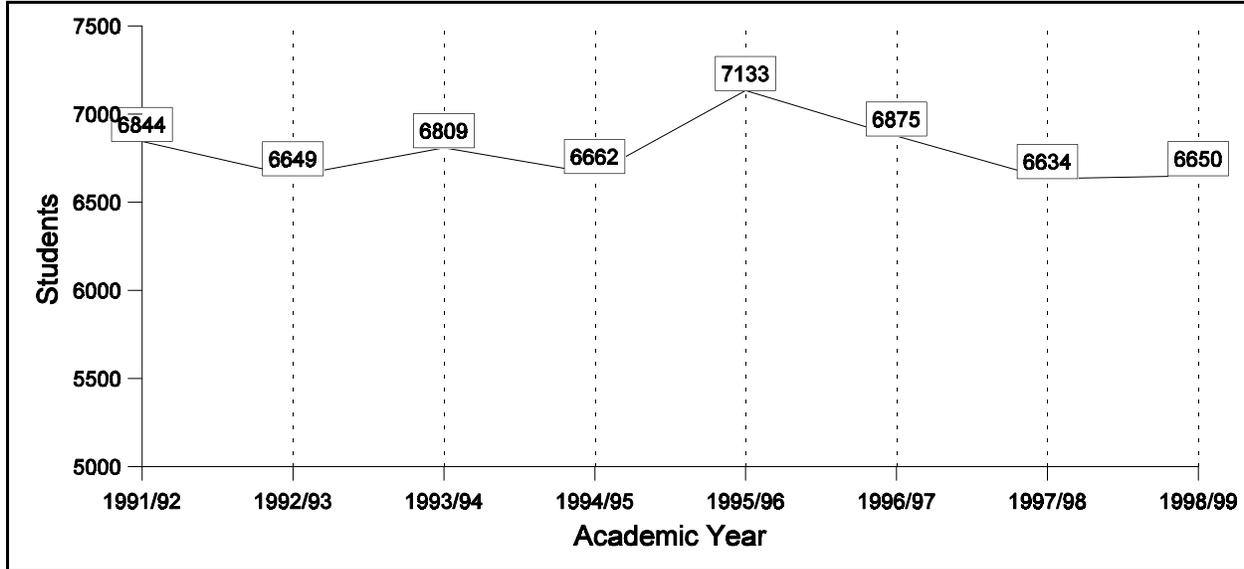


Exhibit 4.7

**NOVA SCOTIA COMMUNITY COLLEGE
STUDENT ENROLLMENT**



NOVA SCOTIA COMMUNITY COLLEGE'S RESPONSE

The Office of the Auditor General has played a significant role in supporting the development of the Nova Scotia Community College. The 1993 Auditor General report prompted the proclamation of the Community Colleges Act that transferred the responsibilities of governance to the NSCC Board of Governors. This independence has allowed the College to follow up on the other recommendations of the 1993 report, re-vitalizing its operations in the process.

This 1999 report is a thorough and fair assessment of the achievements of the Board of Nova Scotia's English-speaking public college. In the past five years, the recommendations of the 1993 report have been implemented, the programming has been renewed, and the enrolment has increased. To assist in the next five years, the College and the Department of Education have established an effective foundation for collaboration, and the NSCC Board has approved a bold Strategic Plan that envisions the expansion of opportunities for Nova Scotians to participate in post-secondary education.

This report highlights some of the key issues that the College and the Department of Education will need to address as we set forth. Foremost among them is the need to inculcate Nova Scotians with an understanding of the benefits of a college education in the evolving knowledge-based economy. The NSCC Board fully understands and is committed to this role, and anticipates that its future work with the Department of Education will foster confidence in our contributions to economic and social development, as well as demonstrate the value of the College to the province by:

- *Establishing a level of funding appropriation that more accurately reflects the national norm.*
- *Expanding the capacity of the College to enroll and educate students.*
- *Incorporating information systems that support the goal of enhanced public accountability.*
- *Creating closer working relationships between the College and the Department of Education, Economic Development, and Community Services to ensure that programming is tightly linked to economic and social development policy.*
- *Establishing closer links with the private sector to maintain the relevancy of College programs, as well as improve the applied research, business incubation, and technology transfer functions of the College.*

The Office of the Auditor General, through this report and the report of 1993, continues to provide Nova Scotians with a better understanding of the College and the role it should play in the life of this province. In so doing, the Nova Scotia Community College, the Office of the Auditor General, and the Department of Education have combined to set another milestone in the path toward a stronger College for the students, communities, and employers of Nova Scotia.

5.

EDUCATION - PUBLIC-PRIVATE PARTNERSHIPS (P3s) FOR SCHOOL CONSTRUCTION - FOLLOW-UP REVIEW

BACKGROUND

5.1 The Minister of Finance announced in the April 1997 Budget Address to the House of Assembly that all future school construction projects in the Province would be built under public-private partnership (P3) arrangements. The P3 school-construction initiative in the Province is extensive: 8 schools were originally announced; 31 additional schools were announced in December 1997; and an additional 17 schools were subsequently announced.

5.2 We have issued three previous reports relating to certain aspects of the public-private partnership process for school construction.

- *1997 Report of the Auditor General (Chapter 8, page 78)* - This chapter reported results of a detailed audit of the P3 process.
- *July 23, 1998 Report on the O'Connell Drive Elementary School Lease* - This was an audit of the first P3 school lease signed by the Province. It was performed in response to a request from the Minister of Education and Culture, and the Special Report was tabled in the House of Assembly.
- *1998 Report of the Auditor General (Chapter 7, page 85)* - This chapter reported progress of the government's P3 school initiative as at December 1998. At that time, two school leases had been signed. Three development agreements for a total of 16 schools had also been signed and other agreements were awaiting signatures or being negotiated.

5.3 We strongly recommend that readers of this Report also read our prior reports to gain a fuller understanding of the issues associated with P3 schools in the Province, and to establish an appropriate context for the current Report.

5.4 The Canadian Institute of Chartered Accountants (CICA) makes recommendations relating to accounting principles. The CICA identifies two basic types of leases (operating leases and capital leases). An understanding of the distinction between the two is necessary to fully understand the issues related to accounting for P3 schools. The definitions below emphasize that the difference between an operating lease and a capital lease is based on the amount of risk transferred from the lessor (developer) to the lessee (Province).

5.5 The main characteristics of operating and capital leases are as follows.

- *An operating lease is a lease in which the lessor (private sector) does not transfer substantially all the benefits and risks incident to ownership of property. Lease rentals under an operating lease should be included in the determination of net income over the lease term on a straight-line basis. The Province under an operating lease is, in effect, committing to fund expenditures from its annual revenues for each of the next 20 years. In the Province's financial statements, classification as an*

operating lease results in payments being recorded as expenditures when incurred, and no liability for future lease payments is recorded.

- A *capital lease* is a lease that, from the point of view of the lessee (Province), transfers substantially all the benefits and risks incident to ownership of property to the lessee. A capital lease would be accounted for by the lessee as an acquisition of an asset and an assumption of an obligation to reflect the substance of the transaction in the year in which the lease was signed. *In the Province's financial statements, classification as a capital lease results in 100% of the cost of a leased asset being recorded as an expenditure and a liability when the lease is signed. Over the 20-year period, the only impact on annual results will be interest expense related to the outstanding liability.*

RESULTS IN BRIEF

5.6 The following are the principal observations resulting from this review.

- There was significant progress under the P3 school construction initiative during 1999. Of the first 39 schools, 11 are completed and occupied, 27 are under construction and 1 is in the planning phase. There are signed leases/service agreements for 28 schools, and there are signed development agreements for 11 schools.
- During our audit of the government's financial statements for the year ended March 31, 1999 we raised issues with respect to the government's proposed accounting treatment for the leases signed during the year. The government had planned to account for these as operating leases. In all three cases, we believed that significant risks had been transferred to the Province and that accounting for these as capital leases would be more appropriate. The government agreed, and decided to account for all four signed leases (the three signed in 1998-99 and O'Connell Drive Elementary School) as capital leases. We concur with the government's decision.
- We have audited only four of the signed leases/service agreements to date. We have audited only accounting classification; we have not attempted to determine whether the government made these expenditures with due regard for economy and efficiency. We will audit the accounting classification of the remaining ones as part of our audit of the government's financial statements for the years in which the agreements are signed.
- The government has issued a call for proposals for a review of the P3 process. The report is expected in December 1999.
- The Canadian Institute of Chartered Accountants' Public Sector Accounting Board (PSAB) has issued recommendations for accounting for tangible capital assets. These recommendations are not the same as those for the private sector, nor are they the same as the government's current accounting policy for tangible capital assets. The Province intends to comply with PSAB's recommendations for tangible capital assets for the 1999-2000 financial statements, but the entire cost of assets acquired under capital leases will still need to be reflected in the Province's net direct debt.

SCOPE OF REVIEW

5.7 The objective of this follow-up review was to determine and report the status of certain aspects of the Department of Education's school construction initiative.

5.8 Our approach was based on correspondence with management of the Department of Education and examination of documentation provided.

PRINCIPAL FINDINGS

Follow-up to Findings and Observations in 1998 Report

5.9 Exhibit 5.1 (page 69) shows some of the more significant findings from our 1998 Report along with an indication of related developments during the last year. As shown in the exhibit, the government has made significant progress in negotiating formal agreements with the developers, and the developers have made significant progress in constructing the schools.

5.10 The following is a summary of the progress made in constructing the first 39 schools:

- 11 schools are completed and occupied
- 27 schools are currently under construction
- 1 school is in the planning stage

5.11 The following is a summary of the progress made in achieving final legal agreements for the first 39 schools:

- There are signed leases/service agreements for 28 schools.
- There are signed development agreements for 11 schools.

5.12 Government announced that it will build 17 additional schools over the period from 2000-01 to 2004-05.

Results of audit activity

5.13 The Office of the Auditor General has audited the first four leases signed. The results of the audit of the O'Connell Drive Elementary School lease, the first P3 school lease signed, were included in a Special Report which was tabled in the House of Assembly and publicly released in July 1998.

5.14 The next three leases were signed during the 1998-99 fiscal year as follows:

- Hants East Middle School - signed September 1998
- Horton High School - signed March 1999
- Sherwood Park Junior High School - signed March 1999

5.15 We audited the accounting classification of those three leases as part of our audit of the government's financial statements for the year ended March 31, 1999. We have not audited any of the other leases/service agreements, but we will audit the accounting classification of the remaining ones as part of our audit of the government's financial statements for the years in which the agreements are signed.

5.16 We have audited only accounting classification; we have not attempted to determine whether the government made these expenditures with due regard for economy and efficiency.

5.17 During our audit of the government's financial statements for the year ended March 31, 1999 we raised issues with respect to the government's proposed accounting treatment for the leases signed during the year. The government had planned to account for these as operating leases. In all three cases, we believed that significant risks had been transferred to the Province and that accounting for these as capital leases would be more appropriate. The government agreed, and decided to account for all four signed leases (the three signed in 1998-99 and O'Connell Drive Elementary School) as capital leases. We concur with the government's decision.

Impact of Government's Planned Change in Accounting Policy for Tangible Capital Assets

5.18 As noted in Chapter 2, page 12 of this Report, the government plans to change its accounting policy for tangible capital assets for the 1999-2000 fiscal year to comply with the recommendations of the Canadian Institute of Chartered Accountants' Public Sector Accounting Board (PSAB). PSAB's recommendations permit some flexibility in how tangible capital assets are disclosed. Therefore, we are not certain as to how government's choice of accounting policy will impact the financial statements.

5.19 However, it appears that a move to compliance with PSAB's recommendations will impact the accounting for leases as follows:

- *Operating leases* - The accounting impact of operating leases will remain unchanged. In the Province's financial statements, classification as an operating lease results in payments being recorded as expenditures when incurred, and no liability for future lease payments is recorded.
- *Capital leases* - The accounting impact of capital leases will change to some extent. On the annual operating statement, 100% of the cost of the leased asset will likely no longer be charged as an expenditure in the calculation of the annual surplus/deficit. The entire cost of the leased asset will be recorded as an asset and a liability. The asset will be amortized over time as the related benefit is consumed. The impact on the annual operating statement will likely be comprised of interest incurred on the liability, the annual asset amortization charge, and operating costs.

However, PSAB requires that net debt reflect both capital and operating debt. Therefore, it appears that the entire cost of leased assets acquired would have to be included in the calculation of net debt. PSAB's current recommendations (which we understand may be subject to further review) require that the adjustment to show the leased asset in net debt be disclosed on the operating statement as an adjustment in the calculation of the annual surplus/deficit.

5.20 The accounting for tangible capital assets and capital leases in the public sector is in a state of change. The foregoing is meant to describe our understanding of how these changes will impact the financial statements of the Province. The final decision with respect to choice of accounting policies rests with the government, and the impact may be different than what we have described.

5.21 The reader should note that PSAB's recommendations in this area are not the same as those for the private sector, nor are they the same as the government's current accounting policy for tangible capital assets. It appears that the entire cost of assets acquired under capital leases will still need to be reflected in the Province's net direct debt.

Public-private Partnership Review

5.22 In our 1997 and 1998 Reports, we urged government to establish an appropriate process to monitor and evaluate P3 schools which would be independent of those responsible for the P3 initiative. In October 1999, government announced that it would be seeking proposals from private sector consultants for a review of "*costs and benefits of the P3 process for all public infrastructure...The province's experience over the past several years will be evaluated. Issues such as affordability and value for money will also be assessed.*" (Department of Finance News Release dated October 8, 1999) The report is expected to be released in December 1999.

CONCLUDING REMARKS

5.23 The government made significant progress under its P3 school construction initiative during 1999. We believe that evaluation of the P3 process now is timely because there are tangible results to examine - both occupied schools, and final agreements between the Province and developers. It is very important to determine whether this initiative is meeting government's objectives. We commend the government for initiating the review which is to include evaluation of value-for-money considerations. We look forward to the report which is scheduled to be released in December 1999.

Exhibit 5.1

**FOLLOW-UP TO COMMENTS IN CHAPTER 7 OF
1998 REPORT OF THE AUDITOR GENERAL**

Comments in 1998 Report of the Auditor General	Status as at November 1999
<i>Original eight schools</i>	
<ul style="list-style-type: none"> • Final leases signed for two schools: <ul style="list-style-type: none"> - O'Connell Drive Elementary - Hants East Middle (Riverside Education Centre) 	<ul style="list-style-type: none"> • Final leases signed for six schools: <ul style="list-style-type: none"> - O'Connell Drive Elementary - Hants East Middle (Riverside Education Centre) - Horton High School - Sherwood Park Junior High - Meadowfields Community School - Hants East Elementary (Maple Ridge Elementary) • Remaining two schools are included in signed Service Agreements.
<i>Hants East Elementary and Meadowfields Community Schools</i>	
<ul style="list-style-type: none"> • Construction had started on these two schools. Development Agreements were approved by Order in Council in 1998. • Leases were to be signed when construction was complete in late summer of 1999. • The Development Agreements stated that lease rates were to be based on the market rate for a certain issue of Government of Canada bonds on a certain date in 1999, plus 91 basis points. 	<ul style="list-style-type: none"> • Both schools are now open. • Leases for both schools were signed in late summer 1999. • Lease rates were calculated as described in the Development Agreements. The lease rate was 6.85% for one school and 7.01% for the other.
<i>Three bundles totalling 31 schools</i>	
<ul style="list-style-type: none"> • A Development Agreement for 13 schools for Chignecto-Central Regional School Board, Conseil scolaire acadien provincial and the Halifax Regional School Board was signed in November 1998. 	<ul style="list-style-type: none"> • November 1998 Development Agreement was subsequently amended. • Five schools are now occupied. Construction of all remaining schools is in progress. • Service agreements have been signed for seven schools (five completed ones, plus two in progress). • Service agreements are based on a Provincial borrowing rate of 6.20% as at May 1999.

Comments in 1998 Report of the Auditor General	Status as at November 1999
<ul style="list-style-type: none"> • A Development Agreement for 13 schools for the Cape Breton-Victoria Regional School Board and the Strait Regional School Board had been approved by Executive Council in December 1998 but not yet signed. • Management of the Department of Education anticipated that a Development Agreement for the remaining five schools would be signed by the end of December 1998. 	<ul style="list-style-type: none"> • Development Agreement was signed December 2, 1998 and amended June 8, 1999. • Service Agreements were executed June 8, 1999. • All schools are in progress. • Development Agreement was signed in February 1999. • Four of the five schools are in progress. Remaining school is in the planning phase.
<i>Construction advances</i>	
<ul style="list-style-type: none"> • As of November 1998, the construction advance account balance was \$41.9 million and the related provision for doubtful accounts was \$14.4 million. These amounts related to construction advances on Sherwood Park Junior High School and Horton High School. 	<ul style="list-style-type: none"> • The balance in the construction advance account was collected in March 1999 when the Sherwood Park Junior High School and Horton High School legal agreements were completed. Under these agreements, the Province sold the schools and then leased them back from the purchaser. • The provision for doubtful accounts related to P3 schools was reduced to a nil balance. • The \$13.8 million proceeds from sale of Sherwood Park Junior High were recorded in the Department of Finance's accounts as unallocated recoveries because the amount had previously been included in the provision for doubtful accounts and, therefore, included in the prior years' expenses of the Department of Education.

6.**FINANCE - LIABILITY AND RISK MANAGEMENT****BACKGROUND**

6.1 Exhibit 6.1 on page 85 provides a summary of the Provincial debt and related funds as at March 31, 1999. The exhibit summarizes the debt burden of Government Service Organizations (see Appendix II, page 214 for list) and Government Business Enterprises (see Appendix II, page 214 for list) including debts and obligations of crown agencies, guaranteed by the Province. Exhibit 6.2(a) on page 86 provides a summary of the governance, accountability and management organization for the control of the Province's debt and debt-related activities. Exhibit 6.2(b) on page 87 illustrates the internal committee structure, outlined in the debt management policy, which has been put into operation. Management indicated to us that all sub-committees have been active and functioning over the past year.

6.2 The Provincial Finance Act and the annual Appropriations Act establish the statutory requirements, authorities and limits for Provincial borrowing. Under these Acts, Executive Council has the delegated authority and responsibility for approving Provincial borrowing, including any guarantees of borrowing by crown agencies.

6.3 The Department of Finance, through its Investments, Pensions and Treasury Services Branch, is responsible for the ongoing management and control of the Province's debt and related sinking funds and the Public Debt Retirement Fund (PDRF). Finance develops and maintains cash flow plans identifying the funds required to be borrowed during a fiscal year to support government's programs and to meet its other obligations. To meet cash requirements, the Province issues a variety of debt obligations in a number of capital markets including lines of credit with major Canadian banks.

6.4 Our 1994, 1995 and 1997 Reports included chapters on the results of our review of Finance's policies and practices for managing the Province's debt and debt-related activities. We continue to monitor Finance's plans and progress in this significant area.

6.5 During 1999, the Office of the Auditor General and the Internal Audit Division of the Department of Finance co-sponsored the engagement of an external consultant to undertake a Liability and Risk Management audit of the Liability Management & Treasury Services Division of the Investments, Pensions and Treasury Services Branch of the Department of Finance. The audit was conducted during March and April 1999 and the report released in November 1999. The consultant was assisted by representatives of both the Office of the Auditor General and Internal Audit Division of the Department of Finance

RESULTS IN BRIEF

6.6 The following are the principal observations from our review of the consultant's work and the status of action taken or planned regarding matters previously reported upon by this Office.

- Action has been taken to address many of the comments and suggestions included in our previous Reports. However, based on the results of the audit work of the external consultants, certain issues raised in past Auditor General Reports dealing with overall

governance, accountability and reporting of the Provincial debt and derivative related activities have not been fully addressed.

- Cost-effective management of the Province's debt and debt-related costs remains a priority for government. The size of the Province's total debt together with the significant proportion of the debt payable in foreign currencies (more than 45% as at March 31, 1999 - see Exhibit 6.1) warrants a high level of reporting to and attention by government, the House of Assembly, and the public.
- The objectives, strategies and initiatives outlined in the *Debt Management Plan* included in *Government By Design* are significant and continue to provide a formal basis to hold Finance accountable for debt management activities and results. To achieve the goals and targets set out in the *Debt Management Plan* and *Government By Design*, government must ensure that the resources available are sufficient to support implementation of necessary improvements and to ensure monitoring and reporting are timely, accurate and effective.

SCOPE OF REVIEW

6.7 Our overall objective in 1999 was to determine the status of action taken or planned regarding matters previously reported by this Office. This was primarily addressed through the work of the external consultant contracted by the Internal Audit Division of the Department of Finance and this Office.

6.8 The broad objectives of the audit by the external consultant were to determine whether the Division:

- has an effective risk management framework to manage the financial risk of the Provincial Debt and Obligations;
- is properly controlled and provides adequate reporting to the Executive Director, Deputy Minister and Minister of Finance; and
- is properly staffed in terms of expertise and resources.

6.9 The planned areas of audit coverage included, Liability Management & Treasury Services; Cash Management; Finance and Administration; Human Resources; Corporate Governance; and Information Technology.

PRINCIPAL FINDINGS

6.10 Action has been taken to address many of the comments and suggestions included in our previous Reports. However, based on the results of the audit work of the external consultants, certain issues raised in past Auditor General Reports dealing with the overall governance, accountability and reporting of the Provincial debt and derivative related activities have not been fully addressed. The status of certain of these matters is noted in Appendix 6.1 on page 88 (first reported as part of our 1995 chapter on debt management) which summarizes key governance questions for the use and control of derivatives (adapted from a booklet entitled *Derivatives for Directors*, published by KPMG - one of a number of available references for debt management practices or guidelines). Significant and continued effort will be required to fully implement the policies, maintain plans, and implement systems necessary to support improved and continued control of the Province's debt and debt management activities on an ongoing basis.

6.11 The consultants' report was issued in November 1999. For this chapter, we have reproduced selected sections from the executive summary of the draft report - i.e., 3.0 Overview Of Liability Management And Treasury Services Division, and 4.0 Summary Findings and Recommendations.

3.0 OVERVIEW OF LIABILITY MANAGEMENT AND TREASURY SERVICES DIVISION

The Division's accountability framework flows from the Provincial Finance Act and the Appropriations Act. Under these Acts, the Governor in Council or the Minister of Finance have the delegated authority and responsibly [sic] for approving Provincial indebtedness.

The Division is overseen by the internal Debt Management Committee ("DMC") whose function it is to set strategic objectives and approve broad debt management initiatives and the authorities of its sub-committees.

The operations are overseen by the Executive Director, Investments, Pensions and Treasury Services who reports to the Deputy Minister of Finance who ultimately reports to the Minister of Finance.

3.1 Branch History

The Investment, Pensions and Treasury Services Branch has been going through a dynamic and evolutionary period of change over the last five years. This can be seen through the Auditor General reports. The information from the Auditor General Reports can be categorized into the following: (1) summary of the debt portfolio; (2) governance; (3) derivatives; (4) documentation; (5) management information systems; (6) branch organizational structure and staffing complements; (7) reporting; and (8) Department of Finance senior management plans for future evolutions. The following comments, from various Auditor General Reports, provide a context for the improvement in Liability Management accomplished over the past number of years.

Summary of the Debt Portfolio

- In 1994, the Province had assumed a significant amount of foreign exchange exposure with an expectation of obtaining interest rate savings. The Province's debt position and the burden of servicing the debt were among the least favourable in the Country.
- In 1995, the Province's debt position and the burden of servicing the debt were among the least favourable in the Country. The risks associated with having a substantial part of the outstanding debt issued in foreign currencies compounded this situation.
- The total commercial debt outstanding had increased from \$4.263 billion in 1985 to \$10.744 billion as at March 31, 1995, and as at March 31, 1997, commercial debt was \$10.514 billion.
- Historically, the Province has had significant foreign exchange exposure. For example, between 1976 and 1989, the percentage of net debt in foreign currencies averaged 40%.
- Since March 31, 1994, the Province has moved from having virtually all of its outstanding debentures and other commercial debt at fixed interest rates to having between 20-25% at floating rates.
- Debt servicing costs have generally increased at a higher rate than [sic] total government expenditures. During the eight-year period ended March 31, 1997, the net debt servicing costs reported in the Province's financial statements have risen 56% from \$440 million to \$687 million. Net debt servicing costs absorbed 16% of total revenue for the year ended March 31, 1997 compared to 11% in 1989-90, but down from a peak of 20% in 1994-95.

- The Department of Finance's Debt Management Plan measures foreign exchange exposure on the basis of gross debt adjusted for foreign currency swap contracts and certain pension liabilities. On this basis, as used by the Department of Finance, foreign currency exposure was 72% at March 31, 1994, and has declined to 50.5% by March 31, 1999.

Governance

- Changes to the Provincial Finance Act in 1994 provided the Minister of Finance more flexibility to manage investments, including sinking funds.
- In 1995, the objectives, strategies and initiatives outlined in the Debt Management Plan were significant and provided a formal and improved basis to hold Finance accountable for debt management activities and results. However, more detailed and specific policies and procedures in key areas to support the Debt Management Plan had yet to be fully defined.
- In 1995, a clear definition of the Province's policies and limits with respect to the use of debt and other financial instruments, including derivatives, was required. These needed to be consistent with the Province's risk management policies and strategies which, at that date, had not been fully defined and documented.
- In 1995, an effective governance function for the Province's derivative activities had not been put in place.
- In their Management Report as a result of the March 31, 1995 audit of the Province's financial statements, the auditors appointed under Section 65 of the Provincial Finance Act had made a number of summary comments and recommendations relating to the use and control of financial instruments (i.e. derivatives). One of the recommendations was "*that a senior high-level committee be established including both internal and external Finance department members to set appropriate derivatives policies and to monitor the derivative transactions throughout all departments and associated agencies and enterprises.*"

Derivatives

- In 1994, Finance had the authority and planned to expand the nature and extent of its use of alternative instruments (e.g. derivatives) to manage the Province's debt costs and risks.
- The specific policies, plans and procedures for the use and control of derivative transactions had not been fully defined and approved.
- The extent of Finance's use of alternative financial instruments (i.e. derivatives), whether for management of the Province's debt and debt costs or for investment purposes, had increased from 1994 to 1995.
- Draft policy statements on debt management and on the use of derivatives were prepared and substantially implemented by Finance in 1997. Finance indicated these would be finalized and presented to the Public Accounts Committee in 1998.

Management Information Systems

- Finance has been investigating its management and information systems requirements related to debt management and other treasury management functions. At the time of the 1997 review, a draft request for proposals for the implementation of necessary Treasury Management system was being considered.

Organizational Structure and Staff Complement

- During the 1994 audit, Finance was in the midst of a reorganization, and some key positions were not filled.
- Since 1993 there was an [sic] almost a 100% turnover of senior staff involved in the administration and ongoing management of the debenture debt.
- As of January 1996, most but not all positions within Finance's Investments, Pensions and Treasury Services Branch had been filled.
- The Liability Management and Treasury Services division was at full staff complement in November 1997 for the first time in a number of years.
- The investment and liability management functions are managed by a small number of qualified and experienced staff at Finance. This poses risks to the Province in the event of staff changes. In an attempt to mitigate such risks, an internal committee structure related to debt management has been formally established at Finance.

Reporting

- In 1994, the objectives, strategies and initiatives outlined in the Debt Management Plan for the first time (emphasis added) provide a formal and improved basis to hold Finance accountable for debt management activities and results.
- The Debt Management Plan published in the 1994-95 Government by Design publication included the following:
 - The department's debt management and investment information systems will be upgraded and enhanced to provide timely data to make debt and investment decisions based on associated risk assessment.
 - The department's analytical capability will be increased to access alternative financing instruments, measure risks, and employ options, swaps and other financial products to manage the liability portfolio.
- Debts and obligations of a number of crown agencies guaranteed by the Province were not reflected in the notes to the financial statements and not covered in the Debt Management Plan.
- The current version of the Debt Management Plan tabled in April 1995, included the government's strategic objectives for the management of the Province's debt. It identified a number of strategies and initiatives adopted by Finance to assist in meeting the debt management objectives. Medium and longer-term targets for the following key objectives/indicators were included in Government by Design:
 - net direct debt as a percentage of GDP;
 - net debt charges as a percent of revenue;
 - Provincial credit rating; and
 - net direct debt per capita.
- The financial statement accounting policies for reporting the Province's derivative positions and the related income or costs have not been fully defined and documented.

Future Plans

- In 1994, it was indicated that the Province's strategy was to use sinking and debt retirement funds to help mitigate foreign currency exposure, reduce refinancing risk, and plan for the orderly retirement of debt.
- In 1994, Finance senior management acknowledged its plans for managing the debt will continue to evolve.
- In 1995, Finance stated they will be developing more detailed plans and specific policies and procedures in a number of key areas to support the Debt Management Plan. The OAG

suggested these be appropriately defined, documented, and submitted for Executive Council approval as soon as possible.

In 1995, Finance had indicated it would continue to expand and enhance its policies, plans and procedures for its debt management activities, including those for the use and control of derivatives. These improvements are to be defined and implemented over time as and when necessary resources become available.

3.2 Overview of Division Mission

The mission of the Division is defined within the Debt Management Plan of the Government by Design document published on an annual basis and is expressed as follows:

3.2.1 Liability Management

To manage the debt portfolio of the province so as to maximise the likelihood of achieving the fiscal objectives of the province, while minimising the debt portfolio's long term cost of carry and to fund cash requirements at a minimum cost to the Province.

The day to day operations of the Division is led by the Director, Liability Management and Treasury Services who reports to the Executive Director, Investments, Pensions and Treasury Services. Those liability management activities that are within the purview of the Division are managed within the parameters set by the Debt Management Policy statement. This statement has been approved by the internal DMC and addresses the risk to which the Province is exposed and the guidelines to which the Division must subscribe.

In this regard, the Division executes transactions on behalf of the Government, the primary goal of which is to meet the financial requirements of the Province and management of the financial risk arising from the Province's debt.

3.2.2 Treasury Services

To manage effectively the banking arrangements of the province, to service outstanding debt, and to estimate and manage cash balances of the consolidated and related funds.

The cash management team carries out cash forecasting for the Government, invests surplus funds and borrows to meet the Province's cash needs, manages the Province's banking arrangements, and completes bank reconciliations and other cash management administrative functions.

Cash management activities are the responsibility of the Manager, Cash Management Services, except completion of bank reconciliations, which is the responsibility of the Manager, Debt Servicing & Information.

Furthermore, the Treasury Services group provides various services to other departments, Crown Corporations and Agencies. In this regard, Treasury Services will execute transactions on behalf of various Crown Corporations and Agencies the primary goal of which is to ensure that financial requirements are met for the Province by ensuring a co-ordinated borrowing and investment program within the marketplace. As well, Treasury Services will undertake to provide financial advice to various departments on alternative financing projects which may include the Public / Private Partnership.

3.2.3 Information Technology

The Division uses purchased software packages to administer divisional information with primary reliance on spreadsheet application software. The IT Division of the Finance CSU (Corporate Services Unit) administers information technology within the Department of Finance.

A new Treasury Management System will be implemented in the near future. We understand that the new system will enhance operational efficiency and risk management modelling capabilities by providing a centralised database where information can be effectively shared while reducing certain manual operations.

6.12 The consultant's draft report contained 67 recommendations. Of these recommendations, 26 were identified as requiring immediate attention and 42 as being less significant. The following comments are extracted from the Summary Findings and Recommendations section in the Executive Summary to the draft report.

4.0 SUMMARY FINDINGS AND RECOMMENDATIONS

"Our summary recommendations to improve the transaction control cycle and to establish an appropriate risk management framework are provided below. These recommendations, where applicable, have been benchmarked to best practice within government and industry.

The resulting recommendations are grouped under two headings: Risk Management and Operational by planned area of audit coverage.

4.1 Risk Management

Effective financial risk management begins with a solid understanding of the organisation's mission, objectives and strategies, and clear identification of the financial risks to be taken and the expected returns associated with those risks. Integral to sound business planning is a formal description of the organisation's "risk appetite" and the nature and level of risks that are acceptable to the organisation.

The risk management infrastructure forms the foundation for the risk management framework. It is the organisational, analytic, operational and systems infrastructure necessary to support the transaction control cycle. Without these "building blocks," the risk management transaction control cycle is unable to operate effectively, controls are diminished, and management will lack the information necessary to monitor performance and evaluate different strategies.

The risk management activities should be supported by an appropriate organisational structure, such as defined and documented roles and responsibilities, and risk management framework, such as defined and documented risk measurement methodology, reporting framework and limit structure.

The Division's mission statement and objective is defined within the Debt Management Plan within the Government by Design document. The Division's identification of the risk exposures is incorporated within the Debt Management Policy statement. However, the Division's, and by extension the Province's, 'risk appetite' has not been explicitly defined nor have the expected 'returns' associated with those risks. However, the Debt Management Committee has recently developed a Risk Table and Policy Statement in response to that issue.

In this regard, the following tasks should be undertaken to further develop a risk management infrastructure:

4.1.1 The Government should establish a risk framework where its tolerances for financial risk and its financial risk management philosophy are formally set and provided to management.

The internal DMC has recently approved a Debt Management Policy statement that sets a number of operational targets for interest rate, liquidity, currency, settlement, counterparty, and operational risks. However, it is not clear whether this Policy Statement is consistent with the risk tolerance and philosophy of the Government.

The Government should issue written risk management guidelines that link the strategies of the Government to its risk tolerance/philosophy. These guidelines should establish the scope of permitted treasury activities, guidelines for acceptable levels of risks and benchmark returns, the structure and independence of the risk management processes, and an accountability framework. Responsibility for overseeing this process should be formally delegated by the House of Assembly to the Debt Management Committee.

4.1.2 The Debt Management Committee should be expanded to include members external to the Finance Department.

We recommend that membership in the Debt Management Committee be expanded to include members external to the Finance Department. The Committee composition should be amended to include members of the Fiscal and Economic Policy Branch as this group may lend its expertise with respect to short and long term economic conditions which may bring to light economic factors which can influence the borrowing/refinancing plan of the Division. These individuals should be at a sufficiently high level to provide adequate interpretation of economic conditions. As well, consideration should be given to include additional high level staff from other departments which can provide additional resources and independent oversight by the Committee to ensure that its fulfilment of its mandate can be objectively monitored.

4.1.3 The Division should enhance its measurement and reporting against the Policy Variables outlined in the Debt Management Policy statement.

The internal DMC recently approved a Debt Management Policy statement defining 14 key financial risks managed by the Division and sets 36 Policy Variables that provide financial risk targets and limits. This Policy represents an excellent step toward improving the measurement of risks and articulation of the 'risk appetite' of the Government. We recommend the following enhancements to this new Policy:

- specific linkage of the detailed Policy Variables to the financial objectives, strategies and risk tolerance of the Government; and
- establishment of a formal measurement and reporting program to report on progress toward meeting financial risk targets or compliance with risk limits.

A number of Policy Variables have been established as operational targets as opposed to hard limits. These operational targets, established in 1998 are compared against the current debt portfolio which has arisen from experience and debt management decisions made over the past number of decades. In some instances actual risk exposures are well in excess of those targets (e.g. average term to maturity of debt, duration, foreign currency risk). In these cases, we recommend that management develop a formal strategy for meeting these targets, and formally review and report on progress toward achieving those targets on a regular basis. This strategy should recognize the existing debt portfolio and the challenges of effectively managing this portfolio to the operational targets.

4.1.4 A benchmark portfolio of debt should be developed to form the basis of performance measurement.

Best practice within Government is to construct a benchmark debt portfolio to allow for performance measurement of the Division's activities and responsibilities. Many provinces have used independent advisors to assist them to construct a model portfolio. Such a model would set parameters for the debt portfolio, such as the duration and repricing of debt and degree of currency risk, in an effort to achieve a theoretical "efficient frontier" for borrowing. This portfolio should be designed in conjunction with management of the Division, and approved by the Debt Management Committee.

This benchmark debt portfolio should be used for assessing the actual performance of Divisional management in achieving the rate level that could have been reached by the benchmark portfolio. Variance to such a rate level should be commented upon by Divisional management. Additionally, the benchmark portfolio provides a threshold against which quantitative risk measures, such as the effect of a rate shock on current debt service cost, can be compared.

4.1.5 All existing and contingent (potential) indebtedness of the Province, including that not currently in the purview of the Division, should be aggregated within the Division and incorporated within the portfolio sensitivity analysis.

The Division does not currently have an oversight responsibility or accurate information for all existing and contingent indebtedness of the Province (e.g. guarantees, leases and performance bonds) and is therefore unable to aggregate all such exposures within its sensitivity analysis. As

such, the Division has not formalised its basis for measuring certain exposures. For example, there is no policy that dictates which time period such guarantees, leases or performance bonds should be assigned for purposes of sensitivity analysis nor a policy as to the method of valuation of such (e.g. discounted cashflows, cost less provision, other).

All existing and contingent (potential) indebtedness of the Province should be aggregated within the Division, and policies for measuring such risk within the overall risk profile and sensitivity analysis should be formalised.

4.1.6 The 'counterpart credit exposure report' should include the consolidated exposure to all counterparts and such exposure should be independently calculated and reported by the Division.

The Division relies on its derivative counterparties to provide it with the mark-to-market exposure on its outstanding swap transactions on a monthly basis. Not all counterparties provide this information. If such information is not reported, the Division does not independently calculate and report this amount. The Division does not perform an independent verification of its counterpart's calculation. We understand that the new Treasury Management System will have the functionality to undertake this calculation.

The Division should incorporate all counterparty exposures within the 'counterpart credit exposure report'. Such amounts should be independently calculated by the Division and compared to the amounts reported by each counterparty.

4.1.7 The systems and processes for measurement and reporting of the Provinces' financial risk positioning should be enhanced.

A robust risk measurement methodology would ensure reliability of input data, tested and credible pricing models, a revaluation methodology that accurately reflects the cost of closing out current positions at current market prices and an integrated profile of all market risks.

The Division's formal aggregation, measurement and reporting of risk positions are limited in nature and scope. This factor was one of the reasons the Division has made the acquisition and implementation of the Treasury Management System a high priority. The Division should begin to incorporate all risk exposures within the existing measurement systems for the quantification of the financial risk inherent in the portfolio. As well, the Division should ensure that it begins to carry out scenario analysis and stress testing to ensure that potential movements in the underlying financial risks within the portfolio are understood.

4.1.8 Policy and Procedural documentation for the Division should be enhanced.

Policies and procedures translate the Division's strategy and objectives into operating documents to control the Division's activities. Policies should clearly set out all the parameters within which the risk management strategies are formulated, executed and monitored, and should be formally ratified by the DMC. Procedures act to operationalise the DMC's policies and should be continually amended to reflect the current processes.

Management has demonstrated their understanding of the need for establishment of formal, detailed procedures for key risk management functions. However, management has been reluctant to commit resources to develop and document detailed procedures for key functions that will be replaced by the introduction of the new Treasury Management System. Given the current lack of detailed process documentation we would recommend that each desk create a high level description of processes that will form the precursor for detailed procedures to be documented at a later date (after implementation of the new Treasury Management System). This information will assist the department in designing new controls and processes for the new Treasury Management System.

4.1.9 Succession Planning and Human Resource Development for the Division should be formalised.

Management should devote additional focus to human resource development items and reduction of key person risk through the following:

- Development of a formal succession plan/reduction of key person risk;
- Cross training of staff within each division;
- Focus on development of staff skill sets/knowledge of the liquidity and cash management processes.

Of a total staff complement of 16 full time employees, 7 have less than a full year of experience within the Division (although they have extensive experience in government or the private sector). There are currently no formal training, succession or personal development plans for staff of the Division.

Additionally, there is no policy requiring staff to be removed from their position for a minimum of 5 days. Each individual should be removed from their position for this period of time to allow another individual to re-perform their function. This will provide the Division opportunity to cross-train staff as well as to ensure the job function is being performed in the appropriate manner.

4.1.10 An independent Risk Management function for the Division should be instituted.

Senior management relies extensively on the Manager, Derivative and Quantitative Evaluation to both execute transactions and to monitor and communicate the results of those transactions. The key functions of measurement and management of interest rate and foreign currency risks should be segregated.

Given the broad range and complexity of risks assumed by the Division, on behalf of the Province, we see strong justification for the appointment of an independent risk manager. This position can be a component part of the Division and would be responsible for the identification, measurement and reporting of all financial risk. This would not be simply a policing or audit function, but instead would be key [sic] role in identifying and communicating to the internal DMC the risk profile resulting from the liability positions assumed.

4.1.11 Financial Risk Management Reporting by the Division should be improved.

The current organisational reporting structure is through the Executive Director to the Deputy Minister of Finance, who reports to the Minister of Finance and ultimately the Cabinet. The reporting to the Deputy Minister of Finance is carried out on a regular basis informally, with formal reporting through the bi-monthly Debt Management Committee meeting, while the Minister of Finance is reported to on an ad-hoc basis. We understand that no regular reports which summarise the risks inherent in the Province's debt are provided to the Minister of Finance, other than the annual Debt Management Plan. Best practice would dictate the need for sufficient and timely reporting of the risks undertaken to those ultimately responsible for the Province's debt.

4.2 Operational

The process for managing individual transaction risks and cumulative portfolio risk is executed via the transaction control cycle. It consists of a structured process by which risks are identified, measured, captured, managed and reported. Additionally, the results of the control cycle are continuously evaluated relative to stated goals and objectives to enable effective performance monitoring and control. The comprehensive development of the control cycle is essential to any risk management program.

4.2.1 Segregation of duties within the Division should be enhanced.

There are various instances that we noted which require enhancements to the level of segregation between certain incompatible functions. Management is aware of the issues and has been accommodating the necessary changes as resources become available within staff complement constraints.

The primary concern is to ensure that back office staff do not have reporting responsibility to an individual who has trading responsibility. Furthermore, an individual with trading responsibility should not be responsible for the creation of risk reports. Finally, in conjunction with the development of the appropriate level of cross training, bank account reconciliation staff should be required to change the accounts which they reconcile at least semi-annually. Bank reconciliation provides a key control to determine the legitimacy of cash transactions and the accounting for those transactions.

4.2.2 Bank account maintenance and banking relationships on behalf of the Province should be enhanced.

The Division has relationships with all five major banks. There is a significant time and resource requirement for administering these banking relationships and to reconcile the bank accounts on a timely basis.

The Department of Finance should assess the cost effectiveness of current banking arrangements. Considerations should be given to consolidating the banking operations with a goal to achieve operational savings to the Province while increasing efficiency. Furthermore, consideration should be given to a more proactive approach to closing inactive and dormant bank accounts in order to reduce the work to maintain and reconcile these accounts.

4.2.3 The accuracy and timeliness of Cash Forecasting data should be improved.

The current cash forecasting process within Liability Management and Treasury Services is formal. However, there is no requirement for other departments to provide timely and accurate cash forecast information. Estimates of cash inflows/outflows rely heavily on the experience of the Manager - Cash Management Services. We determined that there are large recurring variances between actual end of day cash positions and that day's projected closing cash position.

A requirement should be set for all departments to provide timely and accurate cash forecast information. Other departments should be held accountable for the accuracy and timeliness of the cash forecast information (possibly by transfer pricing the cost associated with the additional funds required). Finally, the actual variance from projected end of day cash position should be determined and a threshold amount should be set prior to investigation.

4.2.4 Accounting records and management reports within the Division should be complete.

We noted various instances in which the full processing cycle has not been completed for certain types of transactions within the Division. As such, this would cause the accounting records to be misstated at a point in time. We understand that adjustments are made to the accounting records to ensure that such records are complete on a yearly basis. Furthermore, certain transactions are not being recorded on management reports used within the Division.

The completeness and reliability of accounting and management records ensures that Divisional staff are made aware of the total exposure to which the Province is exposed. Immediate effort should be made to ensuring [sic] that all reports and accounting records are brought up to date and reconciled in a timely fashion as opposed to on a yearly basis.

As a control process, we believe that the Internal Audit Division should undertake regular assessments of the Division on a 12 - 18 month cycle. This regular assessment should encompass all functions within the Division and should be reported upon to the Deputy Minister of Finance.

4.2.5 An implementation plan should be developed for the new Treasury Management System

The Division has not developed an implementation plan for the new Treasury Management System. Management should develop a detailed implementation plan that aligns people, processes and the new system. This plan should provide the detailed process changes and the changes to staff resources. As detailed procedural documentation regarding the current systems and processes is not available, each desk should create a high level description of existing processes that will form the precursor for transforming the Division to the new Treasury Management System. This high level description may then be used as a foundation for development of the detailed implementation plan.

CONCLUDING REMARKS

6.13 Based on the results of the audit work of the external consultants, certain issues raised in past Auditor General Reports dealing with overall governance, accountability and management of the Provincial debt and derivative related activities have not been fully addressed.

6.14 The size of the Province's total debt, together with the proportion payable in foreign currencies, warrants increased reporting to and attention by government and the House of Assembly. The Department of Finance has taken and continues to take action to enhance its policies and practices relating to the ongoing management and control of the Province's debt and related costs.

6.15 There are significant public policy issues and decisions related to the management of the Province's debt, such as the appropriate level of debt, the appropriate mix of foreign and domestic debt, and the level of acceptable risk. It is not the role of this Office to actively participate in such discussions. Our role and focus is on whether policies, plans and systems exist and operate to support the overall governance, accountability and management processes regarding control of the Province's debt and debt-related costs. It is incumbent on government to ensure that sufficient appropriate resources are allocated to achieve the level of management control necessary in the circumstances. Regardless of which public policy direction or emphasis is taken, management of the Province's debt should likely continue to be a matter of significance and interest to the House of Assembly.

Exhibit 6.1

SUMMARY OF PROVINCE'S DEBT				
AS AT MARCH 31, 1999				
(Source: Derived from Province's Consolidated Financial Statements)				
	(thousands of Canadian \$)		Foreign %	
	1999	1998	1999	1998
Gross Long Term Debt				
Government Service Organizations (1)	\$ 13,803,074	\$ 13,141,728	46.5%	49.1%
Government Business Enterprises	<u>208,776</u>	<u>189,658</u>	0.0%	0.0%
Total Long Term Debt to be Managed	<u>14,011,850</u>	<u>13,331,386</u>	45.9%	48.4%
Sinking Funds (2)				
Government Service Organizations (1)	4,218,955	3,980,976	31.4%	29.2%
Government Business Enterprises	<u>-</u>	<u>-</u>	0.0%	0.0%
Funds to be Managed	<u>4,218,955</u>	<u>3,980,976</u>	31.4%	29.2%
Net Long Term Debt	\$ 9,792,895	\$ 9,350,410	52.1%	56.5%
Other Debt				
Bank Advances and short-term borrowings	942,001	891,599	9.7%	7.5%
Pensions, retirement and other obligations	810,011	457,994	0.0%	0.0%
Deficiency in government business enterprises	<u>674,110</u>	<u>573,058</u>	53.6%	55.1%
Net Provincial Debt	<u>\$ 12,219,017</u>	<u>\$ 11,273,061</u>	45.4%	50.3%
Notes:				
(1) The Investments, Pensions and Treasury Services Branch of the Department of Finance is directly responsible for managing 83.5% (82.7% - 1998) of the gross long term debt, 65.0% (63.6% - 1998) of the sinking funds related to Government Service Organizations and 92.8% (92.7% - 1998) of bank advances and short-term borrowings.				
(2) Sinking Funds include funds held in Sinking Funds related to debenture debt issues, the Public Debt Retirement Fund and Defeasant Assets.				

Exhibit 6.2(a)

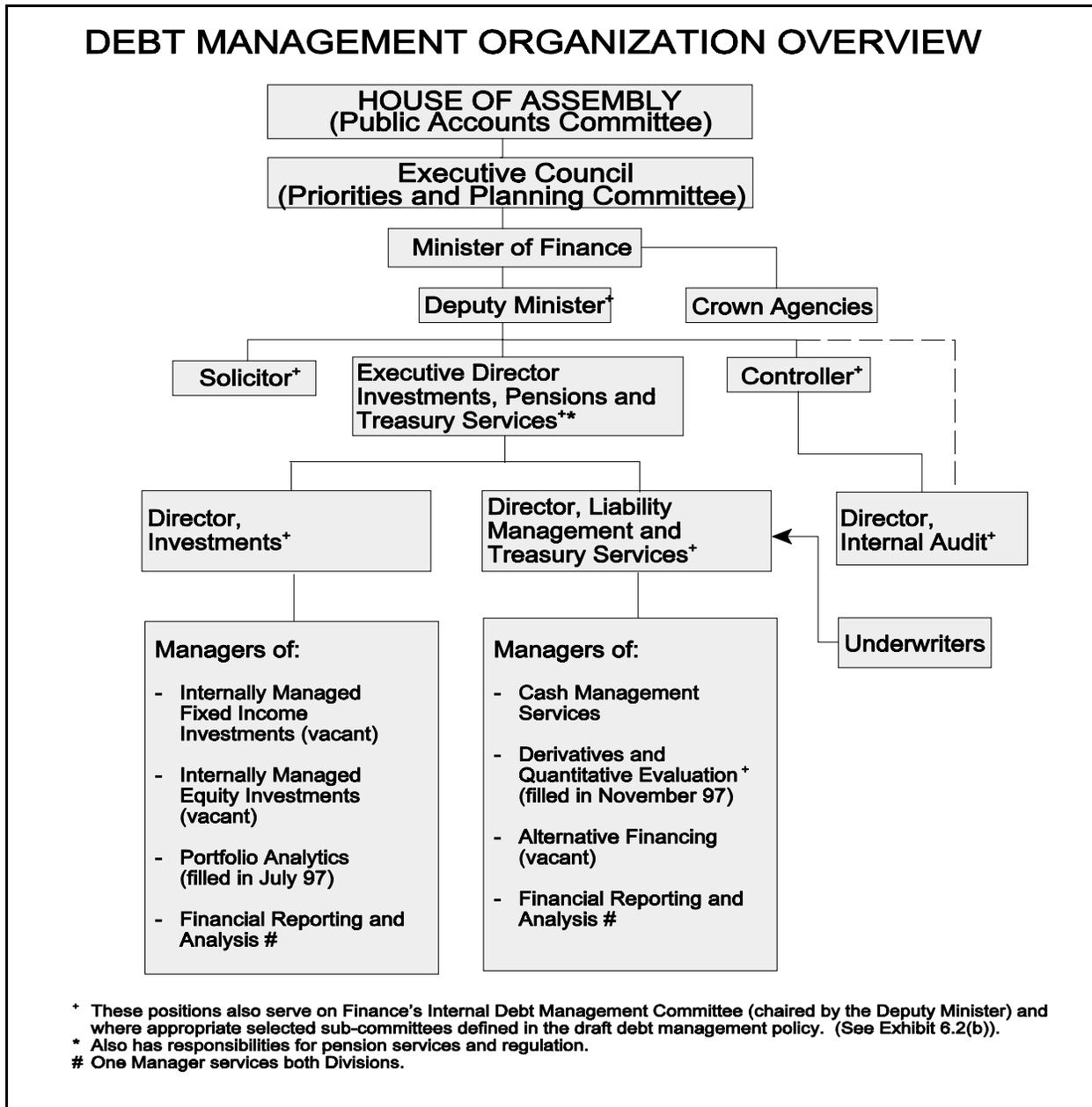
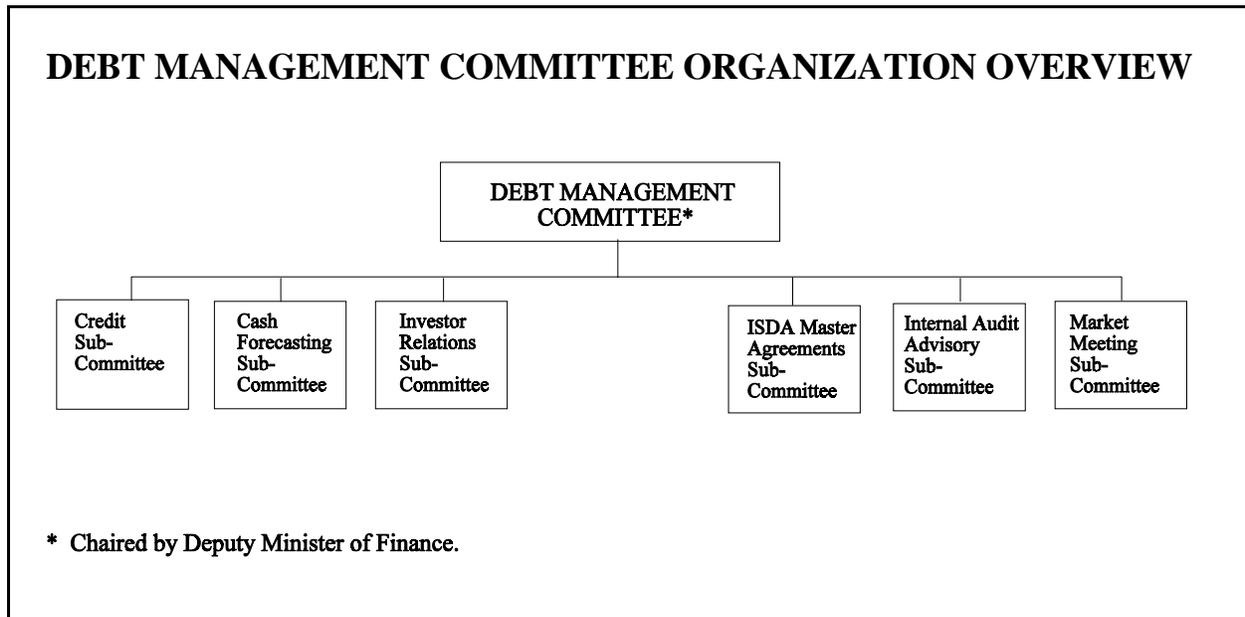


Exhibit 6.2 (b)

Appendix 6.1

KEY GOVERNANCE QUESTIONS FOR DERIVATIVES			
Questions	Status 1995	Summary Comments	Consultant's Comments 1999
1. Policies			
(a) Has the government (i.e. Executive Council, Priorities and Planning, and the Minister) established clear and internally consistent risk management policies, and are they communicated clearly?	Needs more action	<ul style="list-style-type: none"> ■ This is a responsibility of the highest level upon which other activities are dependent. ■ This requirement is recognized but there is no timetable for its completion. 	<ul style="list-style-type: none"> ■ 1995 status remains valid for the establishment of clear and internally consistent risk management policies and the extent of communication thereof.
(b) If so, are management's strategies and implementation procedures consistent with the authorized policies?	Needs more action	<ul style="list-style-type: none"> ■ Without clearly communicated strategies and policy direction at the senior level this area cannot be fully completed. ■ This is not just a case of documenting transactions that have and are occurring. There are no limits defined for scope of activities, no limits on risk taking, no standards for valuing positions and ensuring performance, etc. ■ Again there is no timetable for completing these responsibilities. 	
2. Limits			
(a) Are comprehensive treasury limits in place that cover various types of risk: i.e. - treasury products, - market risk, - legal risk, - credit risk, - liquidity risk, and - operations risk?	Needs more action	<ul style="list-style-type: none"> ■ Management indicates these will be developed along with the above outstanding items. However, transactions have and will occur for which the Province is responsible without these limits being fully defined and approved. 	<ul style="list-style-type: none"> ■ 1995 status remains valid for the monitoring against established limits.
(b) Are procedures in place to monitor treasury's activities against established limits and is appropriate action taken when limits are exceeded?	Needs more action	<ul style="list-style-type: none"> ■ There are very broad portfolio targets established, but no specific limits or policies (re: risk management) established against which to monitor and react. 	

Appendix 6.1 (cont'd)

KEY GOVERNANCE QUESTIONS FOR DERIVATIVES			
Questions	Status 1995	Summary Comments	Consultant's Comments 1999
3. Procedures and Systems Support			
(a) Is there an independent back office function supporting treasury activities?	Needs more action	<ul style="list-style-type: none"> ■ While there is better segregation of duties now, there is still room to improve. ■ The back office reports to those responsible for authorizing and managing the transactions. 	<ul style="list-style-type: none"> ■ 1995 status remains valid for the independent reporting function, documentation of procedures and adequacy of information technology. <p>However, the implementation of the new Treasury Management System should alleviate some of these difficulties.</p>
(b) Are documented procedures and controls in place for: <ul style="list-style-type: none"> - treasury decision-making and execution, - back office functions, and - accounting and reporting? 	Needs more action	<ul style="list-style-type: none"> ■ There are some informal accounting and reporting procedures being followed in dealing with transactions, however there are no documented procedures and controls for the various segments listed. 	
(c) Does the Province have adequate integrated computer hardware, software, expertise and operations understanding to support the range of treasury's activities?	Needs more action	<ul style="list-style-type: none"> ■ Systems are just adequate for present level and type of activity, however the current systems will not be adequate for future planned activity. 	
4. Valuation			
(a) If computer models are used in treasury, are the models independently validated on a regular basis?	Will need action	<ul style="list-style-type: none"> ■ Sophisticated models are being reviewed but not currently being used. Basic spreadsheets are currently being used. 	<ul style="list-style-type: none"> ■ 1995 status remains valid for use of computer models, valuation issues and scenario analysis.
(b) Are the systems capable of performing "what if?" scenarios, in order to determine the Province's potential risk?	Needs action	<ul style="list-style-type: none"> ■ The current systems are not able to efficiently complete these scenarios and as a result potential risk is not being regularly reported. 	

Appendix 6.1 (cont'd)

KEY GOVERNANCE QUESTIONS FOR DERIVATIVES			
Questions	Status 1995	Summary Comments	Consultant's Comments 1999
<p>5. Accounting/Disclosure</p> <p>(a) Is there an emphasis on accrual or mark-to-market accounting of all treasury's positions?</p>	Yes, a bit of both	<ul style="list-style-type: none"> ■ Accrual accounting used for external financial statements, with note disclosure of derivatives. ■ Mark-to-market is being completed for internal monthly reports, using information produced externally by the counterparties. 	<ul style="list-style-type: none"> ■ No further work carried out.
<p>(b) Is the Province bringing its treasury activities disclosure reporting in line with current regulations and best practices?</p>	Yes, but will evolve	<ul style="list-style-type: none"> ■ However, the specific accounting policies and procedures for derivatives have not yet been fully defined and documented. There is no timetable for this topic, but presumably will be necessary for March 31, 1996 statements. ■ The accounting policies are linked to the overall strategies and policies, and until these are complete it is difficult to complete the accounting policies. 	<ul style="list-style-type: none"> ■ No further work carried out.
<p>6. Management</p> <p>(a) Should outside advisors be retained to review the government's risk management policies and practices?</p> <p>Does senior management receive useful reporting updates on the treasury function and activities on a regular basis?</p>	<p>Some action taken</p> <p>Some action taken</p>	<ul style="list-style-type: none"> ■ Finance has made use of external parties to review selected aspects of its treasury plans and activities. ■ Treasury management is receiving regular reports which include mark-to-market reporting, but reporting to government is not formalized yet. Further, the back office function is not fully independent or segregated from senior treasury management. 	<ul style="list-style-type: none"> ■ 1995 status remains valid for review of risk management policies and practices. ■ 1995 status remains valid for reporting to government and segregation of functions.

Appendix 6.1 (cont'd)

KEY GOVERNANCE QUESTIONS FOR DERIVATIVES			
Questions	Status 1995	Summary Comments	Consultant's Comments 1999
(b) Does the government receive timely and relevant information regarding treasury activities?	Needs more action	<ul style="list-style-type: none"> The Minister is informed of treasury activities on a verbal basis. The reporting to others in government has not yet been formally defined. There is no timetable for the completion of this. 	<ul style="list-style-type: none"> 1995 status remains valid.
(c) Does government know the most the Province could lose as a result of treasury risks in a worst-case scenario?	Needs more action	<ul style="list-style-type: none"> Potential risk exposure and stress tests are not reported to government. The policies and procedures have not been established to require this type of reporting, and there is no timetable for the completion of this. 	<ul style="list-style-type: none"> 1995 status remains valid.
(d) Is the government aware of the effect of treasury's activities on cash flow and deficit last year?	Yes	<ul style="list-style-type: none"> Government is aware of treasury's activities in general terms and on a selected basis. 	<ul style="list-style-type: none"> No further work carried out.
7. Performance Measurement			
(a) Is the treasury function seen or evaluated as a profit centre?	No	<ul style="list-style-type: none"> Treasury is aware it is dealing with public monies and does not view itself as a profit centre. 	<ul style="list-style-type: none"> No further work carried out.
Do treasury staff understand the Province's position in this regard?	Yes	<ul style="list-style-type: none"> However, there are no overall policies and strategies clearly governing this. 	
(b) Do treasury staff sign off on the Province's code of ethics?	No	<ul style="list-style-type: none"> No code of ethics defined for Province. However, most treasury staff have professional designations which require they adhere to a defined code of ethics. 	<ul style="list-style-type: none"> No further work carried out.
(c) Is the compensation in treasury consistent with the Province's overall objectives?	May need action	<ul style="list-style-type: none"> There is an active market with high demand for skilled treasury personnel. Building and retaining a solid world class treasury team may require additional resources. 	<ul style="list-style-type: none"> 1995 status remains valid.

Appendix 6.1 (cont'd)

KEY GOVERNANCE QUESTIONS FOR DERIVATIVES			
Questions	Status 1995	Summary Comments	Consultant's Comments 1999
8. Internal Control			
(a) Are the staff authorized to engage in and to monitor treasury activities qualified and trained?	Yes, but will continue to evolve	<ul style="list-style-type: none"> ■ The senior staff responsible for treasury activities have various professional qualifications and experience. 	<ul style="list-style-type: none"> ■ 1995 status remains valid.
(b) Do key controls exist to ensure that only authorized transactions take place, and that all transactions are completely and accurately recorded, and that unauthorized transactions would be detected quickly and appropriate action taken?	Needs more action	<ul style="list-style-type: none"> ■ Finance has taken some action in the past year, but needs to continue efforts to improve systems and controls, including definition of more detailed plans, policies and procedures. Business plans identify a number of initiatives, but there is not a formal implementation plan or schedule, including definition of resources required. 	<ul style="list-style-type: none"> ■ 1995 status remains valid for enhancement of key controls.
(c) Is there adequate independent audit coverage of and reporting on the treasury function?	Needs more action	<ul style="list-style-type: none"> ■ Auditor General's coverage will continue to evolve, and likely be ongoing in certain respects, but will rely on public accounts audit function re: Province's financial statement reporting. ■ Finance's internal audit group has not been (but should be) involved in the auditing of derivative activities. 	<ul style="list-style-type: none"> ■ 1995 status remains valid for cyclical audits to be carried out for this division.

Appendix 6.1 (cont'd)

KEY GOVERNANCE QUESTIONS FOR DERIVATIVES			
Questions	Status 1995	Summary Comments	Consultant's Comments 1999
9. Evaluation			
(a) Is compliance with all policies and procedures evaluated regularly?	Needs more action	<ul style="list-style-type: none"> ■ Being done informally by treasury management. However, without detailed plans and specific policies and procedures defined and documented, such evaluations cannot be formally completed by others independent of treasury. The external parties to Finance's derivative transactions expect compliance with minimum standards and controls for the industry. 	<ul style="list-style-type: none"> ■ 1995 status remains valid for independent valuation of the division performance and the need for independent oversights.
(b) Has the government established an investment or risk management committee, composed of knowledgeable people, including senior managers and perhaps outside advisors, who regularly review treasury strategies, controls and performance?	Needs more action	<ul style="list-style-type: none"> ■ There is an advisory committee, chaired by the Finance Deputy Minister, for pension investments, but not for sinking or other debt-related funds and activities. At the present time those responsible for the treasury operations also are responsible for risk management and assessment. Such committees should be appropriately independent of management responsible. 	<ul style="list-style-type: none"> ■ 1995 status remains valid for the need for an independent oversight function.
(c) Should government retain outside advisors to review the risk management policies and practices being and/or to be followed?	Will need action	<ul style="list-style-type: none"> ■ The Province's risk management policies and procedures are not formally defined and documented, and there is no timetable for completion. Once completed, policies should be independently reviewed. 	<ul style="list-style-type: none"> ■ 1995 status remains valid.