

**REPORT OF THE  
AUDITOR GENERAL  
2000  
HIGHLIGHTS**

**PREFACE**

In an attempt to give readers an appreciation of the most significant findings contained in my Annual Report, I publish annually this highlights volume. It provides a brief summary of the results of audit work carried out in 2000.

However I do suggest that those who wish a fuller understanding of any or all of these matters should refer to the full Report. The highlights volume notes the page numbers of the full Report for each of the subjects.

The year 2000 was very busy for the Office. Carrying out the audit of the Province's financial statements for the second time was complicated by the government's efforts to fully implement generally accepted accounting principles. This resulted in delays and required additional resources. As well several complex and difficult audits caused delays. As a result this Report is later than originally planned.

It is also the intent of myself and my staff to provide our messages as clearly and concisely as possible. Comments from readers on the value of this highlights volume or on the complete report would be welcomed.

E. Roy Salmon, FCA  
Auditor General

Halifax, Nova Scotia  
January 19, 2001



# TABLE OF CONTENTS

## Page

### INTRODUCTION

1. Overview and Significant Issues . . . . . 5

### GOVERNMENT-WIDE ISSUES

2. Accountability Information and Reporting . 5
3. User Fees . . . . . 6

### DEPARTMENTAL AUDITS

#### Community Services

4. Grants to Organizations Providing Family and Children's Services . . . . . 7

#### Education

5. Halifax Regional School Board and Chignecto-Central Regional School Board - Budgeting and Financial Management Practices . . . . . 8
6. Grants to Universities . . . . . 10

#### Health

7. Cape Breton Healthcare Complex . . . . . 11
8. Emergency Health Services . . . . . 14
9. Physician Alternative Funding Initiatives . . 16

#### Housing and Municipal Affairs

10. Land Information Services . . . . . 18

### CROWN AGENCIES AND CORPORATIONS

11. Nova Scotia Liquor Commission . . . . . 19
12. Nova Scotia Liquor Commission - Government Review of Alternative Service Options . . . 19
13. Review of Financial Statements and Management Letters . . . . . 20

**OTHER AUDIT OBSERVATIONS**

14. Additional Appropriations . . . . . 20  
15. Cash and Other Losses . . . . . 20



**OVERVIEW AND SIGNIFICANT ISSUES***(Pages 8 - 11)*

**1.1** In this Chapter, I attempt to provide my thoughts on what I believe is the major issue facing this Province - achieving fiscal stability - and bring together the findings of the audits carried out this year. These findings highlight the issues which must be addressed in order to work towards the objective of fiscal stability in an orderly manner, and reinforce and confirm the recommendations made by the Fiscal Management Task Force one year ago.

**ACCOUNTABILITY INFORMATION  
AND REPORTING** *(Pages 14 - 32)*

**2.1** As a result of amendments to the Provincial Finance Act in June 2000, the provision of accountability information and reporting to the House of Assembly on government's plans and performance is now required by law. Performance information or reports provided by government should be relevant, reliable and understandable.

**2.2** The Auditor General's report required under Section 9B of the Auditor General Act, on the 2000-2001 revenue estimates, was tabled in the House on April 11, 2000. In addition, summary comments and suggestions as a result of our review procedures were communicated to the Department of Finance.

**2.3** The government's March 31, 2000 consolidated financial statements were released December 14, 2000 as part of the Public Accounts - Volume I. The auditor's report dated November 30, 2000 on the consolidated financial statements was qualified for a scope limitation due to the fact that the audited financial statements of Sydney Steel Corporation and the related pension plans for the year ended December 31, 1999, and the actuarial valuation reports on the pension plans, had not been finalized.

**2.4** A review of the Province's March 31, 2000 consolidated financial statements indicates that in total there are approximately \$30 billion of treasury and pension-related accounts or balances to be managed

and controlled by government. The House could direct additional attention towards holding the government accountable for its longer-term plans and performance in these areas.

**2.5** The Procurement Branch of the Department of Finance (now part of the Department of Transportation and Public Works) reported on policy exceptions and the results of its monitoring of compliance with the government's procurement policies to the Priorities and Planning Committee. There was 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 on a timely basis.

**2.6** As part of efforts to modernize the Government of Nova Scotia's Management Manuals, applicability to Provincial public sector entities other than departments should be clarified.

**2.7** Disclosure of compensation arrangements for executive and senior management positions in all Provincial public sector entities should, as a minimum, meet the requirements that publicly-traded corporations have had to comply with for many years.

#### **USER FEES** (*Pages 33 - 52*)

**3.1** There are no government-wide policies, procedures or practices to ensure consistent and fair application of user fees.

**3.2** No comprehensive information on significant user fee programs is presented to the Legislature, either by individual departments or on a government-wide basis.

**3.3** Government indicated that it would implement the 36 policies recommended in the 1997 Licences, Permits and Approvals Task Force report, but no significant progress has been made on the financial aspects of the recommendations.

**3.4** The Task Force report and recommended policies do not extend to approximately 300 Provincial agencies, boards and commissions, and there are no estimates of the numbers of user fees or total revenues associated with these entities.

**3.5** Departments have not reviewed all government programs where user fees are charged and, due to the Eurig Estate court decision, may be putting sources of government revenues at risk of court challenge.

**3.6** User fees for most hospital-based health care services are not based on actual costs because management information systems cannot provide the information needed to determine costs.

**3.7** There is no apparent rationale for fees charged by the Registry of Deeds or for personal property registration.

**3.8** It has been approximately thirteen years since government last completed an external review of its method of calculating fees charged to companies which harvest trees from Crown lands.

## **COMMUNITY SERVICES**

### **GRANTS TO ORGANIZATIONS PROVIDING FAMILY AND CHILDREN'S SERVICES**

*(Pages 54 - 67)*

**4.1** The Family and Children's Services Division provides grants and assistance to non-government organizations which are eligible to receive assistance. Grants are appropriately supported and approved.

**4.2** Systems and controls are sufficient to ensure organizations receiving grants under legislated programs use the funds appropriately to address the goals, priorities and legislative requirements of the Department. However, weaknesses exist with respect to non-legislated grant programs.

**4.3** Improvements could be made with respect to performance reporting by all family and children's service organizations funded.

**4.4** The Family and Children's Services Division has not used the Department's business plan to prepare a more detailed operational plan to guide the Division in the planning and delivery of its programs and services.

**4.5** The Division does not have a formal strategy or model to determine the level of funding for organizations providing services under non-legislated programs. The Division does not use a formula for funding residential child-caring facilities, but funding decisions are somewhat more structured than with non-legislated programs.

**4.6** Except for a draft document related to grants to family and children's services agencies, there is no formal documentation of the respective roles and responsibilities of the Division, regional offices and funded organizations for each grant program.

**4.7** The Department's inspection and licensing processes are timely and comprehensive. Appropriate and timely follow-up is undertaken to ensure deficiencies observed are corrected. Program reviews are comprehensive and appropriately followed-up, but we believe they should be done on a more frequent basis and more funded organizations should be included in those subject to review.

**4.8** We observed that there are various financial and statistical reports generated for the individual grant programs managed by the Department, but there are few outcome measures established and reported.

## **EDUCATION**

### **HALIFAX REGIONAL SCHOOL BOARD AND CHIGNECTO-CENTRAL REGIONAL SCHOOL BOARD - BUDGETING AND FINANCIAL MANAGEMENT PRACTICES**

*(Pages 68 - 95)*

**5.1** The timing of funding announcements is more critical for Regional School Boards than other public sector entities. If teaching positions need to be reduced, Boards have only a small window of opportunity to do this. Collective agreements require



notice of termination of probationary teaching staff, effective July 31, to be given by late April. In addition, any savings from reductions in the number of teachers are not able to be achieved until the end of the school year in July, four months into the fiscal year. If the Province informed Regional School Boards of probable funding for the next several years, through multi-year funding announcements, these organizations could better plan for the future.

**5.2** Both Chignecto-Central Regional School Board and Halifax Regional School Board have elements of a business plan but neither Board has developed a formal plan. Additionally, the Department of Education has not defined the format of strategic and business plans for Regional School Boards. We recommended that the Department of Education work with Regional School Boards to establish the format for strategic and business plans. Chignecto-Central and Halifax Regional School Boards could then work towards developing formal strategic and business plans as required by legislation.

**5.3** One of our objectives was to provide an overall opinion on the reasonableness of the Regional School Board budgets.

**5.4** For Chignecto-Central Regional School Board, we were able to provide an unqualified audit opinion on the budget process and the budget document. We found that, as at the date of Board approval, the 2000-01 budget assumptions used by Chignecto-Central Regional School Board are suitably supported, consistent with the plans of the Board, provide a reasonable basis for the budget, and are fairly reflected in the budget.

**5.5** In the case of Halifax Regional School Board, however, we encountered an audit scope limitation because certain critical pieces of information were not available. We, therefore, were unable to give an overall opinion on the budget process and the budget document. We are unable to provide an opinion on the process because budget assumptions such as enrolment projections and targeted class sizes were not explicitly documented as part of the budget process and approved

by the Board, and certain supporting budget documentation was not retained.

**5.6** We became aware of one instance where the members of HRSB were given inadequate information upon which to base a budget-related decision. We have recommended that Board members be given information which explicitly considers both revenues and expenses when profit centres are being discussed.

### **GRANTS TO UNIVERSITIES**

*(Pages 96 - 112)*

**6.1** The introduction of a new Provincial funding formula for universities has been a positive development over the past few years. The major benefit of the formula is that it has rationalized the allocation of Provincial funds among the universities.

**6.2** In 1996, when we last reported on universities, there were certain initiatives in progress which appeared to hold promise for improving the accountability and value-for-money of expenditures in the university sector. They included the potential cost savings identified in the Business Plan for the Metro Halifax Universities, studies on performance indicators and comparable financial information, and work on quality assurance. The Maritime Provinces Higher Education Commission and the universities have made some progress in the quality assurance area, but there has been little progress on the other initiatives.

**6.3** The accountability relationship between the Nova Scotia Council on Higher Education and universities was not well defined. In August 2000, the Nova Scotia Council on Higher Education was replaced by the Nova Scotia Advisory Board on Colleges and Universities. We recommended that the Nova Scotia Advisory Board on Colleges and Universities work in conjunction with the universities to develop an accountability framework that includes descriptions of roles and responsibilities, objectives, outcome and performance measures and a reporting framework. An accountability framework would help ensure that the Province obtains maximum value from its expenditure on universities.

**6.4** The university funding formula is based on enrolment figures. We reviewed documentation of the Nova Scotia Council on Higher Education's audits of university enrolment submissions and found deficiencies in the audit work performed. In addition, our review of the calculation of the unrestricted operating grants for three universities indicated that the Council had incomplete documentation to support the history of the grant calculation.

**6.5** Recent studies have suggested that Nova Scotia's university infrastructure requires a large investment of funds to address the universities' capital needs and deferred maintenance backlog. Capital funding provided to the universities has been inadequate to meet the identified needs. In light of the seriousness of this problem, it is important that funding be targeted to projects that provide the most value.

**6.6** The university capital projects funded by the Province over the past few years have all been ranked as the highest priority based on a comprehensive set of criteria used by the Maritime Provinces Higher Education Commission. The amount of capital funding has been insufficient to meet the total needs identified by the university community. The Nova Scotia Council on Higher Education had taken over responsibility from the Maritime Provinces Higher Education Commission for the capital grants process. The Advisory Board will continue in this role and will be developing its own criteria to evaluate such requests.

**6.7** Due to the significance of regional funding recoveries from the other Maritime provinces, the Nova Scotia Advisory Board on Colleges and Universities should ensure more rigorous monitoring of the accuracy and completeness of recoveries received through the Maritime Provinces Higher Education Commission.

## **HEALTH**

### **CAPE BRETON HEALTHCARE COMPLEX** *(Pages 113 - 136)*

**7.1** The Cape Breton Healthcare Complex Board

members performed their governance function well. The Board approved deficit budgets but this was a systemic problem, due largely to the Department of Health's directives to maintain services and not reduce staff. The Department of Health subsequently funded these deficits. The new Health Authorities Act limits the ability of the District Health Authorities to approve deficit budgets.

**7.2** The Complex prepares an annual report. We recommended improvements in content including more detail on objectives and related achievement, and inclusion of the audited financial statements. The new Health Authorities Act includes provisions which, if implemented, will meet our recommendations.

**7.3** The Complex has been a leader in soliciting performance information from other facilities, and using that information to measure its own performance. The Complex established a benchmarking process in collaboration with a number of hospitals throughout Canada. We commend the Complex's efforts in benchmarking and believe this is a useful tool that the Department of Health and the District Health Authorities should use to measure and improve performance in many important areas.

**7.4** Many in the Canadian health sector have commented that good information systems are the key to solving the fiscal and other problems in health care. The Cape Breton Healthcare Complex, and a number of other partners in health, submitted a proposal to the Department of Health for a new Health Information System more than two years ago, as part of a strategic information technology plan. To date, no response has been received from the Department. More timely collaboration between the Department and its partners in information technology strategic planning is required.

**7.5** The Cape Breton Healthcare Complex monitors inappropriate bed use and reports results to the Board. These reports routinely show that more than 25% of patients occupying acute care beds at the Complex could be more appropriately treated in another setting. This data is consistent with Province-wide figures reported by the Department of Health. Inappropriate

bed use is a significant problem, but it cannot be remedied by the Complex acting alone. The Department of Health, Cape Breton Healthcare Complex, and other long-term and acute care providers will need to work together to achieve a solution, and implementation of the recommendations in the Department of Health's recently released *Transitions in Care - Nova Scotia Department of Health Facilities Review* is a first step in that process.

**7.6** The financial monitoring process in place at the Complex is appropriate, although there is a need to improve the forecasting process. Management identified the need for better forecasting and we concur.

**7.7** The Complex has recently established a Clinical Financial Advisory Committee to identify opportunities for improvement in the economy and efficiency of all clinical activities. The Committee has established a list of potential areas to be reviewed and has selected its first topic. Recommendations are forthcoming. We support this endeavour and recommend that the initiative be monitored by establishing annual targets and reporting on its performance.

**7.8** The procurement function is well managed and complies with Provincial procurement policies and the Atlantic Procurement Policy. The Complex has established relationships with a number of buying groups in an effort to reduce costs through volume discounts. We support involvement in initiatives such as these, and recommend that the Complex monitor and report savings achieved.

**7.9** Rates charged by the Complex to uninsured patients are not based on cost of the actual services provided to the patient, but rather on an average per diem cost, so the rates may not reflect the actual cost incurred. We recommend that the Complex and the Department of Health work towards developing an approach which results in recovery of full costs from all services for which the Complex is able to charge fees.

**EMERGENCY HEALTH SERVICES***(Pages 137 - 158)*

**8.1** There is no legislation for the provision of emergency health services. It is important that Emergency Health Services Nova Scotia (EHSNS) have explicit legislative authority to impose user fees, training, licencing, medical standards and other matters. In 1994, legislation was assented to but not proclaimed. We have recommended that legislation and regulations governing the activities of EHSNS, containing appropriate accountability provisions, be developed and enacted as soon as possible.

**8.2** EHSNS developed a strategic and operating plan in 1996 which includes the vision, mission, values, strategic goals, operating plans and specific initiatives planned for the next five years. The current operating plan covers the five-year period ending March 31, 2003. We found the strategic and operational planning to be thoughtful and comprehensive. The plan was last revised in February 1999 and should be updated in the near future. We have recommended that EHSNS report performance in accomplishing planned objectives to the House annually.

**8.3** The Branch has a formal, written contract evaluation process in place for the air medical transport program. We note that similar contract evaluation processes are not in place for the ground ambulance and communications and dispatch centre contracts. We have recommended that plans for periodic written contractor evaluations for the ground ambulance and communications and dispatch centre be developed as soon as possible.

**8.4** The ambulance lease agreement requires ambulances to undergo regular preventive minor and major maintenance. We examined the maintenance records for 10 ambulances consisting of 148 minor and 19 major maintenance reports. We found that minor and major preventive maintenance was not always being performed within the kilometre limits specified in the lease agreement. Failure to perform preventive maintenance when required may lead to a reduction in rebates at the end of the lease term. At the time of our audit, there were outstanding disagreements with the

contractor over the condition of 47 of 90 returned ambulances which eventually resulted in the loss of \$562,000 in rebates. The Department and Emergency Medical Care Inc. (the ground ambulance service provider) had not established which entity would be responsible for the lost rebates. Department management has informed us that controls have been established to prevent the loss of rebates in the future.

**8.5** Emergency Medical Care Inc. was selected as the preferred contractor for ground ambulance services on a sole-sourced basis. We were informed by Department staff that a public request for proposals was not issued because the Department lacked financial and operational data upon which to base a request. The reason for accepting Emergency Medical Care Inc. as the preferred operator was strongly influenced by Executive Council's preference for a Nova Scotia based operator. There does not appear to be a written evaluation of Emergency Medical Care Inc. as a suitable candidate for a Province-wide ground ambulance operator against predetermined evaluation criteria notwithstanding that it was a new company and neither it nor the parent company (Maritime Medical Care Inc.) had any previous experience in the ambulance business. There also does not appear to have been an analysis of the costs and benefits associated with alternative service delivery by a non-profit or government agency.

**8.6** Contractor compliance with the terms of the ground ambulance contract is controlled through a system of performance requirements, incentives and penalties. The most significant of these are ambulance response times and paramedic qualifications. The reporting of monthly performance indicators by Emergency Medical Care Inc. to measure contractor compliance with response time performance was under development at the time of our audit. The ground ambulance contract also calls for penalties, commencing in the 2000-01 fiscal year, for certain performance failures. A system for capturing and reporting performance failures had not been fully developed at the time of our audit.

**8.7** Prior to 1995, ambulance services were provided by private sector operators in approximately 54

geographic regions in Nova Scotia. To facilitate the transfer to a single operator, 34 existing ambulance operations were purchased at a cost of \$14.3 million. Our review of this transaction revealed significant deficiencies in documentation and accountability. As a result, we were not able to reach a conclusion on whether these transactions were carried out with due regard for economy.

**8.8** We found a lack of clear direction from EHSNS to Emergency Medical Care Inc. identifying situations where the contractor is required to comply with Provincial procurement policy and we have recommended that such direction be documented.

**8.9** User fees are charged for ground ambulance and air medical transports. There is no legislative authority governing the levy of these user fees. We found the process for establishing ground ambulance and inter-provincial billing rates for air medical transport to be well researched and documented. Although rates charged are not always based on the full cost of services provided to users of the system, there is a documented rationale for the rates used.

#### **PHYSICIAN ALTERNATIVE FUNDING INITIATIVES**

*(Pages 159 - 171)*

**9.1** Other reports commissioned by the Department of Health have recommended alternative physician funding in addition to the traditional fee-for-service payment system. The Department of Health and the Medical Society of Nova Scotia have negotiated a Principles document for negotiating alternative funding initiatives. This is an important first step in ensuring consistency of alternative funding initiatives with the objectives and priorities of the Department.

**9.2** A principle of the alternative funding contract system is that *“payments should typically draw no more resources from the Medical Services Insurance (MSI) budget/allocation than was historically drawn by fee for service....”* The evidence we examined indicates that, on average, alternative funding contracts cost more than historical fee-for-service remuneration.



**9.3** When investigating an alternative funding proposal, the Department does not prepare a summary document which clearly sets out specific outcomes. In addition, the estimated cost of the alternative funding proposal is not compared to a fee-for-service alternative which takes into account projected future utilization. Such a document, which clearly articulates relative alternative funding costs and benefits, is important to ensure accountability for program results. We recommended that such a document be prepared.

**9.4** The Department's authorization process for alternative funding contracts appears to be operating appropriately.

**9.5** We found weaknesses in the control system for alternative funding payments, administered by Maritime Medical Care Inc., to reduce the risk of inaccurate data input and duplicate payments. We have recommended increased monitoring to reduce the risk of data input errors and overpayments.

**9.6** Evaluation of the effectiveness of alternative funding initiatives depends on data collection through the shadow billing system. This system also supports billings to other provinces for services provided to non-Nova Scotia residents. We found that controls to ensure the completeness of shadow billing submissions are not adequate, particularly for medical specialists. Monitoring of the completeness of shadow billing information is now being performed on an ad hoc and infrequent basis. We note that the Department and Maritime Medical Care Inc. are developing a quarterly reporting system which should help to address this deficiency.

**9.7** Both the 1997 contract with the Medical Society of Nova Scotia and the individual alternative funding agreements call for contract evaluations. The Department has established an Evaluation Steering Committee with the Medical Society of Nova Scotia and Terms of Reference to guide the evaluation process. We have recommended more frequent evaluations and changes to the scope of evaluations.

**9.8** Individual alternative funding contracts permit the Department to decrease payments after 90 days if

actual service levels are less than the contract payments. However, this provision is very difficult to implement because of the manner in which the contracts are structured. We have recommended that these provisions be strengthened and enforced.

## **HOUSING AND MUNICIPAL AFFAIRS**

### **LAND INFORMATION SERVICES** (*Pages 172 - 184*)

**10.1** The strategic planning process within the Land Information Services Division has been performed adequately, although we have recommended improvements in resource planning and monitoring. Plans are currently underway for a major restructuring of the way the Registry of Deeds conducts business and meetings have been ongoing with stakeholders throughout government and private industry.

**10.2** The performance measurement and reporting system within the Land Information Services Division could be improved if regular reports of Divisional performance were prepared for stakeholders.

**10.3** The Division should prepare rationales for the fees charged for registering real property and personal property transactions.

**10.4** Overall, the procurement function for the Land Information Services Division has been well managed. The Division adheres to the Provincial Procurement Policy and the Atlantic Procurement Policy.

**10.5** The Personal Property Registry operating agreement provides for the Province's right to audit accounts maintained by the private partner. To date, there have been no audits and we recommended that such audits be conducted.

**10.6** Overall, we found controls over the computer environment and application for the Deeds On-line Registration and Information System to be satisfactory.

**CROWN AGENCIES AND CORPORATIONS****NOVA SCOTIA LIQUOR COMMISSION**  
*(Pages 186 - 206)*

**11.1** The Board of the Commission performs its governance responsibility reasonably well.

**11.2** The number of Commissioners should be expanded beyond the maximum of three allowed by the Liquor Control Act in order to increase the effectiveness of the governance function.

**11.3** No formal performance evaluation is prepared for any member of senior management.

**11.4** The annual report lacks substantive information on the performance of the Commission, and thus does not fulfill its potential as an accountability document.

**11.5** The Liquor Control Act is out-dated in areas and is in need of significant review.

**11.6** The Commission is complying with key provisions of its enacting legislation and regulations, but should give more attention to its regulatory responsibilities in its key planning and accountability documents.

**11.7** The Commission is giving due regard to economy and efficiency in the planning, management and monitoring of its operations.

**11.8** The scope of internal audit activity should be broadened and changes should be made to enhance the independence of the internal audit function.

**NOVA SCOTIA LIQUOR COMMISSION -  
GOVERNMENT REVIEW OF ALTERNATIVE SERVICE  
OPTIONS (Pages 207 - 213)**

**12.1** This Chapter provides a description of the government's review of its role in the sale and regulation of alcoholic beverages including the goals, nature and outcomes of the review. This review was

carried out subsequent to the conduct of our audit of the Nova Scotia Liquor Commission described in Chapter 11 (pages 186 - 206).

**REVIEW OF FINANCIAL STATEMENTS AND  
MANAGEMENT LETTERS** (*Pages 214 - 217*)

**13.1** Section 17 of the Auditor General Act permits this Office to conduct additional reviews of those crown corporations and agencies audited by the private sector. This section of our Report contains comments on our review of the results of private sector audits, as well as comments on audits performed by this Office.

**OTHER AUDIT OBSERVATIONS**

**ADDITIONAL APPROPRIATIONS** (*Pages 220 - 222*)

**14.1** Included in expenditures in the financial statements for the year ended March 31, 2000 are additional appropriations totalling \$639 million. As at January 31, 2001 none of these had been approved by Order in Council or by the Legislature. This raises a question of effective legislative control of the public purse. This issue will be the subject of ongoing review by my Office.

**CASH AND OTHER LOSSES** (*Pages 223 - 225*)

**15.1** The losses reported to us for the year ended March 31, 2000 totaled \$578,187; consisting of cash losses of \$46,412, property losses estimated at \$750,065 and recoveries of \$218,290.

**15.2** Not all departments and crown agencies comply, on a timely basis, with the loss reporting requirements of the Management Manual.

---



