



**REPORT of the
AUDITOR GENERAL
to the NOVA SCOTIA
HOUSE OF ASSEMBLY**

...**2003**

Highlights

REPORT of the AUDITOR GENERAL to the NOVA SCOTIA HOUSE OF ASSEMBLY

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 2003.

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.

Again this year we have set out our recommendations to government in each Chapter. To assist readers we have also included all 101 recommendations in this highlights volume. I hope this is useful.

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
November 28, 2003

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INTRODUCTION

Overview and Significant Issues

Pages 8 – 12

- 1.1 Although this Report contains many positive findings, there are always areas for improvement and I urge government to act on the recommendations we have made. I realize that resources are limited and many public servants are stretched. I acknowledge their efforts.
- 1.2 I also wish to acknowledge the efforts of my own staff. The contents of this Report, the additional Reports, as well as others speak for themselves.

GOVERNMENT-WIDE ISSUES

Accountability and Financial Reporting

Pages 14 – 33

- 2.1 Government released its *Annual Accountability Report* for the year ended March 31, 2002 on December 20, 2002. Reporting for the 2002-03 year is due by December 31, 2003.
- 2.2 The Auditor General's Report on the 2003-04 revenue estimates, required under Section 9B of the Auditor General Act, was tabled in the House on April 3, 2003 along with the Nova Scotia Budget.
- 2.3 The Province's March 31, 2003 consolidated financial statements were released November 13, 2003 as part of the Public Accounts. The financial statements were audited by our Office

and the opinion was unqualified. On November 14, 2003, we released a summary report on the Province's March 31, 2003 financial statements and other financial reporting practices. A separate management letter including more detailed findings and observations is to be issued to government in December 2003.

- 2.4 New regulatory and other standards for control and reporting will require significant and sustained attention by government.
- 2.5 Reporting to the House on the planning for and performance of various retirement and other post-employment benefit plans should be enhanced. The related costs and obligations for these benefit plans are affected by a number of market and other risks over which government has limited control.
- 2.6 Reporting 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. Current reporting practices are incomplete and untimely.
- 2.7 Our recommendations to government from this review are as follows:

Recommendation 2.1

We recommend that government take necessary steps to ensure all entities covered by the Provincial Finance Act meet the June 30 deadline for financial statements to be provided to Finance.

Recommendation 2.2

We again recommend that policies and practices, used during the budgeting and accounting processes for recognition and measurement of Provincial taxes and other revenue transfers from the Federal government, be reviewed.

Recommendation 2.3

We recommend that the management/audit trail, supporting the accounting for Provincial taxes and other revenue transfers from the Federal government, be improved.

Recommendation 2.4

We recommend government implement a requirement for annual compensation reporting by all Provincial public sector entities for executive and senior management positions.

Central Financial Management System/ SAP

Pages 34 – 48

- 3.1** The Corporate Information Systems (CIS) division of the Department of Finance does not have a formal planning process. There is no strategic plan for the division. There are certain components of operational planning in place, however they are not integrated and do not address all areas of the division's responsibilities. Finance's Business Plan makes no mention of the CIS division as a core business area or in its listing of priorities.

3.2 SAP R/3 was implemented by the Department of Finance on April 1, 1997. SAP security was last audited in 1998. We identified issues this year which point to the need for a comprehensive security and control audit to be completed, particularly since there are plans to implement the human resources module and electronic payments to vendors. For example:

- There are no formally documented policies and standards for CFMS (Central Financial Management System) security or for the correction and transport system.

- There has been inappropriate deployment of powerful security access privileges and there is a need for stronger management and control of user logon accounts.

- There is no formal disaster recovery plan to guide recovery, and no business continuity plan to enable the continued provision of essential services, if a disaster or other significant interruption of computer services was to occur.

- There were significant departures from the described control practices in the correction and transport system.

3.3 Service level agreements in place to define roles, responsibilities and service levels between CIS and broader public sector entities have not been reviewed by legal counsel and certain additional important clauses need to be included.

3.4 Our recommendations to government from this audit are as follows:

Recommendation 3.1

We recommend that senior management institute a formalized planning process for the Corporate Information Systems division in order to establish a clear vision and direction as well as a formalized process to set out the necessary operational requirements for the delivery of services to its various clients.

Recommendation 3.2

We recommend that priority be given to developing and implementing formal detailed policies, standards and practices for security as well as for correction and transport.

Recommendation 3.3

We recommend that management conduct a formal review of all Corporate Information Systems division operational responsibilities and determine the overall nature and extent of policies and standards that should be in place to promote a control conscious environment aligned with industry standard information technology control practices.

Recommendation 3.4

We recommend that government commission a full and independent audit of SAP security and control as soon as possible.

Recommendation 3.5

Further, government should consider establishing a project to develop or otherwise acquire security and control ‘best practices’ in an SAP environment.

Recommendation 3.6

We recommend that the SAP_ALL profile should not be assigned to any staff or user ID in the production environment including BASIS staff. As a maximum there should only be one user ID established with this profile and it should be highly controlled and used only for emergency purposes.

Recommendation 3.7

We recommend that management review the deployment of all powerful security profiles and authorization objects. This review should focus on the appropriateness of such deployments and examine the associated risks as well as the adequacy of the controls established to mitigate these risks.

Recommendation 3.8

We recommend that a formal security policy be established including a component that specifically requires the following:

- Once an ID goes 180 days without use it should be locked and the user contacted to determine if the ID is still required.
 - There should be an annual renewal of all user IDs to pick up changes in user responsibilities, movement of users between departments and termination of users.
-

Recommendation 3.9

We recommend that all users listed as having the capability of updating key global accounting settings be examined to determine why they need these capabilities, and to assess the associated risks.

Recommendation 3.10

We recommend that management make a determination of the issues and challenges in converting to a role-based approach to implementation of access security and develop a detailed transition plan for the conversion.

Recommendation 3.11

We recommend that senior management establish and test a disaster recovery plan as soon as possible.

Recommendation 3.12

We recommend that the SAP Projects Office should ensure that the standard project implementation methodology includes the evaluation of the disaster recovery plan against the business requirements. This evaluation will feed into the update of the business owners' existing Business Continuity Plan.

Recommendation 3.13

We recommend the establishment of a policy requiring all departments to have an appropriate business continuity plan, and that this plan be kept up-to-date on an

ongoing basis. Further, we recommend the establishment of an initiative to undertake the development and implementation of a corporate business continuity planning process.

Recommendation 3.14

We recommend that, in conjunction with the development of a corporate business continuity planning process, the Business and Technology Advisory Committee (BTAC) should also examine the needs for a corporate disaster recovery planning process, as it relates to the provision of computer services.

Recommendation 3.15

We recommend that the SAP Projects Office ensure that the standard project implementation methodology includes updating the business continuity plan to reflect the new system.

Recommendation 3.16

We recommend that the current service level agreements should be reviewed by legal counsel.

Recommendation 3.17

We recommend that the agreements contain clauses to specifically address each party's responsibility for disaster recovery and business continuity planning.

Recommendation 3.18

We recommend that government address the need for an annual service auditor review and reporting on the controls surrounding the SAP infrastructure and related Corporate Information Systems services.

Recommendation 3.19

We recommend that appropriate policies and procedures for using the SAP correction and transport system be designed, documented and implemented.

Recommendation 3.20

We recommend that use of the 'Remedy' system, or an acceptable alternative determined by management, be considered to manage the work flow of the SAP correction and transport system.

DEPARTMENTAL AUDITS

• • Community Services

Housing Services

Pages 50 – 65

- 4.1** Strategic and business planning have been performed for the Housing Services Division and the Housing Development Corporation. We observed compliance with government's business planning guidelines. Performance measures have been developed for both the Division and the Corporation. We advised that

the Division should develop performance measures for each of its stated priorities.

- 4.2 Internal and external accountability structures and reporting are appropriate.
- 4.3 There is a need to update and possibly consolidate the Province's social housing-related legislation. There is a similar need to update Department policies and procedures for social housing programs.
- 4.4 We observed reasonable systems during our examination of financial management and reporting for social housing programs. The completion of the Department's new computerized property management system should further improve program management.
- 4.5 Many of the non-government housing sponsors receiving government subsidies, such as co-operatives and non-profit housing societies, are experiencing serious financial difficulties. Department staff monitor the organizations and provide advice. However, we found that the Department does not always get all the information needed from housing sponsors on a timely basis, and Department reviews and building inspections are not occurring as regularly as required.
- 4.6 We observed weaknesses in the Department's compliance with program requirements for its Residential Rehabilitation Assistance Program. Verification of client income did not always follow guidelines, legal documents were not always correct or

complete, and property inspections were not always well-documented.

- 4.7** Control over the processing and monitoring of recoveries from the Federal government is reasonable.
- 4.8** The Department has performed or participated in a number of evaluations and studies of its various social housing programs. These exercises are valuable in assessing whether programs are meeting their objectives. The Department has fallen behind in some program evaluations required by Federal-Provincial agreements, but there is a formal plan for performing them.
- 4.9** Our recommendations to government from this audit are as follows:

Recommendation 4.1

We recommend the Department work with its Minister, government and the Legislature to update, and possibly consolidate, the Housing Act and Housing Development Corporation Act.

Recommendation 4.2

We recommend Housing Services Division develop and monitor financial ratios and other performance measures for each of the various housing sponsors subsidized by the Department.

Recommendation 4.3

We recommend that the Department develop a formal, comprehensive system for conducting

reviews and property inspections of housing sponsors. Policies concerning the selection, performance, quality control and follow-up of reviews and inspections should be documented.

Recommendation 4.4

We recommend the Department improve its files for the monitoring of housing sponsors. The Department should also monitor rents charged by housing sponsors and assess them for reasonableness in comparison to market rents.

Recommendation 4.5

We recommend Housing Services Division develop quality assurance procedures to ensure all Residential Rehabilitation Assistance Program requirements are being met.

- • **Education**

Accountability of School Boards

Pages 66 – 82

- 5.1 School boards are generally complying with the original (1995) accountability requirements in the Education Act for submission of business plans, budgets, and audited financial statements. The Department has drafted Regulations and related policy and procedures for many of the new accountability reporting requirements which came into place with the May 30, 2002 changes to the Education Act included in the Financial Measures (2002) Act. We encourage the

Department to complete this initiative by obtaining approval of the Regulations on a timely basis.

- 5.2** The majority of recommendations made in two special reviews conducted in 2001-02 (Minister's Review Committee Report on Chignecto-Central and Strait Regional School Boards and a consultant's report on the Strait Regional School Board) are in various stages of implementation by the Department and by the Boards. Many of the Regulations have been drafted and we urge the Department to proceed with approval and implementation.
- 5.3** Although the Department has many important accountability-related initiatives in progress, the detailed planning does not always include specific timelines for completion. We recommend that the Department improve its project management by ensuring that project plans always include timelines. The Department should also formally report on achievement.
- 5.4** School board accounting policies do not comply with generally accepted accounting principles in certain areas. The Departments of Education and Finance and school boards have been working on a new Regional School Board Financial Handbook for a number of years. We encourage the completion of this initiative and the release of a new Financial Handbook which is totally compliant with generally accepted accounting principles.

- 5.5 The implementation of a new financial accounting system for school boards was a significant undertaking. The project was completed as planned, by the target date and within the project budget.
- 5.6 The Department has not been able to fully implement its new funding formula for school boards. For 2002-03, approximately 75% of the total funding allocation was from baseline dollars determined under the old formula and 25% of the allocation was from the new formula. A funding formula which is not applied is of limited value. We encourage the Department and the Education Funding Committee to complete the 2003-04 Department workplan which shows the funding formula as a priority, with a new formula to be implemented for 2004-05.
- 5.7 Our recommendations to government from this audit are as follows:

Recommendation 5.1

We recommend that the Education Act be changed to include June 30 as the date by which school boards are required to file financial statements with the Department of Education. This change would provide for consistency with the Provincial Finance Act.

Recommendation 5.2

We recommend that the Department of Education update the plan for implementation of changes required by the Financial Measures (2002) Act to include timelines for each initiative. The Department should also formally

monitor and periodically report achievement of the plan.

Recommendation 5.3

We recommend that the Departments of Finance and Education continue with efforts to ensure that school board accounting policies comply with generally accepted accounting principles as defined by the Canadian Institute of Chartered Accountants and its Public Sector Accounting Board. The Regional School Board Financial Handbook should be issued in final form as soon as possible. The Department and school boards should also establish a mechanism to ensure that the Handbook is updated as generally accepted accounting principles evolve.

Recommendation 5.4

We recommend that the Department initiate discussions with the school boards, the external auditors and the Department of Finance with a view to obtaining a service organization audit opinion on the systems residing on the central server.

Recommendation 5.5

We recommend that the Department of Education finalize the Community Access to Schools policy.

Recommendation 5.6

We recommend that the Department of Education and the Education Funding Committee proceed with their plans to review the funding formula for school boards with a view towards establishing and implementing a formula which is consistent with the Department's *Principles of Education Financing* and available funding.

Universities – Internal Control and Financial Management

Pages 83 – 105

- 6.1 In response to suspected fraud at Collège de l'Acadie, in May 2002 the Minister of Education requested the Office of the Auditor General to conduct an audit of the general audit and control environments at the universities and community colleges. We agreed to conduct an audit of certain universities under Section 15 of the Auditor General Act. We were unable to conduct an audit of the Nova Scotia Community College in the current year but are planning one for next year.
- 6.2 The chapter includes responses to the audit from three universities (see pages 99 to 105).
- 6.3 Our audit of the internal control environment over revenues and payments at four universities identified no significant control weaknesses, although we made recommendations for enhancements in some areas, including the need for improved cash controls at the Collège de l'Acadie sites.

- 6.4** Universities have one of two types of pension plans - defined benefit or defined contribution. Five universities have defined benefit plans and three of those five plans have unfunded liabilities. We are concerned with the existence of significant pension deficits at three universities. In addition, one university has a significant operating deficit.
- 6.5** There is a need at all universities to enhance business planning processes by preparing annual operational or business plans.
- 6.6** Audited financial statements could be improved if comparisons of actual expenditures to budget were included. Generally accepted accounting principles (GAAP) permit the universities to choose from alternative policies which make it difficult to compare results among institutions. Although all university financial statements currently comply with GAAP, comparability between institutions could be improved if universities implemented common accounting policies. In some cases, unaudited financial information in universities' annual reports requires improvement to enhance understandability.
- 6.7** Only one of the universities we visited had an adequate inventory system to provide control over computers and related equipment.
- 6.8** Generally, procurement transactions tested were in compliance with applicable procurement policies although a few instances of non-compliance were noted

at all universities. The majority of these instances were exceptions to the policy where the rationale should have been documented more clearly and properly approved.

- 6.9** Processes and procedures for the collection and reporting of enrolment data are generally good although we believe that the process for identification of non-Canadians and charging of foreign differential fees requires improvement at some universities.
- 6.10** Our recommendations to universities and government from this audit are as follows:

Recommendation 6.1

We recommend that the universities carefully monitor student accounts receivable balances, and take action where fees are not paid by the end of the semester.

Recommendation 6.2

We recommend that all universities have inventory systems for capital assets, including computers and related equipment. These should be maintained and periodically verified through test counts. The universities should also have formal policies to govern the use and safekeeping of these assets.

Recommendation 6.3

We recommend that universities document the rationale exempting specific purchases from compliance with the procurement policy and

that all exceptions be formally approved by the person responsible for procurement.

Recommendation 6.4

We recommend that universities prepare annual business plans which are linked to strategic plans. Business plans should set out operational priorities for the year and related financial information. These plans should be approved by senior management and/or the Board (depending on the governance model in effect).

Recommendation 6.5

We recommend that the Department of Education formally notify universities of its annual funding contribution prior to the beginning of the fiscal year and that the Department strive to establish a longer-term funding commitment.

Recommendation 6.6

We recommend that the approved budget for the year be included on the audited statement of revenue and expenditures for each university. This information would be useful to increase accountability for achieving the financial plan for the year.

Recommendation 6.7

We recommend that universities in Nova Scotia strive to implement common accounting policies. This would increase the comparability of financial information.

Recommendation 6.8

We recommend that all universities establish a formal process to analyze and take appropriate action on all data inconsistencies identified by the Maritime Provinces Higher Education Commission.

Recommendation 6.9

We recommend that universities enhance systems for the identification of foreign students and verify citizenship status of students claiming Canadian citizenship but living outside Canada or submitting transcripts from abroad.

- • **Energy**

Oil and Gas Exploration and Production

Pages 106 – 122

- 7.1 Planning is performed within the Department at appropriate times and levels of detail. The Department prepares its annual business plan in accordance with government guidelines.
- 7.2 The Department has appropriate performance management processes, including the development of work-plans, regular progress meetings and annual performance appraisals. Departmental performance measures require further development and reporting on performance could be improved.
- 7.3 The regulation of offshore petroleum activities is shared between the Federal and Provincial governments and is the

responsibility of a separate organization called the Canada-Nova Scotia Offshore Petroleum Board. We found that the Department's responsibilities relating to the petroleum sector are clearly defined in legislation and regulations and we did not observe any unmet legislative or regulatory requirements.

- 7.4** We observed efforts by the Department to participate in Federal-Provincial initiatives to make the regulation of offshore activities more efficient.
- 7.5** The Department administers royalty regulations and agreements on behalf of the Province. There are a number of safeguards built into regulations and agreements to ensure only shareable revenues and expenses are used in the calculation of royalties. The Department is currently auditing revenues and costs of the Sable Offshore Energy Project. We are somewhat concerned about the length of time it is taking to complete audits.
- 7.6** Approval and monitoring of oil and gas company benefit plans are responsibilities of the Canada-Nova Scotia Offshore Petroleum Board. The Department receives copies of benefit plans and contracts submitted by oil and gas companies from the Board, and uses the information to develop programs that will help Nova Scotian industries and educational institutions develop local capabilities in performing work on offshore projects.
- 7.7** Legislative and regulatory responsibilities for onshore oil and gas activities are well defined and we saw no instances

of unmet requirements. However, we noted a need for improvements in file documentation. We also believe there is a need to formally consider ways of addressing uncertainty and delays in administering onshore rights resulting from two government departments being involved in the process.

7.8 Our recommendations to government from this audit are as follows:

Recommendation 7.1

We recommend that performance reports prepared by the Department state more clearly the objectives being sought and relate the results of the Department's activities to those objectives, along with explanations if targets are not achieved.

Recommendation 7.2

We recommend the Department review its plans for royalty audits to determine if sufficient resources are allocated to ensure audits are completed on a timely basis and address all necessary areas.

Recommendation 7.3

We recommend that the Departments of Energy and Natural Resources develop monitoring procedures to ensure all documentation required has been received and is in the appropriate files.

- • **Health**

IWK Health Centre

Pages 123 – 141

- 8.1** When the Province established District Health Authorities (DHAs) in 2001, the IWK was given status as one of two Provincial Health Centres (PHCCs) under the Health Authorities Act. The other PHCC, the Queen Elizabeth II Health Sciences Centre, is governed by the Board of the Capital District Health Authority. The IWK is the only acute care health organization in the Province that does not come under the authority of a DHA.
- 8.2** The Health Centre uses the Carver model of Board governance. This model is applied differently from other health facilities we have audited in the extent to which decisions are delegated by the Board to management. For example, the Health Centre CEO has the responsibility to approve the business plan whereas in other organizations this responsibility would remain with the Board. The Health Centre Board takes its responsibility for governance very seriously and has established a framework that, although different from other organizations, is strongly supported by governance literature.
- 8.3** The IWK Health Center has a well-established process for developing the annual business plan and budget. Appropriate levels of management contribute to this process. Cost savings initiatives are allocated to program budgets. However, operational plans developed to achieve budget reductions

are not formally documented and the results of specific savings initiatives are not tracked. Operational plans should be formally documented. Actual savings from budget reductions should be monitored and corrective action taken if savings are not realized.

- 8.4** The Health Centre's expenditures exceeded budget by \$3.2 million for 2002-03. The Department of Health indicated it will provide funding to cover this amount.
- 8.5** The Canadian Council on Health Services Accreditation (CCHSA) conducts an accreditation review on all accredited health services organizations every three years. The IWK Health Centre received an unqualified accreditation in 2002, which is the highest level of accreditation. The CCHSA noted that the Centre's system for drug distribution results in a higher risk of medication errors than in comparable facilities. We have recommended that the Centre investigate the risks associated with this matter and consider whether it would be appropriate to make changes on a more timely basis than is currently planned.
- 8.6** The IWK's annual financial statements do not discuss the relationship between the Health Centre and the IWK Foundation. The IWK and the Foundation are related parties and the IWK's financial statements should disclose certain information such as any transactions between the parties during the fiscal year.
- 8.7** The Health Centre continues to make progress in establishing systems to

monitor and report indicators of economy and efficiency such as lengths of stay. We recommend that the Health Centre continue to work with other facilities and organizations such as the Department of Health and the Canadian Institute for Health Information to further develop targets, monitor performance and make comparisons between facilities.

8.8 Our recommendations to the Health Centre from this audit are as follows:

Recommendation 8.1

We recommend that the Health Centre institute a quality assurance process for the budget, including an independent review by someone other than the preparer, such as the internal auditor.

Recommendation 8.2

We recommend that the Health Centre strive to document all initiatives approved during the review and challenge of the business plan and budget.

Recommendation 8.3

We recommend that operational plans be formal and written. This would ensure that staff have plans in place to fully address any budget shortfall and provide better accountability for funds.

Recommendation 8.4

We recommend that the Health Centre comply with the provisions of the Health Authorities Act and the Affiliation Agreement relating to joint planning and shared services with the Capital District Health Authority. Such services should be formally reported upon and evaluated as required.

Recommendation 8.5

We recommend that management monitor and report during the year on specific savings initiatives approved during the Business Planning process.

Recommendation 8.6

We recommend that the Health Centre, in conjunction with the facility's supplier of health records abstraction software, make necessary changes to assure that all mandatory fields must be completed before health data can be submitted to the Canadian Institute for Health Information (CIHI). Also, all error reports received from CIHI should be retained and a process implemented to ensure all corrections are made.

Recommendation 8.7

We recommend that the Health Centre ensure the Meditech system, which is used to support radiologists' submissions to the Department of Health, accurately reflects the numbers of diagnostic procedures performed.

Recommendation 8.8

We recommend that the IWK disclose its related party relationship with the IWK Foundation, including transactions between the two entities during the year, in the notes to the Health Centre's financial statements.

Recommendation 8.9

We recommend that the Health Centre analyze the risks, costs and benefits associated with drug distribution systems and consider whether it would be appropriate to move to a unit dose system on a more timely basis.

Recommendation 8.10

We recommend that the Health Centre update its internal procurement policies to comply with the Government's requirements for the Academic, Schools, Hospital sector and clarify internal instructions to ensure compliance with policies.

Recommendation 8.11

We recommend

- formal approval of all purchase requisitions by the purchasing manager; and
 - production and review of price change exception reports to ensure that all price changes have been approved.
-

Recommendation 8.12

We recommend the Health Centre

- review the segregation of duties among staff with pharmacy inventory responsibilities with a view toward improving internal controls;
 - ensure that there is appropriate segregation of incompatible duties such as receipt of goods and maintenance of accounting records; and
 - ensure that senior financial management reviews adjustments to perpetual inventory.
-

Recommendation 8.13

We recommend that the Health Centre continue to work with other facilities across Canada and organizations such as the Department of Health and the Canadian Institute for Health Information to further develop targets, monitor performance and make comparisons among facilities.

Long-term Care

Pages 142 – 161

- 9.1** The Department of Health (DOH) has made significant progress since our last audit of the Program reported in 1997 and 1998. Business planning is now required at the facility level and budgets are approved on a more timely basis. The introduction of the Single Entry Access system has enabled the Department of Health to gather better information on wait lists. However, there is no comprehensive long-term strategic or operational plan for the Program and we

recommend that one be prepared, and that the Department continue with its efforts to develop a funding formula for long-term care facilities.

- 9.2** Significant improvements have been made in the financial assessment process for applicants with the creation of the Eligibility Review Unit (ERU). We have recommended additional enhancements to this process including better documentation of assessments conducted.
- 9.3** Significant recommendations from our 1997 and 1998 audits which have not been addressed include the need for new legislation and regulations, periodic reassessment of residents' financial status and care needs, and the finalization of draft care standards. We have recommended that these outstanding recommendations be addressed.
- 9.4** Improvements are needed to DOH's invoice approval process for billings from long-term care facilities. There are no policies to ensure consistent verification procedures among regions. We have recommended that common procedures be implemented to ensure all information on invoices is verified.
- 9.5** The Department only has one performance indicator for the Long-term Care program and no outcome measures for facilities. To enhance accountability, we have recommended DOH develop indicators at the Department level as well as measures related to the services long-term care facilities provide.

- 9.6 DOH originally estimated policy changes announced in November 2002 would cost \$6 million for fiscal 2003-04. Central government reduced this figure to \$3 million during the budget process. Department forecasts at the time this Report was written estimate costs will reach \$6 million by 2003-04 year end. We have recommended the Province ensure reasonable estimates of the costs of policy changes are calculated and included in the Estimates.
- 9.7 The Department receives semi-annual financial forecasts from facilities. We have recommended DOH consider obtaining quarterly forecasts. The Department should also develop processes to monitor areas such as financial management, compliance, and economy and efficiency in LTC facilities.
- 9.8 DOH funds facility mortgage payments over time through the per diem rates. At the time of our audit, Department staff were accumulating information to estimate the total amount of outstanding facility loans and mortgages to be covered through future per diems. We have recommended the Department continue with efforts in this area.
- 9.9 Our recommendations to government from this audit are as follows:

Recommendation 9.1

We recommend that the Department prepare strategic and operational/business plans for the Long-term Care program.

Recommendation 9.2

We recommend that the Department of Health continue with its efforts to develop an overall funding formula for the Long-term Care program.

Recommendation 9.3

We recommend that the Province ensure reasonable estimates of the costs of policy changes are calculated and included in the Estimates. These estimates should be available before policy changes are approved.

Recommendation 9.4

We recommend that DOH continue with its efforts to accumulate total outstanding facility loans and mortgages for long term-care facilities. This outstanding amount should be monitored for financial planning purposes.

Recommendation 9.5

We recommend that DOH issue formal, written responses to the recommendations of Task Forces and other groups engaged to review long-term care.

Recommendation 9.6

We recommend that DOH work with its regional offices to develop standard procedures for invoice approval that include verifying new residents, ensuring deceased residents are removed from billings, ensuring mathematical accuracy, and regional and

central office approval of invoices before payment. We also recommend that the Department develop a system to monitor compliance with these procedures.

Recommendation 9.7

We recommend that the Eligibility Review Unit of DOH:

- ensure all procedures completed during the financial assessment process are documented;
 - obtain official Notices of Assessment or electronic data from Canada Customs and Revenue Agency in addition to copies of income tax returns to ensure income information on file is accurate; and
 - develop policies to address non-compliance with the financial assessment process.
-

Recommendation 9.8

We recommend that DOH increase its financial monitoring of facilities and consider requesting forecast information on a quarterly basis. DOH should also consider whether processes are required to monitor areas such as financial management, internal controls, compliance with policies, and due regard for economy and efficiency in LTC facilities.

Recommendation 9.9

We recommend that DOH develop performance indicators for the Long-term Care program. These indicators should include measures at the Department level as well as measures related to the services long-term care facilities

provide. Requiring facilities to periodically report standard performance measures would enhance their accountability to the Department.

Recommendation 9.10

We recommend that DOH review the remaining recommendations from our 1997 and 1998 audits, including:

- new long-term care legislation and regulations;
 - requirements for periodic reassessments of residents' care needs and financial status; and
 - care standards.
-

Payments to Physicians

Pages 162 – 179

- 10.1** A sample of medical and dental fee-for-service claims was tested for compliance with the Health Services Insurance Act and Regulations and the Agreement with the Medical Society of Nova Scotia. All claims tested complied with the provisions of the Act and Agreement.
- 10.2** Audit and monitoring activities for radiology and pathology claims are not as extensive as for other fee-for-service claims. Pre-assessment controls and the audit and monitoring of payments to physicians for bulk-billed radiology and pathology claims are deficient. Inadequate pre- and post-assessment controls increase the risk that inappropriate radiology and pathology claims will be paid.

- 10.3** A 1997 decision by the Department of Health to pay physician services claims for patients with expired health cards was not supported by appropriate analysis to identify and assess the potential risks. We have recommended that DOH conduct a detailed analysis of the risks and benefits associated with the payment of claims for patients with expired health cards and that appropriate controls and procedures be implemented.
- 10.4** The Department of Health has assigned responsibility for the audit of physician fee-for-service claims to Atlantic Blue Cross Care (ABCC) under the current administration contract. ABCC has a comprehensive audit process in place to ensure the accuracy of physician fee-for-service claims other than for radiology and pathology claims. There is a need to ensure that audits are also performed by external auditors or the Province's Corporate Internal Audit Group on a regular basis.
- 10.5** The current administrative contract with ABCC does not include provisions which clearly define roles and responsibilities, reporting and information requirements, and mechanisms for the assessment of ABCC performance. DOH should ensure that all new contracts with service providers include such provisions.
- 10.6** We audited certain aspects of the administration of the Children's Dental Program by Quikcard Solutions Inc. and made recommendations to improve accountability.

- 10.7** Prior to our audit, DOH had not completed an analysis of whether expected savings from the move to Quikcard Solutions Inc. for processing dental claims had been realized. We have recommended that DOH ensure appropriate follow up is completed to determine whether expected cost savings have been achieved by new projects.
- 10.8** Our 1998 Report recommended that DOH obtain legal counsel with respect to its rights of ownership over the software used by ABCC to process physician medical payments. The recommendation has not been implemented. This is an important issue that should be examined as part of the Department's assessment of alternatives for the administration of physician medical payments.
- 10.9** Our recommendations to government from this audit are as follows:

Recommendation 10.1

We recommend that DOH conduct a detailed analysis of the risks and benefits associated with the payment of claims for patients with expired health cards and that appropriate controls and procedures be implemented.

Recommendation 10.2

We recommend that DOH establish an audit appeals process for physicians.

Recommendation 10.3

We recommend that DOH perform a risk analysis on bulk-billed radiology and pathology claims and establish appropriate audit procedures in conjunction with ABCC.

Recommendation 10.4

We recommend that DOH ensure external auditors or the Department of Finance's Corporate Internal Audit Group are engaged annually to audit medical payments to physicians paid by ABCC.

Recommendation 10.5

We recommend that DOH amend the contract with Quikcard Solutions Inc. to require the external auditors of Quikcard to prepare a management letter detailing any internal control weaknesses as well as a short-form audit opinion.

Recommendation 10.6

We recommend that DOH ensure quarterly internal audits of claims processed by Quikcard are performed by an individual who does not have claims processing responsibilities.

Recommendation 10.7

We recommend that DOH ensure appropriate follow up is completed to determine whether expected cost savings have been achieved by new projects.

Recommendation 10.8

We recommend that DOH fully address all findings from our 1998 and 2000 Reports. In particular, we recommend that the Department obtain a legal opinion regarding ownership rights to the MSI software.

• • Justice

Court Services

Pages 180 – 194

- 11.1** The Court Services Division has clearly defined and well documented roles and responsibilities.
- 11.2** The Division strives for consistency of service throughout the Province and has developed some administrative service standards. However, it is constrained by the design and size of some of its facilities. Also, the Supreme Court (Family Division) is currently only established in Halifax and Cape Breton. The Provincial government will be asking the Federal government to expand it to other parts of the Province.
- 11.3** The judiciary is responsible for the flow of cases through the courts. However, the Division, in consultation with the judiciary and court system stakeholders, has taken steps to help make the operation of the courts more efficient. These include implementing elements of case-flow management in one Halifax-based court, and establishing or improving processes relating to night courts, Justices of the Peace, alternative

dispute resolution and mediation, and small claims court.

- 11.4** The Division performs strategic and business planning, and reports accomplishments relating to its plans. There is regular financial, statistical and operational reporting to help the Division monitor its performance.
- 11.5** Security over the Division's computer systems appears appropriate, though we believe mandatory password changes, identification of inactive system users and better input quality control procedures for certain systems would strengthen control.
- 11.6** The Division regularly reviews the fees charged for services it provides. In some cases, fees are waived where warranted by the financial circumstances of a client. We recommended that the Division monitor the number of waiver applications received and the amount of fees waived in order to be better able to assess the impact of waivers on government revenues, as well as on access to justice.
- 11.7** The Division has appropriate control over the recording, tracking and collecting of fines. Measures have been taken to improve the rate of collection on fines.
- 11.8** Our recommendations to government from this audit are as follows:

Recommendation 11.1

We recommend that the Division continue to develop and implement standards for court

services and include a process for reporting on achievements.

Recommendation 11.2

We recommend that cost and other financial analysis be included as part of program assessments.

Recommendation 11.3

We recommend the Division monitor the number of waiver applications received and the amount of fees waived in order to better assess the impact of waivers on government revenues, as well as on access to justice.

Recommendation 11.4

We recommend that the Division ensure all ticket booklets disbursed are properly recorded in the logbook. We also recommend the Division establish and implement a policy for the periodic review of confirmation receipts to ensure all forms are signed and returned as required.

- • **Office of Health Promotion**

Nova Scotia Gaming Foundation - Review of Operations

Pages 195 – 208

- 12.1** In March 2003, the Board of Directors of the Nova Scotia Gaming Foundation wrote our Office to request a review of operations.

- 12.2** The Board and staff of the Foundation have made progress in many areas since assuming responsibility in 1999. The Foundation has expanded its activities and operations and, at the same time, has been improving its administrative processes.
- 12.3** The accountability relationship between the Foundation and government is not clear and we recommended this be clarified in a Memorandum of Understanding between the Office of Health Promotion and the Foundation.
- 12.4** To date, the Foundation has not developed a process to monitor targets established in its strategic plan. We have recommended that the Board implement a formal process to monitor achievement of these targets.
- 12.5** The Foundation's conflict of interest policy does not address the action to be taken when a conflict is disclosed. We have recommended that the Board expand its policy to include this.
- 12.6** During the Foundation's stakeholder consultation process, lack of public knowledge of the Foundation and availability of grants was noted. The Foundation's website is a key part of its communication strategy and is under development. We have recommended that the Foundation develop a plan to address completing the website as soon as possible to allow greater access to grant information by applicants.
- 12.7** Under the Foundation's current grant process, recipients of certain grant

types continue to receive subsequent grant installments even if they do not file the required progress reports. We have recommended that the Foundation require formal progress reports be filed in order for applicants to continue to receive grant funds.

12.8 The Foundation has a draft investment policy that deals with funds on deposit and the need to protect the principal invested. There is no long-term financial plan which addresses the fund balance to be maintained or projected grant funding. We have recommended that the Foundation formally approve the draft investment policy and develop a long-term financial plan.

12.9 Our recommendations to government from this review are as follows:

Recommendation 12.1

We recommend that the Foundation and Office of Health Promotion clarify the roles, responsibilities and accountabilities of both parties and incorporate this in any Memorandum of Understanding.

Recommendation 12.2

We recommend that the Board consider implementing a formal process to monitor targets set out in the strategic plan.

Recommendation 12.3

We recommend that the Board further explore its composition and, if appropriate, request that the Minister appoint additional directors.

Recommendation 12.4

We recommend that the Foundation Board expand its conflict of interest policy to formally include action to be taken when conflicts are disclosed.

Recommendation 12.5

We recommend that the following potential conflict of interest areas be addressed in a Memorandum of Understanding between the Foundation and the Office of Health Promotion:

- the Board Chair's role as a Director Addiction Services with the District Health Authorities and related role in applying for Foundation grants on behalf of DHAs; and
 - the Foundation's sole employee's reporting relationship to the Director Addiction Services at the Office of Health Promotion when the Director has involvement in grant applications submitted by Addiction Services.
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Recommendation 12.6

We recommend the Foundation complete its website to enhance communications and address related concerns reported in the *Brand and Marketing Strategy Report*.

Recommendation 12.7

We recommend the Foundation require progress reports from grant applicants prior to payment of subsequent grant installments.

Recommendation 12.8

We recommend that the Foundation:

- formally approve its draft investment policy; and
 - develop a long-term financial plan to address projected grant funding and capital to be maintained.
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CROWN AGENCIES AND CORPORATIONS

Municipal Finance Corporation

Pages 210 – 220

- 13.1** The Corporation is complying with its reporting requirements and is providing timely information to the Minister.
- 13.2** The Corporation's 2000-01 and 2001-02 Annual Reports were not tabled in the House of Assembly, but the 2001-02 report was available in the Legislative Library.
- 13.3** We recommended that the Corporation report progress related to its main objective of providing funds at the lowest possible cost.
- 13.4** The Corporation is complying with requirements of the Municipal Finance Corporation Act and Provincial Finance Act.

13.5 The Corporation has a timely budget process and cash flow projections are prepared on a regular basis. The Corporation prepares monthly financial reports and submits them to the Board of Directors and the Department of Finance.

13.6 Our recommendations to government from this audit are as follows:

Recommendation 13.1

We recommend that the Corporation's Annual Reports be tabled in the House of Assembly on a timely basis.

Recommendation 13.2

We recommend that the Corporation report on its achievements related to the goal and priority of providing funds at the lowest possible cost.

Recommendation 13.3

We recommend that all policies related to the Corporation be documented and accumulated in a comprehensive reference source.

Recommendation 13.4

We recommend the business plan be updated to reflect the current practices of the Corporation.

- 14.1** The creation of InNOVAcorp in 1994 consolidated several technology organizations owned by the Province, including the Nova Scotia Research Foundation Corporation. Responsibility for the Nova Scotia First Fund was also transferred to the Corporation.
- 14.2** We concluded that many of the audit criteria, used to assess whether our overall audit objectives were achieved, were met, particularly with respect to the governance and accountability functions. However, corporate policies and procedures require updating to better reflect the changed strategy and focus of InNOVAcorp.
- 14.3** Terms of reference for the Investment Review Committee should be documented and approved by the Board of Directors. The terms of reference should include authorization limits, meeting protocols and roles and responsibilities. Terms of reference should also detail the nature and frequency of reporting to the Board.
- 14.4** The Board should identify and approve roles and responsibilities for Officers of the Corporation. Authorization limits should also be established.
- 14.5** Senior management should review and update the program administration guidelines for the Nova Scotia First Fund. These guidelines should include investment eligibility criteria, and should

clearly differentiate the policies related to uncommitted funds. The guidelines should be approved by the Board as it has overall responsibility for administration of the Fund.

- 14.6** A system to monitor, measure and report on performance should be developed. Focus should be given to those areas which are critical to the success of, or represent a significant risk to, InNOVAcorp's mission.
- 14.7** Criteria upon which bonuses are based should be clearly defined and communicated to the employees in question. There should be formal, documented evaluations against these criteria to support the determination of bonuses.
- 14.8** Any costs associated with the investment or services provided to InNOVAcorp's subsidiary, The Decision Point, should be included in InNOVAcorp's operating results.
- 14.9** InNOVAcorp should update the documentation of its procurement policies and procedures. These policies and procedures should be compatible with Provincial requirements, detail when a competitive process is required, and address the use of purchasing cards.
- 14.10** Our recommendations to government from this audit are as follows:

Recommendation 14.1

We recommend that terms of reference for the Investment Review Committee should

be documented and approved by the Board of Directors. The terms of reference should include authorization limits, meeting protocols and roles and responsibilities, as well as formalize the reporting process between the Committee and the Board.

Recommendation 14.2

We recommend that the Board identify roles and responsibilities for officers of the Corporation. Authorization limits should also be established.

Recommendation 14.3

We recommend that a system to monitor, measure and report on performance be developed. Focus should be given to those areas which are critical to the success of, or represent a significant risk to, InNOVAcorp.

Recommendation 14.4

We recommend that criteria upon which bonuses are to be based should be clearly defined and communicated to the eligible employees. Evaluation against these criteria should be documented.

Recommendation 14.5

We recommend that any costs associated with the investment or services provided to InNOVAcorp's subsidiary, The Decision Point, be separately disclosed in InNOVAcorp's operating results.

Recommendation 14.6

We recommend that senior management review the program administration guidelines for the Nova Scotia First Fund. These guidelines should include investment eligibility criteria, and should clearly differentiate the policies related to uncommitted funds. The guidelines should be approved by the Board as it has overall responsibility for administration of the Fund.

Recommendation 14.7

We recommend that InNOVAcorp update the documentation for its procurement policies and procedures. These policies and procedures should be compatible with Provincial requirements, detail when a competitive process is required, and address the use of purchasing cards.

Review of Financial Statements and Management Letters

Pages 235 – 239

- 15.1** Section 17 of the Auditor General Act permits this Office to conduct additional reviews of those entities where financial statements are reported on by private sector auditors. This chapter 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.
- 15.2** The Provincial Finance Act requires that financial statements for government business enterprises and government service organizations be submitted to the

Minister of Finance by June 30 following the fiscal year end (usually March 31). A number of entities, including trust funds, were not fully successful in providing audited financial statements by June 30.

OTHER AUDIT OBSERVATIONS

Additional Appropriations

Pages 242 – 245

- 16.1** Page A17 of the March 31, 2003 Public Accounts Volume 1 identified additional appropriations required for the year ended March 31, 2003 of \$69,591,000. This additional spending authority is yet to be approved by Order in Council. Under Section 28(3) of the Provincial Finance Act as amended May 30, 2002, OIC approval now needs to be obtained “no later than ninety days after tabling of the Public Accounts”.
- 16.2** Additional appropriations totaling \$205,019,000 for fiscal year 2002 were approved by OIC #2003-25 in January 2003.
- 16.3** The timing of the OIC approvals impairs the effective control by and accountability to the House of Assembly for expenditures in excess of original spending authority limits.

Cash and Other Losses

Pages 246 – 248

- 17.1** The losses reported to us for the year ended March 31, 2003 totaled \$71,785; consisting of cash losses of \$11,154,

property losses estimated at \$215,176 and recoveries of \$154,545.

Travel Expenses

Pages 249 – 251

- 18.1** Systems and controls surrounding travel expense claims are adequate to ensure expenses are accurately recorded, reviewed and properly approved. Opportunities for improvements were noted.
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