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MESSAGE FROM THE AUDITOR GENERAL

INTRODUCTION

- 1.1 I am pleased to submit my December 2004 Report to the House of Assembly. This is my fourteenth Report as Auditor General. I have a continuing commitment to provide information to the members of the House of Assembly, particularly those who serve on the Public Accounts Committee, to assist them in holding the government to account for the management of public funds. As well, the audit efforts result in recommendations to the managers in the entities audited focusing on areas where improvements can be implemented that would result in enhanced controls and greater economy and efficiency.
- 1.2 In addition to this Report, I also issued a number of other reports during the past year. These are as follows:
- My 2003 Performance Report and 2004 Business Plan was dated March 11, 2004 and tabled on March 31, 2004.
 - My Report on the Estimates of Revenue for the fiscal year ending March 31, 2005 was dated April 19, 2004 and included with the Budget Address tabled by the Minister of Finance on April 22, 2004,
 - An additional report to the House of Assembly dated May 17, 2004 was tabled on June 16, 2004. This Report contained nine chapters covering audit work performed from the date of the 2003 Annual Report up to May 2004. This was the first time I had issued what might be called an interim report. It was well received by the Public Accounts Committee as it provided them with more timely information and allowed them to schedule hearings on some of the audits. I intend to table a similar additional report in mid-2005.
 - My Report on the Province's March 31, 2004 consolidated financial statements was dated July 9, 2004 and tabled with the Public Accounts by the Minister of Finance on September 30, 2004.
 - A Report dated November 30, 2004 on the health indicators included in the Minister of Health's report *A Measure of Our Health and Health System*.
- 1.3 This Report contains ten chapters dealing with audit activities completed since the date of the additional report. I have also prepared and am tabling a highlights booklet which summarizes the key messages and recommendations in the Report. I have not commented on all of those matters in this chapter, but rather wish to discuss those that I consider the most significant.

GOVERNMENT'S FINANCIAL REPORTING

- 1.4** Amendments were made to the Provincial Finance Act to advance the legislated deadline for tabling the Public Accounts from December 31 to September 30 and this deadline was met. Department of Finance officials also continued their efforts to fully implement Generally Accepted Accounting Principles (GAAP). I have supported and encouraged both of these initiatives as they result in the provision of more timely and complete financial information.
- 1.5** Efforts made by Government Accounting staff to accumulate appropriate information for audit purposes and to deal with issues as they were identified aided significantly in completing the work necessary to meet the September 30 legislated deadline.

GOVERNMENT'S SYSTEMS AND CONTROLS

- 1.6** Government has a number of very significant systems and control improvement initiatives underway. Some of these have government-wide implications while others are entity specific. Some of these arise from recommendations made in my previous Reports while others arise from deficiencies identified from internally commissioned reviews or problems identified by government staff. These are all complex and costly initiatives and are intended to improve control and provide better information for decision making.
- 1.7** These projects will strain the available resources and will require careful, continuous monitoring by government and by my Office.

PENSION ASSET MANAGEMENT AND GOVERNANCE

- 1.8** This is a significant area requiring close management attention. Assets available to fund the Province's pension plans totaled \$7.3 billion at March 31, 2004. Chapter 5 outlines a number of recommendations arising from our audit and discusses an initiative undertaken by Department of Finance management to identify needed improvements. I strongly encourage government to closely monitor these matters and ensure appropriate action is taken.

HEALTH CARE

- 1.9** Expenditures on health care in the year ended March 31, 2004 totaled \$2.3 billion, by far the largest area of utilization of public funds. Chapters 6, 7 and 8 report the findings of audits conducted in three areas in the health care sector. In all of these, opportunities for improved controls, as well as areas where costs could be reduced or revenues increased, were identified. The following are the more significant of these.
- 1.10** In Chapter 8, significant issues with regard to revenues were identified. These included lack of information to assess whether revenues and recoveries are

sufficient to cover the costs of services provided, delays in issuing billings, incomplete costs included in the motor vehicle levy calculation and significant past due accounts receivable in the District Health Authorities. As at March 31, 2004 37% of the \$42 million of accounts were over 90 days old indicating a potential collection problem.

- 1.11** A significant problem with revenue collection is discussed in Chapter 6. This deals with the account of a non-resident and raises concerns about the policies of the Department of Health and the Capital District Health Authority. Between 2001 and January 2003, the individual accessed various medical services and paid for them. From February 2003 until the fall of 2004 there were three hospital stays, one of which exceeded 180 days. If the approved rate had been used to charge the patient the accounts receivable balance would have been \$642,000 at the time of our audit in the fall of 2004. The patient had private health insurance and a payment of \$53,048 was received in April, 2004. CDHA is pursuing collection of further amounts from the insurance company as well as considering a claim against the deceased patient's estate. I believe this case illustrates significant credit management risks within CDHA.
- 1.12** Chapter 7 discusses the results of an audit of publicly funded prescription drug programs in Nova Scotia. In the last three years, the costs of these programs have risen 21% to \$108 million in 2002-03. The audit identified significant opportunities to achieve cost savings including options to purchase drugs at significantly lower prices. Hospitals in this Province purchase drugs at a price which is almost 15% lower through a national buying group. I believe options for bulk purchasing should be seriously considered although I acknowledge there would be challenges related to warehousing, distribution and the willingness of drug manufacturers to reduce prices. The potential for significant cost savings, even from modest price reductions, would justify the Department of Health conducting a comprehensive analysis of possible options for reducing prices. In addition, initiatives to monitor drug utilization and physician prescribing practices should be expanded.

CONCLUDING REMARKS

- 1.13** This Report does contain many positive findings and I acknowledge the efforts public servants are making to manage programs effectively. I also acknowledge the willingness of these public servants to consider and act upon recommendations made as a result of audits. I have established a practice of following up on recommendations after a three-year period and have been pleased to note the actions taken. However, as has been discussed in the Report, there are significant challenges and opportunities to improve controls and more effectively manage taxpayers' dollars.
- 1.14** Finally, I wish to acknowledge the efforts of my own staff, from my senior management team through to the newest recruited student. This Report and the others listed at the beginning of this chapter would not be possible without the knowledge, analysis and professionalism they put into their assignments.