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GOVERNMENT SYSTEMS AND CONTROLS

BACKGROUND

- 3.1** Government financial, program and other management activities are facilitated or supported by a variety of systems and control processes. These include a number of corporate or government-wide systems (e.g., Corporate Financial Management System - CFMS/SAP; Human Resources Management System - HRMS) or processes (e.g., annual business planning, budgeting and accountability reporting; procurement). There are also numerous entity or program level systems and processes.
- 3.2** Government's business systems and technology initiatives are subject to oversight review by the Business Technology Advisory Committee (BTAC), which is a committee of deputy ministers reporting to Treasury and Policy Board (TPB). Initiatives within crown entities are governed by their respective governing board or other appropriate body.
- 3.3** Although not specifically quantified, the costs of acquiring, implementing, operating and maintaining systems and control processes within the Provincial public sector are significant. However, a more important factor is the quality and cost-effectiveness of the systems and control processes in mitigating financial and other risks of managing government programs and services.

RESULTS IN BRIEF

- 3.4** The following are our principal observations presented in this chapter.
- Government has a number of significant systems and control improvement initiatives in process, including the following:
 - addressing the recommendations from our 2003 Report concerning CFMS/SAP, including the results of a service auditor review to be reported in November 2004;
 - completing the implementation of the SAP HR module for core government and regional school boards (eMerge Project). New implementation dates have been established and increased funding approved for this project;
 - addressing recommendations from an audit of the governance and control structures for the pension investments and treasury areas;

- addressing recommendations from an external firm's review of the procure to pay process;
 - addressing the governance and project management issues concerning the Pension Administration System implementation project identified in previous audit reports, and completing the project; and
 - addressing recommendations from an external firm's audit of the Art Gallery of Nova Scotia's governance and management processes.
- Compliance with the government procurement policy for the use of alternative procurement arrangements needs to be improved.
 - The Office of Economic Development has a very detailed accountability process in place for funds provided to Regional Development Authorities.
 - A new security policy and standards for the government's wide area network were implemented effective October 1, 2004. Steps are currently underway, through the Department of Transportation and Public Works, to ensure that any non-compliant practices or procedures are identified and addressed.
 - The current Government of Nova Scotia Management Manuals do not have a policy requiring departments and entities to report losses. Prior versions of the Manuals included this requirement.

SCOPE

3.5 The Auditor General Act provides broad mandates for the Office to examine and report on the use and control of public funds or resources by government, its entities, and recipients of financial assistance. For example, Section 8 of that Act indicates that we may examine whether:

- accounts have been faithfully and properly kept;
- all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the capital and revenue receipts;
- money which is authorized to be expended by the Legislature has been expended without due regard to economy or efficiency;
- money has been expended for the purposes for which it was appropriated by the Legislature and the expenditures have been made as authorized; and
- essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

- 3.6** The purpose of this chapter is to provide summary observations and information on the government's systems and control processes in order to assist the House of Assembly, and its Public Accounts Committee, to hold government accountable for the adequacy of systems and controls over the use of public funds or resources. Other chapters of this Report may also include related observations as a result of audit examinations in specific areas or entities.
- 3.7** Certain of the comments in this chapter are not the result of formal completed audits but rather the result of ongoing review and enquiry procedures, and are provided herein for information purposes only.

PRINCIPAL FINDINGS

CFMS and SAP Control Initiatives

- 3.8** The 2003 Report of the Auditor General (Chapter 3) included the results to date of our examination of selected aspects of the government's SAP central financial management system (CFMS). We identified a number of significant control concerns and provided 20 specific recommendations for consideration by Department of Finance management. Certain of those recommendations required consideration on a government-wide basis, not just by Finance.
- 3.9** Finance management have committed to addressing the control concerns we reported, and undertook to develop an action plan to identify and assess alternatives for each of our recommendations. On March 3, 2004, Finance tabled, with the Public Accounts Committee, a summary analysis of the status of action taken or planned on the concerns we reported. A steering committee was established in April 2004 to oversee this process.
- 3.10** A recent update to the status report was provided to the steering committee on September 1, 2004. Although we have not yet specifically reviewed or verified the actions taken or planned, that report indicated that eight of the twenty recommendations had been completed.
- 3.11** One recommendation that has now been addressed is that the government has contracted for an annual service auditor review. This will include a report on controls for the centralized SAP infrastructure and support functions performed by Finance for a number of public sector entities. The initial audit work was planned for completion in November 2004. This is to be followed up with an audit covering each of the periods ending March 31, 2005 and March 31, 2006. It is our understanding that this audit work will continue to be done on an annual basis. We will consider the results of the service auditor's work in our future coverage of CFMS/SAP, as well as during our annual audit of the government's financial statements.

Project eMerge

- 3.12** In March 2002, during the 2002-03 budget process, the Executive Council approved funding to implement SAP's human resource (HR) module, through a joint project for the government and the school boards. The project was named eMerge to reflect the partnership between the school boards and the government, as well as the integrated aspects of the project with existing SAP financial modules already in use.
- 3.13** The project was initially approved with a planned implementation on August 1, 2004 for the school boards and October 1, 2004 for the government. In June 2004 a decision was made to amend the implementation date for the school boards to January 1, 2005 and to split the project into separate components for each of the government and the school boards.
- 3.14** In July 2004, a detailed assessment was performed by the project's quality assurance team. The report from that assessment, dated August 9, 2004, identified several areas of concern resulting in a high risk that the project would not be completed by the planned dates. As a result of the recommendations contained in that report, a decision was made by government to further amend the implementation dates as follows:
- government - April 1, 2005
 - school boards - late 2005 (date to be established)
- 3.15** As part of the project review, a decision was made to split the project into separate components for each of the government and the school boards. The Project Director informed us that the decision to split the project into separate components was due to significant differences emerging in the requirements for the government and the regional school boards.
- 3.16** The original capital and operating budget for this project, when it was approved in 2002, was \$5.7 million. In 2004, the combined budget was increased to approximately \$13.1 million; with actual costs of approximately \$6 million recorded for the project to October 2004. The Project Director noted that the increases in the budget were due to a number of factors including:
- changes in the scope of the project where the government and school board components were split into separate projects due to significant differences in requirements;
 - complexities of the dual-sector project were significant and expected synergies were not realized; and
 - additional work recommended in the August assessment report to address the identified risks.

- 3.17 We have not performed any audit procedures on this project to date, but will consider including it in our future audit plans.

Pension Investment and Treasury Governance and Control Structures

- 3.18 Our Office audit plans for 2004 included a broad scope examination of pension and other retirement plans. During initial planning meetings with Finance, we were informed that government was commissioning an audit by a private sector firm, through its Corporate Internal Audit group. This audit was to examine the governance and control structures in place over its pension investment and treasury functions.
- 3.19 As a result, we modified our scope in order to avoid overlap or duplication of coverage. The results of our work in this regard are reported in Chapter 5 of this Report.
- 3.20 The results of the work performed by the private sector auditor were available in draft to Finance senior management in summer 2004. That audit identified a number of significant matters and related recommendations for improvement to the governance and control structures in the pension investment and treasury areas.
- 3.21 At the time of writing this chapter, it was our understanding that government was to release the private sector firm's report in late November 2004, along with its plans to deal with the results.

Pensions Administration System - Implementation Project

- 3.22 In our June 2004 Report we commented on the findings of an independent audit that had been performed on the pension administration system implementation project. The report by the external firm was released on March 6, 2004 and contained some significant findings related to the governance and management aspects of the project. The project was four years overdue and had accumulated costs of more than three times the original budget. Although certain system components were functional, there was still significant work required to complete the project.
- 3.23 Since our June Report, management has undertaken several steps, including the following, to address the remaining aspects of the project.
- A steering committee has been reestablished and provided terms of reference that set out the specific roles and responsibilities of the parties involved. This committee has been meeting regularly.
 - A project charter has been developed and approved by the project owner.
 - A full-time project manager has been contracted to oversee the project.

- A detailed assessment has been performed by the project manager of what has been completed and what remains to be done.

- 3.24** Management at Finance indicated to us that the overall target date for completion of the remaining identified deliverables is March 31, 2005. Additional enhancements are also being considered and will require a separate planning component to define requirements.
- 3.25** We are currently in the process of completing a systems-based audit of the controls of the new system, and will consider a review of the completion of the implementation project as part of that audit and report the results in spring 2005.

Art Gallery of Nova Scotia

- 3.26** We began preliminary planning for an audit of the Art Gallery of Nova Scotia in early 2004. Before a plan was developed, we were informed that the Department of Tourism, Culture and Heritage, in conjunction with Finance's Corporate Internal Audit group, had contracted an external firm to perform a review of the Art Gallery. The review focused on governance and management processes as well as financial information and systems.
- 3.27** The key objectives of that review were to:
- review the Art Gallery's strategic plan and assess the governance framework in terms of roles and responsibilities, reliability and timeliness of information, monitoring of management, and communication with the Minister;
 - review and comment on management in terms of reporting relationships, accountability mechanisms, flow of information, and capabilities to fulfill responsibilities;
 - review and assess the adequacy of the financial management system and evaluate the appropriateness of internal controls;
 - review and assess the accuracy, reliability and completeness of financial and management information; and
 - identify and present other entities for comparison.
- 3.28** The external firm's final report was dated April 2004 and issued to government and the Art Gallery. It contained a number of significant findings and recommendations in the areas of governance, management planning and control environment, internal controls and management structure, and roles and responsibilities.
- 3.29** It was indicated to us by management of the Art Gallery that many of the findings and recommendations of the audit report align with issues identified in the Gallery's recent Strategic Plan, and that a committee of the Art Gallery's

Board of Governors dealing with strategic planning issues continues to work on implementation of the Strategic Plan and findings of the audit report. An employee is being hired under contract to carry out the implementation procedures.

Procurement Administrative Review

- 3.30** As noted in Chapter 3 (paragraphs 3.23 and 3.24) of this Office’s June 2004 Report, the Departments of Finance and Transportation and Public Works contracted an external firm to perform a procurement administrative review of the *procure to pay* process stream within government. The final report from that review was dated December 2003, and included a number of findings and recommendations regarding the *procure to pay* process that government needs to deal with in a well-organized, effective and timely manner.
- 3.31** The Office of Economic Development (OED), which is now responsible for government’s Procurement Branch, formed a steering committee in May 2004 to address recommendations resulting from the external firm’s review. At the time this chapter was written in November 2004, the steering committee had selected a project manager, who was assembling a project team. In order to ensure this project proceeds in a timely manner, it is important for the steering committee to ensure the project has a formal scope, time lines and work plan with an estimated completion date.
- 3.32** During 2003, we commenced transactional testing of alternative procurement practices in selected departments. The completion of our planned work in this regard was delayed due to staff turnover within our Office as well as by significant delays encountered obtaining documentation and other information supporting certain transactions selected for testing.
- 3.33** The government’s Procurement Policy provides guidelines for procurement under various situations, including alternative procurement practices. Section 2.9 of the government’s Procurement Manual states:
- “...in order for the Procurement Policy to balance the need for open, competitive opportunity with the demands of urgent or specialized circumstances, alternative procurement practices have been created. These processes must be used only for the purposes intended and not to avoid competition or to discriminate against specific suppliers.”*
- 3.34** This section recognizes that circumstances may occur in which the standard procurement practices cannot be applied.
- 3.35** The following summarizes our observations from our alternative procurement transaction testing.
- The Procurement Policy states that “...all procurement activities will be subject to audit by the Procurement Branch or by departmental internal auditors.” We were informed that the Procurement Branch does not audit procurement activities and that there is no

regular reporting of procurement activities or compliance with the Policy. We believe that systems and controls should include an audit function and regular reporting.

- We noted inadequate documentation to support compliance with the Policy. Alternative procurement forms were completed subsequent to the transaction and some forms were not being completed.
- We noted the alternative procurement process being used for purposes other than those provided for in the Procurement Policy.
- The administration of the government's Procurement Policy is currently the responsibility of the Minister of the Office of Economic Development (previously Transportation and Public Works). Our audit noted that administrative procedures established by the Procurement Branch were changed by the Senior Financial Executive Forum (SFEF), an internal government committee. As a result, we were informed that some departments were following the directive of the SFEF while other departments were following the procedures as established by the Procurement Branch and approved by the Minister. We were unable to determine the authority under which the change was made by SFEF.
- During our audit, significant delays in obtaining the documentation to support the procurement transactions selected for testing were experienced. The document management system should be clearly defined and coordinated to ensure documentation required to support procurement transactions is readily available for audit and other purposes as required by the Policy.
- The government's Procurement Policy appears to be inconsistent with the Government Purchases Act. The Act requires all supplies to be tendered and provides for exceptions to this requirement. The Procurement Policy does not require tendering for all procurements. The Policy establishes thresholds for procurements and provides nineteen acceptable situations where alternative procurement practices can be applied. We also noted that the Act does not address all procurement activities addressed by the Procurement Policy. The Government Purchases Act and the government Procurement Policy should be reviewed and updated to ensure the Policy is in compliance with the legislation and there are no inconsistencies between the Act and the Policy.
- The government's Procurement Policy requires the deputy head to approve alternative procurement transactions. Our audit noted that within certain departments this responsibility has been delegated to positions below the deputy. However, the procurement policy does not provide deputy heads the authority for such delegation.

3.36 The results of our work on alternative procurement practices have been provided to the Office of Economic Development so that they can be taken into account when looking at improvements to the *procure to pay* process as part of the project described in paragraph 3.31 above.

- 3.37** We urge government, through the efforts of OED, to ensure appropriate improvements in procurement administrative policies and practices, including those related to the use of alternative procurement practices, are identified and effectively implemented as soon as practical.
- 3.38** The Office of Economic Development provided a response to the matters reported above. It is printed on page 28 of this Report.

Regional Development Authorities

- 3.39** There are 13 Regional Development Authorities (RDAs) in Nova Scotia. RDAs were established in 1994 to facilitate community economic development. The Province provides \$1.6 million annually for RDA operations (\$125,000 per RDA) with the majority of this funding coming from the Office of Economic Development (OED). RDAs also receive funding from federal and municipal sources.
- 3.40** Our 2004 plans included an audit of RDAs to examine areas such as accountability structure and financial management. After some preliminary research, we decided not to proceed. Our preliminary work showed that OED has a detailed accountability structure and related processes in place for RDAs.
- 3.41** The following is a summary of this structure, provided to us through discussion with OED management.
- OED has contracts with each RDA which are renewed annually. These contracts stipulate information requirements RDAs must meet to continue to receive Provincial funding.
 - Each Authority is subject to a mid-year review process which assesses how the RDA is doing in a variety of areas and makes suggestions for improvement.
 - RDAs must have a regional strategic plan and a business plan which are submitted to OED for review and approval.
 - Audited financial statements must also be provided to OED by RDAs within 90 days of their year end.

Wide Area Network Security and Control of Electronic Information

- 3.42** On April 1, 2002, Treasury and Policy Board, through its Business and Technology Advisory Committee, approved a Wide Area Network Security Policy with an initial effective date of April 1, 2003. This date was then delayed pending the appointment of a security manager. The revised implementation date was October 1, 2004.
- 3.43** Section I of the policy statement reads as follows:

“The Government of Nova Scotia provides a wide range of services to the citizens of Nova Scotia that require a secure IT infrastructure. Many of the computer systems supporting these services use the Wide Area Network (WAN) to transmit sensitive information such as government financial transactions, personnel and payroll records, and proprietary corporate data. The Government of Nova Scotia is committed to protecting the integrity, confidentiality and availability of its information systems, the sensitive information these systems handle, and the privacy of citizen’s information, while providing for efficient and effective management of this information.”

- 3.44** The government’s WAN comprises the infrastructure which connects all Provincial public sector local area networks and provides access to email, internet services and various applications processed on a variety of computer resources. The WAN includes specialized communications equipment such as routers, hubs, switches, wireless devices or other devices.
- 3.45** During 2004, a new position was established in the Department of Transportation and Public Works for a Manager of WAN Security. The position reports directly to the Executive Director of Government Services and has been provided the power, through the Security Policy, to monitor and enforce compliance with the Policy and related standards in regards to all government departments, agencies, boards and commissions that connect to the WAN.
- 3.46** The Manager of WAN security noted that steps are currently underway to ensure that any non-compliant practices or procedures are identified and addressed. The effective implementation of the WAN Security Policy and related standards should represent a significant step in the development of the corporate component of the access control framework for protecting electronic information across the Provincial public sector.
- 3.47** Related to this matter, in 2004 we commenced a project to determine which Provincial computerized systems capture and maintain significant personal information and to determine how the personal information is being protected. Although some progress was made on this project we were unable to complete the work in time for this Report. It is our intention to report the results of our work in this area in 2005. The WAN Security Policy will be considered as part of our completion of this audit.

Cash and Other Losses

- 3.48** Section 9A(1)(e) of the Auditor General Act requires that we report all cases where “...there has been a deficiency or loss through fraud, default, or mistake of any person”.
- 3.49** In prior years, we sent letters to all departments and other selected crown entities to confirm the completeness of losses reported to us in accordance with the requirements which were set out in Chapter 8 of the former version of Management Manual 200. The new Government of Nova Scotia Management Manuals no longer contain a requirement for departments and crown entities

to report losses to this Office and as such we have not attempted to confirm the information for 2003-04.

3.50 However, some departments have reported the following losses to us for 2003-04.

Departments	Cash	Property	Recoveries	Total
Environment and Labour	\$ 120	\$ 550	-	\$ 670
Justice	2,254	-	-	2,254
Public Service Commission	-	7,495	-	7,495
Service Nova Scotia and Municipal Relations	46	-	-	46
Tourism and Culture	4,060	-	-	4,060
Total Reported	\$6,480	\$8,045	-	\$14,525

CONCLUDING REMARKS

- 3.51** In the past year, there has been a great deal of public and media attention on matters reported to the Parliament of Canada regarding the controls and other activities related to the Federal “sponsorship” program. The magnitude of such matters, in relative monetary terms, in Nova Scotia equates to less than \$1 million per year. The question that needs to be asked is whether Nova Scotia’s public sector management and control systems and processes are sufficient to prevent or detect such issues.
- 3.52** Good systems and controls can be costly, while too many or less than optimized controls can also be costly. Government’s challenge is to ensure that the risks of loss or misuse are appropriately identified and that decisions made about the level of control to be in place appropriately mitigate risks on a cost-benefit basis. The goal is not more or too many controls, but rather cost-effective optimization of control against risks.
- 3.53** The government has a number of significant systems and control initiatives in process at this time. The capacity of existing resources assigned to these initiatives needs to be monitored effectively in order to achieve successful results and outcomes.
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OFFICE OF ECONOMIC DEVELOPMENT'S RESPONSE TO PROCUREMENT ADMINISTRATIVE REVIEW SECTION

The Office of Economic Development is pleased that the Auditor General has undertaken a study of the procurement system. The feedback provided by the Office of Auditor General will help OED and the Procurement Branch better manage the *procure to pay* process that services the Province of Nova Scotia.

As noted, a comprehensive report was undertaken by KPMG. This report, titled *Province of Nova Scotia Administrative Review of the Procure to Pay Process Stream*, concentrated on the procurement of goods, services and construction. This report is detailed and comprehensive. It examined all aspects of the Province of Nova Scotia's *procure to pay* process, including approval; requisition; purchasing; receiving; payment; reporting; and compliance reviews.

A cross-government working committee has been established to provide feedback and direction on the recommendations put forward by the Auditor General and the KPMG report.

In the near term, the Procurement Branch has taken and is planning to take a number of steps to tighten control on the use of Alternative Procurement.