

BACKGROUND

- 5.1** 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 post secondary institutions in the Province including both universities and the Nova Scotia Community College. Specifically, the Minister wanted “assurances that the audit procedures and control mechanisms in place are adequate and appropriate to protect tax dollars.” An audit of the university sector was conducted and reported on in the 2003 Report of the Auditor General (page 83).
- 5.2** The Nova Scotia Community College (College) is governed by the Community Colleges Act which was proclaimed on April 1, 1996. The Act specifies the composition, function, duties and powers of the Board of Governors. The Board bylaws establish standing committees and general terms of reference for each. The Board is authorized to appoint and determine the terms and conditions of employment of the President, who is the Chief Executive Officer of the College.
- 5.3** In 2002-03, the Province provided approximately 59% of the College's total revenue. The College's tuition must be approved by the Governor in Council and the College's programs of study and related guidelines are required to be approved by the Minister of Education. The College's buildings are owned by the Province. The College is viewed as a Government Service Organization and the Province's consolidated financial statements include the financial position and operating results of the College. Although the College is governed by an independent Board, it has a close relationship with the Province by virtue of Provincial funding and ownership of buildings.
- 5.4** The College provides industry-driven education in over 100 programs, for 8,500 full-time students (see Exhibit 5.1). In addition, 5,000 customized training participants, and 12,000 part-time students are currently pursuing learning opportunities at one of the campuses or via NSCC Online Learning.
- 5.5** The College has 13 campuses throughout Nova Scotia with a total building asset base of approximately \$300 million. There are currently 10 Provincial campuses and three in the metro Halifax area. The College's central administrative offices are located at the Institute of Technology Campus in Halifax.
- 5.6** The 2002-03 audited financial statements of the College showed actual revenues of \$113.9 million with operating expenses of \$113.5 million resulting in a surplus of \$0.4 million (see Exhibit 5.3). The College has planned a balanced budget for the 2003-04 fiscal year. The Province's actual operating grant to the College for the 2002-03 fiscal year was \$66.9 million and is budgeted to be \$72.3 million for 2003-04 (see Exhibit 5.2).

- 5.7** During the Speech from the Throne on March 27th, 2003 the Government declared its support for the growth of the College, and followed up the next day with a detailed funding announcement. A total of \$123 million in capital expenditures over the next six years was dedicated to the College; which will require an additional \$29 million in operating funds, in total, over the same time period. The Province's significant financial commitment to the College was based on acceptance of the College's Master Plan for increasing enrollment to meet the Province's needs. In the 2004-05 Estimates, the College received less funding than it had anticipated for the initiative. Operational funding, planned for \$810,000, was not received. Capital funding, planned at \$28.69 million was reduced to \$25.5 million.
- 5.8** Our last audit of the College was reported in the 1999 Report of the Auditor General. We have followed up on our recommendations from that audit in this Report.

RESULTS IN BRIEF

- 5.9** The following are the principal observations from this audit.
- Our audit of the internal control environment over revenues and payments indicated that controls in most areas we tested were adequate. However, we identified two significant control weaknesses. Monthly bank reconciliations need to be prepared and approved, and controls over blank and printed cheques need to be improved. Outstanding monthly bank reconciliations are now being completed.
 - Procedures for the identification and collection of outstanding student account balances should be improved.
 - The College has a strong internal audit function. However, management needs to ensure that findings from internal audit reports have been appropriately addressed.
 - Generally, procurement transactions tested were in compliance with applicable procurement policies although instances of possible non-compliance were noted. In several instances, documentation of the public tendering process had not been kept. We also noted exceptions to the policy where the rationale should have been documented more clearly and properly approved.
 - Although the College has a strategic plan and the Board monitors financial results and key performance indicators, we believe that preparation of a formal business plan and distribution to key stakeholders such as the Department of Education and students would strengthen accountability for public funds. It would also serve to document agreement on annual objectives and expected outcomes.

- The process used for development of the College's budget was generally adequate although we noted a lack of documentation of assumptions and supporting calculations for the utilities budget.
- Building condition assessments conducted on Provincial campuses indicate that the College faces a significant short-term deferred maintenance problem that requires the immediate attention of management and the Province.
- The College's governance function is well developed and includes several elements which we believe should be considered best practices. The accountability relationship between the Province and the College is established by the Community Colleges Act. As the College continues to grow and mature, the Province and the College should review and update the accountability provisions to ensure they remain relevant.
- The majority of the findings from our 1999 audit have been adequately addressed although there are still some significant findings which have not been acted upon by the College and the Department of Education. These include the need for a funding methodology, outcome measures and an agreement between the College and the Province on ownership and use of the buildings. We note that financial responsibility for deferred maintenance is a key issue that will need to be settled before building ownership can be resolved.

AUDIT SCOPE

5.10 The objectives of this assignment were to:

- review and assess the College's governance function;
- determine whether the College has adequate systems to provide for budgeting, internal financial reporting and monitoring;
- determine whether the College's senior management and the Board are receiving sufficient, appropriate information from management and the auditors to fulfill their stewardship responsibilities;
- determine whether the College has adequate systems to provide for budgeting, internal financial reporting and monitoring;
- determine whether the College has policies in place to provide for procurement in an open and fair manner that provides a high degree of competition and value;
- determine whether the College complies with the government's procurement policy;

- assess the long-range planning and maintenance of the College campus buildings to ensure it is performed with due regard to economy and efficiency;
- determine whether the College has policies and procedures to comply with the Personal Information Protection and Electronic Documents Act; and
- follow up on significant findings from our 1999 audit.

5.11 In December 2003 and January 2004, the audit plan was discussed with management of the College. Our audit criteria were obtained from recognized sources including the Auditor General of Canada's *Financial Management Capability Model*, the Canadian Institute of Chartered Accountants' *Public Sector Accounting Handbook and Professional Engagement Manual* and the Province of Nova Scotia's *Government Procurement Process - ASH Sector*.

5.12 Detailed on-site fieldwork was conducted during January and February 2004 and included visits to two campuses outside the Halifax metro area. The Lunenburg Campus in Bridgewater and the Truro Campus were chosen for site visits. Our audit consisted of detailed transaction testing, examination of policies and procedures, review of reports and other documents deemed to be relevant, and interviews with management and staff.

PRINCIPAL FINDINGS

Internal Controls

5.13 **Revenue and payments** - Our audit of internal controls at the College consisted of reviews of the financial statement auditor's files and the internal auditor's files, and discussions with management. In addition, we tested a sample of transactions in the purchases and payment cycle. Revenue and receipts transactions were tested quite extensively by the College internal auditor and we relied on his work to avoid unnecessary duplication.

5.14 As a result of our testing, we noted that monthly bank reconciliations had not been prepared since April 2003. Management indicated that they experienced problems in accessing required information after the new PeopleSoft system was upgraded, resulting in the delay. Daily reconciliation procedures for receipts and cheques are in place to mitigate the risk of fraud or misuse of cash. However, the cash balance recorded in the College's general ledger system had not been reconciled to the bank balance. The problem has been corrected and outstanding monthly reconciliations are being completed.

5.15 We also identified weaknesses in the physical security over both blank and printed cheques. Blank cheques are stored in a locked filing cabinet rather than in a safe. Printed cheques with signatures, prior to mailing, are left unattended in the mailroom which is in the administrative area. We believe that there is a risk to the College that cheques could be stolen and/or used inappropriately.

- 5.16** Management of the College also indicated that since the implementation of the new People Soft system, they have been unable to balance the reconciliation between the detailed sub ledger for student accounts receivable and the general ledger. The College's finance department staff are aware of the problem and are currently trying to resolve it.

Recommendation 5.1

We recommend that the College prepare monthly bank reconciliations approved by management and that the physical security over blank and printed cheques be improved. We also recommend that the College's student accounts receivable reconciliation problems be addressed.

- 5.17** No other significant control weaknesses were identified as a result of our audit. Findings of a less significant nature have been discussed with College management.
- 5.18** **Student receivables** - The College has established a process whereby the accounts of students with balances in arrears are flagged with a negative service indicator in the electronic system to prevent further activity. When a student is about to graduate or register in a new program, the student's account is to be reviewed to ensure that there is no negative service indicator on the file. The College's policy requires that all accounts in arrears be paid prior to graduation or registration in another program.
- 5.19** During our testing in this area, we noted several instances where students with overdue balances did not have a negative service indicator on the file. We also noted instances where students graduated and registered for other programs while still having balances owing. Based on the results of our testing in this area, it appears that negative service indicators are not being placed on student files as required.

Recommendation 5.2

We recommend that the College improve its process for identifying students with accounts in arrears.

- 5.20** The College's policy on payment of student fees is included in the Academic Calendar. Management indicates that this policy is not always strictly enforced as hardship cases are assessed on an individual basis. Collection efforts include phone calls and letters requesting payment; collection agencies are not used. Management indicated that once the student is no longer registered with the College, the outstanding fees are often not paid. At December 31, 2003 the total student accounts receivable balance was \$3.9 million which includes students attending classes as well as \$1.2 million related to students who had left the College.

- 5.21** **Computer inventories** - The College currently has a large inventory of personal computers (approximately 3,000) due to the nature of many of the programs being offered. Individual campuses are responsible for inventorying and monitoring computers and similar equipment. Central office expects that inventory lists be maintained and that periodic counts be conducted to verify the accuracy of the lists. The Director of Information Technology requests annual campus computer inventory lists to analyze and support budget requests for new computers. Based on our discussion with management at both central office and the campuses, there appear to be appropriate systems in place for inventorying and monitoring computers.
- 5.22** During our site visits, we reviewed the systems used by the campuses and conducted tests on the inventory listings provided to ensure accuracy. We were not able to conclude on the completeness of the inventory listings because the audit trail did not provide enough detail for tracing new purchases into the inventory list. Management indicated that the College is in the process of implementing the PeopleSoft asset management module which should address this problem. We also tested the accuracy of the list by verifying the existence of a sample of listed computers, and tracing a sample of computers in use to the list. We found a few exceptions. In addition, the College's capital assets are periodically counted by the Department of Transportation and Public Works.
- 5.23** The College at present does not have a formal policy outlining its expectations of campuses for the physical safeguarding of computer assets. Discussions with information technology management at the campus level indicated that, for example, some campuses ensure computers and equipment are locked down to desks or tables, while others only consider this an option. Instances of theft, such as Truro's loss in the past year of approximately \$20,000 of computers and related equipment, demonstrate the need for increased attention and awareness in this area.
- 5.24** Ongoing operation and maintenance of critical College information systems including the PeopleSoft application and the e-mail system have been outsourced to a third party service provider. Responsibilities of the service provider include the requirement for adequate data file backups and disaster recovery plans. There are currently no specific College policies relating to disaster recovery or the need to backup data files for the systems which are maintained internally by College staff. Management in the Information Technology area indicated that, while no policies currently exist, the College does have a consistent process for dealing with such matters which is understood by all Information Technology staff. The College's financial statement auditors identified the need for improvements in this area and we concur.

Recommendation 5.3

We recommend that the College develop formal policies governing the safeguarding of personal computers and related equipment and, for systems maintained internally, the backup of data files and disaster recovery.

- 5.25** **Internal audit** - Unlike the universities, the College has an internal audit function. This function was formally approved by the Board of Governors three years ago, although there had been an internal audit position since the inception of the College. The Director of Internal Audit is a professional accountant and reports to the President of the College. A charter, a mission statement and policies and procedures have been created and have been approved by the Board.
- 5.26** Annual audit plans are prepared by the Director and approved by the Board. The annual audit plans are supported by a comprehensive risk assessment conducted by the Director with input from College management. The internal audit function effectively uses control self-assessment as a starting point for each audit. Campus managers are provided with a list of controls and required to submit an assessment to the auditor. This is followed by a site visit. We view the use of control self-assessments in this way as a best practice. At the completion of each audit, the internal auditor prepares a report outlining the scope, findings and recommendations. Highlights of the reports and the status of significant findings from previous reports are regularly presented to the Audit and Finance Committee of the Board.
- 5.27** Management is required to respond to the recommendations made in the internal audit reports including the actions required to address the issues raised. During our campus site visits, we followed up with management to ensure that the actions indicated had been implemented. During our visit to the Truro campus, we noted that actions indicated to have been taken to address two specific weaknesses in the recording of cash receipts had not been fully implemented at the time of our visit in January 2004. These recommendations were identified as requiring immediate attention in the internal auditor's March 2003 report. Other recommendations in the report appear to have been implemented.
- 5.28** We reviewed a number of internal audit reports and are satisfied with the scope of the audit work and the nature of audit findings. The College is receiving significant benefit from the internal audit function.
- 5.29** One of the primary roles of the internal audit function in any organization is to identify internal control weaknesses and make recommendations for improvements. This is being done effectively at the College. Ultimately, it is the responsibility of management to ensure that the issues and recommendations raised by the internal auditor are appropriately addressed. We believe that this needs to be improved at the College.

Recommendation 5.4

We recommend that the College ensure that internal audit recommendations are addressed in a timely manner.

Procurement

- 5.30** [Compliance with ASH \(academic institutions, school boards and hospitals\) sector policy](#) - The procurement activities of the College must comply with the Province of Nova Scotia's *Government Procurement Process - ASH Sector*. These guidelines require that the College's procurement practices and policies be open and fair and provide the highest degree of competition and value. The guidelines also require that procurement of goods over \$25,000, services over \$50,000, and construction over \$100,000 be publicly tendered.
- 5.31** We examined the documented procurement policies of the College and concluded that the policies were consistent with the ASH sector guidelines. In addition, we tested a sample of procurement transactions with a value greater than the public tendering thresholds in the ASH sector guidelines. It appears, based on the file documentation provided, that there was a competitive procurement process followed which resulted in due regard for economy, but documentation supporting compliance with public tendering requirements was not kept. College management indicated that it has always been the practice to publicly tender, but documentation supporting the process was not retained prior to the past year.
- 5.32** Procurements with a value less than the ASH sector thresholds are subject to the tendering policy of the College, provided the policy complies with the general requirements of being open, fair and providing best value. Our review of the policy indicated that it includes appropriate provisions for openness, fairness and best value to the College. The Finance and Audit Committee is planning to review this policy in the spring of 2004 as part of its cyclical policy review process. This will continue to ensure the policies and procedures are current, relevant, and in the best interests of the College.
- 5.33** In addition to the testing described in paragraph 5.31, we also tested a sample of procurement transactions with a value below the tendering thresholds in the College's policy to ensure compliance and value had been obtained. Although the majority of transactions tested were in compliance, we did note some instances of possible non-compliance where purchases were deemed to be exempt from the College's procurement policy because they were emergency purchases, sole sourced, etc. In most of the exception cases we reviewed, the reason for the exemption had not been documented and approved according to the requirements of the *Government Procurement Process - ASH Sector*.

Recommendation 5.5

We recommend that the College document the rationale for exempting specific purchases from compliance with policy. All exceptions should be formally approved by appropriate management. The College should also maintain evidence of public tendering.

- 5.34** The College currently participates in several purchasing initiatives. In addition to its own list of standing offers for commonly purchased items, the College

also purchases, where advantageous, from the standing offers of the Provincial government and regional school boards. We support these cost saving initiatives, and encourage the College to continue to consider all opportunities.

Business Planning and Budgeting Processes

- 5.35** **Establishment of goals and objectives** - A strategic plan sets out an organization's priorities and long-term direction. A business or operational plan annualizes and provides detail of the more specific goals, priorities, resource requirements and activities to be undertaken to support achievement of the strategic plan. Within the governance model adopted by the College (see Exhibit 5.4), the Board is responsible for establishing strategic direction and the monitoring of desired outcomes. Management is responsible for the development and implementation of plans necessary to achieve those outcomes.
- 5.36** In May 1999, the Board approved the College's original strategic plan which included eight strategic directions. In September 2002, the Board approved five strategic initiatives linked to the directions approved in the 1999 plan. Both the final Board-approved 2003-04 budget and management's preliminary budget proposal to the Board in December 2002 include, at a summary level, management's plans to address the initiatives in the strategic plan. The preliminary budget proposal estimates the cost of the strategic initiatives at \$2.9 million. The final budget indicates that, with the exception of the Development Initiative, funding for these strategic initiatives will come from "within existing funding base or through efficiencies attained in the Academic and Information Technology areas."
- 5.37** Although the budget information provided to the Board includes most elements of a business or operational plan, the information is included in several documents. No formal business or operational plan is prepared by management, although both the detailed Preliminary Budget Proposal and the Master Plan to address the College's Development Initiative include useful planning information. College management indicated that members of senior management are assigned responsibility for each specific initiative and progress is monitored through the management Executive Committee of the College. Senior management typically assigns responsibility for certain aspects of the initiative to staff and monitors progress on a regular basis. In some cases, a formal plan may be prepared by staff; in others no documented plan would exist.
- 5.38** The Board's focus is on results. The College has developed key performance indicators which are measured and reported to the Board. The College prepares a Preliminary Budget Proposal, including assumptions and options, which is submitted to the Department of Education. However, preparation of a business plan and distribution to key stakeholders such as the Department of Education and students would strengthen accountability for public funds. The key performance indicators would be a solid foundation for the business plan. The plan would ensure agreement on annual objectives and expected outcomes. Business plans are required throughout the Provincial public sector, including District Health Authorities and Regional School Boards.

- 5.39** During the College's development of its 2002-03 budget, management was required to cut \$4.4 million from the operational profile to maintain a balanced budget. Budget documents provided to the Board included a list of several different areas within the operations of the College where cuts were to be made. Management indicated that a consultation process occurred. However, these cuts were required to be determined quickly and therefore the analysis supporting the decisions was not documented. A formal implementation plan was also not developed.
- 5.40** We recognize that it is difficult to prepare annual and longer-term plans with any certainty prior to knowing the amount of Provincial funding. Provincial funding represents a significant portion of the College's revenue. Although management has indicated that the College is provided with an estimate of its funding reasonably early in the budget process, the College is not officially notified until after the start of the budget year. We note that the Province has recently made a multi-year funding commitment to District Health Authorities and has begun negotiations with the universities to achieve multi-year funding agreements.

Recommendation 5.6

We recommend that the College prepare an annual business plan which links to the strategic plan and budgets approved by the Board and includes the College's key performance indicators. Business plans should set out operational priorities for the year and related financial information. These plans should be approved by senior management of the College and the Board.

Recommendation 5.7

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

- 5.41** **Policies and practices for planning and budgeting** - The College has well documented policies and procedures for the development of its budget. The Controller is primarily responsible for coordination and development of the budget. The process includes collaboration and input from various levels of management both at the campus level and within central office. The Peoplesoft system is used extensively throughout the process.
- 5.42** The budget process involves several levels of review including management at the campus level, Financial Services department, the College's Senior Leadership Forum, Audit and Finance Committee, as well as the Board. The College also makes a presentation to the Department of Education outlining the critical funding issues it is facing. The Board formally approves the final budget, usually during its April meeting. The College's budget process is target driven which means that budget

targets are established for campuses and other cost centers, and managers are expected to live within the allocated amounts. The emphasis is on overall target achievement rather than line-by-line amounts.

- 5.43** The process used by the College for its 2003-04 budget was comprehensive. We were not, however, able to conclude on the reasonableness of the assumptions and detailed calculations supporting the utilities figure in the budget due to a lack of documentation. Management indicated that the utilities assumptions were discussed and reviewed for reasonableness but written documentation was not prepared. Assumptions and detailed calculations supporting other expenditure line items we tested were reasonable. Budgets are more meaningful when the reader has written documentation of the assumptions underlying each line item.

Recommendation 5.8

We recommend that the College ensure that the assumptions and calculations supporting the utilities budget are appropriately documented.

Financial Management

- 5.44** **Monitoring and reporting to management and the Board** - The College has formal reporting processes in place for the campuses and for Central office. Each campus is required to report variance explanations and forecasts to the Central office on a quarterly basis. The information is published in the Quarterly Financial Report both on a campus level as well as on a consolidated basis. These reports are presented by management to the Board and the Finance and Audit Committee during regular meetings. Copies are distributed to Board members prior to the meeting to provide time for review and analysis.
- 5.45** Overall, the content of the financial information provided to the Board is adequate. We did note, through our review of Audit and Finance Committee minutes for the 2002-03 fiscal year, that committee members requested that quarterly reports be provided in a more timely manner. We also noted, for the same year, that College financial statements were included in the Province's Public Accounts - Volume 2 in draft form because the audited financial statements were not completed by the June 30, 2003 deadline. Management indicated that during 2002-03, there were key staff shortages which resulted in difficulty in preparing required information on time and that the Board does not meet during the summer to approve the financial statements. We noted that quarterly reports for the current fiscal year are being provided as requested by the committee.
- 5.46** Management at the campus level and central office have on-line access to financial information through the College's new financial information system. Each campus can review its own results and each department head can review the results of the department. Some of the Managers of Administrative Services at the campus level have found the format of reports in Peoplesoft to be somewhat difficult to use.

Central Office management is aware of the problem and taking action to make reports more user friendly.

Capital Planning

- 5.47** **College Master Plan** - In November 2002, the College finalized a plan which set out a comprehensive expansion program. The plan is designed to increase student enrollment by 2,500 full-time students to a capacity of approximately 10,000. The plan was prepared in consultation with a Joint Planning Committee comprised of representatives of the College, Departments of Education, Finance, Economic Development, Transportation and Public Works and Treasury and Policy Board.
- 5.48** The Master Plan calls for an investment of \$38 million in Provincial campuses outside the Metro Halifax area and the construction of a new campus in Dartmouth at a cost of \$60 million to replace the Bell Road site. The planning process included the use of consultants, detailed building assessments, criteria for priority setting, business plans, benchmarking of costs and designs, and the expected return on investment to both the Province and students. Overall, the Master Plan is a very comprehensive document supported by detailed analysis.
- 5.49** NSCC will be acting as the project manager for the construction of the new Dartmouth campus. The project is currently in the design phase and construction contracts have not yet been awarded. Although NSCC is acting as the project manager, the Province will make the payments and the title to the campus will be in the name of the Province.
- 5.50** **Deferred maintenance** - Building assessments were completed on the ten Provincial campuses in July and August 2002. The results of the assessments indicated that two-thirds of the 1.4 million square foot Provincial campus portfolio could benefit from renovations or upgrades. The assessments established a need for maintenance work on the Provincial campuses estimated at \$83 million. The Master Plan investment in this area only totals \$38 million. Some of the identified renovations are to correct violations of current building codes.
- 5.51** The building assessments include a list of deficiencies ranked according to priority. Priority “DS” items were defined as items which have been identified in the development strategy as needing immediate attention. Priority #1 items were defined as urgent needs to be completed within one year, such as correcting a safety problem, eliminating damaging deteriorations, or complying with environmental or other codes. Priority #2 items have been defined as potentially urgent deficiencies which, if not corrected within two years, could become urgent needs.
- 5.52** We inquired whether the College had prepared a document to summarize the status of the deficiencies detailed in the building assessments and actions planned to address them. We were informed by management that such a document had not been prepared but the deficiencies are being addressed on a campus by campus basis as renovations under the College’s Master Plan are completed.

- 5.53** As we reported in our 1999 Report, the campuses and other buildings which are being occupied by the College are owned by the Province. Over the next five years it appears that a significant investment, in addition to the funding already announced by the Province, will be required to address the deferred maintenance problem at these campuses. We believe that the College, Department of Education, and the Department of Transportation and Public Works need to cooperate in the development of a plan to address this issue.

Recommendation 5.9

We recommend that the College develop a system to track the status of high priority building deficiencies and that the College and Departments of Education and Transportation and Public Works develop a plan to address deferred maintenance.

Governance and Accountability

- 5.54** **College governance model** - The powers and role of the College's Board are detailed in the Community College Act. On December 6, 2000 the Board approved the NSCC Governance Model which includes Board governance responsibilities and operating principles. The model was subsequently amended on April 18, 2001 (see Exhibit 5.4). There are different theories on the elements that should exist within a governance system for the function to be effective. We assessed the College's function against criteria established by the Canadian Comprehensive Auditing Foundation which set out the fundamental requirements of an effectively functioning Board.
- 5.55** Overall, the governance function at the College fully met the criteria which we used for assessment purposes. Some of the best practices warranting inclusion in this Report are the annual self-evaluations conducted by Board members, the use of the Balanced Scorecard Approach for reporting on key performance indicators, regular cyclical reviews of Board policies, annual Board planning meetings and the development of annual work plans for the Board and its committees.
- 5.56** **Accountability to the Province** - Prior to 1996, the Community College was a branch of the Department of Education. In 1996, the Community Colleges Act established an independent Board of Governors and the accountability relationship between the College's Board and the Province. The major accountability provisions in the Act are as follows:
- The Minister nominates a minority of College Board members. (Section 56)
 - The College's programs of study are to be approved by the Minister. (Section 54(3))
 - The Governor in Council must approve the tuition policy and the schedule of tuition fees. (Section 63(1)(o))

- The Board must submit its annual estimate of financial requirements to the Minister for approval. (Section 71)
- The Board must submit an annual report on the College's operations to the Minister including audited financial statements and the Minister must table the report in the House. (Section 72)
- The Minister has the power to appoint an administrator for the College if there are significant problems (Section 82) or disestablish the Board (Section 84).
- The Board may own property or use Crown property. Crown property can be transferred to the College. (Section 66)

5.57 Certain of these accountability provisions such as submission of estimates and an annual report including audited financial statements, and the nomination of Board members are standard. However, others are unique to the College and limit the independence of the Board in its ability to make decisions and govern the College. The provisions governing the College are different from those governing university Boards which also receive significant funding from the Province but are not subject to the same restrictions. Since 1996, the College has grown significantly and improved its systems and practices. The implementation of the Master Plan over the next few years will lead to further growth. As noted above, the governance function is strong. As the College continues to grow and mature, the Province and College should review and update the accountability provisions to ensure they remain relevant. For example, the development of a business plan and formal reporting on achievement of target outcomes would add significant value to the accountability relationship. The ownership of buildings and appropriate degree of independence for the College over the long-term should also be discussed.

Privacy Legislation

5.58 The Personal Information Protection and Electronic Documents Act came into effect on January 1, 2004. The purpose of the act is to provide Canadians with a right of privacy with respect to personal information that is collected, used or disclosed by an organization. PIPEDA is applicable to all organizations (including individuals, corporations, associations, partnerships and trade unions) that collect, use, or disclose personal information in the course of commercial activity. The College obtained legal advice and has concluded that aspects of its operations constitute commercial activity and the College is, therefore, required to comply with this legislation.

5.59 To comply with the Act, the College appointed a Chief Privacy Officer who is accountable for compliance-related issues. The College has also developed a new privacy council consisting of three individuals responsible for the implementation and ongoing administration of the Act. In December 2003, the council drafted a PIPEDA implementation plan to address the requirements in the legislation. As of mid-January, all legislated requirements had been implemented with the exception of the establishment of an appeals process to handle challenges by individuals to the College's compliance with the Act.

Follow-up from 1999 Audit

5.60 During our audit, we followed up on significant findings from our 1999 Report related to governance, accountability, strategic planning, student enrollment, application of resources and fixed assets. Based on discussions with management and a review of relevant documentation, we noted that the majority of our findings have been appropriately addressed. The following are the most significant recommendations which have not been fully addressed:

- The Department and College have not developed a methodology to be followed in determining the appropriate funding to be provided by the Province to meet the College's requirements. This causes considerable difficulty for the Minister, the College and the Department in planning financial affairs.
- The Department of Education, in consultation with the College, has not defined expected outcomes for the Province's funding to the College including expectations regarding accessibility, enrollment levels, and costs to be borne by students.
- At the time of incorporation, the Province transferred title to all furniture, fixtures and equipment to the College. While ownership of the land and building has remained with the Province, no formal agreements on the term and use of facilities have been established. Without formal agreements, expenditure classifications can be unclear. The Board should negotiate an agreement with the Province regarding ownership and/or terms and conditions of use.

5.61 Our audit procedures in this area included discussions with both College and Department of Education management as to the status of the findings indicated above. Department of Education management informed us that the College is currently undergoing significant change and that implementation of a funding methodology at this time would be premature. Department management also indicated that they were quite involved in the development of the College's Master Plan which is based on future enrolments and accessibility. College management noted that several attempts have been made to formalize an agreement with the Department of Transportation and Public Works regarding terms and conditions of use of Provincially-owned buildings but to date no agreement has been reached. Financial responsibility for deferred maintenance is a key issue that will need to be settled before building ownership can be resolved.

CONCLUDING REMARKS

5.62 Overall, the College appears to be well managed and governed, although we have made several recommendations for improvement.

5.63 We identified certain weaknesses in internal controls which require the College's attention. With the exception of the weaknesses noted, overall the system of

internal controls at the College is adequate. We believe that the existence of an internal auditor is an important part of the management control framework and College management needs to establish a process to ensure that the auditor's recommendations are addressed on a timely basis.

- 5.64** Building assessments conducted on Provincial campuses approximately two years ago identified a significant deferred maintenance problem. The College and the respective government departments need to develop a plan to address this issue.
- 5.65** We made significant recommendations in our 1999 audit including the need for a funding methodology and agreement on ownership and use of the buildings that have not yet been acted upon by the Province and the College. Financial responsibility for deferred maintenance is a major issue that will need to be resolved before transfer of buildings to the College can occur.
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Exhibit 5.1

College Full-Time Enrollment by Year

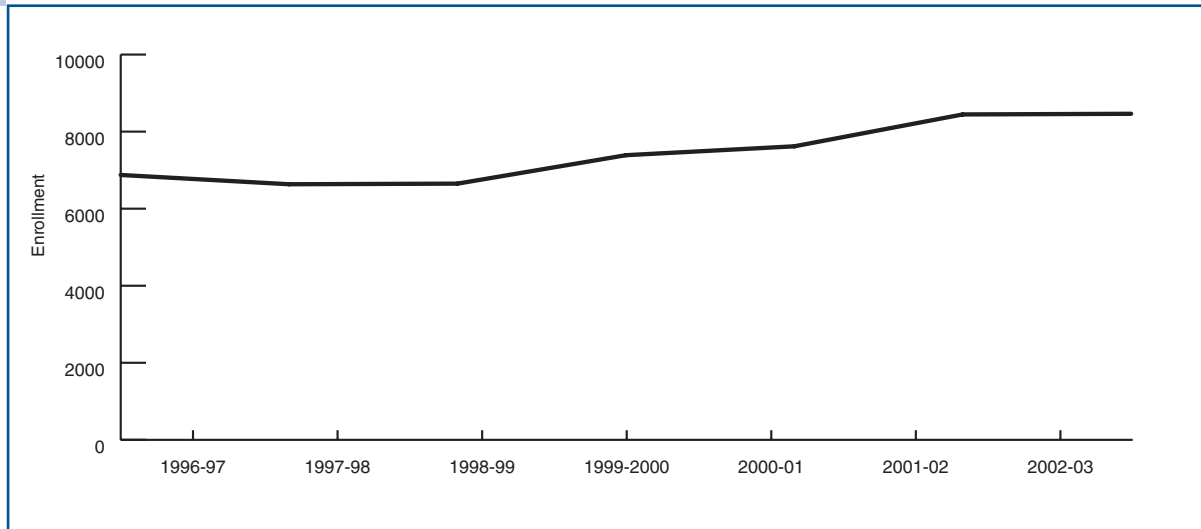
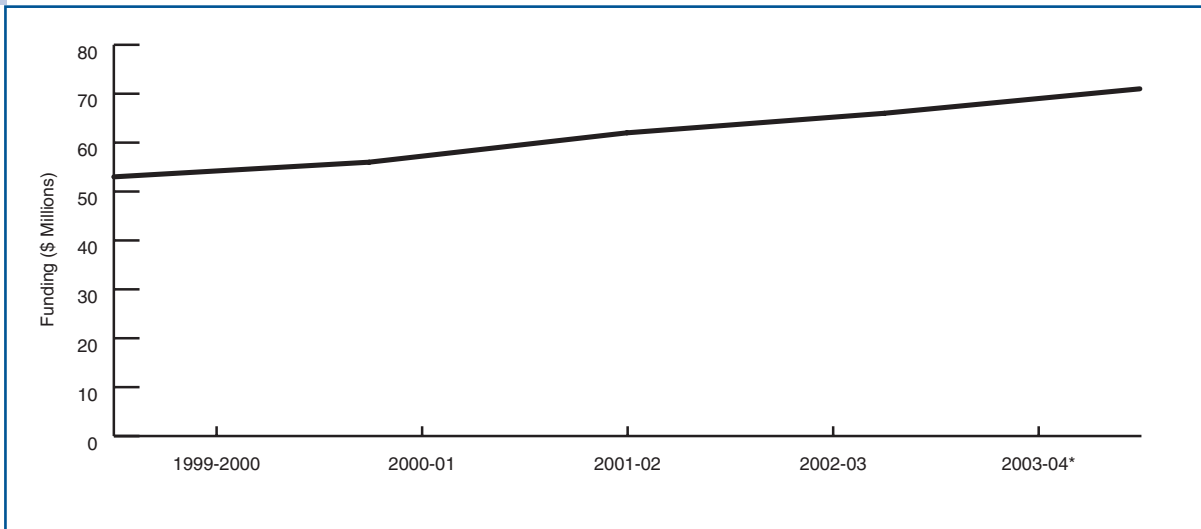


Exhibit 5.2

College Provincial Operating Funding



* Estimate

College Revenue Sources and Expenditure Categories (\$ millions)

Exhibit 5.3

REVENUE	2002-03	2001-02
Province of Nova Scotia	\$ 66.9	\$ 60.8
Tuition Revenue	14.2	13.6
Customized and Continuing Education	11.5	10.7
Government of Canada	7.4	8.4
Other Revenue	12.9	12.5
Deferred Revenue Related to Capital Assets	1.0	.9
TOTAL REVENUE	\$113.9	\$106.9
EXPENSES		
Salaries and Benefits	\$ 74.8	\$ 70.4
Operational Supplies and Services	20.4	19.8
Equipment, Rentals, and Other Administration	8.0	6.6
Utilities	7.4	7.1
Amortization	2.9	2.9
TOTAL EXPENSES	\$113.5	\$106.8

Source: Nova Scotia Community College March 31, 2003 Audited Financial Statements.

Note: Other revenue includes sources such as the bookstore, food sales, lodging, interest, recoveries and apprenticeship training.

Nova Scotia Community College Board Governance Model

Board Governance Responsibilities

1. Affirm Mission
2. Approve goals and strategic directions
3. Approve key policies and implementation of programs
 - Financial Management
 - Risk Management (including environmental, health and safety)
 - External Communication
4. Monitor performance and ensure accountability
 - Define clear goals and expectations with the Senior Management Team
 - Define reports required from management and frequency
 - Review regular reports from Senior Management
 - Evaluate outcomes against the goals and expectations
 - Board conducts a self-evaluation
5. Assist in obtaining resources needed to accomplish mission
 - Government relations (including Auditor General)
 - External communication

Board Operating Principles

1. The Board makes informed decisions
 - All Board members understand the organization and what matters
 - Education sessions are regularly scheduled
2. The Board focuses on what matters
 - “What matters” drives the frequency, format and duration of Board and Committee meetings
3. The Board Structure is organized around what matters
 - A combination of Ad Hoc and Standing Committees will be used
4. The Board functions as a team and speaks with one voice
5. The Board maintains regular communication with key stakeholders
6. Individual Board members represent all people of Nova Scotia and no particular interest, community or constituency.

NOVA SCOTIA COMMUNITY COLLEGE'S RESPONSE

In response to the 2004 Auditor General's Report on the audit of the Nova Scotia Community College, we believe it is important to acknowledge the significant role previous reports have played in the development of the NSCC. In both 1993 and 1999, the Office of the Auditor General provided recommendations that have assisted the College in measuring its progress towards becoming a modern national-calibre institution. We also believe that the Auditor General's reports have provided Nova Scotians with a greater understanding of the College and its role in the economic and social development of the Province.

Although the nature and scope of the 2004 audit differed from previous years, we believe the Auditor General has provided the College with important advice and feedback on our systems and control procedures. We are very pleased that the Auditor General has tabled an overall positive assessment re our compliance with each of the main areas surveyed in the report.

In the areas in which the Auditor General has provided specific recommendations, we also feel it is important to document our initial observations and/or response.

In our view, seven of the nine recommendations, fall into the category of procedure, policy, or management practice. These will be addressed by management

and the Board of Governors as we move toward improving our systems to better serve students, staff and communities.

The following five recommendations have been, or are in the process of being addressed through procedural, process or policy change. We are confident that these changes will enhance the existing level of internal control throughout the organization.

Recommendation 5.1

We recommend that the College prepare monthly bank reconciliations approved by management and that the physical security over blank and printed cheques be improved. We also recommend that the College's student accounts receivable reconciliation problems be addressed.

Recommendation 5.2

We recommend that the College improve its process for identifying students with accounts in arrears.

Recommendation 5.4

We recommend that the College ensure that internal audit recommendations are addressed in a timely manner.

Recommendation 5.5

We recommend that the College document the rationale for exempting specific purchases from compliance with policy. All exceptions should be formally approved by appropriate management. The College should also maintain evidence of public tendering.

Recommendation 5.8

We recommend that the College ensure that the

assumptions and calculations supporting the utilities budget are appropriately documented.

We are examining options for the following two recommendations dealing with policies governing the safe-guarding of assets, back up and recovery, and the format of an annual Business Plan to ensure they meet the needs of the institution, the Board, and the users of the College's services; while at the same time evaluating the economy and effectiveness of such processes.

Recommendation 5.3

We recommend that the College develop formal policies governing the safeguarding of personal computers and related equipment and, for systems maintained internally, the backup of data files and disaster recovery.

Recommendation 5.6

We recommend that the College prepare an annual business plan which links to the strategic plan and budgets approved by the Board and includes the College's key performance indicators. Business plans should set out operational priorities for the year and related financial information. These plans should be approved by senior management of the College and the Board.

We believe that the final two recommendations are most critical to the long-term success of the NSCC. The relationship between the Province and the College regarding accountability, governance, deferred maintenance and a longer-term funding commitment are key

issues for the institution. We agree that these relationships must be reviewed by the College in consultation with its funding partners within the Departments of Education and Transportation and Public Works (and perhaps other government departments).

Recommendation 5.7

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

Recommendation 5.9

We recommend that the College develop a system to track the status of high priority building deficiencies and that the College and Departments of Education and Transportation and Public Works develop a plan to address deferred maintenance.

Finally, it is our intention to incorporate the findings of the 2004 Auditor General's Report into our strategic and operational planning as we continue to implement the Master Plan announced by government on March 28, 2003.