

**BACKGROUND**

- 6.1** The Department of Community Services delivers a wide range of social services to Nova Scotians. Included in the Department's responsibilities are the licensing of child care centres and the provision of financial assistance to persons in need. The Day Care Act and regulations provide the mandate and authority for the licensing of child care centres. The Employment Support and Income Assistance Act and regulations provide the Department with the mandate and authority for its largest financial assistance program.
- 6.2** The Day Care Act and regulations require an operator of a child care centre to obtain a licence from the Department of Community Services. The regulations state that a licence is required where care is provided for over eight children, unless there are some children younger than school age. In these situations, a licence is required if the centre has more than six children. The goal of the licensing process is to ensure compliance with the Act and regulations, thereby ensuring a child care centre meets a minimum level of safety, developmental and other standards.
- 6.3** All child care centres subject to the Act and regulations are licensed by the Early Childhood Development Services (formerly Prevention and Child Care Services) division of the Department. Eligibility for a licence is dependent upon compliance with the Act and regulations. As of April 1, 2005, there were 372 licensed child care centres in Nova Scotia (220 full-day and 152 part-day) providing 9,219 full-day and 3,164 part-day child care spaces. Full-day centres are licensed on an annual basis and part-day centres are licensed every two years. There are no fees charged for the licensing of child care centres.
- 6.4** The goal of the Employment Support and Income Assistance (ESIA) Program is to help people maximize their level of self-sufficiency through needs-tested financial assistance and a range of employment services. To be eligible, individuals need to be a resident of Nova Scotia, over the age of 19 and in need of assistance. Financial assistance is provided for basic needs such as food, clothing, shelter, utilities, and personal requirements, as well as special needs such as medical equipment. Employment services include help in finding employment, as well as financial assistance for travel, tools or equipment directly related to establishing a client in a trade or profession. The Employment Support and Income Assistance division of the Department is responsible for the administration of this program. During the month of March 2005, 32,184 benefit payments were issued to assist 53,715 individuals.
- 6.5** Operating costs for the Department of Community Services for the year ended March 31, 2005 totalled \$640.6 million; including \$0.85 million for child care

centre licensing activities and \$344.5 million under the Employment Support and Income Assistance Program.

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## RESULTS IN BRIEF

- 6.6** The following are the principal observations from this audit.
- The systems and controls used by the Department to ensure compliance with the Day Care Act and associated regulations, policies and procedures are adequate.
  - Roles and responsibilities related to the licensing of child care centres are clearly defined and communicated, and licensing staff is adequately trained.
  - We identified areas where the child care centre licensing system could be improved to strengthen controls and increase efficiency.
  - The systems and controls used by the Department to provide financial assistance through the Employment Support and Income Assistance Program are inadequate. There is inadequate segregation of incompatible duties and reviews and approvals are insufficient to compensate for the deficiency. Such weaknesses create higher risks of inappropriate assistance payments to clients, establishment of ineligible or non-existent clients in the payment system, and remittance of inaccurate or fraudulent payments to suppliers of the program.
  - There are adequate policies and procedures in the Employment Support and Income Assistance Program for monitoring continuing eligibility of clients for assistance.

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## AUDIT SCOPE

- 6.7** In October 2005, we completed the first phase of a two-phase broad scope audit of the Department of Community Services. Phase one of the assignment was an audit of the Department's child care centre licensing systems and Employment Support and Income Assistance Program. The audit was conducted in accordance with Section 8 of the Auditor General Act and auditing standards established by the Canadian Institute of Chartered Accountants, and included such tests and procedures we considered necessary in the circumstances. The second phase of the audit will focus on aspects of the Department's use of information technology and is scheduled to be completed in January 2006.
- 6.8** The objectives of phase one of the audit were to assess the adequacy of systems and controls used to:
- ensure compliance with the Day Care Act and associated regulations, policies and procedures; and

- provide and monitor financial assistance through the Employment Support and Income Assistance Program.

**6.9** Audit criteria were developed to assist in the planning and performance of the audit. The criteria were discussed with senior management of the Department and accepted as appropriate.

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## PRINCIPAL FINDINGS

### Day Care Act and Regulations

**6.10** In this section of the audit, we examined the adequacy of the systems and controls used by the Department of Community Services to ensure compliance with the Day Care Act and associated regulations, policies and procedures. We concluded that there are adequate systems and controls in place to ensure compliance. We also observed that the Department's objectives, strategies and policies are consistent with the Day Care Act and regulations and that staff roles and responsibilities are well defined and clearly communicated. However, we did note opportunities to increase controls and improve the efficiency of the licensing process.

**6.11** Responsibility for the enforcement of the Day Care Act and regulations is assigned to the Early Childhood Development Services (formerly Prevention and Child Care Services) division of the Department. The division implemented a licensing system in 2002 based on a model developed by the National Association of Regulatory Administration, which has a mission of "consumer protection through prevention." This association provides training and guidance for professionals involved in regulatory activities. The Department implemented a computerized licensing module in December 2003 to support its licensing system. The system helps to ensure all child care centres which require licences are regularly inspected for compliance with the Act and regulations. We found that licensing standards are defined by the Day Care Regulations. Early Childhood Development Officers (ECDOs) employed by the Department assess each centre against these standards.

**6.12** We noted all ECDOs have formal training in childhood studies and 10 of the 14 current ECDOs received training from the National Association of Regulatory Administration. The ECDOs also have significant experience in the field of child care. However, our survey of ECDOs identified a need for additional training. Department management informed us that they are in the process of developing a formal training module with mandatory training requirements to ensure ECDOs develop and maintain the necessary skills to fulfill their roles and responsibilities.

**6.13** A key component of the Department's licensing system is communication with both existing and potential operators of child care centres. ECDOs provide ongoing advice to established operators. Individuals and groups exploring the possibility of opening a child care centre are provided with detailed information on regulatory requirements in Nova Scotia. They receive a comprehensive information package containing copies of the Day Care Act and regulations, lists

of regulatory requirements, and resource material on establishing and operating a child care centre. Detailed licensing information is available on the Department's website, and Department staff consults with potential operators and provides advice on matters related to the licensing and operation of a child care centre. Management informed us that the Department is also examining options for the provision of workshops and other training opportunities for potential operators and is continuing to work with training institutes to develop and provide child care administration training.

- 6.14** **Licensing process** - All child care centres are inspected and assessed for compliance with the Act and regulations. Each new centre is required to self-assess its level of compliance by completing a pre-inspection checklist prior to its first inspection. Once completed, an ECDO schedules and completes an inspection. Subsequent inspections are performed on the licence renewal date. When a centre is in full compliance with the Act and regulations, a licence renewal is recommended by the ECDO. When instances of non-compliance are noted, the ECDO will evaluate the seriousness of the violations and recommend either issuing a short-term licence or closure.
- 6.15** The purpose of a short-term licence is to provide operators with sufficient time to address identified areas of non-compliance. Some guidelines are available to assist ECDOs when issuing short-term licences, but we identified the need for additional guidance. Short-term licences are usually issued for periods of 30 to 90 days. The status of non-compliant operators is monitored by ECDOs and short-term licences are issued until full compliance is achieved or a decision is made to close a centre. Once violations have been adequately addressed by a centre, the ECDO recommends the renewal of the licence. Copies of documents supporting the licensing recommendation are to be provided to central office by the regions and all licensing recommendations are required to be reviewed and approved by the Supervisor of Licensing and Standards. All licences are issued from the Department's central office.
- 6.16** During our examination of the licensing process, we noted that once a centre has adequately addressed identified violations, another short-term licence is issued to bring the centre to its next annual or biennial renewal date. The Department could potentially improve the efficiency of its licensing process by issuing licences for a full term once the centre is fully compliant with the Act and regulations. This could reduce workloads and administrative costs by reducing the number of licences issued in a period. The Department should also examine its process for issuing licences and assess its efficiency. We believe efficiencies could be gained by creating detailed guidelines on issuing licences and delegating all licensing responsibilities to the regional offices. This would eliminate copying and forwarding of documents to head office and maintaining duplicate files.

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## Recommendation 6.1

We recommend that the Department of Community Services review its processes for issuing licences and examine the costs and benefits of issuing a licence for a full term once a centre is fully compliant with the Act and regulations. The Department should also improve its licensing guidelines and assess the benefits of delegating the administrative responsibility for licensing to the regional offices.

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- 6.17** Our audit included an examination of the documentation maintained to support issuing licences to child care centres. We noted that the licensing process is documented in a computerized licensing system as well as in paper files maintained by the Department. We concluded that the documentation generally supports the issuing of licences. However, we did note instances where licences were approved and issued when required documentation was not on file.
- 6.18** We also noted the following during our examination of supporting documentation for the licensing process.
- There are no formal documentation standards for the licensing process.
  - Duplicate paper files are maintained at the central office and the regional offices.
  - Information contained in the licensing system is often duplicated in the paper files. For example, the paper files contain printouts from the licensing system.
  - There are no electronic controls built into the licensing system to prevent issuing a licence to a centre with outstanding instances of non-compliance. We were informed that the Supervisor of Licensing and Standards manually searches for compliance issues prior to approving a licence.
  - There are three checklists used in the inspection process which address most, but not all, requirements of the Act and regulations. We believe the checklists should be updated to address these omissions so the Department can fully document compliance by a child care centre and reduce the risk of an oversight during the inspection process. The Department has implemented a review and update of its current forms, but the updates at the time of our audit did not address all of the omissions.
  - Paper copies of the checklists are completed during the inspection process and then manually entered into the licensing system. Our survey of licensing staff identified this duplication of effort as a matter of concern.
  - Staff indicated that there are often delays in entering information into the system, which result in outdated information in the system. There are no controls to ensure consistency between the licensing system and the paper files.

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**Recommendation 6.2**

We recommend that the Department of Community Services develop formal file documentation standards for its child care centre licensing activities. In addition, efficiency of licensing activities should be increased by eliminating duplication of recordkeeping and more fully utilizing the computerized licensing system. For example, this could be achieved by providing Early Childhood Development Officers with the ability to complete licensing checklists electronically during inspection visits. We further recommend that the Department review and update its information system controls to prevent a licence from being renewed when there are outstanding compliance violations.

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- 6.19** The Family Home Care Project is a pilot project initiated in 1980. A goal of the project is to fund smaller, home-based child care operations which are not eligible for funding under current legislation and regulations. This is accomplished by funding licensed child care centres or other agencies (e.g., a family resource centre) which, in turn, regulate and provide funding and training to one or more family child care homes. We found that, despite the project being initiated 25 years ago, regulations have not been updated to clarify the Department's role and responsibilities as they relate to these operations. Management advised us that they are in the process of updating the regulations to address family child care homes.
- 6.20** **Policies and procedures** - The Department has developed a compliance enforcement policy to provide staff with "direction concerning compliance with and enforcement of the Day Care Act and Regulations." The policy defines procedures relating to child care centre licensing, inspecting and monitoring, as well as for cancelling an operator's licence. It also defines the appeals process available to operators when a licence has been cancelled. The effective date of the policy is January 1, 2002. Section VIII of the policy requires it to be reviewed on an annual basis. At the time of our audit, a formal review of the policy had not been completed.
- 6.21** We reviewed the licensing procedure manual and noted that it provides staff with detailed instructions on the licensing process. However, we identified areas for improvement, such as a need to update approval procedures. The Department has created a licensing working group which has identified some areas for improvement such as changes to the information system and licensing procedure manual. Our audit identified a need for additional guidelines for the licensing process, as well as improvements to the information system. A comprehensive review and update in these areas has not been completed, but management has informed us that a formal review of the compliance enforcement policy and the licensing procedure manual is planned. Changes to regulations and the information system will be considered as part of this project.
- 6.22** **Planning** - The Department of Community Services does not have a formal long-term plan for the future of child care centre licensing. Responsibility for licensing is being transferred from Family and Children's Services Branch to Program and Operations Support, a new branch within the Department. This new branch will be responsible for licensing various types of institutions for which the Department

has a regulatory responsibility. Management informed us that the new branch will be responsible for the development of a long-term plan for the licensing of child care centres in Nova Scotia.

- 6.23** The new branch is currently being staffed. Management indicated to us that a work-plan for the new branch will be developed once its staff is in place. The reassignment of licensing responsibilities is part of a Department-wide restructuring initiative aiming to better align Department activities.
- 6.24** **Roles and responsibilities** - Staff roles and responsibilities are defined by policy, a procedure manual and position descriptions. Copies of these documents have been provided to staff. However, our survey of ECDOs identified a need for further clarification of ECDO roles and responsibilities.
- 6.25** We also noted that not all position descriptions are finalized and some staff positions were filled prior to approval of a position description. We advised management that there should be an approved position description in place prior to staffing a position to ensure roles and responsibilities are clear and accountability is well established.
- 6.26** **Reporting** - The licensing system contains a detailed licensing history and administrative information for each child care centre that must comply with the Day Care Act and regulations. This information can be easily accessed by licensing staff, but summary reporting is not readily available from the system. Summary reports outlining compliance issues in all centres can be generated by writing computer programs to extract the information, but such reports are not regularly prepared. We believe regular summary compliance reporting would be an effective tool in the management of the licensing process. Timely summary reports could lead to increased levels of compliance and program efficiencies. For example, summary reports could be used to identify the leading causes of non-compliance. Management could then take timely and directed action to reduce such instances, thereby reducing the number of future inspections, short-term licences and associated costs.

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### Recommendation 6.3

We recommend that the Department of Community Services investigate enhancements to the computer system used for licensing child care centres so that timely summary compliance reports are readily available for management use.

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## Employment Support and Income Assistance

- 6.27** In this section of the audit, we examined the adequacy of the systems and controls used to provide financial assistance through the Department of Community Services' Employment Support and Income Assistance Program. We also examined the adequacy of the policies and procedures used to monitor continuing eligibility

of clients who receive financial assistance under the program. We concluded there are inadequate systems and controls to ensure appropriate levels of assistance are provided and only eligible applicants receive assistance. We further concluded that policies and procedures used to monitor existing client eligibility are adequate.

- 6.28** The Department uses a decentralized approach for the delivery of its Employment Support and Income Assistance (ESIA) Program. The Province is divided into four regions, each under the responsibility of a regional administrator who has overall responsibility for the ESIA Program in his or her region. Each region is subdivided into districts overseen by a district manager. District managers are accountable to their respective regional administrators.
- 6.29** The Department has developed an ESIA policy manual to provide program information to existing and potential clients. A copy of the manual is available in each district office, as well as through the Internet. We reviewed the manual and noted that it has a focus on what the client can expect throughout the assistance process. The manual does not contain sufficient detailed procedures and guidance to assist Department staff with the administration of the program.
- 6.30** During our audit, we identified a number of significant differences in the way the regions interpret ESIA legislation and administer the program. As of the date of this Report, there were 35 casework supervisors in 40 districts. According to position descriptions, casework supervisors in each district are responsible for interpreting legislation and Departmental policy relating to the ESIA Program. However, there are no documented guidelines to assist staff with policy interpretation and application. We did note that there is a Provincial policy group, with representation from head office and all districts, which meets monthly to discuss program issues. However, this process by itself does not provide the amount of guidance required by staff to ensure consistent interpretation and application of legislation.

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#### **Recommendation 6.4**

**We recommend the Department of Community Services review and update its Employment Support and Income Assistance policy manual to provide detailed procedures and guidance to assist staff in the interpretation and administration of ESIA legislation and regulations. We further recommend that the Department regularly review and update the policy manual.**

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- 6.31** Our audit included an examination of policy and procedures for monitoring continuing eligibility of recipients of assistance. We noted monthly and annual monitoring of client status is required. We found that roles and responsibilities related to monitoring are clearly defined and communicated, and that monitoring is performed as required.
- 6.32** We also examined case files to assess the sufficiency of documentation to support client eligibility decisions, the amount of assistance provided, and to provide

evidence of the monitoring process. We found 59 of the 60 case files examined had sufficient documentation to support client eligibility. However, seven had insufficient documentation to support the entire amount of assistance paid. In addition, five files contained insufficient documentation of the client eligibility monitoring process.

- 6.33** The Department has not developed adequate documentation standards for the ESIA Program. We identified inconsistencies in the documentation used to support decisions and monitoring activities. We believe the Department should develop and implement more comprehensive documentation standards to provide consistency throughout its regions and district offices.

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### **Recommendation 6.5**

**We recommend the Department of Community Services develop and implement more comprehensive documentation standards for its Employment Support and Income Assistance Program to ensure sufficient and appropriate documentation is maintained to support client eligibility decisions and the amount of assistance provided, and to provide evidence of the monitoring process. In addition, a process should be established to ensure documentation standards are consistently followed.**

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- 6.34** *Segregation of duties* - Our examination of systems and controls for the ESIA Program identified significant weaknesses due to inadequate segregation of incompatible duties. We found a lack of supervisory or other controls to compensate for the weaknesses. Weaknesses were noted in the systems used to process new client applications, make payments to existing clients, and monitor clients for continuing eligibility. Inadequate segregation of incompatible duties in a financial assistance program increases the risk of inappropriate or unauthorized payments being issued, either intentionally or in error. If segregation of specific incompatible responsibilities is not possible, it is important to increase monitoring and approvals relating to these responsibilities.

- 6.35** The following are our more significant concerns.

- There are situations where staff members process new client applications and record them in the computer system, without any requirement for independent review or approval.
- We were informed of situations where staff members process new clients and are responsible for ongoing case management relating to the clients. We were advised that such practices are not uncommon in certain district offices. There are no requirements for an independent review or approval of these cases.
- Client payment exception reports are prepared by head office and provided to the district offices for follow-up. These reports identify multiple payments to a client and payments exceeding predefined dollar limits. The follow-up process

is determined by each district office. We were advised that in certain cases follow-up is assigned to caseworkers who are responsible for initiating the payments. There is limited independent review of exception reports and there is no requirement to report the results of follow-up to senior management.

- Client files are not always assigned randomly or periodically reassigned to prevent a staff member from being able to both establish and manage a client over a long period of time.
- There are staff members with the authority to create new suppliers, issue supplier payments and record the payments in the computer system (see paragraph 6.37).

**6.36** Our examination of segregation of duties included an assessment of compensating controls. We noted that position descriptions require district managers to “ensure the effective delivery of financial assistance and other programs through regular supervision, monitoring of new cases, auditing files and identifying training needs.” Our audit found that monitoring of new cases and file audits are not occurring as intended. In our opinion, weaknesses in controls in the ESIA Program creates higher risks of inappropriate assistance payments to clients, establishment of ineligible or non-existent clients in the payment system, and remittance of inaccurate or fraudulent payments to suppliers of the program.

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#### **Recommendation 6.6**

**We recommend that the Department of Community Services review its current staff roles, responsibilities and authorities to ensure adequate segregation of incompatible duties and/or appropriate compensating controls are in place and functioning as intended.**

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**6.37** **Financial assistance purchase orders** - In addition to providing payments directly to clients, the Department of Community Services also uses a purchase order system to provide assistance to eligible clients. This form of assistance involves providing a document to a client for submission to the supplier noted on the document (e.g., a grocery store), which authorizes the supplier to provide a defined dollar amount of goods or services to the client and to invoice the Department for the cost. Alternatively, purchase orders may be provided by the Department directly to suppliers. Purchase orders are used to provide assistance for items such as emergency food and heat, as well as for special needs such as medical supplies, travel and accommodations.

**6.38** We examined Departmental practices related to financial assistance purchase orders and noted that supplier receipts are being matched to the purchase orders which authorized them. However, there is no requirement to review the supplier receipts and assess the appropriateness of the items acquired by the client. Staff provided us with copies of a few purchase orders used to acquire inappropriate items. No follow-up actions were taken in these cases. However, we noted two district offices

have established a process in which supplier receipts are reviewed and assessed for appropriateness and action is taken when deemed necessary.

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**Recommendation 6.7**

**We recommend that all Department of Community Services district offices have processes to review receipts associated with financial assistance purchase orders. Inappropriate purchases should be addressed with clients. We further recommend the development of guidelines to assist staff in this assessment and to indicate appropriate actions to be taken if acquired items are deemed inappropriate.**

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- 6.39** **Control over disbursements** - Financial assistance payments to Employment Support and Income Assistance clients and suppliers are processed through the ESIA computer system. The maximum payment allowed by the system is \$999,999.99. Payments can be initiated and disbursed by a single person, without independent review or authorization prior to issuing the payment. We identified four cheques to suppliers in amounts greater than \$100,000. We were advised that all of these cheques were prepared in error and none of the payments were deposited by the payee. Three were identified by staff prior to the cheque being mailed. One was mailed to a supplier who identified the overpayment, advised the Department of the error and returned the cheque.

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**Recommendation 6.8**

**We recommend the Department of Community Services review its maximum disbursement limit for the Employment Support and Income Assistance Program and assess whether or not such a high limit is required for the efficient operation of the Program. We further recommend that the Department implement controls over the disbursement process, such as disbursement review and approval procedures.**

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- 6.40** **Eligibility Review and Early Detection Programs** - Each region has established an Eligibility Review Program to review and assess the continuing eligibility of selected Employment Support and Income Assistance clients. In addition, the Department's central region has established the Early Detection Program to review and assess the eligibility of specific clients applying for assistance for the first time or after having been off assistance for a period of time.
- 6.41** Both Eligibility Review and Early Detection staff use the same resources to determine client eligibility. These include access to Employment Insurance, Canada Pension Plan, Registry of Motor Vehicles and land registration information databases. If a client is assessed as ineligible for assistance, staff calculates the amount of any overpayment made to the client. Department statistics show that, over the last 25 years, overpayments have accumulated to a balance of \$65.9 million, as of August 31, 2005. Total outstanding overpayments as of March 31,

2003 were \$59.6 million. Included in the August 31, 2005 balance are 21 cases where overpayments to a client are in excess of \$100,000 each, with no recovery to date.

- 6.42** Only cases referred by caseworkers are subject to attention from the Eligibility Review and Early Detection Programs. We found that the Department does not provide staff, other than Eligibility Review or Early Detection staff, with specific training to enable them to identify high risk cases that should be referred to the programs. We also noted that staff members who are responsible for initially assessing client eligibility do not have access to the same information resources as Eligibility Review or Early Detection staff. Increased training and access to information resources by assessment staff could reduce overpayments by identifying higher risk cases that should receive closer attention during eligibility assessments.

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#### **Recommendation 6.9**

**We recommend that the Department of Community Services implement a training program to ensure staff has the skills needed to identify high risk Employment Support and Income Assistance applicants and circumstances. We further recommend that the Department evaluate the benefits of providing all staff that assess client eligibility with training, resources and tools similar to those used in the Eligibility Review and Early Detection Programs. The Department should also review the cost and benefits of the Early Detection Program to determine whether or not the program should be expanded to all regions.**

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- 6.43** The Department is in the process of implementing a computerized integrated case management system. Management has advised us that the weaknesses identified in the ESIA Program by our audit will be addressed as part of the ongoing implementation of the new system.

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### **CONCLUDING REMARKS**

- 6.44** The systems and controls used by the Department of Community Services are adequate to ensure compliance with the Day Care Act and regulations. We noted licensing staff was adequately trained and roles and responsibilities were clearly defined and communicated. We also noted opportunities for improvement in areas such as documentation; information system utilization; updating of policies, procedures and manuals; and summary reporting.
- 6.45** The systems and controls used by the Department to provide financial assistance through the Employment Support and Income Assistance Program are inadequate. We identified a need to develop policies, procedures and guidelines specifically for staff use in administering the program. We identified control weaknesses related

to segregation of duties and inadequate review and approval procedures. These control weaknesses present a significant risk of inappropriate and unauthorized payments. We strongly encourage the Department to address these control weaknesses in a timely manner.

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## DEPARTMENT OF COMMUNITY SERVICES’ RESPONSE

The Department appreciates the opportunity to respond to the findings, both the positive and those where improvements can be made. The Department will be identifying and implementing systems improvements where necessary.

It is important to underline the significance of the systems improvements that are underway with respect to the Integrated Case Management Project, known as ICM. This is the largest computer and systems improvement project ever undertaken by the Department. The Auditor General’s findings here in part confirm the need for this solution to the systems challenges faced. The Department has chosen a strategic, system wide solution rather than individual program fixes. It is our plan to address the points raised in this report through that strategic solution.

An integral part of the implementation of the Early Learning and Child Care Agreement with the federal government is the redesign of the IT system for Child Care including licensing and funding of child care. The recommendations contained in this report will help inform that redesign initiative.