



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

... 2005

December





## **Office of the Auditor General**

### **Mission**

To serve the House of Assembly and the people of Nova Scotia by providing independent assurance and advice to enhance government accountability and performance.

### **Vision**

Demonstrating and being recognized for independence, professional excellence, and credibility.

Making a significant contribution in support of an accountable and well-performing government.

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Honourable Murray Scott  
Speaker  
House of Assembly

Sir:

I have the honour to submit herewith my Annual Report to the House of Assembly under Section 9A(1) of the Auditor General Act, to be laid before the House in accordance with Section 9A(2) of the Auditor General Act.

Respectfully submitted

A handwritten signature in cursive script that reads "E. Roy Salmon".

**E. ROY SALMON, FCA**  
Auditor General

Halifax, Nova Scotia  
December 2, 2005



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# Introduction



# 1 MESSAGE FROM THE AUDITOR GENERAL

## INTRODUCTION

- 1.1 This will be my last Annual Report as Auditor General. I will retire on March 31, 2006 after fourteen years in the position. When I accepted the position in 1992, I had some specific objectives and I believe that for the most part they have been achieved.
- 1.2 Many things have changed over the course of those years. Improvements can still be made and I will discuss those below.

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## TIMELINESS OF INFORMATION

- 1.3 In 1992, the Provincial Finance Act required the Public Accounts to be tabled by March 31 of the year following the year that they pertained to and they could only be tabled when the House of Assembly was in session. Similarly, under the Auditor General Act, the Annual Report could only be tabled after tabling of the Public Accounts. This was not timely reporting. In fact, in 1993 an election in the spring resulted in a change of government and the House of Assembly did not sit until September. Thus, tabling was delayed until then.
- 1.4 In 1998, the legislation was changed to advance the tabling deadline to December 31 and to permit deemed tabling when the House of Assembly was not in session.
- 1.5 In 2004, the Provincial Finance Act was again amended advancing the deadline for the Public Accounts to September 30, six months after the year end. This is certainly much more timely reporting.

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## AUDIT OF THE PUBLIC ACCOUNTS

- 1.6 Historically, under a provision of the Provincial Finance Act, a public accounting firm performed an audit of the Public Accounts and issued a report addressed to the Minister of Finance. Both my predecessor and I felt that this was inappropriate and argued publicly that the Auditor General should perform this audit and report to the House of Assembly as is the case in every other jurisdiction.
- 1.7 In 1998, amendments were introduced to both the Provincial Finance Act and the Auditor General Act rectifying this situation and I have been the auditor of the Public Accounts since then.

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## REVIEW OF THE REVENUE ESTIMATES

- 1.8** In 1993, in response to public concern over the credibility of forecasted revenues contained in the Budget and the Estimates, an amendment was made to the Provincial Finance Act which required the Auditor General to review and report on the reasonableness of the assumptions underlying the estimates of revenue. I have done so every year since then and my Report has been included in the budget document.
- 1.9** Further amendments were made in 1998 and the provision was removed from the Provincial Finance Act and incorporated into the Auditor General Act.

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## QUALITY OF FINANCIAL REPORTING

- 1.10** Since 1998, government has been striving to improve the quality and completeness of its annual financial statements. This has involved adopting Generally Accepted Accounting Principles including preparing the accounts on a consolidated basis. Thus, the annual statements are now more complete and are prepared on a consistent basis.
- 1.11** Accounting principles are constantly evolving and new developments need to be monitored.

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### Recommendation 1.1

**I urge government to maintain its focus on the quality and completeness of the annual financial statements.**

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- 1.12** One important area requiring attention is the consistency of budget information with the annual financial statements. The budget is not prepared on the basis of Generally Accepted Accounting Principles and, therefore, comparison of planned results to actual financial performance is not possible.

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### Recommendation 1.2

**I urge government to carry through with its plan to prepare the budget using Generally Accepted Accounting Principles.**

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## THE PUBLIC ACCOUNTS COMMITTEE

- 1.13** In 1992, the Public Accounts Committee meetings were a forum for partisan political debate, not a vehicle to review issues arising from the Public Accounts

or Auditor General reports. Cabinet Ministers represented the government and the leaders of the opposition parties were members and it was not an effective committee. I entered into discussions with the committee members and there was unanimous support to change the membership and its mandate.

- 1.14** An all party sub-committee developed a mandate statement and a set of operating guidelines that were adopted by the full committee. Since then, the committee has been very active, meets regularly, develops agendas on a consensus basis and prepares reports on its activities which are tabled in the House of Assembly. However, these reports do not contain recommendations based on these activities.

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### **Recommendation 1.3**

**I urge the Public Accounts Committee to consider whether matters it examines warrant recommendations to the House of Assembly or, indeed, government. In some cases, this could simply mean endorsing recommendations made in my Reports on matters it has examined.**

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## **INDEPENDENCE OF THE AUDITOR GENERAL**

- 1.15** Following my announcement of my retirement plans, members of the Public Accounts Committee approached me regarding possible improvements to the legislation.
- 1.16** I made four suggestions:
- Require approval of the House of Assembly for the appointment of an Auditor General.
  - Establish a ten-year term for the position with no opportunity for reappointment.
  - Establish the basis for compensation.
  - Transfer review and approval of the Office budget from Treasury and Policy Board to a committee of the House of Assembly, possibly the Public Accounts Committee.
- 1.17** All of these recommendations were designed to increase the independence of the position.
- 1.18** Amendments were introduced to address the first two matters but not the remaining two.

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### **Recommendation 1.4**

**I urge the House of Assembly to reconsider these issues and amend the Auditor General Act accordingly.**

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## FOLLOW-UP OF 2002 AUDIT RECOMMENDATIONS

- 1.19** As part of our business planning process, I undertook to establish a practice of following up and reporting on recommendations three years after they were reported. This is the first year we have done so. Chapter 5 of this report summarizes the results of that review.
- 1.20** In summary, I am concerned with the timeliness of efforts to implement the necessary control improvements. After three years, only 35% have been completed.

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### Recommendation 1.5

**I urge government to proceed with addressing and implementing the remaining recommendations as quickly as practical.**

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## CONCLUDING REMARKS

- 1.21** The remaining chapters of this Report contain many positive findings as well as a number of recommendations. I acknowledge the efforts of public servants to deliver effective programs and I appreciate their cooperation in dealing with my staff. Being audited is not always easy, and some would say it is disruptive, but for the most part public servants recognize the benefits.
- 1.22** In closing, I would like to say that I have enjoyed the fourteen years. I have worked with many fine people both within the Office, across government, and in the Public Accounts Committee. Nothing can be accomplished without dedicated professional staff and there have been many over the years. In particular, I want to sincerely thank my three senior managers, Claude Carter, Elaine Morash and Alan Horgan. They were in the Office when I started and they have remained loyal and dedicated throughout.
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# Government-Wide Issues

# 2

## GOVERNMENT FINANCIAL REPORTING

### BACKGROUND

- 2.1** Members of the Legislative Assembly (MLAs) need adequate information on the Province's financial plans, performance and condition to hold government accountable for its use and control of public funds and resources.
- 2.2** The Minister and Deputy Minister of Finance are assigned various authorities and responsibilities related to the role of a chief financial officer for the Province under the provisions of the Provincial Finance Act. Certain of these assignments include the need for Executive Council approval or ratification of planned actions.
- 2.3** The Provincial Finance Act defines a number of financial reporting requirements for the Minister or Deputy Minister of Finance to meet on behalf of government. These include the following:
- Annual estimates (Section 7A)
  - Interim reports on state of public finances (Section 8B, see also Section 77)
  - Annual public accounts (Sections 9 and 10)
  - Remission of tax, penalty or other debts (Section 19B)
  - Additional appropriations (Section 28, see also Section 75)
  - Special warrants (Section 29, see also Section 59D)
  - Redemption or purchase of securities (Section 54)
  - Financial transactions (Section 59B)
  - Financial obligations (Section 59C)
  - Consolidated fiscal plan (Section 82)
  - Report on outcomes for fiscal year (Section 83)
- 2.4** Further, Section 73 of the Provincial Finance Act requires that crown corporation business plans, any proposed public financing and audited financial statements be tabled in the House of Assembly each year.
- 2.5** As a foreign registrant of the Securities and Exchange Commission (SEC) in the United States, or its equivalent in other countries, government must file required documents in order to be able to access financing or financial markets.
- 2.6** In addition to required financial reporting, government can and has periodically, at its discretion, released other financial information or reports publicly.
- 2.7** Professional standards require that the auditor of an entity with public accountability, like the Province, communicate with those having oversight responsibility for the entity's financial reporting process. For the Province's financial reporting, oversight responsibility rests, to a significant extent, with the Executive Council. In addition, the House of Assembly, including its

Public Accounts Committee, has an important role in the oversight and public accountability processes for the Province's financial reports issued by government.

- 2.8** In accordance with the professional standards referred to above, the Office of the Auditor General's 2004 *Performance Report and 2005 Business Plan* (issued March 8, 2005) included comments on the independence of the Auditor General position from government as well as on the professional conduct rules and standards adhered to by the Office.

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## RESULTS IN BRIEF

- 2.9** The following are our principal observations in this chapter.

- The Auditor General's audit report on the Province's March 31, 2005 consolidated financial statements was unqualified. It was tabled September 28, 2005 as part of the March 31, 2005 Public Accounts. A management letter on this year's audit was issued to government in November 2005.
- During 2004-05, there were two audits conducted by private sector firms which resulted in reporting of significant control weaknesses. One audit was of the governance and control framework of the operations of the Investment, Liability Management and Treasury Services and Capital Markets Administration Divisions of the Department of Finance and the other was a service auditor report on Finance's SAP Customer Competency Centre. Certain of the more significant issues identified in these audits are consistent with concerns raised by our Office a number of times in the past. The issues reported as a result of these audits should be fully addressed on a timely basis and subject to appropriate audit coverage.
- No additional appropriations have been approved since our last Report, released in June 2005. Additional spending authority for 2004-05 of \$132,992,000 for net program expenses and \$26,451,000 for debt servicing costs, where approved vote totals were exceeded, requires Order in Council (OIC) approval within 90 days of the release of the March 31, 2005 Public Accounts. No special warrants have been approved since our last Report.
- Current legislation does not provide for effective control by the House of Assembly of spending authority limits. For example, there was no debate in the House of Assembly concerning the funding of certain tourism and other strategic initiatives which resulted in \$61.6 million in additional appropriations.
- There is a need to clarify what constitutes a special warrant versus an additional appropriation. There were a number of strategic funding initiatives announced in 2004-05. Some of these initiatives may have met the criteria for a special warrant and, thus, should have been approved by OIC prior to the related spending. Management has indicated that a legal review of Section 29

of the Provincial Finance Act will be performed prior to the implementation of any similar strategic initiatives.

- In order for government's consolidated financial statements to become more compliant with generally accepted accounting principles (GAAP), there is a need to examine the basis upon which the government's budget is prepared. It should be prepared on the same basis as the consolidated financial statements and comply with GAAP.
- The openness and transparency of government's reporting in its budget and forecasting documents would be improved if there was disclosure of the uncertainty associated with the numbers included in those documents and how government has addressed those uncertainties. For example,
  - Government budgets have included amounts for crown entities when business plans have yet to be approved.
  - Any contingencies in government budgeting or forecasting information, to deal with uncertainties, should be clearly disclosed in the applicable document.

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## SCOPE

- 2.10** 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 controlled entities, and recipients of financial assistance. Further, Sections 9 and 9B of that Act provide for specific annual coverage and reporting by the Auditor General on the Province's consolidated financial statements (audit - high assurance) and government's revenue estimates (review - moderate assurance), Section 9A (1) (e) provides for specific reporting on cash and other losses within government. The Office is also required to review the Province's annual U.S. SEC filing documents.
- 2.11** The annual financial statements of various crown entities and trusts are, depending on statutory or other arrangements, audited and reported upon by the Auditor General or a public accounting firm. We consider the results of those financial statement audits, as well as other government financial reporting, where appropriate, during the conduct of the Office's discretionary broad scope assignments in selected areas each year.
- 2.12** The purpose of this chapter is to provide summary comments and observations on government's financial reporting, including information on our annual examinations of the Province's consolidated financial statements and the government's revenue estimates.

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## PRINCIPAL FINDINGS

### Audit of Province's Consolidated Financial Statements

- 2.13** Under Section 9 of the Auditor General Act, the Auditor General is mandated to examine and report on the Province's consolidated financial statements which are government's responsibility, represented primarily by the Minister of Finance.
- 2.14** Government tabled and released the Province's March 31, 2005 consolidated financial statements on September 28, 2005 as part of Volume 1 of the Public Accounts. The Auditor General's opinion on those statements was unqualified.
- 2.15** **GAAP compliance** - Government follows Canadian generally accepted accounting principles (GAAP) for the public sector to the extent necessary to provide an unqualified opinion, however, there are certain specific requirements not yet being fully met. For example, the following are identified areas where government should consider fuller GAAP compliance in the future.
- The consolidated financial statements do not include budget amounts for the line items on the Statement of Operations and Statement of Change in Net Direct Debt. This disclosure is required by the Canadian Institute of Chartered Accountants' Public Sector Accounting Board (PSAB). Related to this, government does not yet prepare or present its budget on a basis fully consistent with that used for the consolidated financial statements. Information is included in the Financial Statement Discussion and Analysis (FSDA) section of Volume 1 of the Public Accounts in order to compensate for this lack of disclosure in the statements themselves.
  - PSAB requires that expenses be disclosed at gross value. However, there are various user fees, chargeables, and recoveries which are netted against expenses on the Consolidated Statement of Operations. Note 9 to the financial statements provides some disclosure of the amounts netted against expenses but does not provide a breakdown of gross expenses by line item on the Statement of Operations. We were informed that expenses are disclosed on a net basis to be consistent with the budget which is presented on a net basis.
  - There are federal transfer payment revenues recorded as recoveries and netted against expenses. We identified \$161.6 million in federal payments which were recorded as recoveries. The impact of this accounting treatment is an understatement of revenues and expenses with no impact on the surplus balance. We were informed that these revenues are treated as recoveries to be consistent with treatment in the budget.
  - When consolidating the tangible capital assets (TCA) balances of entities included in the reporting entity, those balances are not adjusted to comply with the government's TCA accounting policy requirements for such factors as thresholds, amortization rates and useful life expectancy. Management has indicated that there would be practical challenges in implementing this requirement and that the costs of doing so would exceed the benefits.

- A number of smaller crown entities and government partnership arrangements are not yet fully and appropriately accounted for in the consolidated financial statements. The impact of this is an understatement of net assets and an overstatement of net direct debt of approximately \$24.1 million.
- Derivative transactions are recorded between the consolidated fund, the sinking fund, and the public debt retirement fund of the Province. These are inter-entity transactions which should be eliminated. The impact of these inter-entity transactions not being eliminated during consolidation is an overstatement of the current surplus of \$7.4 million, an understatement of liabilities of \$13.2 million, and an understatement of opening net direct debt of \$5.8 million.

**2.16** The concerns related to compliance with GAAP noted in the first three bullets above are a result of the presentation of information in the budget. We understand that a working group has been formed to review the usefulness and format of the content of the Province's financial reports, including the budget, to ensure they meet the requirements of users. We believe this is a valuable exercise but would like to point out that any recommendations from this group should comply with GAAP.

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**Recommendation 2.1**

**We recommend steps be taken to ensure the Province complies more fully with generally accepted accounting principles, especially with regard to disclosing GAAP-compliant budget information in the financial statements.**

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**2.17** It is important to acknowledge that the accounting standards and pronouncements that make up GAAP continue to evolve. There are new accounting pronouncements and some in process that will have an impact on the government's future financial reporting. For example, the following are more significant matters on which PSAB has recently released final pronouncements or is developing new or revised pronouncements:

- liabilities, contingent liabilities and contractual obligations;
- generally accepted accounting principles;
- government transfers; and
- financial instruments.

**2.18** New formal recommendations or guidance in such areas could require changes to government's financial reporting in the future. Further, government should disclose the nature and impact of required or planned accounting changes as soon as practical, ideally no later than during the presentation of the budget for the fiscal year in which the changes will take effect.

- 2.19 **Systems and controls** - Government, primarily through management of the Department of Finance, is responsible for preparation of the Province's consolidated financial statements. This includes responsibilities related to internal control, such as designing and maintaining accounting policy statements and control procedures, safeguarding assets, preventing and detecting error and fraud, and awareness of circumstances that could result in fraudulent financial reporting.
- 2.20 Government's senior executive management is responsible for the design, implementation, operation and maintenance of controls. Responsibility for systems and control processes within government needs to be clearly defined and communicated on a more comprehensive basis. While the Provincial Finance Act includes general references to the roles and responsibilities of the Minister and Deputy Minister in this regard, there needs to be additional guidance developed. This would include the roles and responsibilities of departmental and crown entity governing bodies and senior management in relation to control and risk management.

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### **Recommendation 2.2**

**We recommend internal controls within government, including specifically the positions with roles and responsibilities for control effectiveness, be clearly documented and effectively communicated.**

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- 2.21 In conducting our audit, we obtained a sufficient understanding of the systems and controls to plan the audit. Where we relied upon controls, sufficient audit evidence was obtained to support that assessment. However, the scope of our review of government's systems and controls during the audit of the March 31, 2005 consolidated financial statements was not planned or conducted in order to conclude on the adequacy of the overall level or quality of controls.
- 2.22 While conducting the financial statement audit, areas were identified where internal controls could be strengthened or operating improvements achieved. Certain matters identified during the current year have implications which warrant government's consideration. These have been communicated to Finance as part of a management letter. As part of the audit of the Province's March 31, 2006 consolidated financial statements, we will follow up on these matters to determine the status of actions taken or planned.
- 2.23 **Management letter** - In November 2005, a management letter was issued to government providing various observations from our audit of the Province's March 31, 2005 consolidated financial statements. That letter also included management responses to many of the matters we reported. The management responses were reproduced verbatim as provided to our Office. Inclusion of managements' responses in the letter does not signify our agreement with them. The following are the more significant observations reported and recommendations made which have not already been included in other parts of this chapter. The last bullet,

concerning control weaknesses in Service Nova Scotia and Municipal Relations, includes information which was not included in the management letter. This information is from a follow-up assignment conducted by our Office.

- Government's preparation of the Province's consolidated financial statements requires the use of significant accounting estimates, certain of which are particularly sensitive to differences between future actual results and government's assumptions upon which the accounting estimates were based. At the conclusion of this year's audit, there were no significant outstanding concerns with the estimates used in preparing the March 31, 2005 consolidated financial statements.
- During the audit of the March 31, 2005 consolidated financial statements, a number of accounting, disclosure and audit issues arose, and were communicated to government staff at various points in the audit process. Some, but not all, of these were resolved either by review of additional information provided or by adjustments to the financial statements.
- With regard to the Province's consolidated financial statements and other government financial reporting, it is appropriate for all known errors or identified misstatements to be corrected, other than trivial ones. However, it is not unusual for financial statements of an entity of the size and nature of the Province to have residual issues at the conclusion of an audit. Such unresolved, unadjusted errors or differences are considered when preparing the Auditor's Report on whether the statements "present fairly" in accordance with GAAP.
- A key control for ensuring reliable financial reporting and safeguarding of resources is the existence of documented policies and the effective communication of those policies. In February 2003, updated government Management Manuals were released on the Treasury and Policy Board website. These manuals include some, but not all, relevant policies. Government Accounting staff have acknowledged the need and intention to further develop and enhance government's financial management and accounting policies. However, there have been no new policies added to the manuals since they were released. We understand that there are some draft policies developed which are awaiting approval.

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### **Recommendation 2.3**

**We recommend a defined plan and schedule be developed to ensure the government management manuals are updated, to include all relevant financial and accounting policies, in a timely manner.**

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- One of the components of internal control is risk assessment and the processes established to respond to identified risks in order to ensure government objectives are achieved. This includes risk assessment and processes to ensure

the integrity of the financial statements. As part of our planning for the audit of the financial statements, we requested that the Deputy Minister and senior financial executive of each department and agency of government complete a management inquiry questionnaire. One question included was “Has the risk of a material misstatement of the financial statements due to fraud been assessed?” “No” was the common answer to that question. There should be an ongoing process in place to identify the risks to the integrity of the financial statements and ensure the exposure is minimized. This process should be documented. This is an important component of an effective internal control system.

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#### **Recommendation 2.4**

**We recommend an ongoing process be established to identify the risks to the integrity of the financial statements and ensure the exposure is minimized. This process should be documented.**

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- The existence of an effective internal audit function in government is an important mechanism to assist management in monitoring its discharge of responsibilities for the use and control of public resources. Government’s internal audit function is centralized within the Department of Finance.

There have been a number of organizational changes within internal audit since it was centralized which have been detrimental to its effective functioning. As a result, management established a committee in 2004-05 to review the mandate, governance and organizational structure of the internal audit function to ensure it will become effective. The recommendations of this committee were approved in principal in February 2005. Based on the recommendations, the role of internal audit in government will be changing to focus more on business risks; including a risk-based approach to audit planning and auditing and assessment of whether government’s risk identification and mitigation practices are adequate. We acknowledge the efforts that have been made aimed at supporting the effective functioning of internal audit within government and encourage continued commitment in this regard.

We understand that with this changing focus of internal audit, there may be fewer internal audit resources available to departmental management for audits of internal controls. With reduced internal audit resources available for compliance audits, it is important for government and departmental management to ensure internal controls are effective and adequately monitored.

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#### **Recommendation 2.5**

**We recommend government and departments ensure roles and responsibilities for internal control are being performed effectively and, where appropriate, subject to adequate coverage by internal audit or other audit resources.**

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- An audit of the governance and control framework of the operations of the Investment, Liability Management and Treasury Services and Capital Markets Administration Divisions was completed for Finance by a private sector firm during 2004. A final report was released publicly in December 2004. It identified significant control weaknesses which resulted in a denial of opinion. It should be noted that certain of the more significant issues identified as a result of this audit are consistent with concerns raised by our Office a number of times in the past.

From a financial statement audit perspective, we have assessed this area as high risk and as such have not placed any reliance on internal controls when completing testing for the audit. Management has indicated that all major aspects of the audit have been implemented. We have not assessed the action taken on the recommendations. We recommend a follow-up audit be conducted by this firm or another one with the expertise necessary to effectively follow up on the weaknesses identified during the audit. Until an unqualified opinion is received, the denial of opinion may have to be disclosed in the government's U.S. SEC and any other financial filings. Further, the House and public should receive independent, qualified audit reporting on whether all concerns have been adequately resolved.

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#### **Recommendation 2.6**

**We recommend that government make arrangements to conduct a follow-up audit on the governance and control framework relating to the Investment, Liability Management and Treasury Services and Capital Markets Administration Divisions of the Department of Finance. This audit should be completed by a private sector firm with the expertise necessary to effectively follow up on the weaknesses identified during the audit.**

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- During 2004-05, government contracted for an annual service auditor review of Finance's SAP Customer Competency Centre (CCC). This included a service auditor report on controls for the centralized SAP infrastructure and support functions performed by the CCC for government and for a number of public sector entities. The first service auditor report contained a reservation of opinion for eight control procedures in five of nine areas. (See Report of the Auditor General, June 2005, Chapter 3, paragraphs 3.16 and 3.17). This first report provided an opinion as at a specific point in time (November 15, 2004). The contractual arrangement with the service auditor calls for further audits. The weaknesses identified in the first report should be addressed so that an unqualified opinion may be provided in the future. It should be noted that certain of the more significant issues identified as a result of this audit are consistent with concerns raised by our Office a number of times in the past.

The results of the service auditor report were considered when planning audit coverage for the March 31, 2005 audit of the Province's consolidated financial statements. To date, this has been the only service auditor report issued. Management has indicated that they plan to have the next audit begin

in February 2006 covering the period April 1, 2005 to March 31, 2006. We encourage the Department to implement its plan so that the resulting audit opinion will be available for use in the Province's March 31, 2006 financial statement audit and by public sector entities which use the CCC.

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### **Recommendation 2.7**

**We recommend government take steps to ensure weaknesses identified in the first service auditor report for the centralized SAP infrastructure are addressed so that an unqualified opinion may be provided. As well, the next report should be completed and issued so it is available for use in the March 31, 2006 financial statement audits of the Province and entities which use the SAP Customer Competency Centre.**

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- During 2004-05, a suspected fraud was discovered in the Business Registration Unit (BRU) of SNSMR. The occurrence of this suspected fraud was considered in planning the March 31, 2005 audit of the Province's consolidated financial statements. As a result of the suspected fraud, a public accounting firm was engaged to complete a review of controls over cash receipts and refund processes in the BRU. A report from this review was issued in May 2005 and recommended a number of changes to improve controls.

Our Office completed a review of the Department's progress in implementing the review recommendations in October. As part of our review, we discussed, with staff, the progress made in addressing the recommendations. We did not verify the actions taken to date as indicated by staff.

In August 2005, a Departmental response to the recommendations in the firm's report was approved by the Deputy Minister. The response outlined agreement with most of the recommendations and indicated how the Department intended to address them. In September 2005, a project leader was appointed to ensure that the indicated changes were implemented. At the time of our review in October, we found only a small number of changes had been made, and most of these were to processes within the specific area where the suspected fraud had occurred. These changes were made to eliminate the specific vulnerabilities exploited. A number of the report's recommendations target enhancement of information technology systems. Systems development projects are planned or underway to address these. There are plans in various states of completion for most of the other recommendations, but no significant changes have yet been made to address the risks identified.

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### **Recommendation 2.8**

**We recommend management address the recommendations to improve controls within the Business Registration Unit of SNSMR in a timely manner.**

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- 2.24** [Financial Statement Discussion and Analysis \(FSDA\) section of Public Accounts](#) - Professional standards require that an auditor make arrangements for a pre-release general review of any information or other documents to be released concurrently, or in combination with, financial statements upon which the auditor has or will be reporting.
- 2.25** We reviewed, but did not audit, the information in the FSDA section of Volume 1 of the March 31, 2005 Public Accounts.
- 2.26** We acknowledge that changes have been made to the content of the FSDA this year based upon new guidelines issued by the Public Sector Accounting Board (PSAB). We encourage government to continue to improve the content of the FSDA.

## **Review of Government's Revenue Estimates**

- 2.27** Under Section 9B of the Auditor General Act, the Auditor General is mandated to examine and report on government's annual revenue estimates. Our next planned reporting under Section 9B will be on the government's 2006-07 revenue estimates, which will be tabled in the House along with the supporting information for the 2006-07 Budget.
- 2.28** As part of our revenue estimates review, we refer to pronouncements of the Canadian Institute of Chartered Accountants (CICA), including those directed to management preparers of future-oriented financial information (FOFI). Each year, we notify Finance that the Department should ensure appropriate compliance with those pronouncements when preparing and presenting the revenue estimates.
- 2.29** Subsequent to our review under Section 9B of government's 2005-06 revenue estimates, we issued a management letter to Finance in May 2005. That letter provided additional observations and comments from our review of the 2005-06 revenue estimates and other related information included in the Minister of Finance's April 26, 2005 Budget Address and supporting documents. A summary of selected matters and the recommendations from that letter were included in Chapter 2 of the June 2005 Report of the Auditor General.
- 2.30** The information in paragraphs 2.28 and 2.29 will be considered as part of our review of the 2006-07 revenue estimates.

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## **OTHER MATTERS**

- 2.31** [New pronouncements from the CICA's Assurance Standards Board](#) - As a result of new pronouncements from the CICA's Assurance Standards Board, additional and enhanced quality control procedures will be required for the Office's assurance examinations, including our review of the government's revenue estimates and our audit of the Province's consolidated financial statements. These changes will add additional time and effort to our assurance examinations, and will require more time between the completion of our work and the issue of the Auditor General's

opinion. Government will have to include added lead-time for our quality review processes as part of its scheduling for the 2006-07 Budget and 2005-06 consolidated financial statement processes and related printing.

- 2.32** [Additional appropriations and special warrants](#) - Section 9A of the Auditor General Act requires, among other things, that we call attention to every case observed in which any appropriation is exceeded or a special warrant is authorized. Our last reporting under that section was in the June 2005 Report of the Auditor General, Chapter 2.
- 2.33** No additional appropriations have been approved since our last Report. Based on the information included on page 31 of the Financial Statement Discussion and Analysis section of Volume 1 of the March 31, 2005 Public Accounts, additional appropriations are required for 2004-05. Additional spending authority is required for 2004-05 of \$132,992,000 for net program expenses (approved totals of 12 votes were exceeded) and \$26,451,000 for debt servicing costs. These require Order in Council approval within 90 days of the release of the March 31, 2005 Public Accounts.
- 2.34** While it may be too early to determine the additional spending authority ultimately required for the 2005-06 votes, information included in the government's Forecast Update dated August 31, 2005 indicated that the voted appropriations in four departments were forecasted to be exceeded.
- 2.35** During 2004-05, government approved \$10 million of funding for tourism initiatives (November 2004) and \$71.9 million for a number of strategic funding initiatives (December 2004). These initiatives are reflected in the 2004-05 spending totals resulting in the requirement for \$61.6 million of the \$132,992,000 in additional spending authority noted above. Under current statutory provisions, government's decision to fund such initiatives is within its authority. Our intention is to reemphasize a point we have made on numerous occasions in previous reporting: current legislation does not provide for effective control by the House of Assembly of spending authority limits.
- 2.36** According to Section 29 of the Provincial Finance Act, expenses which have not been provided for by the Legislature and are urgently and immediately required for the public good, must be approved by Order in Council (OIC) as special warrants. We note that, since our last Report, there have been no special warrants approved by Executive Council under Section 29 of the Provincial Finance Act.
- 2.37** There were a number of strategic initiatives announced in 2004-05, which are discussed above, none of which were approved by OIC prior to the related spending. Some of these initiatives may possibly meet the criteria of a special warrant and thus should have been approved by OIC in advance of the spending.
- 2.38** There is a need to clarify the difference between a special warrant and an additional appropriation. Management has indicated that a legal review of Section 29 of the Provincial Finance Act will be completed prior to the implementation of any similar strategic initiatives.

- 2.39** **Provincial budgets and forecasts** - As part of our audit work on the consolidated financial statements, we obtain explanations for significant variances between the 2004-05 budget figures and actual results. When examining restructuring costs, we found the workforce adjustment cost centre in this appropriation had a budget of \$4.0 million and actual costs of \$0.2 million, a reduction in costs of \$3.8 million. The explanation provided for this variance was that the budget for this cost centre is a contingency. It is known that some funds will be spent in this area, but the amount is not known. As a result, the budget is kept at approximately \$4 million.
- 2.40** As well, the business process reengineering cost centre had a budget of \$5.1 million and actual costs of \$2.4 million, a reduction in costs of \$2.7 million. The explanation provided for this variance was that staff do not know how many initiatives will occur under this cost centre during the year. For the 2004-05 budget, there were known initiatives of \$1.5 million but the remaining \$3.6 million was unallocated.
- 2.41** As part of our audit work, we also obtained a variance analysis and explanations between the 2004-05 latest forecast, included in the 2005-06 Budget documents, and the 2004-05 actual costs for restructuring. There were three cost centres within this appropriation which had significant variances - work force adjustments; business process reengineering; and human resource strategy. The total April 2005 forecast (i.e., the 2004-05 forecast included in the 2005-06 Budget) for these cost centres was \$17.75 million while the actual costs were \$3.18 million, a reduction from forecast of \$14.57 million. The explanation provided for this variance was that there is uncertainty involved in the forecasting process and, as a result, the restructuring cost appropriation contains a contingency to offset this uncertainty.
- 2.42** During the budgeting and forecasting process, uncertainties can be mitigated by contingencies. In these cases, the contingencies should be clearly disclosed in the applicable document. As well, there is a need for clearly defined policies and procedures concerning the use of contingencies; including when to use them, the approach used to determine the amount, and the review and approval process for amounts used.

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### **Recommendation 2.9**

**We recommend that policies and procedures concerning the use of contingencies in the Province's budgets and forecasts be clearly defined and communicated. When contingencies are used, they should be specifically approved by Executive Council and clearly disclosed in the applicable document.**

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- 2.43** Government budgets have included amounts for crown entities when business plans have yet to be approved. For example, government's 2004-05 Budget included \$487.3 million in funding for the Capital District Health Authority

(CDHA). Subsequent to the approval of the government's budget, the business plan of the CDHA was approved with a budget of \$517 million, an increase of \$29.7 million.

- 2.44** When government's budget includes amounts for crown entities with unapproved business plans, there is a known risk in the achievement of the budget. This risk should be disclosed. Government may not know the final approved budget of the entities but the entities' requests in comparison to the amount included in government's budget are known. These differences should be disclosed in the government's budget.

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**Recommendation 2.10**

**We recommend adequate disclosure in government's budget documents of the risks in achieving the budget.**

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- 2.45** **U.S. SEC annual filing** - In order for the Province to issue debt in the United States market, government must have an Annual Report (Form 18K) on file at the U.S. SEC. This report is supposed to be updated annually by December 31. We reported in Chapter 2 of the June 2005 Report of the Auditor General that the Province's Form 18K had not been updated since December 2003 when it was updated for the 2002-03 fiscal year.
- 2.46** The Form 18K was updated and filed for the 2004-05 fiscal year in November 2005.
- 2.47** **Cash and other losses** - Section 9A (1) (e) of the Auditor General Act requires that we report every case in which we have observed that "... there has been a deficiency or loss through fraud, default, or mistake of any person".
- 2.48** The Nova Scotia *Management Manuals* no longer contain a requirement for departments and crown entities to report losses to this Office. However, some departments have reported the following losses to us for 2004-05. The list below may not include all losses; just the ones reported to our Office.

Departments	Cash	Property	Total
Environment and Labour	\$197	\$6,769	\$6,966
Finance	-	5,150	5,150
Justice	397	3,904	4,301
Nova Scotia Advisory Council on the Status of Women	-	300	300
Office of the Auditor General	-	750	750

Service Nova Scotia and Municipal Relations <sup>(1)</sup>	362,144	22,221	384,365
Tourism, Culture, and Heritage	<u>-</u>	<u>553</u>	<u>553</u>
Total Reported	\$362,738	\$39,647	\$402,385

(1) A \$360,482 cash loss was discovered in 2004-05 but relates to losses incurred from April 1, 1997 to December 31, 2004

**2.49** In addition, there are other possible losses identified as a result of work by government internal audit which are still under investigation.

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## CONCLUDING REMARKS

**2.50** Improvements are required in government's financial reporting. We support government's plans to review the content of its financial reports to ensure they meet the needs of users. These actions contribute to the quality of government's financial reporting. The resulting reports should be in accordance with generally accepted accounting principles and other appropriate professional pronouncements.

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# 3

## CONSULTING CONTRACTS AND SERVICE ARRANGEMENTS

### BACKGROUND

- 3.1** The government uses the services of consultants extensively. In 2004-05 government spent \$145 million (2004 - \$131.5 million) on professional services, consulting services and external information technology consulting. The impact of a consulting project can be many times more significant than the size of the contract. Consultants may provide advice that affects programs with significant expenditures or other impacts. The House and public expect that contracts will be awarded fairly and engagements will result in value for money.
- 3.2** Our Office last examined and reported on the use of consulting services in 1990. The audit found, in most cases, that a competitive process was used to obtain the services, there was adequate monitoring of the projects, and there was little post-completion evaluation.
- 3.3** For purposes of this audit, a consultant was defined as any provider of consulting or professional services, whether a company or firm, or an individual. The service providers could be accountants, lawyers, computer consultants, management advisors, and others.

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### RESULTS IN BRIEF

- 3.4** The following are the principal observations from this audit.
- The results from the audit are specific to the projects and contracts we reviewed and should not be generalized to the broader population of consulting contracts within these departments and government as a whole.
  - We examined the procedures and controls in place for the planning, selection, monitoring, payment and evaluation of 25 consulting service contracts. For the most part, we found the procedures and controls were adequate to ensure the projects and consulting contracts were properly managed. However, we also noted a number of instances where procedures and controls were weak and improvements could be made.
  - The weaknesses identified included the following.
    - The business need for the project was not always documented.
    - Certain aspects of the Procurement Policy were not always followed.
    - Changes to the projects were not always documented.
    - Invoices did not always provide adequate details to determine if the amount paid for the work received was reasonable.

- Formal, post-completion evaluations of projects and the performance of the consultants were not prepared.
- Assessments of the consultant's report and related action plans were not always documented.

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## AUDIT SCOPE

- 3.5** The objectives for this assignment were to determine and assess the policies and procedures used for the management of selected professional and consulting service contracts to determine whether:
- there is due regard for economy and efficiency in the selection, management and payment of professional and consulting service contracts;
  - there are adequate systems and controls to ensure professional and consulting service contracts are properly monitored and evaluated; and
  - there is compliance with provisions of the government Procurement Policy, Government Purchases Act and interprovincial procurement agreements.
- 3.6** Our approach was based on a review of government-wide procurement legislation and policies, examination of contracts and supporting documents, and interviews with managers of the contracts.
- 3.7** We selected 25 contracts over \$10,000 over the three years from 2002 to 2004 from among the Departments of Finance, Intergovernmental Affairs, and Tourism, Culture and Heritage; Communications Nova Scotia; the Office of Economic Development; the Public Service Commission; and Treasury and Policy Board (see Exhibit 3.1 on page 29). For our sample, we looked at the overall project for which the services were contracted, including any related contracts. We excluded certain large consulting service contracts scheduled to be examined under separate audits.
- 3.8** The 25 contracts we reviewed were judgementally selected as the nature of the information on consulting contracts made it impractical to draw a statistically representative sample. Given our sampling method, the results from the audit are specific to the projects and contracts we reviewed and should not be generalized to the broader population of consulting contracts within these departments and government as a whole.
- 3.9** Criteria were developed from recognized sources including the Project Management Institute's *Project Management Body of Knowledge Guide* (2000 edition), *Management Consulting Engagements in Government* from the Office of the Auditor General of British Columbia's 2000 - 2001 Report, and the Government Purchases Act and Procurement Policy.

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## PRINCIPAL FINDINGS

### Project Initiation and Planning

- 3.10** The initiation of a project should be supported by a business need, an analysis of benefits and costs, and a determination that a consultant is required. Many of the files we reviewed did not have complete documentation on the need for the project. The business need was adequately documented in 14 (56%) of the 25 project files although in 6 cases it was done after the decision to hire a consultant was made. Only one project file contained an analysis of the benefits and costs.
- 3.11** Project scope, objectives, responsibilities and deliverables should be identified to provide authorization and expectations for the project. Most of the contract files we reviewed had adequate project planning documentation although it was not always formally approved or prepared prior to hiring the consultant. There were five projects where project planning documentation was insufficient or was missing from the files.

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#### Recommendation 3.1

**We recommend that the business need and other planning considerations be adequately documented in the project files to support the initiation and implementation of a project.**

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### Selection of Consultants

- 3.12** The government Procurement Policy provides direction on the process for awarding consulting contracts. Contracts may be awarded through a competitive bid process, through selection from a list of pre-qualified firms and individuals (standing offers), or through sole-source or direct awarding to a consultant.
- 3.13** Consultants were selected following a competitive bid process for six (24%) of the projects we reviewed. Consultants for 12 (48%) of the projects were selected from the standing offer list of eligible firms and individuals. Seven projects (28%) involved sole-source awarding of contracts.
- 3.14** The Procurement Policy states that consulting services selected through the standing offer should not exceed \$50,000 and a project should not be subdivided in order to meet the policy limit. The Policy was not followed for 2 (17%) of the 12 contracts awarded through the standing offer. The two contracts were phases of the same project, for a combined total of \$92,025.
- 3.15** For consultants selected through the standing offer, an official purchase order provides authorization for the contracted services. Work was started prior to the release of the purchase order for 6 (50%) of the 12 contracts awarded through the standing offer.

- 3.16** The Procurement Policy allows directly awarding (sole sourcing) a contract to a consultant under certain conditions. An alternative procurement practices report is required as authorization. The report was signed after the project had started for three (43%) of the seven sole-sourced contracts. In two other cases, the report was signed after the consulting work had been completed.

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### **Recommendation 3.2**

**We recommend that departments and agencies ensure the Procurement Policy is followed when awarding consulting contracts and that appropriate documentation is prepared on a timely basis.**

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## **Consulting Service Contracts**

- 3.17** We reviewed the project contracts to assess the adequacy of the terms and conditions in defining the deliverables, delivery dates, roles and responsibilities. Contract terms were adequately documented for 21 (84%) of the 25 projects we reviewed, although some minor terms and conditions were not always documented. There were two projects where the contract terms were not well-defined and two projects where a formal written contract outlining the terms and conditions was not used. We suggest that written contracts be used for all consulting projects. The terms and conditions should be adequately detailed to protect the government in its dealings with the consultants.

## **Project Management**

- 3.18** The government Procurement Policy provides some guidelines on general project management. We reviewed project documents and held discussions with staff to determine how the projects and performance of the consultants were monitored and managed. Project management processes were adequate for 22 (88%) of the projects we reviewed. Methods varied among projects; for example, in some cases management worked closely with the consultants, and had regular communication and meetings. In other cases, there were steering committees which received status reports and project updates.
- 3.19** Difficulties were encountered on one project from the planning stage through to development which resulted in a product which had limited applicability to the needs of the project. On another project, amendments to the contract were required and additional consultants were hired in order to complete the project. In a third case, the consultant's work was accepted but the project was delayed due to resource and training issues. Most of the difficulties encountered on these projects could be attributed to inadequate planning, unclear or inadequate contract terms, poor contract management, or a combination of these factors.
- 3.20** We also looked for clearly-defined change management processes to control changes to the projects. None of the projects had a change management process defined and documented prior to the start of the project. Most of the projects were completed without requiring significant changes. On the five projects where

significant changes were required, they were often based on an oral agreement with the consultants.

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### **Recommendation 3.3**

**We recommend that change control procedures be defined and documented to control changes to projects. Change requests should be handled as described in the change control process.**

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## **Controls over Payments**

- 3.21** We assessed the controls over payments to consultants to determine if they were adequate to ensure billings were in compliance with contract terms and properly supported, verified, approved and recorded. Controls over payments were adequate for 23 of the 25 projects we reviewed. We noted billing discrepancies on two projects resulting in possible overpayments of \$300 and \$1,267 respectively. We also noted in 9 of the 25 projects that details on the invoices were limited; they did not indicate hours, billing rates or the persons performing the work. Although 6 of the 9 projects were fixed-price contracts, detailed information is necessary in order to determine the reasonableness of the amount paid for the work effort and results received.

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### **Recommendation 3.4**

**We recommend that departments ensure invoices include adequate details to support billings prior to payment. Payments should be in accordance with the terms of the contract.**

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## **Project Evaluation**

- 3.22** Our audit included determining whether an evaluation was carried out upon completion of a consulting project to provide lessons learned on managing the project and performance of the consultants. If a consultant's report was prepared as part of the contracted services, we also looked for whether an assessment of the report was done and if action plans were prepared to address the recommendations.
- 3.23** A formal, post-completion evaluation of the project and the performance of the consultant was not prepared for 24 (96%) of the projects. There was only one project tested where a review and assessment of the service provided were prepared.
- 3.24** A consultant's report was prepared as part of the contracted services for 14 (56%) of the 25 projects we reviewed. Many of the departments and agencies, as noted below, did not document their assessment of the report or create an action plan to address the recommendations.

- For five (36%) of the projects, management indicated acceptance of some of the recommendations, although there was no documented assessment of the report.
- An assessment of the report and action plans were documented for four projects.
- Two projects tested were completed at the time of our audit and the final reports were undergoing review.
- Action on the report was not required for two other projects as they were undertaken for research or advisory purposes only.
- The report was never finalized for one project as the department did not accept the recommendations.

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### **Recommendation 3.5**

**We recommend that departments undertake post-completion evaluations to assess project management, consultant performance, and lessons learned to improve future projects. Where the consultants provide a report, the usefulness of the report should be assessed and an action plan documented to address any recommendations.**

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## **CONCLUDING REMARKS**

- 3.25** For the 25 consulting projects we reviewed, we observed how planning for certain of the projects, and how some contracts were awarded could have been improved. Controls and processes to ensure proper monitoring and payment of consulting service contracts would be strengthened by expanding invoice information requirements.
- 3.26** Formal, post-completion evaluations and assessments of the performance of the consultants were not completed for 24 of the 25 projects we reviewed. We have recommended that departments ensure such evaluations are completed to provide lessons learned for future projects. Any actions necessary to implement recommendations resulting from the project should also be documented.
- 3.27** Overall, there was room for improvement in how several of the projects and contracts we tested were managed and controlled. There were too many instances where documentation and/or other considerations were assessed as less than fully adequate.
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## Professional and Consulting Services Contracts Reviewed in this Audit

Exhibit 3.1

Purpose of Contracts	Dollar Amount	Award Method
<b>Department of Finance</b>		
Advisory services	\$18,648	Standing Offer
Review of the mandate, structure and resources of the Corporate Internal Audit section	\$21,590	Standing Offer
Assist with implementation of SAP for municipal taxes and water utilities	\$29,520	Standing Offer
Overview of SAP usage and development of an optimization strategy	\$12,000	Direct
Review of the governance and control practices in the Investment, Liability Management and Treasury Services, and Capital Markets Administration divisions	\$92,529	Competitive
Audit of compliance with cost sharing agreements	\$34,500	Competitive
Review of compensation for the Investment, Pension and Treasury Services staff	\$72,309	Direct
Annual update of the Euro Medium Term Note Program documents	\$37,410	Direct
Customer service benchmark survey	\$25,000	Direct
Asset/liability study for two pension plans	\$65,000	Competitive
Review of payroll functions and recommendation for integration within SAP	\$49,228	Standing Offer
<b>Department of Intergovernmental Affairs</b>		
Legal research and strategic analysis	\$158,536	Direct

<b>Department of Tourism, Culture and Heritage</b>		
Development of an electronic records management system	\$187,718	Competitive
Design of a web-based inventory system for heritage properties	\$32,830	Standing Offer
Review of Nova Scotia's travelway and scenic drives system	\$43,015	Competitive
<b>Communications Nova Scotia</b>		
Creation of a multi-media advertising campaign	\$48,635	Standing Offer
<b>Office of Economic Development</b>		
Review of the organizational structure of the Core Competency Centre	\$48,500	Standing Offer
Access to information, research and news for the Information Technology sector	\$82,392	Direct
Assistance in the planning and execution of two elements of a branding Nova Scotia project	\$72,406	Competitive
Development of a governance framework for the SAP Public Sector Program	\$45,000	Standing Offer
Development of an organizational change management strategy for SAP	\$24,225	Standing Offer
Implementation of the organizational change management strategy for SAP – Phase 1	\$47,025	Standing Offer
Implementation of the organizational change management strategy for SAP – Phase 2	\$45,000	Standing Offer
<b>Public Service Commission</b>		
Review of the organizational structure of the Public Service Commission	\$41,058	Standing Offer
<b>Treasury and Policy Board</b>		
Research to develop a value profile of Nova Scotians	\$39,000	Direct

# 4

## ELECTRONIC INFORMATION SECURITY AND PRIVACY PROTECTION

### BACKGROUND

- 4.1 There has always been an assumption in democratic societies that citizens have a right to privacy. This is enshrined in *The Universal Declaration of Human Rights* adopted by the United Nations in 1948. Surveys have shown that citizens are deeply concerned that their personal information, especially medical and financial information, should remain confidential. At the same time, it is clearly recognized that governments and businesses need to gather personal information to perform their functions and citizens are willing to entrust aspects of their privacy in return for a benefit.
- 4.2 *Personal Information* is defined as information about an identifiable individual. It should be noted that statistical aggregations are not normally considered personal information.
- 4.3 The growth in the collection of electronic personal information and concerns about the protection of privacy led the Federal government to enact the *Personal Information Protection and Electronic Documents Act* (PIPEDA). Additionally, the European Union restricts trade with jurisdictions that lack privacy legislation similar to its own. The core of PIPEDA was the adoption of Canadian Standards Association's (CSA) *A Model Code for the Protection of Personal Information*.
- 4.4 PIPEDA does not apply to provincial governments. In Nova Scotia, the *Freedom of Information and Protection of Privacy Act* (FOIPOP) is the primary governing legislation regarding the protection of personal information in government. Section 24(3) of that act requires the "head" of a "public body" to protect personal information "...by making reasonable security arrangements...". A number of other statutes, for example, the *Hospital Act* and the *Social Assistance Act*, govern particular departments, with specific rules concerning privacy of particular information.
- 4.5 These acts all speak of personal information in general terms, not distinguishing between paper records and electronic information. While the legal rules regarding paper records and electronic information are substantially identical, the methods used to protect them are significantly different. In this regard, it is government's responsibility to ensure that adequate security and control policies and practices are in place and properly functioning.
- 4.6 As stated by the Review Officer in the *2000-2001 Annual Report of the Nova Scotia Freedom of Information and Protection of Privacy Review Office*:

"In my first Annual Report to the Legislature, for the period January 1, 1999 to October 1, 2000, emphasis was placed on access to information. In this Report I will, given the

prevailing view that privacy is becoming a major social issue in Canada and other countries, spend more time discussing the need to address privacy protection issues.”

- 4.7 Subsequent reports by the Review Officer have continued to devote a significant portion to discussion of privacy issues and cases.
- 4.8 In 2004-05 we conducted a review of electronic information security and privacy protection for selected government departments and systems.

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## RESULTS IN BRIEF

- 4.9 The following are the principal observations from this review.
- The level of assurance provided on the findings and conclusions in this chapter is less than for an audit (i.e., a review provides moderate assurance while an audit provides high assurance). This is because of the type of work we performed. Our evidence was based on management representations and review of applicable documentation. We did not test controls in place at the various departments we reviewed.
  - In all the departments we reviewed, departmental staff were aware of security and privacy issues, and all staff were concerned with protecting the privacy of citizens. While this general culture of respect for security and privacy is a very positive condition, we have, however, noted a number of areas where improvements should be considered. In general terms, we believe that these areas for improvement are not due to any lack of concern regarding security and privacy, but rather to differing or competing priorities in departments. In every department, we found that some things were being done well but others needed improvement, and those were not the same in each case.
  - There is a need for a comprehensive government-wide privacy policy as well as individual departmental privacy policies. In addition to other matters, these policies should address the following areas which need improvement.
    - Formal training programs in privacy should be included.
    - Detailed risk analysis should be conducted on the personal information collected by the departments.
    - Departmental staff should be required to read and sign confidentiality agreements.
    - Policies and practices should be developed and implemented to control the transmission of personal information.
  - Personal information can only be protected if there is effective security in place. Security is a complex issue and can only be addressed by good planning. There is a need for a government-wide comprehensive security architecture and for consistent departmental security architectures.

- The Government of Nova Scotia should continue to assess the implications of the changes enacted by the U.S. government through the Patriot Act which could pose a risk to the security of the personal information of Nova Scotians.

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## REVIEW SCOPE

- 4.10** In fall 2002, we conducted a survey of the information technology sections of the government's Corporate Service Units (CSUs). We identified approximately 100 computer systems that might contain personal information, half of which appear to contain significant personal information. It was impractical to examine all of these systems so we selected a sample of eight systems from five different departments (see Exhibit 4.1).
- 4.11** The scope of this review specifically excluded the new human resources system (eMerge) and the new hospital information system (NSHIS). These were excluded due to size and the fact that we are planning specific audits of these systems in the future.
- 4.12** The objectives of this review were to determine if the policies and practices of government regarding information security:
- are appropriate to protect the electronic information in the custody of government; and
  - comply with the requirements of the Freedom of Information and Protection of Privacy Act (FOIPOP) and with those Acts which apply to particular systems.
- 4.13** Review criteria were developed to assist in the planning and performance of this review (see Exhibit 4.2). These were developed from the CSA's *A Model Code for the Protection of Personal Information* and from the Canadian Institute of Chartered Accountants' *Information Technology Control Guidelines*. These criteria were presented to senior management of the departments reviewed and were discussed in more detail with staff of these departments.
- 4.14** Our review consisted of interviewing departmental staff and reviewing documentation provided. We did not perform tests to verify if controls described to us were functioning as designed. We identified significant controls and weaknesses in the systems and have discussed these findings with departmental staff.
- 4.15** In addition to reviewing the eight selected systems, we also interviewed the FOIPOP Review Officer.
- 4.16** During our review, certain issues of government-wide significance arose and we comment on those as well.

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## PRINCIPAL FINDINGS

### Comprehensive Government-Wide Privacy Policy

- 4.17** In the Freedom of Information and Protection of Privacy Act (FOIPOP), the Nova Scotia House of Assembly has recognized the need for protection of privacy. That Act sets out a statutory requirement to maintain the confidentiality of personal information and assigns responsibility for achieving that requirement to the head of each public body.
- 4.18** All the departments reviewed were aware of their responsibilities under FOIPOP. However, implementation of these responsibilities varied from department to department as can be seen in the findings described in the paragraphs which follow. For example, only a few departments have a departmental privacy policy and these vary in detail and scope. Other departments have specific policies that address particular areas of concern. As another example, some departments require staff to sign annual privacy and security statements while others do not. Again, some departments encrypt electronic personal information transmitted electronically but others send unencrypted data.
- 4.19** One very positive initiative was the development of the *Privacy Impact Assessment (PIA)* process. This was initiated by the Department of Health, and is already policy in that department. It was further developed by the government's Information Management Forum and is now a recommended best practice and has been proposed as a formal policy for all of government. The PIA process requires the completion of a checklist for each project. This checklist requires the identification of the personal information that will be collected by the project, its sensitivity and the planned security controls over that information. As well as the checklist, a user guide has been prepared to assist in its completion.
- 4.20** A comprehensive government-wide privacy policy would have numerous advantages.
- It would allow consistent treatment of privacy issues.
  - It would allow efficiencies in the development of policies and procedures.
  - Only a government-wide policy can address issues arising from the U.S. Patriot Act (discussed further below).
  - It would clearly articulate where responsibilities for day-to-day security lay, in the CSUs or in the departments.
  - It should incorporate certain policies already developed such as the website privacy policy, the wide area network (WAN) security policy and standards, and the PIA process.

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#### Recommendation 4.1

**We recommend that the government should develop and implement a comprehensive privacy policy.**

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## Departmental Privacy Policies

- 4.21** We reviewed eight systems in five departments. As mentioned above, three of five departments reviewed do not have a departmental privacy policy. Our comments follow:
- One of the departments without an overall privacy policy has privacy policies in place over the particular systems we reviewed. However, one of these should be reviewed as the policy is nine years old and is rather narrow in scope.
  - One department is in the process of preparing a departmental policy. It should continue with this initiative.

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### Recommendation 4.2

**We recommend that all departments develop and implement a departmental privacy policy, consistent with a government-wide policy, to address the protection of personal information for all departmental business processes.**

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## Comprehensive Security Architecture

- 4.22** A comprehensive security architecture is a formal, documented, strategy coordinating all aspects of information technology security. It should include provision for the security of personal information. At present a government-wide comprehensive security architecture does not exist. Similarly none of the departments we reviewed have a comprehensive security architecture. However certain policies and guidelines, such as the WAN security policy and standards, the e-mail guidelines and the internet usage guidelines, are in place and will be significant components of a comprehensive security architecture.
- 4.23** Appropriate security for information technology systems and data requires detailed planning. Information technology is inherently complex and rapidly changing. Ongoing technical knowledge is required to maintain security. Effective security also requires the informed co-operation of non-information technology staff who use applications to deliver service to citizens. The co-ordination of these two groups requires careful planning so that one does not inadvertently undermine the work of the other. Security procedures that are too onerous can delay the delivery of service, while a focus on the immediate delivery of service can undermine security.
- 4.24** A well-designed security architecture can mitigate the risks arising from the potential conflict between service delivery and security by:
- clearly defining roles and responsibilities;
  - establishing communication policies and procedures; and
  - providing training to ensure that staff are aware of security and privacy risks.

- 4.25** A security architecture should also establish a framework for action in the event of a security breach. The architecture should address the particular nature of personal information that may have been compromised in a breach. For example, loss of security over personal information in a large system often means that thousands of people need to be notified which can be a difficult logistical task.
- 4.26** The protection of privacy is just one of the goals of a security architecture. Any well-developed strategy produces considerable benefits and a security architecture will produce additional benefits beyond better privacy security including the following:
- provision of enhanced security in an efficient and effective manner;
  - compliance with legislative requirements;
  - reduction of uncertainty and potential conflict by defining such policies as departmental rights to e-mail and employee information; and
  - provision of departmental security policies, procedures and standards as well as procedures for changing them.
- 4.27** While each department has unique infrastructure and system requirements, they are part of the overall government environment. Since some systems are shared across government, for example, GroupWise and the Wide Area Network (WAN), there is a need for a government-wide Comprehensive Security Architecture. A security breach in one department could put other departments at risk.

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#### **Recommendation 4.3**

**We recommend that a government-wide comprehensive security architecture be developed and implemented and that departmental comprehensive security architectures, consistent with the government-wide architecture, be developed and implemented.**

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### **Personal Information Risk Analysis**

- 4.28** Security controls are not free. Resources would need to be committed to develop or acquire, implement and operate controls. The resources may be money or staff time or both. To efficiently utilize scarce resources, they should be committed to areas where they will be most effective. A risk analysis is the best way to determine security needs. None of the departments reviewed have conducted a formal security risk analysis. While most departments have implemented some controls over personal information, a formal risk analysis might reveal areas of risk not previously identified or areas where efficiencies could be realized.

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#### **Recommendation 4.4**

**We recommend that a formal security risk analysis be conducted, by department, regarding personal information. This might appropriately be a part of the development of a security architecture as recommended above.**

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## Privacy Training

- 4.29** Individuals expect that their personal information will be protected but also that it will be used only for the purpose for which it was obtained. Training is necessary to ensure staff understand the essentials of confidentiality and how information should be used to effect the purpose for which it was obtained.
- 4.30** Led by the Department of Justice's FOIPOP Coordinator's office, training in privacy has been provided for a number of years. We have been informed that over 1,000 civil servants have been provided with this training. Training such as this should certainly continue. However this training is only delivered when a department requests it.
- 4.31** As noted above, three departments do not have a departmental privacy policy. Such a policy would set training standards. Without such standards, there can be no certainty that the proper staff will receive the proper training at the proper time.

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### Recommendation 4.5

**We recommend that departments, as part of their departmental privacy plan, implement a formal training program.**

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## Confidentiality Agreements

- 4.32** A key control in the protection of privacy is that each staff member be aware of privacy. This can be encouraged by having staff read and sign a confidentiality agreement. Such an agreement reminds the employee of the seriousness of confidentiality and allows management to effect appropriate disciplinary procedures should a breach of confidentiality occur. For maximum effectiveness, these agreements should be renewed annually.

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### Recommendation 4.6

**We recommend that all staff with access to personal information be required to read and sign a confidentiality agreement as a condition of employment and that this agreement be renewed annually.**

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## Transmission of Personal Information

- 4.33** The electronic transmission of data generates risks of inadvertent disclosure. A lower, but still significant, risk is that data might be unlawfully intercepted. In either case, encryption can provide protection to the transmitted data. Only two departments were regularly encrypting electronic personal information prior to transmitting it outside of their offices. High quality encryption software is not expensive and can be set to function automatically.

- 4.34** The transfer of paper documents, or electronic information on recordable media, also has risks. Departments should formulate policies concerning acceptable transmission methods that consider the significance of the personal information and the associated risks.

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**Recommendation 4.7**

**We recommend that all personal information sent electronically be encrypted and that policies be established to define acceptable transmission methods.**

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## **U.S. Patriot Act**

- 4.35** The U.S. Patriot Act was passed in response to the attack of 9/11. Its goal was to increase the powers of the U.S. government to deal with terrorist attacks. It increased the ability of the U.S. government to acquire information. Section 215 of the Patriot Act is the section that is relevant to Canadian privacy. This section amends the Foreign Intelligence Surveillance Act (FISA) to ease the conditions under which a warrant may be issued by the U.S. Foreign Intelligence Surveillance Court. The hearings of this court are held in secret and its proceedings may not be disclosed. The warrants can be issued to a U.S. corporation that controls a foreign corporation. The warrant can require information in the control of that foreign corporation to be delivered to the U.S. security agencies. If that information was personal information under the control of a Canadian corporation, then the release of such information would be contrary to Canadian law. If such an order was issued, it would place the Head of a Canadian subsidiary of a U.S. corporation in the position of having to decide whether to violate U.S. law or Canadian law.
- 4.36** Furthermore, it is illegal under the Foreign Intelligence Surveillance Act to disclose that such a warrant has been issued. In other words, the head of the U.S. corporation or its Canadian subsidiary is expressly forbidden from notifying clients that the request was made or that information was provided. Failure to comply with these provisions is punishable by fines and/or imprisonment.
- 4.37** In his report *Privacy and the U.S. Patriot Act*, released in October 2004, the British Columbia Information and Privacy Commissioner states:
- “We cannot ignore the fact that U.S. courts have upheld subpoenas ordering corporations to disclose records located outside the U.S., even when a foreign law prohibits the disclosure.”*
- 4.38** The implications of these powers are wide sweeping and should be of concern to government. For example, if a U.S. security agency wanted to identify members of a group that it had concluded might constitute a risk, it could attempt to explore Canadian data, say health or educational information. If that data, or even the backup tapes of that data, were in the custody or control of a U.S. corporation, or a Canadian subsidiary of a U.S. corporation, a secret FISA warrant could be issued. If the company was a subsidiary of a U.S. corporation, it would probably

comply, and would be forbidden to disclose that the information was requested and provided. As this whole process is secret, no Canadian authority would be consulted by the U.S. security agency. No one would review the reasonableness of this search.

**4.39** One of the companies used by the Nova Scotia government to store backup tapes is a wholly-owned Canadian subsidiary of a U.S. corporation. Also, the government's mainframe computer system, and numerous smaller servers, are housed at a data centre managed by another wholly-owned Canadian subsidiary of a U.S. corporation.

**4.40** We have been informed that government has conducted an inter-departmental review to assess the risks arising from the U.S. Patriot Act and a report has been submitted to the Minister of Justice. We requested a copy of this report but were denied access to the full report due to reasons of "Cabinet Confidentiality" and "Solicitor-Client Privilege." We were provided with some sections of the report but we are unable to comment on the report since significant sections were omitted.

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#### **Recommendation 4.8**

**The government should continue to monitor the potential implications of the U.S. Patriot Act as it relates to the security and privacy of personal information held by, or on behalf of, the government of Nova Scotia.**

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## **CONCLUDING REMARKS**

**4.41** We found that in all departments reviewed, staff were aware of security and privacy concerns and issues and were concerned with protecting the privacy of citizens. While this general culture of respect for security and privacy is a very positive condition, as previously noted, there are a number of areas that could be improved. The development and implementation of comprehensive government-wide security and privacy policies should serve to address and resolve the matters we have set out in this report.

**4.42** We believe that the deficiencies we have identified are not due to any lack of concern regarding security and privacy but, rather, to differing priorities across the departments. In every department, we found that some things were being done well but others needed improvement.

## Electronic Information Security and Privacy Protection Systems Reviewed

Department	System Name
Education	Student Assistance
Community Services	Employment Support and Income Assistance (ESIA)
Health	Mental Health Outpatient Information System (MHOIS)
Service Nova Scotia & Municipal Relations	Registry of Motor Vehicles (RMV)
Service Nova Scotia & Municipal Relations	Registry of Statistical Information and Events (ROSIE)
Justice	Civil Index II
Justice	Justice Enterprise Information Network (JEIN)
Justice	Restorative Justice

### Protection of Personal Information Criteria

These are derived from the CSA Standard *A Model Code for the Protection of Personal Information*.

Personal Information is information about an identifiable individual.

- The organization must recognize its responsibility for Personal Information it has collected and should designate an employee as being responsible for protection of that information.
- The purpose for which Personal Information is collected should be identified by the organization. Information should only be collected for that purpose and should only be used for that purpose. Unless inappropriate, the consent of the individual should be obtained and the purpose clearly explained to them.
- The Personal Information should be as accurate as possible and there should be a process to allow an individual to review and request corrections of inaccuracies in their Personal Information.
- Personal Information should be secured by appropriate controls, both manual and automated.

### Protection of Electronic Personal Information Criteria

These are derived from CICA's *Information Technology Control Guidelines*.

- If Electronic Personal Information is transferred to or from the organization, then there should be controls to ensure the integrity, reliability and appropriate confidentiality of the information.
- There should be a clear assignment of responsibility for the security of Electronic Personal Information. The assignment should ensure that the boundaries of responsibility for protecting electronic information and for protecting Personal Information are clearly defined so as to prevent gaps in control.
- The organization's security architecture should identify the special needs of Electronic Personal Information. Such identification should also reflect differing degrees of sensitivity of Electronic Personal Information.
- Access to Electronic Personal Information should be controlled both physically and logically.
- The infrastructure containing the Electronic Personal Information should be appropriately and securely housed.
- Application files, databases and data warehouses should provide assurance that Electronic Personal Information stored and delivered for processing is complete, accurate and authorized.

# 5

## FOLLOW UP OF 2002 AUDIT RECOMMENDATIONS

### BACKGROUND

- 5.1 In 2002, the Report of the Auditor General included formal recommendations for the first time. At that time, the Auditor General made a commitment to follow up on implementation in three years.

*“I have also made a change in the content of this Annual Report. This year, in most of the chapters, I have included specific recommendations to government that are intended to address weaknesses, deficiencies or issues identified in the course of audits. It is my intention to follow up on these 90 recommendations in three years to determine the extent of action taken.”*  
(2002 Report of the Auditor General, page 8).

- 5.2 During the fall of 2005, we followed up on the implementation status of the 2002 recommendations. Our review was structured to enable us to provide *moderate or review level assurance* on the implementation status. This level of assurance is less than for an audit because of the type of work we performed. An audit would have enabled us to provide high level assurance but would have required a significant increase in the resources devoted by the Office of the Auditor General to the follow-up work.

- 5.3 Our review was based on written representations by government management which we substantiated through interviews and review of documentation. *Moderate assurance*, in the context of this assignment, means performing sufficient verification work to satisfy the reviewer that *the implementation status as described by government is plausible in the circumstances*. Further information on the difference between high and moderate assurance is available in the *Canadian Institute of Chartered Accountants Handbook*, Section 5025 - Standards for Assurance Engagements.

- 5.4 For each 2002 recommendation, we requested government management responsible for the area to complete a written self-assessment of progress on implementation or to confirm our Office’s assessment. We also requested management to provide supporting information. Progress on each recommendation was summarized by the following descriptions.

- Work complete
- Work in progress
- Planning stage
- No progress to date, but plan to take action
- No action taken or planned
- Other

- 5.5 Our verification focussed on whether self-assessments and information provided by management were *accurate, reliable and complete*.

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## RESULTS IN BRIEF

**5.6** The following are the principal observations from this review.

- We requested government management to self-assess progress in implementing the recommendations in the 2002 Report of the Auditor General. We performed a review of the self-assessments and supporting documentation and provide *moderate assurance* to readers of this chapter. Nothing has come to our attention to cause us to believe that the representations made by government management are not complete, accurate and reliable.
- In 2002, we made 90 recommendations to government which included a total of 104 sub-recommendations. Implementation status is summarized as follows:
  - Work complete - 35%
  - Work in progress - 42%
  - Planning stage - 7%
  - No progress to date, but plan to take action - 7%
  - No action taken or planned - 5%
  - Other - 4%
- Although government has completed implementation of 35% of our 2002 recommendations, a significant number (56%) are described as work in progress, planning stage or government plans to take action. Government has taken no action on another 5%. Three years have elapsed since these recommendations were made. Progress has been slow and we encourage government to proceed with addressing and implementing the remaining recommendations as quickly as practical.

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## REVIEW SCOPE

**5.7** The objective of this assignment was to provide *moderate assurance* on the implementation status of the recommendations in the 2002 Report of the Auditor General. *Moderate assurance*, in this context, means performing sufficient verification work to satisfy the reviewer that the implementation status as described by government is *plausible in the circumstances*.

**5.8** Our approach was based on written self-assessments by government management which we substantiated through interviews and review of documentation.

**5.9** Our criteria were based on qualitative characteristics of information as described in the *CICA Handbook*. Management representations were assessed against the following criteria:

- Representations on implementation status should be accurate and neither overstate nor understate progress.

- Representations on implementation status should be reliable and verifiable.
- Representations on implementation status should be complete and adequately disclose progress to date.

## PRINCIPAL FINDINGS

**5.10** In 2002, we made 90 recommendations to government which included a total of 104 sub-recommendations. We requested government management responsible for the area to self-assess progress on implementation or to confirm our Office’s assessment. Progress on each recommendation was summarized by the following descriptions.

- Work complete
- Work in progress
- Planning stage
- No progress to date, but plan to take action
- No action taken or planned
- Other

**5.11** We performed a review of the self-assessments and supporting documentation and provide *moderate assurance* to readers of this chapter. Nothing has come to our attention to cause us to believe that the representations made by government management are not complete, accurate and reliable.

**5.12** The 104 individual recommendations are shown in Exhibit 5.1 to this chapter along with the assessment of implementation status.

**5.13** The following table summarizes progress by department and overall. It shows that some departments have made more progress in addressing our recommendations than others.

### Summary of Implementation Status - 2002 Recommendations

Chapter (2002 Report of Auditor General)	Total Recommendations	No Action Taken or Planned	No Progress to Date, but Plan to take Action	Planning Stage	Work in Progress	Work Complete	Other
<b>Government-Wide Issues</b>							
Chapter 2 - Accountability Information and Reporting	6 (100%)				4 (66%)	1 (17%)	1 (17%)
<b>Education</b>							
Chapter 3 - Higher Education and Adult Learning Branch	8	1	1	1	4		1

Chapter 4 - Regional School Boards' Property Services Expenditures	12	1		2	7	1	1
Sub-total	20 (100%)	2 (10%)	1 (5%)	3 (15%)	11 (55%)	1 (5%)	2 (10%)
<b>Environment and Labour</b>							
Chapter 5 – Drinking Water Safety System	4 (100%)				2 (50%)	2 (50%)	
<b>Finance</b>							
Chapter 7 – Nova Scotia Public Service Long Term Disability Plan	6 (100%)			1 (17%)	3 (50%)	2 (33%)	
<b>Health</b>							
Chapter 8 – Accountability of District Health Authorities	7		2		3	2	
Chapter 9 - Procurement	5			1	2	2	
Chapter 10 – Home Care Nova Scotia	11		2		4	5	
Chapter 11 – Nova Scotia Health Research Foundation	7		2		1	4	
Sub-total	30 (100%)		6 (20%)	1 (3%)	10 (33%)	13 (44%)	
<b>Service Nova Scotia and Municipal Relations</b>							
Chapter 13 – Fuel and Tobacco Tax	12 (100%)			1 (8%)	6 (50%)	5 (42%)	
<b>Transportation and Public Works</b>							
Chapter 14 – Procurement Branch	11 (100%)	2 (18%)		1 (9%)	4 (37%)	3 (27%)	1 (9%)
<b>Crown Agencies and Corporations</b>							
Chapter 15 – Highway 104 Western Alignment Corporation	8 (100%)				1 (13%)	7 (87%)	
Chapter 16 – Trade Centre Limited	7 (100%)	1 (14%)			3 (43%)	3 (43%)	
<b>Total Recommendations</b>	104 (100%)	5 (5%)	7 (7%)	7 (7%)	44 (42%)	37 (35%)	4 (4%)

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## CONCLUDING REMARKS

**5.14** For the first time, we requested government to formally self-assess its progress in implementing our recommendations. We are very pleased with the quality of government's response to our request and the effort that was put into the self-assessments. We were able to obtain sufficient support for the self-assessments to satisfy our review objectives.

**5.15** The mission of the Office of the Auditor General is:

*"To serve the House of Assembly and the people of Nova Scotia by providing independent assurance and advice to enhance government accountability and performance."*

**5.16** In order to achieve our mission, we provided advice to government in the form of recommendations. For our Office to be successful, government needs to address our recommendations in one of two ways:

- timely implementation; or
- thorough consideration with a sound rationale for why the recommendation should not be implemented.

**5.17** We found that 35% of our recommendations have been addressed and implemented on a timely basis. After three years, 56% are in various stages of implementation, and government has taken no action on another 5%. Although we are pleased that government has begun to address most of our recommendations, we are concerned with the timeliness of efforts to implement the necessary control improvements. We urge government to proceed with addressing and implementing the remaining recommendations as quickly as practical.

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## 2002 Recommendations of Auditor General and 2005 Implementation Status

Exhibit 5.1

2002 Recommendation	2005 Status
<b>Chapter 2 - Accountability Information and Reporting</b>	
<p>2.1 We recommend that policies and practices, used during the budgeting and accounting processes for recognition and measurement of Provincial taxes and other revenue transfers from the Federal government, be reviewed.</p>	Work Complete
<p>2.2 We recommend that government increase the level of awareness and understanding within and across the Provincial public sector of statutory and policy requirements (and limits) related to the financial management and control of the public purse.</p>	Work in Progress
<p>2.3 We recommend government move forward with the release of the updated management manuals and that the government's financial and accounting policies include appropriate relevant extracts, references or linkages to external authoritative sources (e.g., Acts, Regulations, accounting standards) in order to support broader awareness and understanding of the policies.</p>	Work in Progress
<p>2.4 We recommend that, if there continues to be a separate restructuring appropriation, accounting responsibility for it be transferred to Finance Government Accounting staff, in order to ensure no significant errors or omissions occur, and an adequate management/audit trail is maintained.</p>	Other <sup>1</sup> .
<p>2.5 We recommend the Department of Finance senior management provide necessary direction, guidance and, if necessary, support so that entities covered by the Provincial Finance Act meet the prescribed deadline of June 30<sup>th</sup> for financial statement reporting on a timely and effective basis.</p>	Work in Progress
<p>2.6 We recommend that the Business Technology Advisory Committee establish a formal policy requiring identification of benefits as part of the planning and approval process for major information technology projects, and requiring reporting of realization of benefits subsequent to implementation. The specific benefits expected to be derived from the deployment of SAP, as well as for any other business solution products that may be implemented, should be appropriately defined in a manner that is clear and measureable as part of the planning and approval process. Further, there should be a formal requirement for reporting the realization of the benefits to BTAC in accordance with the realization time lines set out in the approved plans.</p>	Work in Progress

1. Management has taken alternate action to address this recommendation.

**Chapter 3 - Higher Education and Adult Learning Branch**

<p>3.1 We recommend that the Branch and individual Divisions prepare operational plans to provide a clear link between the overall Departmental goals and priorities and the more specific goals, priorities, and activities of the Branch and Divisions. The plans should include measurable performance indicators and targets. The Divisions should each report performance in relation to the plan.</p>	<p>No progress to date but plan to take action</p>
<p>3.2 We recommend that the Department of Education continue to pursue a Designation Policy for the Student Assistance Program.</p>	<p>Work in Progress</p>
<p>3.3 We recommend that the Department assess its information needs related to historical default rates for student assistance and establish systems and processes to collect this information.</p>	<p>Work in Progress</p>
<p>3.4 We recommend that the Department improve its electronic edit processes related to interest charges billed by the Bank to the Province.</p>	<p>Work in Progress</p>
<p>3.5 We recommend that the Department accrue an estimate of future interest relief claims, based on past experience, in the year in which student loans are issued.</p>	<p>Other <sup>2</sup>.</p>
<p>3.6 We recommend that the Department perform an analysis of risks affecting the Student Assistance program, and implement appropriate preventive and detective controls. The Department should consider either verifying the income of Student Assistance applicants and supporting persons through electronic comparisons with Canada Customs and Revenue Agency data and/or establishing a formal, comprehensive audit regime.</p>	<p>Planning Stage</p>
<p>3.7 We recommend that the Private Career Colleges Division prepare an annual report on its operations and results for inclusion in the Annual Report of the Department of Education.</p>	<p>No action taken or planned</p>
<p>3.8 We recommend that the Private Career Colleges Division increase the number of annual inspections to comply with its inspection policy, and improve its procedures for documenting reviews of College financial statements.</p>	<p>Work in Progress</p>

**Chapter 4 - Regional School Boards' Property Services Expenditures**

<p>4.1 We recommend that the Department of Education work with Regional School Boards to establish a protocol for reporting on the condition of school buildings.</p>	<p>Work in Progress</p>
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2. Management has provided us with a strong rationale as to why implementation of this recommendation is unnecessary.

<p>4.2 We recommend that the Department of Education work with Regional School Boards to establish service standards for property services operations and a process for reporting on achievement.</p>	<p>Work in Progress</p>
<p>4.3 We recommend that the Department of Education develop a process to assess whether Regional School Boards are maintaining schools appropriately. This process should consider compliance with legislation and policies, and due regard for economy and efficiency.</p>	<p>Work in Progress</p>
<p>4.4 We recommend that Regional School Boards review committee structures to determine whether a separate committee dedicated to property services would enhance governance of the function.</p>	<p>Other <sup>3</sup>.</p>
<p>4.5 We recommend that Regional School Boards review and document information requirements in the property services area to help ensure they are receiving sufficient, appropriate information to properly fulfill their roles and responsibilities under the Education Act.</p>	<p>Work in Progress</p>
<p>4.6 We recommend that a process be established at all Regional School Boards for the development, approval and reporting of annual operational and preventive maintenance plans for property services operations. Assumptions implicit in such plans should be clearly documented.</p>	<p>Work in Progress</p>
<p>4.7 We recommend that Regional School Boards define performance indicators for the property services function and report on achievement.</p>	<p>Work in Progress</p>
<p>4.8 We recommend that the Halifax Regional School Board review existing controls over maintenance materials inventory using sound risk management practices, and implement changes as required.</p>	<p>Planning Stage</p>
<p>4.9 We recommend that the Regional School Boards develop a formal process for the evaluation of staff performance.</p>	<p>Planning Stage</p>
<p>4.10 We recommend that the Halifax Regional School Board review its current procedures for controlling work orders and staff assignments to ensure they are appropriate and working as designed.</p>	<p>Work in Progress</p>
<p>4.11 We recommend that the Halifax Regional School Board use its available maintenance management software to track the full costs associated with completion of work orders.</p>	<p>No action taken or planned</p>
<p>4.12 We recommend that the Department of Education and Regional School Boards investigate implementation of best practices including energy management systems, joint procurement and custodial staffing and scheduling standards.</p>	<p>Work Complete</p>

3. *Approximately one half of the Regional School Boards have a separate committee with responsibility for property services.*

**Chapter 5 - Drinking Water Safety System**

5.1 a) We recommend that the Department develop audit procedures and forms, study resource issues, establish coordination mechanisms	Work Complete
5.1 b) and implement quality control standards for the audit of registered water supplies.	Work in Progress
5.2 We recommend that Departmental requirements for the documentation and follow up of boil water advisories be complied with.	Work in Progress
5.3 We recommend that the Department upgrade the reporting function of its environmental registration and approvals system so that it can provide all of the types of information helpful for monitoring enforcement activities.	Work Complete

**Chapter 7 - Nova Scotia Long Term Disability Trust Fund**

7.1 We recommend that benchmarks to be established by the Trustees be included in a plan to monitor the impact of the recent Plan changes.	Work Complete
7.2 We strongly recommend that the effectiveness of current short-term illness policies and practices, and their impact on LTD claims, be examined by PSC. Further, there is a need to integrate and coordinate aspects of these benefit programs to better facilitate back-to-work objectives.	Work in Progress
7.3 We recommend that an overall review of the governance structure and arrangements for the Plan be undertaken. This review should include a discussion of alternatives to the present arrangements to ensure the resulting board structure addresses the concerns expressed by the Trustees surrounding fiduciary responsibility to the beneficiaries of the Plan; i.e., current contributors and claimants.	Work in Progress
7.4 We recommend that future annual reports be prepared on a timely basis and clearly indicate the impact the recent changes have had in addressing the unfunded liability of the Plan.	Work Complete
7.5 We recommend that the Board develop a schedule for the periodic review of files (likely on a sample basis) as part of the overall evaluation of the claims administration function.	Planning Stage
7.6 We recommend that the Trustees perform an analysis to determine whether services procured from external service providers result in due regard for economy and efficiency. If it is determined that these services are to be sole-sourced, written documentation justifying this decision should be noted in the Board minutes.	Work in Progress

<b>Chapter 8 - Accountability of District Health Authorities</b>	
8.1 We recommend that DOH establish a central file for each DHA. This file should contain all correspondence between the Department and the DHA as well as any documents required by legislation.	Work Complete
8.2 We recommend that DOH continue to develop a framework for performance reporting by DHAs. This should include measuring common performance indicators against pre-established benchmarks.	Work in Progress
8.3 We recommend that the Department submit DHA Business Plans to Executive Council for approval as required by the Health Authorities Act.	Work Complete
8.4 We recommend that DHAs submit annual reports to DOH by September 1 as required by the Act. We also recommend that DOH follow up on a timely basis in those cases where the annual report and other required items are not received by due dates.	Work in Progress
8.5 We recommend that the Department of Health establish accounting policies and give more direction to the District Health Authorities in this area.	No progress to date, but plan to take action.
8.6 We recommend that DOH review the systems and controls over the collection of statistical data and consider whether additional guidance and controls are necessary to ensure the data is accurate and comparable.	Work in Progress
8.7 We recommend that management establish a project plan and proceed with development of a funding formula to rationalize funding allocations to DHAs.	No progress to date, but plan to take action.
<b>Chapter 9 - Health - Procurement</b>	
9.1 We recommend that the Department of Health complete its reorganization of the procurement function.	Work Complete
9.2 We recommend that the Department of Health issue appropriate purchase orders at the time goods and services are ordered. The purchase orders should be properly approved and issued at the time the order is placed.	Work in Progress
9.3 We recommend that the Department of Health ensure that exemptions under Section 8 of the Procurement Policy (i.e., Alternative Procurements) are appropriately approved and documented on an Alternative Procurement Practices Report form prior to placement of the order for goods or services. The completed forms should be submitted to the Department of Transportation and Public Works.	Work Complete

<p>9.4 We recommend that the Department of Health regularly receive a copy of the report prepared by the Procurement Branch of the Department of Transportation and Public Works for the Minister. The Department of Health should review the report for completeness and accuracy.</p>	Work in Progress
<p>9.5 We recommend that the Procurement Branch and/or Corporate Internal Audit perform periodic audits of exemptions under Section 8 of the Procurement Policy (Alternative Procurement transactions) at the Department of Health to assist the Department in achieving compliance with the Procurement Policy and to assist DT&amp;PW in preparing complete and accurate reports.</p>	Planning Stage
<p><b>Chapter 10 - Home Care Nova Scotia</b></p>	
<p>10.1 We recommend that the Department of Health prepare strategic and operational plans for Home Care Nova Scotia to ensure a common understanding of future direction, and to serve as a guide for HCNS management.</p>	Work in Progress
<p>10.2 We recommend that the Department of Health review the current process for approving payment of invoices for nursing services. The approval process should ensure that all services paid were authorized by Care Coordinators, and all information necessary to complete the verification should be available on a timely basis.</p>	Work Complete
<p>10.3 We recommend that the Department of Health prepare comparisons of Home Care Nova Scotia financial results and performance information to expectations, standards, and prior year figures for the program as a whole, and also among regions. Any resulting variances should be investigated and explained to ensure that program costs are properly understood and managed.</p>	Work Complete
<p>10.4 a) We recommend that the Department of Health, in conjunction with implementation of its new home support agency funding guidelines, review controls over funding to home support agencies.</p>	Work in Progress
<p>10.4 b) The controls should be sufficient to ensure that payments are made only for authorized services, and that any deficits funded are not the result of poor management practices or services unrelated to HCNS.</p>	Work Complete
<p>10.5 a) We recommend that the Department of Health review the arrangements for acquisition of nursing and home support services for Home Care Nova Scotia. The Department should comply with the Government Procurement Policy and either subject these services to a competitive process, or seek the required approval for an exemption.</p>	Work Complete

<p>10.5 b) The Department should also determine whether future contracts should be Province-wide or whether each District Health Authority should have responsibility for its own arrangement.</p>	<p>Work Complete</p>
<p>10.5 c) Contracts should include clearly-defined performance expectations and require reporting of achievement.</p>	<p>Work in Progress</p>
<p>10.6 We recommend that the Department of Health assess its objectives for agency audits, the associated risks, and resources available. The Department of Health should develop and implement a plan for agency audits.</p>	<p>No progress to date, but plan to take action.</p>
<p>10.7 a) We recommend that the Department of Health include client fees and collection practices in the scope of its agency audits.</p>	<p>No progress to date but plan to take action.</p>
<p>10.7 b) We also recommend that the Department perform regular comparisons of the full costs of home support and oxygen services to the fee schedule to ensure that the charge is appropriate.</p>	<p>Work in Progress</p>
<p><b>Chapter 11 - Nova Scotia Health Research Foundation</b></p>	
<p>11.1 We recommend that the Foundation continue its efforts to implement a strategic planning initiative, and submit a three-year plan as required by the Act. The Foundation should report its performance in achieving plans and targets including a comparison of actual to budgeted financial results and reporting of program performance.</p>	<p>Work in Progress</p>
<p>11.2 We recommend that, for all grants awarded by the Foundation, there be a formal agreement signed by the Foundation, the sponsor and the grantee, and that a copy be maintained by the Foundation. The agreement should set out the payment terms and the sponsors (institutions) should sign that they will comply with established funding requirements. In addition, the Foundation should adopt procedures to verify compliance.</p>	<p>Work Complete</p>
<p>11.3 We recommend that two signatures be required for all cheques.</p>	<p>Work Complete</p>
<p>11.4 We recommend that the Foundation improve its monitoring of grant recipients by requiring the sponsoring institutions' finance departments to submit annual financial reports of grant expenditures.</p>	<p>Work Complete</p>
<p>11.5 We recommend that the Board approve an investment policy to provide guidance for staff and professional investment advisors when investing Foundation funds.</p>	<p>Work Complete</p>

<p>11.6 We recommend that the government appropriately budget the grant to the Nova Scotia Health Research Foundation based on operational plans, legislative and other commitments and historical experience, and that the grant be disbursed on a basis which matches the cash flow needs of the Foundation.</p>	<p>No progress to date, but plan to take action.</p>
<p>11.7 We recommend that the Nova Scotia Health Research Foundation provide a Statement of Revenues and Expenditures for the Restricted Fund in its financial statements.</p>	<p>No progress to date, but plan to take action.</p>

**Chapter 13 - Service Nova Scotia and Municipal Relations - Fuel and Tobacco Tax**

<p>13.1 We recommend the Department implement an appropriate system of internal control over cash receipts.</p>	<p>Work Complete</p>
<p>13.2 a) We recommend that the examination of monthly returns be appropriately documented and reviewed,</p>	<p>Work Complete</p>
<p>13.2 b) and standards be developed to specify the frequency and nature of the procedures to be performed.</p>	<p>Work in Progress</p>
<p>13.3 We recommend that the Department ensure returns and tax payments are processed on a timely basis and that all information required on a return is received.</p>	<p>Work Complete</p>
<p>13.4 We recommend tax-exempt sales statements be reviewed monthly, at least on a sample basis. This process should include checking to see that tax-exempt fuel is only being sold to companies and individuals who have consumer exemption permits.</p>	<p>Work in Progress</p>
<p>13.5 We recommend that the Department implement a formal, comprehensive system for audit/inspection planning, management and quality control.</p>	<p>Work in Progress</p>
<p>13.6 We recommend that audits of oil company head offices, gasoline retailers and tobacco wholesalers be performed. Staff should be provided with the training necessary to audit oil company head offices and gasoline retailers, and/or the expertise should be obtained from outside the Department.</p>	<p>Work in Progress</p>
<p>13.7 We recommend that information system improvements be implemented to facilitate a more effective and efficient inspection and audit process.</p>	<p>Work Complete</p>
<p>13.8 We recommend a comprehensive review of the staffing, organization and work responsibilities of the Department as they relate to tobacco and fuel taxes, concurrent with the above-recommended information system improvements, to ensure all tax-related responsibilities are fulfilled in the most efficient and effective manner.</p>	<p>Work in Progress</p>

<p>13.9 We recommend that better documentation be prepared to support the procedures performed and conclusions drawn from audits and inspections.</p>	<p>Work in Progress</p>
<p>13.10 a) We recommend that the Department establish risk-based criteria for determining which companies should provide surety bonds, and ensure it has up-to-date surety bonds from companies required to provide them.</p>	<p>Planning Stage</p>
<p>13.10 b) The Department should also ensure that licenses or permits required by a client from another Department are in place.</p>	<p>Work Complete</p>
<p><b>Chapter 14 - Transportation and Public Works - Procurement Branch</b></p>	
<p>14.1 a) We recommend that government review its practices for ensuring compliance with procurement policy and agreements.</p>	<p>Work in Progress</p>
<p>14.1 b) We believe either the role of the Procurement Branch needs to be expanded and its practices strengthened, or alternative measures need to be developed to hold all government entities individually accountable for procurement activity.</p>	<p>No action taken or planned</p>
<p>14.2 a) We recommend more guidelines be developed and communicated,</p>	<p>Work Complete</p>
<p>14.2 b) and practices be strengthened, for the documentation and recording of procurement transactions.</p>	<p>Work in Progress</p>
<p>14.3 We recommend that government comply with policies and guidelines for alternative procurement, and that transactions be better documented. We believe there needs to be a better system to address known non-compliance with alternative procurement policies and differences of opinion between the Procurement Branch and its client organizations.</p>	<p>Other <sup>4</sup>.</p>
<p>14.4 a) We recommend that, in order to maintain a high level of confidence in the procurement process and ensure all procurement is carried out in an open and fair manner, there be some level of reporting to the House of Assembly</p>	<p>No action taken or planned</p>
<p>14.4 b) and other stakeholders on procurement.</p>	<p>Work in Progress</p>
<p>14.5 a) We recommend continued development of performance measures,</p>	<p>Work Complete</p>
<p>14.5 b) collection of supporting information and annual reporting on performance.</p>	<p>Work in Progress</p>
<p>14.5 c) Where possible, performance reporting should include quantitative measures compared to predetermined targets,</p>	<p>Work Complete</p>

4. Revised policy on Alternative Procurement was issued in 2005.

14.5 d) with explanations for significant variances.	Planning Stage
<b>Chapter 15 - Highway 104 Western Alignment Corporation</b>	
15.1 We recommend that the Corporation's accountability requirements be broader, and included in legislation so they may only be changed by the House of Assembly, to which we believe the Corporation is ultimately accountable.	Work Complete
15.2 We recommend ongoing monitoring of all agreements and indentures be undertaken to ensure compliance with all corporate requirements.	Work Complete
15.3 We recommend that accident and death statistics be monitored by TPW or the Corporation and reported in the Corporation's annual report, along with any available explanations for trends or variances from expectations.	Work in Progress
15.4 We recommend that a more formal, comprehensive business plan be prepared each year and used to enhance the Corporation's planning and budgeting process.	Work Complete
15.5 We recommend the Corporation prepare a three to five-year cash flow projection based on management's best estimates of future operating results, debt repayment, road repairs, reserve funding, and other significant sources and uses of cash.	Work Complete
15.6 We recommend that cash flow projections be prepared regularly to identify changes (e.g., predetermined toll increases, forecasted debt repayments) which may cause potential cash shortages or affect the Corporation's ability to fund reserve accounts.	Work Complete
15.7 We recommend that the Corporation determine whether it is more beneficial to hold excess cash or repay outstanding debt. The analysis should include reviewing cash flow projections to ensure the Corporation will have sufficient cash to meet all of its future obligations.	Work Complete
15.8 We recommend that indirect and other costs associated with the annual maintenance and major repair services provided to the corporation be identified, accumulated and monitored. TPW should consider whether future agreements with the Corporation provide for full cost recovery to the Department.	Work Complete
<b>Chapter 16 - Trade Centre Limited</b>	
16.1 We recommend Trade Centre Limited's formal governance and accountability arrangements be modernized.	Work Complete

<p>16.2 We recommend Trade Centre Limited and the government reconcile the Corporation's need to issue event performance guarantees with the requirements of the Provincial Finance Act for prior Executive Council approval.</p>	<p>Work Complete</p>
<p>16.3 a) We recommend government, through the Department of Finance or Treasury and Policy Board, establish a communication strategy or process to ensure relevant statutory, policy or other requirements and initiatives are effectively communicated on a timely basis to all entities, their governing bodies and senior management included in the Government Reporting Entity.</p>	<p>Work in Progress</p>
<p>16.3 b) We also recommend TCL put in place a process to ensure the Corporation is aware of and in compliance with statutory or other requirements affecting its operations.</p>	<p>Work Complete</p>
<p>16.4 We recommend the agreement with Halifax Regional Municipality for the management of the Halifax Metro Centre be reviewed to ensure it appropriately reflects current circumstances, including cost allocation or sharing arrangements, and properly indemnifies TCL for contracts and operational risks related to HMC.</p>	<p>No action taken or planned</p>
<p>16.5 We recommend Trade Centre Limited initiate formal external annual reporting of performance against indicators and targets.</p>	<p>Work in Progress</p>
<p>16.6 We recommend Trade Centre Limited establish a more formal and documented process for determining eligibility and amounts of annual bonuses for senior management.</p>	<p>Work in Progress</p>



# Department Audits

**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.

# 7 STUDENT ASSISTANCE

## BACKGROUND

- 7.1** The purpose of the Student Assistance Program is to facilitate greater access to post-secondary education for Nova Scotians by providing financial assistance to eligible students. The authority for the program is the Student Aid Act. The Program is the responsibility of the Higher Education Branch of the Department of Education. The Student Assistance Division within the Branch administers various programs including the Nova Scotia Student Loan (NSSL) Program which was established in 1993. Since 1997, the Royal Bank of Canada (RBC) has been the sole issuer of Nova Scotia student loans based on eligibility certificates issued by Student Assistance. The Province has provided a guarantee for all loans issued since August 1, 2000.
- 7.2** The Senior Executive Director of the Higher Education Branch has overall responsibility for operations of the Student Assistance Division (the Division). The Division is managed by the Director of Student Assistance and two Assistant Directors. The Assistant Director - Program is responsible for application assessment, student counseling, the call centre and data processing functions. The Assistant Director - Finance is responsible for program compliance and financial service functions. The Division has a staff complement of 36.6 full-time equivalents. For the detailed organization chart, see Exhibit 7.1.
- 7.3** The Division administers several provincial and federal student assistance programs. These include Nova Scotia Student Loans, Canada Student Loans, Canada Millennium Scholarships and the disbursement of Canada Study Grants for students. The Division also is responsible for the Province's Interest Relief and Debt Reduction programs.
- 7.4** Significant legislation and agreements include the Student Aid Act, Millennium Scholarship Foundation Agreement, and the Memorandum of Understanding between the Royal Bank of Canada and Province of Nova Scotia for financing and managing the Nova Scotia Student Loan portfolio. Under the terms of the Memorandum, the Division processes student assistance applications and determines student entitlement, while the actual financing of the loan is the responsibility of RBC. The Province pays interest to RBC on loans while the student is considered in study (until six months after actual completion of studies); these payments amounted to \$3.6 million for 2004-05.
- 7.5** Effective August 1, 2000 the Province bears the risk for student loans negotiated by RBC. Prior to this date, the Province paid a risk premium of 10% of the loan balance to RBC at the time of consolidation of loan balances and RBC bore the related risk. As at March 31, 2005 the Province had guaranteed approximately \$141 million in Provincial student loans to RBC.

- 7.6** In 2005-06, the NSSL Program is expected to provide assistance to eligible students of approximately \$45 million through RBC. These loans are repayable by students to the Royal Bank upon completion of their studies. In cases where students default for 180 days, payment to RBC is fully guaranteed by the Province. During the 2004-05 fiscal year, the Province made payments with respect to defaulted student loans to RBC in the amount of \$5.1 million (see Exhibit 7.4). This amount is expected to grow to \$8 million in just two years.
- 7.7** On an annual basis, the Province adjusts the provision for anticipated bad debts established on its financial statements to reflect the current year experience and forecasts. As at March 31, 2005, the total amount of guaranteed loans outstanding at RBC was approximately \$141 million. The provision for bad debts was \$21.1 million or approximately 22% of the net present value of the repayable balance. In 2004-05, the provision was decreased by \$0.3 million to reflect the assessed risk level.
- 7.8** After loans in default are paid by the Province to RBC, the Province assesses collectibility. Loans deemed to be collectible are established as accounts receivable by the Province. As at March 31, 2005, the related accounts receivable balance was \$1.95 million.
- 7.9** In recent years, the Department of Education has taken a number of measures to improve student assistance programs such as the development of a debt reduction program, enhancements to the present interest relief program, and progress towards the development of a joint provincial/federal designation policy framework. For the 2005-06 academic year, specific program enhancements include decreased parental contribution requirements, increased assistance limits and new grants for under-represented groups.
- 7.10** Actual net expenditures in 2004-05 for this division were \$14.6 million and budgeted expenditures for fiscal 2005-06 are expected to be approximately \$20.9 million (see Exhibit 7.5).
- 7.11** Our last audit of the Student Assistance Division was performed in 2002 and reported in the 2002 Report of the Auditor General (chapter 3).

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## RESULTS IN BRIEF

- 7.12** The following are the principal observations from this audit.
- We performed our last audit of the Student Assistance Division in 2002. Since that time, the Department has begun to deal with some of our recommendations. However, progress has been slow and we repeat certain of the recommendations in this chapter. We understand that some of the delay is attributable to turnover in the Division's senior management positions and we acknowledge that the Division has included many of these areas in its priorities. However, action needs to be taken in the short term to address the need for improved controls in certain areas.

- We concluded that there is an appropriate level of accountability with respect to specific Student Assistance initiatives and priorities included in the Department of Education's Business Plan. However, because the Business Plan relates to the entire Department, it does not include detailed planning for the Student Assistance Division. We recommend more detailed short and long-term operational planning for the Division and formal monitoring of achievement of performance targets. For example, we would expect the Division to be setting and monitoring performance targets related to the efficiency of the Division's operations and turnaround time for application processing.
- The Student Assistance Division has not performed a formal risk assessment with respect to its activities and responsibilities. An assessment would attempt to identify significant, potential risks and ensure that adequate controls exist to mitigate them. For example, fraud and error would likely be identified as risks and strategies for prevention, quality control and verification would be planned to mitigate the risks.
- We tested a sample of student assistance files and used data extraction software to perform analysis of specific aspects of the Student Assistance Division's electronic databases for 2003-04. In the vast majority of cases tested, assistance awards complied with policies. However, there were a few cases identified in our sample where errors during the assessment process led to errors in the amount of the assistance awarded to students. We extended our sample size and found no further errors. We have recommended internal quality control improvements to assist in preventing such errors.
- Section 23(1) of the Provincial Finance Act requires Executive Council approval for write off of debts owing to the Province. We believe the Act is unclear as to whether it applies to payments made by the Province to the Bank under the student loan guarantee. If the Section does apply, the accounting policy followed effectively writes off student loans deemed uncollectible without Executive Council approval and approval should have been sought to write off \$3,582,000 in 2004-05. We believe the Department should seek a formal legal opinion on whether Executive Council approval is required.

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## AUDIT SCOPE

- 7.13** The major objectives of our audit of Student Assistance were to review and assess:
- the adequacy of operational and financial planning, and performance reporting;
  - compliance with policies and legislation;
  - the adequacy of controls over the application and assessment processes, and payments to the bank;

- progress towards a national framework for designation of educational institutions;
- the accounting treatment for costs associated with the student assistance program and related compliance with generally accepted accounting principles; and
- follow up on implementation of recommendations from our 2002 audit.

**7.14** Our audit criteria were obtained from recognized sources including the Auditor General of Canada's *A Framework for Identifying Risk in Grant and Contribution Programs*, the Canadian Institute of Chartered Accountants' *Public Sector Accounting Handbook*, Treasury Board of Canada Secretariat's *Policy on Transfer Payments* and the Department of Education's Student Assistance policies and procedures.

**7.15** Detailed on-site fieldwork was conducted during July and August of 2005. Our audit procedures consisted of analysis of databases, testing of detailed transactions and student assistance applications, examination of policies and procedures, review of reports and other documents deemed to be relevant, and interviews with management and staff. Our audit did not include collection activity with respect to defaulted loans where the guarantee has been honoured. The collection activity was outside our audit scope because Service Nova Scotia and Municipal Relations, rather than the Department of Education, is responsible and this audit focussed only on the Department of Education.

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## PRINCIPAL FINDINGS

### Business Planning and Performance Reporting

**7.16** [Department of Education Business Plan](#) - Departments and agencies of the government of Nova Scotia are required to prepare annual business plans describing their priorities for the next fiscal year. The following priority, related to the Student Assistance program, is included in the Department of Education's 2005-06 Business Plan: "Improvements to the Student Assistance program will be implemented, including increased loan limits, changes to Parental Contribution, debt management measures and targeted grants."

**7.17** The Department's 2005-06 Business Plan also includes the following three performance measures related to Student Assistance with related targets:

- Nova Scotians enrolled in universities and community colleges
- Average Nova Scotia student loan amount
- Number of student loans issued

**7.18** Student Assistance management prepare formal status reports for Department senior management on a monthly basis including progress in implementing

Division priorities and expected completion dates. Progress is tracked informally through weekly management meetings. The Department also prepares quarterly reports to Treasury and Policy Board on the status of Business Plan priorities. Annual performance plans for Division management include responsibility for implementation of Business Plan priorities.

- 7.19** We concluded that there is an appropriate level of accountability with respect to specific Business Plan initiatives and priorities. However, because the Business Plan relates to the entire Department, it does not include detailed plans for the Student Assistance Division.
- 7.20** **Operational planning** - A long-term operational plan has not been prepared for the Student Assistance Division. Branch senior management have identified several priorities for the next three years including the following:
- “Increased focus on risk management, including the Designation framework, SIN validation, and Canada Revenue Agency data sharing.
  - Complete and make operational the new student assistance IT platform.
  - Develop a method of on line data exchange with Universities and Colleges to confirm enrollment, academic standing and graduation.
  - Complete analysis and initiate new service provider contract.
  - Implement program changes as approved through ICCSFA.”
- 7.21** Nova Scotia participates on the Intergovernmental Consultative Committee for Student Financial Assistance (ICCSFA) which helps ensure a pan-Canadian approach to government funded student financial assistance. ICCSFA is comprised of all provinces/territories participating in the Canada Student Loan Program, and the federal government.
- 7.22** With the exception of the Department of Education’s Business Plan described above, there is no formal annual plan prepared with respect to the operations of the Division. The purpose of an operational plan would be to define specific initiatives and priorities, guide Division management and serve as a basis for performance reporting and accountability.
- 7.23** **Performance measures** - Operational plans should include performance measures and targets. Performance against these targets should be monitored, assessed and reported on a regular basis. For example, we would expect the Division to be setting and monitoring performance targets related to the efficiency of the Division’s operations and turnaround time for application processing. (See paragraph 7.48 for additional discussion of turnaround time.) The Division informally monitors certain performance measures such as work flow, but there are no formal targets and achievement is not regularly reported.
- 7.24** We believe that management’s accountability for the administration of the Student Assistance program would be enhanced by appropriate operational planning and status reporting. We recommended development of operational plans in 2002 and repeat the recommendation below. We acknowledge that key senior management

positions in the Student Assistance Division have recently been filled and that management turnover may have delayed implementation of our recommendation in this area.

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#### **Recommendation 7.1**

**We recommend that the Student Assistance Division prepare a long-term operational plan for the Student Assistance program.**

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#### **Recommendation 7.2 (repeated from 2002 audit)**

**We recommend that the Student Assistance Division prepare an annual operational plan to provide a clear link between the overall Departmental goals and priorities and the more specific goals, priorities, and activities of the Branch and Division. The plan should include measurable performance indicators and targets. The Student Assistance Division should report performance in relation to the plan.**

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### **Budgeting and Financial Management**

- 7.25** **Annual budgeting process** - Development of the annual budget for the Student Assistance Division starts in the fall. The Department's finance section requests Division management to submit a critical issues document detailing cost pressures and new initiatives requiring additional funding in the next fiscal year. The critical issues are to include the rationale as well as management's best estimate of the potential cost. Critical issues approved for funding and salary adjustments determined by the Department's finance section are added to the Division's current year budget to form the basis of the budget for the next fiscal year.
- 7.26** **Monitoring** - A monthly forecast turnaround document is prepared by Division management and used to monitor actual expenditures to date and forecast expenditures to year end. This report is reviewed by the Department's Finance section as well as the Branch Senior Executive Director. Division management provides additional variance explanations to the Senior Executive Director and the Department's finance section as requested.
- 7.27** We concluded that the Division has reasonable processes for annual budgeting and periodic monitoring of financial performance in relation to the budget. Financial management processes comply with central government requirements.

### **Student Assistance Application and Assessment Process**

- 7.28** **Background** - The primary role of the Student Assistance Division is to process student assistance applications and award loan certificates to students for presentation to the lender. In a typical application year, Division staff will process approximately 20,000 applications. Students may either apply on-line through the website or submit a paper application. All applications are processed using the

Division's production software. An electronic interface has been created between the web-based application and the production system. Information from paper applications is manually input into the production system. Approximately 90% of applications are received electronically.

- 7.29** After eligibility is determined, the amount of assistance awarded depends on a student's established need. Need is calculated by taking allowable costs under the program and subtracting the student's resources. The assistance awarded cannot be more than the maximum assistance available under program guidelines. Allowable costs include tuition fees, living costs, and dependants. Resources may include parental contributions, pre-study income and other financial assets.
- 7.30** Accuracy of assistance awards can be attributed to five basic factors:
1. whether the supporting information submitted by the student is complete and accurate;
  2. whether the assessor's judgement in analyzing the application and requesting additional information is appropriate;
  3. whether the data is entered into the production system accurately;
  4. whether the computer environment is controlled appropriately; and
  5. whether the production system processes the information correctly.
- 7.31** Our review of controls and testing of assistance applications focussed on an assessment of whether these basic factors were being appropriately controlled. Our audit findings are noted below.
- 7.32** [Computer environment controls](#) - We assessed the general computer environment controls in place and noted two areas where we believe controls should be improved.
- 7.33** Administration of computer systems is the responsibility of the Department's Information Technology (IT) Division. This includes the computer systems used by the Division to process student assistance and payments to the banks. We noted that there is no written understanding between the Student Assistance Division and the IT Division. However, Student Assistance management indicated that the Division's needs are being met. We believe that the relationship would be enhanced if there was written documentation clearly defining roles and responsibilities of both parties with respect to critical business functions and acceptable response times.
- 7.34** The Division has neither an up-to-date disaster recovery plan nor a business continuity plan. The lack of these plans could cause an undue delay in the resumption of services in the event of a disaster or other significant business interruption.

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**Recommendation 7.3**

**We recommend that the Student Assistance Division prepare business continuity and disaster recovery plans.**

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- 7.35** **Risk assessment** - The Student Assistance Division has not performed a formal risk assessment with respect to its activities and responsibilities. This is important to ensure that all potential risks are identified, analyzed and prioritized and that adequate controls exist to mitigate those risks. The lack of formal risk assessment increases the risk that proper controls may not be in place to prevent and detect loss. For example, an appropriate risk assessment would target particular areas for audit activity and verification to prevent fraud.
- 7.36** **Verification of documentation received** - The Division does not routinely require submission of supporting documentation (e.g., tax returns, child care receipts) relating to the student, parents or spouse to verify financial representations on applications. However, there are notable exceptions; students' pre-study income and academic marks are always verified. The decision to request supporting documents or verify information directly with the Canada Revenue Agency (CRA) is left to the discretion of the assessor. All first-time applicants are required to submit a signed "consent to release income tax information" from CRA and it remains in effect for all years that assistance is required. Division management indicated discussions are underway with CRA to enable future electronic verification of parental, spouse and student income.
- 7.37** The Division does not routinely audit information submitted by applicants. In our 2002 Report (chapter 3, paragraph 3.43), we noted that Nova Scotia does not verify as much of the supporting information related to student assistance applications as certain other provinces.
- 7.38** **Reliance on post-secondary institutions** - The Division relies on post-secondary institutions to confirm certain important pieces of information related to assistance eligibility. For example, institutions are required to confirm status as a full-time student before the loan certificate can be negotiated with the Bank. Institutions are also required to notify the Department if the student's status as a full-time student changes, for example, if the student withdraws. Guidelines for post-secondary institutions are set out in the *Administrative Manual for Designated Institutions*. Transcripts of grades must be received before awards are made for second and subsequent years of study.
- 7.39** **Quality control** - An effective internal quality control process could help ensure supporting information is assessed accurately by staff. Risk assessment could identify higher risk loans which would then be reviewed by internal audit staff for compliance with program guidelines. In addition, a representative sample of regular loans processed by each assessor could also be reviewed.
- 7.40** A limited quality control process currently exists. Edit checks are built into the production system and more complicated applications are assigned to more

experienced staff. These controls help to reduce the risk of errors. A compensating control which helps mitigate the risk of under awards is that students may inquire if they believe an error was made. Management also indicated that, in some cases, more than one staff person will work on the same assistance application which increases the likelihood of an error being detected.

- 7.41** A significant number of assistance applications processed by staff are relatively straight forward. There are, however, many factors which can complicate processing for certain students. Situations, for example, which involve married students, children, or financial assets can increase the complexity of the assessment process. These particular applications, due to increased complexity, would potentially have a higher risk of assessment error. An effective quality control program would target risk areas for additional review and audit.

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**Recommendation 7.4 (repeated from 2002 audit)**

**We recommend that the Department perform an analysis of risks affecting the Student Assistance program, and implement appropriate preventive and detective controls. The Department should consider either verifying the income of Student Assistance applicants and supporting persons through electronic comparisons with CRA data and/or establishing a formal, comprehensive audit regime.**

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**Recommendation 7.5**

**We recommend that the Student Assistance Division improve its internal quality control process by implementing risk assessment and internal audit.**

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- 7.42** Department of Education management indicated action to be taken on these recommendations is currently being planned. Plans include a data sharing initiative with CRA to verify information included on student assistance applications.
- 7.43** **Detailed testing of NSSL applications** - We performed detailed testing of a sample of NSSL applications for the August 1, 2003 to July 31, 2004 academic year. Our audit procedures included verification of student eligibility, accuracy of award calculations and appropriate supporting documentation.
- 7.44** In total, we tested a sample of 67 approved Nova Scotia student assistance applications totaling \$128,622. As a result of our detailed testing of 52 applications, we identified two assessment errors by staff which resulted in under awards of \$3,274. We extended our testing to another 15 items and found no further errors. Overall, the error rate was 2.55% of the total awards tested. The sample size tested was not sufficient to allow us to extrapolate the results of our testing over the entire population of student assistance applications for the year.

- 7.45** Internal quality control procedures as recommended above could help to prevent such errors.
- 7.46** We also used data extraction software to analyze specific aspects of the Student Assistance Division's electronic databases for 2003-04. For example, we reviewed electronic records to determine if there was evidence of the following:
- loans awarded to duplicate Social Insurance numbers;
  - part-time students who received student loans;
  - students who did not fulfill the requirement to be residents of Nova Scotia; and
  - lack of performance of credit checks where policy indicated that they should be done.
- 7.47** The Student Assistance Division provided reasonable explanations for files that were identified through our review as being potential examples of non-compliance. Through this analysis and follow-up, we did not identify any instances of actual non-compliance with policies.
- 7.48** **Application turnaround time** - There is informal monitoring of some performance measures; for example, managers monitor the number of applications outstanding and allocate staff accordingly. The Student Assistance website indicates an expected turnaround time for applications of four to six weeks. There does not appear to be any formal tracking of results against the stated turnaround time. Management indicated that the stated turnaround time is not a number that they actively monitor and use as a performance measure. We believe that the Division should formally establish a target with respect to turnaround time and that achievement should be monitored and reported.

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### **Recommendation 7.6**

**We recommend that the Student Assistance Division establish a formal target for application turnaround time and report achievement.**

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## **Loan Defaults**

- 7.49** Once the Royal Bank of Canada has determined that the student loan is 180 days in arrears as described in the Memorandum of Understanding, the Student Assistance Division is required to purchase the defaulted loan from the Bank. The amount paid out is charged against the reserve set out for this purpose. During 2004-05, the Department paid \$5.1 million for defaulted loans. As at March 31, 2005, the reserve had a balance of \$21.1 million.
- 7.50** These loans are then sent to Service Nova Scotia and Municipal Relations (SNSMR) for collection. At year end, the Division, based on information provided by

SNSMR, estimates the amount collectible from the loan balances in default and this amount is recorded by the Department of Education as accounts receivable. As at March 31, 2005, the receivable was \$1,950,000. We did not perform an audit of SNSMR's collection efforts.

- 7.51** Section 23(1) of the Provincial Finance Act requires Executive Council approval for debts owing to the Province to be written off. We believe the Act is unclear as to whether it applies to payments made by the Province to the Bank under the student loan guarantee. If the Section does apply, the accounting policy followed effectively writes off student loans deemed uncollectible without Executive Council approval and approval should have been sought to write off \$3,582,000 in 2004-05. Department of Education senior management informed us that they interpret the authority to write off defaulted student loans to be part of the authority to issue the guarantee to the Bank for these loans. We believe the Department should seek a formal legal opinion on whether Executive Council approval is required.

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#### **Recommendation 7.7**

**We recommend that the Department of Education seek legal advice to determine whether Section 23(1) of the Provincial Finance Act applies to guaranteed student loans in default.**

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### **Debt Reduction Program**

- 7.52** **Background** - All students who qualify for a Nova Scotia Student Loan in an academic year beginning after August 1, 2003 can apply for Debt Reduction upon graduation. Any award will be paid directly to the lender, and applied against the loan balance. For the 2004-05 fiscal year, which was the first year in which Debt Reduction was awarded, the Division made payments of \$1,050,081. This is a new program and many of the eligible students have not yet graduated, so the annual cost is expected to grow. The Province has a reserve of \$9,650,000 set aside for this purpose (see Exhibit 7.3). Management reviews the size of the reserve annually and adjusts if necessary.
- 7.53** **Detailed testing** - We selected a sample of 21 debt reduction applications for testing. We tested to ensure eligibility according to program criteria, correct calculation of the award, and adequacy of supporting documentation. We found that 20 of the 21 applications tested were processed in compliance with program criteria.
- 7.54** In one of the sample items, an error was made in calculating the award amount which resulted in a student's award being \$525 less than it should have been. This error appears to be an isolated incident because of the particular circumstances of the student and it was corrected after we identified it.
- 7.55** Management informed us that, due to the newness of the Debt Reduction Program and certain communication issues, the application deadline is currently not being

enforced. Management also indicated that extensive efforts have been made to notify eligible students. A formal process for tracking debt reduction applications and payments has not yet been implemented but the Division is able to run ad hoc reports to monitor the area. On November 3, 2005, the Province announced that effective August 1, 2006 the employment and repayment bonuses available to students through the Debt Reduction Program will be doubled.

## Payments to Lending Institution

- 7.56** Some of the more significant provisions of the current Memorandum of Understanding (MOU) between the Royal Bank of Canada and the Province are summarized in Exhibit 7.7. The current agreement between the Bank and the Province expires on July 31, 2006, with an option to extend the agreement for two more years. The Department has established an internal committee with a mandate to recommend program options for future student assistance delivery, funding and collection.
- 7.57** Under the terms of the MOU, the Department is required to make monthly payments to the Bank for several aspects of the Nova Scotia Student Loan Program. The most significant of these payments relate to in-study interest, post-study interest relief and defaulted student loans (see Exhibit 7.4). The Bank sends electronic files to the Division which provide detailed support for the payment requested. The Division then puts the files through a series of electronic edit checks to assess the accuracy of the amounts being billed. An error report is prepared which flags transactions within the file that do not pass the established edit checks. The Division reviews the error report and informs the Bank of any required changes.
- 7.58** Although the edit checks are extensive, we noted areas where controls should be improved. For example, not all transactions flagged by the error report are investigated by Division staff because the number of transactions identified is so great. We believe there is a need to assess the edit checks currently in place to ensure that only potential errors warranting further staff investigation are highlighted in the monthly error reports. Also, once errors have been confirmed and reported to the Bank for correction, the Division does not have a regular, formal process for follow up to ensure the Bank has actually made the required adjustment.
- 7.59** In 2002, we recommended that the Department improve its electronic edit processes related to interest charges billed by the Bank primarily because the tolerances built into the edit checks were too wide. The Department acted upon the recommendation and extensive changes were made with strict thresholds for tolerances. However, the new edit checks flag so many transactions that the Department cannot investigate them all. The process is evolutionary and additional changes are now required to ensure the edit checks are correctly identifying problem transactions for investigation.
- 7.60** We also noted that the edit checks performed on the electronic file supporting post-study interest payments are not adequate and need to be improved. For

example, although the Division receives copies of approved interest relief applications processed by the Bank, the students on the electronic file and the approved applications are not compared to ensure that only eligible students are billed. We also noted that electronic controls do not appear to be in place to ensure that interest relief payments made to the Bank for any one student do not exceed the 30-month program limits.

- 7.61** The reports received from the Bank require improvement. For example, if the Bank does not know the Social Insurance Number, the data field is filled with “0”s. The Division’s electronic edit would not identify this file as a problem because the only related check is that the field be numeric.

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**Recommendation 7.8 (repeated from 2002 audit)**

**We recommend that the Student Assistance Division continue to improve its electronic edit processes related to interest charges billed by the Bank to the Province.**

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## Designation of Post-secondary Education Institutions

- 7.62** In order for students to receive assistance, institutions attended must currently be designated as described in the Division’s policies. Requirements for designated institutions are as follows:
- licenced by a provincial government or operate under provincial legislation;
  - offer programs at the post-secondary level;
  - have a refund policy for students who withdraw early; and
  - complete a cheque signing authorization form.
- 7.63** We tested a small sample of files for newly-designated institutions to determine compliance with the policy. We found a student had obtained a student loan to study at a massage therapy institute in the southern United States, and we could not determine whether the requirements for designation had been met. Information to support fulfillment of the above requirements was not on file at the Department. Designation of institutions outside the country is important due to increased risk because Division staff would not be familiar with the institutions or programs offered. Collection might also be riskier if the student decided to stay in another country after completion of studies. For another newly-designated institution in our sample, located in the Province, not all documentation to support designation was on file.
- 7.64** The Division indicated that it has not had a formal, regular process to verify that designated institutions are complying with policy. However, during 2004-05, the Division conducted a compliance review jointly with the Canada Student Loans

Program. The review involved selecting a representative sample of student files from public and private institutions, including E-learning and traditional classroom delivery, designated for the purposes of student financial assistance in Nova Scotia. Selected student files were then reviewed on-site for accuracy and completeness, according to Provincial policies and procedures. The following were the major findings from the review:

*“Overall, the review findings indicated that the student files at the participating post-secondary institutions were administratively well organized and generally in compliance with the pertinent regulations and guidelines. However, some discrepancies were found. It is recommended that follow-up meetings be held with each educational institution that participated in the review to assist the educational institutions in strengthening their administrative practices and better prepare the institutions to meet the requirements of the new Designation Policy.*

*Additional follow-up will be required by NSSLP to address outstanding issues identified at certain educational institutions. This will involve:*

1. *Clarifying the process for determining at what point student is no longer considered in full time attendance and when they should be withdrawn from study.*
2. *Reviewing that the calculations of tuition refunds are done in accordance with Nova Scotia’s tuition refund policy.*

*The compliance review identified a series of further recommendations as next steps for NSSLP, including:*

1. *Develop an internal compliance review capacity to address institutional compliance issues on an on-going basis. (Compliance Review Officers)*
2. *Strengthen the legal authority to conduct future compliance reviews.*
3. *Develop a policy to guide for [sic] E-learning institutions to assist in determining when a student is no longer considered in full time attendance and therefore should be withdrawn from the program of study.*
4. *Review the methodology used by E-learning institutions in their application of Nova Scotia’s tuition refund policy. (Particularly with respect to hardware)*
5. *Develop policy/procedures to mitigate the impact and incidence of early withdrawal of students from E-learning institutions.” (Compliance Review of Selected Post-Secondary Educational Institutions in Nova Scotia, March 2005, page 3)*

**7.65** The Division has indicated that it plans to do more compliance reviews in the current year, and that compliance officers will be hired. We support this initiative.

**7.66** In 2002, we reported that the Department had drafted a designation policy to help ensure the Program is financially sustainable over time. One of the measures proposed for gauging the likelihood of loan repayment, which is essential for Program sustainability, was the repayment rate of an institution’s students (see Exhibit 7.6). We supported the need for a designation policy to ensure that the Program is administered with due regard for economy and efficiency. Since that time, there has been some progress on the issue both in the Province and nationally.

**7.67** **National Designation Framework** - In 2001, the provincial/territorial and federal governments agreed to the development of a Designation Policy Framework (Framework) with common elements to be applied in all jurisdictions for the designation of institutions. Four principles were agreed upon to be reflected in the Framework:

- Taxpayer protection
- Accountability and informed choice
- Consumer protection
- Complementarity to other postsecondary education policies

**7.68** The objectives of the Framework are as follows:

*“The Designation Policy Framework is a pan-Canadian approach intended to guide jurisdictions in the development of their designation policies...The Framework reiterates the fundamental purpose of government student loan programs - that of increasing access to opportunities for postsecondary education. The Framework document itself signals to institutions that student success is a key element in successfully managing financial risk. They play the central role in retaining students, ensuring students succeed, and ensuring students improve their overall employability. These are key factors contributing to students’ success in repaying their student loans.” (Designation Policy Framework, November 2004, page 2)*

**7.69** Student Assistance management indicated they believe the new Designation Framework will be an important factor in managing the risk of defaulted loans. Under the new Framework, those institutions with student repayment rates which continue to be below an acceptable limit may be de-designated which means students would not be eligible for either Canada Student Loans or Nova Scotia Student Loans. The Framework would include passive and active monitoring for those institutions with average or poor performance. The Framework also calls for a process of ongoing monitoring of designated institutions to ensure they are fulfilling their responsibilities.

**7.70** Although the Division has established some general tasks and milestone dates respecting the implementation of the Framework, a detailed plan has not yet been prepared. In addition, it is important that a formal process be established to monitor institutions’ compliance with Framework requirements. Management has indicated that compliance officers will be added and their primary role will be to audit designated institutions. We note that the implementation of a designation framework is a priority for the Division (see paragraph 7.20).

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**Recommendation 7.9 (repeated from 2002 audit)**

**We recommend that the Department of Education continue to pursue a Designation Policy for the Student Assistance program.**

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## Follow-Up from Prior Audit

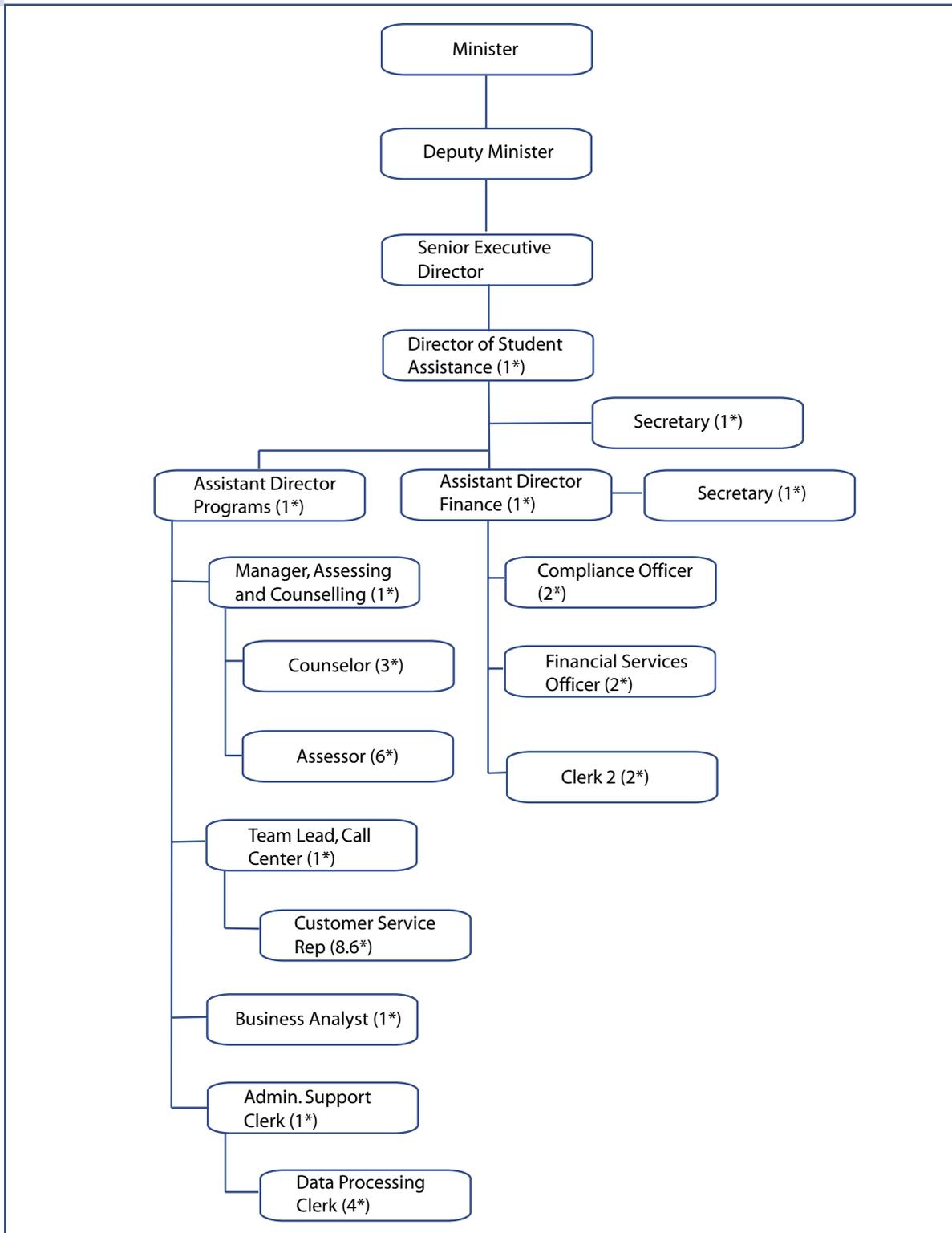
- 7.71** During this audit, we inquired about the Department's actions to address our 2002 recommendations related to the Student Assistance Program. The results have been incorporated in various parts of this chapter and are summarized in Chapter 5 which reports the result of our review of the implementation status of all recommendations made in the 2002 Report of the Auditor General.

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## CONCLUDING REMARKS

- 7.72** We performed our last audit of the Student Assistance Division in 2002. Since that time, the Department has begun to deal with some of our recommendations. However, progress has been slow. We understand that some of the delay is attributable to turnover in the Division's senior management positions.
- 7.73** There are several areas where progress is essential for sound management of the program. These include operational planning, verification of applicants' information, a quality control framework based on risk assessment, and a designation framework for post-secondary institutions. We acknowledge that these areas are included in the Division's priorities but stress that action needs to be taken to address these recommendations in the short term.
- 7.74** During this audit, we performed detailed testing of a sample of student assistance files and used specialized data extraction software to perform analysis of some of the Division's electronic databases. In the vast majority of cases tested, assistance awards complied with policies. However, we did identify assessment errors resulting in under awards of Nova Scotia student assistance in the amount of \$3,274 or 2.55% of the total awards tested. These cases point to the need for strengthening of internal controls over the process of awarding student assistance.
-

Student Assistance Division - Organization Chart



\* Total Student Assistance Division full-time equivalent positions = 36.6  
 Source: NS Department of Education

**Student Assistance Division - Summary of Key Statistics  
Academic Year ended July 2004**

Exhibit 7.2

	NSSL	CSL
Maximum Student Loan (34 week program)	\$ 5,100	\$ 5,610
Average Student Loan	\$ 4,195	\$ 5,331
Number of Loans Approved	10,688	15,707
Value of loans approved	\$ 44,835,000	\$ 83,742,000

Source: NS Department of Education - Student Assistance Division

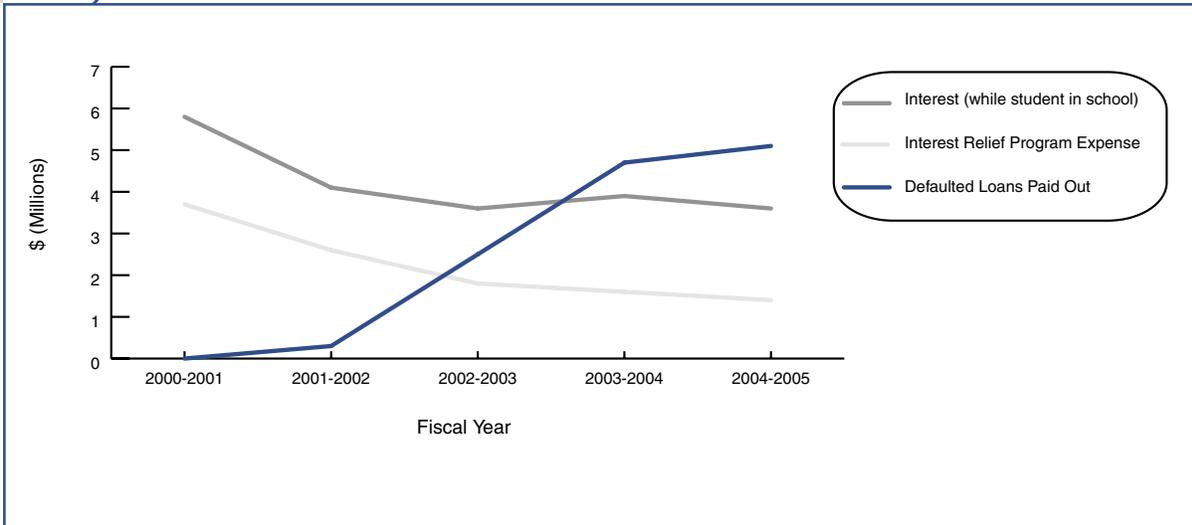
**Student Assistance Division - Summary of Key Statistics - Student Loan Portfolio  
Fiscal Year ended March 31, 2005**

Exhibit 7.3

	In-Study Loans (Interest Free status)	In-repayment	Total
Guaranteed Loans	\$ 84,369,000	\$ 56,651,000	\$ 141,020,000
Risk Loans	\$ 9,081,000	\$ 60,532,000	\$ 69,613,000
Total	\$ 93,450,000	\$ 117,183,000	\$ 210,633,000
Value of loans on interest relief	n/a	\$ 20,975,000	\$ 20,795,000
Provision for Guaranteed Student Loan Default	n/a	n/a	\$ 21,100,000
Provision for Debt Reduction	\$ 9,650,000	n/a	\$ 9,650,000

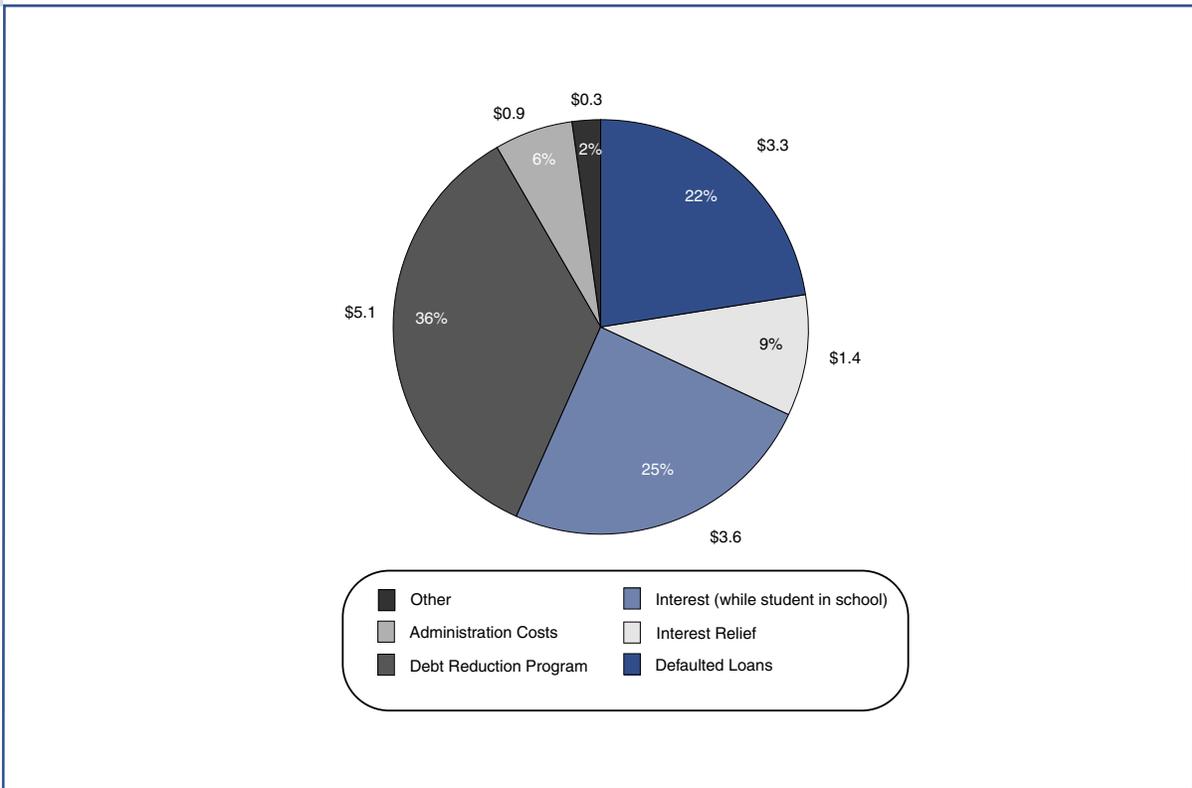
Source: NS Department of Education - Student Assistance Division

### Nova Scotia Student Loan Program Major Cost Drivers



Source: NS Department of Education - Student Assistance Division

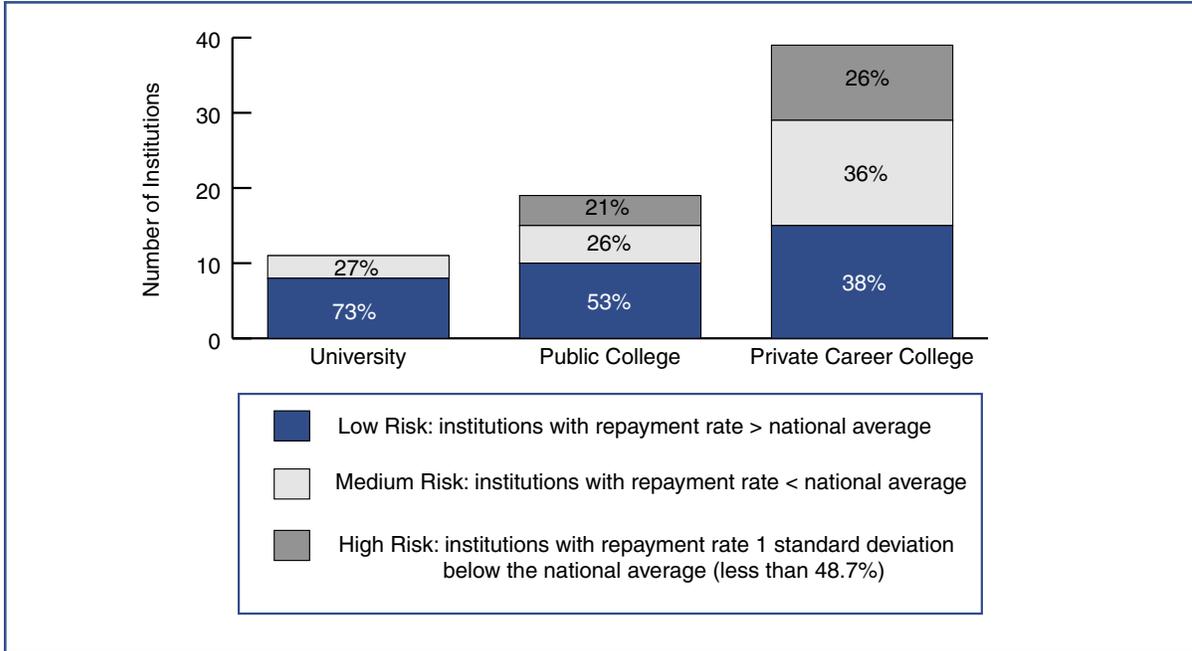
### Costs by Major Program Component (\$ Millions) Fiscal Year ended March 31, 2005



Source: NS Department of Education - Student Assistance Division

## Repayment Performance Indicator (Repayment Cohort 2002-2003 as at July 31, 2004)

Exhibit 7.6



### Explanation:

The 2002-2003 cohort represents the loan year in which students consolidated their study loans. The cohort is tracked for the purpose of determining the Risk Zone Indicators. The chart uses repayment data for the 2002-2003 cohort as at July 31, 2004.

Under the Designation Policy, Educational Institutions will be assigned one of three risk zones based on their students' loan repayment performance as calculated by the repayment rate indicator. Risk Zone for each institution is calculated as  $\{(principlal\ amount\ paid\ off + principal\ amount\ in\ good\ standing) / principal\ amount\ consolidated\}$ .

National average repayment data for 2002-2003 loan year used to establish targets; repayment rate at 70.2% and standard deviation of 21.5%.

Source: NS Department of Education - Student Assistance Division - Report on the Designation of Educational Institutions, April 2005

## Memorandum of Understanding with the Royal Bank of Canada, July 31, 2003 - Major Terms and Conditions Currently in Effect

### Term

- Initial term - three years, August 1, 2003 to July 31, 2006
- Renewable - two years, August 1, 2006 to July 31, 2008

### Provincial Responsibilities

- Determine student eligibility
- Guarantee loans
- Purchase all loans in default of payment for 180 days
- Pay interest on “in-study” loans at prime plus  $\frac{1}{4}$  of one percent
- Pay interest relief “post-study” loans at customer rate for up to 30 months
- Pay handling fee to bank

### Royal Bank of Canada responsibilities

- Advance loan to eligible students within 48 hours of receipt of executed loan documentation.
- Annually provide delinquency and loan loss history broken down by educational institution
- Each loan and borrower will be treated in substantially the same manner as any consumer customer

### Borrower responsibilities

- Begin repaying loan principal and interest six months after graduating
- Interest rate options:
  - Floating rate at prime plus 2.5%; or
  - Fixed rate @ prime plus 5%.
- Amortization period
  - Loan less than \$3,000 - maximum 36 months;
  - Loan \$3,000 to 6,000 - maximum 72 months; and
  - Loan greater than \$6,000 - maximum 96 months.
- Minimum repayment amount \$25.

Source: NS Department of Education - Agreement Regarding Student Loans, July 31, 2003

## DEPARTMENT OF EDUCATION'S RESPONSE

The Department of Education acknowledges the overall findings of the recent audit of the Nova Scotia Student Assistance Program. The Department is confident that the program is delivered consistent with all acts, regulations, policies and procedures governing the program and provides students with improved access to post-secondary education. The Department does however acknowledge opportunities presented through the audit.

With respect to the specific opportunities for improvement presented in the report, the Department would look to implement many of the recommendations made for the Student Assistance Division. The importance of performing operational planning is acknowledged, as well as the need for reporting on specific key performance indicators. The Student Assistance Division feels it would be valuable to undertake an assessment of risks to the program and would look to improve the controls necessary to mitigate those risks consistent with the availability of resources.

## BACKGROUND

- 8.1** The Office of Health Promotion (OHP) was created in 2002 by Order in Council 2002-593 which brought together the former Nova Scotia Sport and Recreation Commission with certain programs that had previously been the responsibility of the Population Health Branch of the Department of Health (DOH). The responsibilities of the OHP, as described in its Business Plan, include:
- addictions;
  - chronic disease prevention;
  - communications and social marketing;
  - healthy eating;
  - healthy sexuality;
  - injury prevention;
  - physical activity; and
  - tobacco control.
- 8.2** Exhibit 8.2 is an organization chart for the OHP. Sport and Recreation is one of its program areas.
- 8.3** The mission of the Office of Health Promotion is:
- “Through leadership, collaboration and capacity-building:*
- *Strengthen community action and enhance personal skills that promote health and prevent illness and injury*
  - *Create and sustain supportive environments for health improvement and healthy public policy development*
  - *Support reorientation of health and other services to enable population health” (Office of Health Promotion’s 2005-2006 Business Plan, page 4)*
- 8.4** To achieve this mission, Sport and Recreation provides policies, programs and services in four main categories:
- development and support of physical activity, sport and recreation organizations, public agencies and communities;
  - promotion and support of active healthy lifestyles;
  - quality, safe and equitable sport and recreation opportunities and experiences; and
  - provision of regional services which support the implementation of policy.

**8.5** The OHP's approved estimate for 2004-05 was \$18.5 million. Of that amount, \$8.1 million related to the Physical Activity program which is the responsibility of Sport and Recreation. The major categories of expenditures for the Physical Activity program were as follows:

Grants	\$6.2 million	(76%)
Salaries	\$1.4 million	(17%)
Operating costs	<u>\$.7 million</u>	(9%)
Gross expenditures	\$8.3 million	(102%)
Less: Recoveries	<u>(\$ .2 million)</u>	(2%)
Net expenditures	<u>\$8.1 million</u>	(100%)

**8.6** The program area employs 23 staff. It has six regional offices which are each staffed by a regional representative and an assistant.

**8.7** Our audit focussed on the grant programs administered by the Sport and Recreation program area. The role of the Sport and Recreation program area is to ensure that grants are allocated to appropriate partner organizations which are capable of assisting the Office of Health Promotion in achieving its objectives for excellence in physical activity, sport and recreation. Sport and Recreation also must ensure adequate accountability from grant recipients. Finally, the OHP and Sport and Recreation need to be accountable to the House of Assembly for spending, performance and compliance with legislation.

**8.8** It should be noted that Sport and Recreation does not deliver sport, recreation and active living programs and services. Rather, it provides leadership and support including grants to partner organizations in the field of sport and recreation which actually deliver services. The partner organizations are often small, not-for-profit organizations with volunteer boards. Administration of grants to such organizations is a challenge because they do not have extensive financial or human resources to undertake elaborate accountability processes.

**8.9** This was our first broad scope audit of the Sport and Recreation program area of the Office of Health Promotion.

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## RESULTS IN BRIEF

**8.10** The following are the principal observations from this audit.

- The Office of Health Promotion's Sport and Recreation program area has reasonable planning and financial management processes which comply with requirements specified by central government. The linkages between various aspects of the planning process are apparent, and progress in achieving goals is tracked. We recommend the provision of periodic reports on progress in achieving the strategic plan.

- Over the past two years, the Department has received a total of \$5.7 million in “strategic initiative” funding, of which \$5.3 million was allocated for recreation facility construction. These grants were approved by Executive Council and required additional appropriations. They were not subject to the regular Estimates process. These amounts should be budgeted like other grant programs and approved by the House.
- Controls over awarding and monitoring of grants are generally adequate.
- We found cases where grant payments for specific projects had been made in advance. We recommend that OHP and financial support staff at DOH develop policies which require analysis of all advance payments before they are made to determine (1.) whether the advance is necessary, and (2.) the appropriate fiscal year for recording of the related expenditure in accordance with generally accepted accounting principles.
- The accounting and control over unpaid grant amounts at year end needs to be improved. Cheques for final grant payments are requisitioned prior to year end and then held in various offices until recipients meet conditions for payment. At the time of our audit, one month after year end, cheques with a value of \$1.1 million were being held in unsecured storage locations which results in risk of loss. Subsequent to the audit, management developed and implemented a policy on the security of cheques.

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## AUDIT SCOPE

- 8.11** The objectives for this assignment were to assess:
- the process for awarding Sport and Recreation grants and holding the recipients accountable for expending funds for purposes intended, in compliance with agreements, and with due regard to economy and efficiency;
  - the Office of Health Promotion’s planning processes; and
  - the Office of Health Promotion’s ongoing financial management including monitoring of financial results.
- 8.12** Criteria were developed from various sources including policies of the Nova Scotia government and publications of the Office of the Auditor General of Canada and the Treasury Board of Canada Secretariat.
- 8.13** Our audit approach included interviews, review of documents, analysis of expenditures and detailed testing of a sample of grants disbursed in 2003-04 and 2004-05.

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## PRINCIPAL FINDINGS

### Planning

- 8.14** **Strategic plan** - The purpose of a strategic plan is to set out an organization's priorities and long-term direction. A business or operational plan annualizes and details the more specific goals, priorities, resource requirements and activities to be undertaken to support achievement of the strategic plan.
- 8.15** The OHP prepared a strategic plan, *Healthy Nova Scotia - Strategic Directions for the Office of Health Promotions*, which was released in April 2004. The Strategic Plan was a collaborative effort and based upon input from OHP staff and external stakeholders.
- 8.16** The strategic plan includes a vision, mission, overall goals and guiding principles for OHP. Long and medium-term goals as well as short-term strategies and goals were developed for each of the eight strategic areas. Physical activity is one of the strategic priority areas of OHP.
- 8.17** OHP established an Office of Health Promotion Advisory Committee in late 2004. The Committee provides advice on program issues, strategic directions, policy and inter-sectoral collaboration initiatives proactively and in response to requests; and on annual and long-term priorities.
- 8.18** OHP is in various stages of implementing the short-term strategies in the plan. To date, there has been no formal status report on the implementation of the strategic plan. However, reporting on progress in achieving certain strategic initiatives is included in the Quarterly Report to Treasury and Policy Board, the annual Business Plan and the Accountability Report.

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### Recommendation 8.1

**We recommend OHP release annual or biennial progress reports on the implementation of the strategic plan.**

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- 8.19** **Business plan** - Government departments are required to prepare an annual business plan using guidelines issued by Treasury and Policy Board. We reviewed the 2004-2005 Business Plan for OHP and concluded it was prepared in accordance with government guidelines. The Office's Business Plan makes reference to the Government Business Plan and Department of Health publications such as *Your Health Matters - Working Together Toward Better Care* (a plan for the future direction of health care in Nova Scotia). We observed linkages between the strategic plan and the Business Plan including linkages relating to the Sport and Recreation program area.
- 8.20** The Business Plan includes Sport and Recreation's priorities for 2004-05 which are reproduced in Exhibit 8.1.

- 8.21** **Staff work plans** - The OHP's Business Plan is used to prepare individual work plans for staff of the program area. Staff is required to report monthly on the activities undertaken to achieve work plans. All strategies and objectives for the Sport and Recreation program area in the Business Plan were included in the work plans. The information is summarized in the annual Accountability Report.
- 8.22** **Performance measures** - In order to determine whether intended results are being achieved, an organization needs to have credible information on the performance of its programs and services. OHP has identified performance measures in its Business Plan and Accountability Report to track results for business areas.
- 8.23** The Sport and Recreation program area has established two performance outcomes and measures for Physical Activity which are included in its 2004-05 Business Plan (pages 17 and 18):
- the work of OHP (and partners) focused on physical activity, sport and recreation will contribute to the health and well-being of Nova Scotians as measured by: Leisure-time physical activity of the adult population; and
  - the work of OHP (and partners) focused on physical activity, sport and recreation will contribute to the health and well-being of Nova Scotians as measured by: Physical activity of children and youth.
- 8.24** For each outcome, baseline data and targets for 2009-10 have been established. Strategies to achieve the targets (such as the Active Kids/Healthy Kids initiative and improved physical facilities) are identified in the Business Plan.
- 8.25** Statistical information on the physical activity levels of adults is obtained from Statistic Canada's Canadian Community Health Survey which is conducted on a two-year cycle. Statistical information on the physical activity levels of children is obtained from research performed in Nova Scotia on the physical activity levels of children. The Office plans to update this information every four years.
- 8.26** Sport and Recreation has established overall goals and objectives for the various grant programs. Qualitative and quantitative performance measures have been established for some, but not all, grants. The performance measures provide information on whether the goals identified for the specific grant were achieved as well as whether the projects undertaken have contributed to the achievement of the program goals and objectives.
- 8.27** The Federal/Provincial/Territorial Ministers of Health have set a national target to increase levels of physical activity by 10 percentage points in each province and territory by the year 2010. This target has been incorporated into various programs which contribute to achievement. For example, the Active Kids/Healthy Kids program has adopted a similar target (to increase, by 10 percentage points, the number of children and youth who are moderately active at least 60 minutes a day by the year 2010). However, not all Sport and Recreation programs have such measurable targets

- 8.28** Management informed us that work plans for the 2005-06 fiscal year now require staff to identify outcomes, targets and measures for all programs administered and activities undertaken.

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**Recommendation 8.2**

**We recommend that the Sport and Recreation program area establish measurable performance targets for each program. The performance in comparison to targets should be reported to senior management of the program area and OHP.**

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- 8.29** **Accountability Report** - Government departments are required to prepare an annual accountability report using guidelines issued by Treasury and Policy Board. We reviewed the 2003-2004 Accountability Report for the Office and concluded it was prepared in accordance with government guidelines.
- 8.30** **External review** - In 2004, the OHP hired an external consultant to seek opinions from a wide variety of stakeholders on how the Sport and Recreation program area could accomplish its mandate effectively and efficiently and the extent of the human resource support required. The report is available on the internet at <http://www.gov.ns.ca/ohp/repPub/OHP-StrategicAudit-Final.pdf>

**Financial Management**

- 8.31** **Policies and practices for budgeting and forecasting** - Financial management services are provided by Department of Health (DOH) staff.
- 8.32** Financial forecasting and reporting requirements are set out in the *Budgeting and Financial Management Manual* of the Government of Nova Scotia and in Department of Health policies. The Office of Health Promotion complies with requirements.
- 8.33** **Budget preparation** - At the start of the budget process, OHP undertakes a process to identify cost pressures and new or expanded program requests. Based upon the strategic directions of OHP and the preliminary budget target, cost pressures and new or expanded programs are prioritized and key initiatives to be funded are identified by senior management. Decisions made during the budgeting process are incorporated into the annual business plan of OHP.
- 8.34** A detailed operating budget is prepared which equals the budget target established by Treasury and Policy Board. The budget is reviewed by senior management of OHP and DOH before being submitted to Treasury and Policy Board for inclusion in the Estimates of the Province.
- 8.35** **Monitoring and reporting on financial performance** - The various divisions of OHP receive standard monthly government financial reports and are required to prepare forecasts to year end. Significant variances from budget are identified by budget subject managers when they prepare monthly forecasts. Financial forecasts are

reviewed by management. Variances are usually anticipated and targeted areas for reduction are identified to address any budget pressures.

- 8.36** DOH financial staff review and challenge the forecasts prepared by the budget subject managers. A summarized monthly financial report showing both actual year-to-date and forecast to year end is prepared by DOH financial staff and reviewed by senior management of OHP.

### Additional Appropriations for Strategic Initiative Funding

- 8.37** In accordance with the Provincial Finance Act, the Minister of Finance tables revenue and spending estimates at the beginning of the fiscal year. The Estimates include all program spending planned by the government based upon projected revenues. The Act provides Executive Council with the authority to approve adjustments to government's spending plans in the form of additional appropriations. Sport and Recreation received an additional appropriation of \$3.7 million for 2003-04 and an additional appropriation of \$2.0 million will be required for 2004-05 to provide additional grants for "strategic initiatives".
- 8.38** **2003-04 year end** - The December 2004 Report of the Auditor General (page 13, paragraphs 2.27 to 2.29) discusses the additional recreational facility grants made in 2003-04 which led to the additional appropriation. In summary, grants were originally approved in 2003 for payment in fiscal 2004-05 through 2006-07. On March 31, 2004 Executive Council approved amendments eliminating the need to incur costs prior to funds being disbursed, and authorizing payment of the grants and recording of expenses in 2003-04. Our conclusion was that the amendments complied with generally accepted accounting principles because the amounts were authorized and eligibility criteria were met. However, government's accountability and control were reduced because payments were made before costs were incurred.
- 8.39** **2004-05 year end** - The 2004-05 situation was similar to the previous year. The grants for construction of certain recreational facilities had not been approved as part of the regular budgeting process because government indicated that funds were not available. However, later in the year, funds became available. In December 2004, the government announced an additional \$1.6 million in grants for construction and maintenance of recreation facilities. This, along with other initiatives of \$0.4 million, will require an additional appropriation.
- 8.40** **Compliance with program guidelines** - Originally, the strategic initiative grant recipients had applied for Recreation Facilities Development grants (see paragraph 8.43 below). The awards under that program do not usually exceed \$50,000 and these projects requested larger amounts. There are guidelines for Recreation Facilities Development (RFD) grants which include eligibility requirements and payment schedules, as well as factors to be used in reviewing applications. However, the recipients of the strategic initiative grants were not required to formally agree to follow the RFD guidelines. Program area management indicated they are currently preparing new application forms and a terms and conditions letter to address this.

- 8.41** *Strategic initiatives and impact of uncertainty* - Management at Treasury and Policy Board explained the “strategic initiative” funding to our Office as follows:

“During the year, actual revenues and expenses will vary from that approved in the Estimates. This sometimes results in government being able to respond strategically to the pressing needs of Nova Scotians by approving additional program spending while still meeting fiscal targets.

*Additional spending is approved, if required, via additional appropriation in accordance with the Provincial Finance Act. Strategic funding initiatives cannot be approved with the Estimates because the initiatives are not planned at the time the Estimates are approved by the House. It is not possible to approve unknown conditions in advance of their occurrence.”*

- 8.42** We understand the challenges government faces in trying to plan expenditure levels for the year. However, our concern is that grants for recreational facilities should be subject to the same scrutiny and approval by the House as other appropriations included in the Estimates. These amounts should be included in the Department’s budget and subject to review and approval by the House of Assembly.

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### **Recommendation 8.3**

**We recommend that government include all grants for recreation facilities in the Estimates process to provide for approval by the House rather than Executive Council.**

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## **Construction of Major Facilities**

- 8.43** Management is currently holding discussions to determine how funding can be provided to assist in the renovation or construction of major sports facilities as there is currently insufficient funding available within the Recreation Facilities Development (RFD) Grant program to fund these projects. At the time of our audit, the RFD program had received requests totaling \$8.4 million on capital projects with a total value of \$65.6 million. Management indicated the demand for these grants is expected to increase because facilities are aging and require significant renovations and upgrades.
- 8.44** The RFD program guidelines state that the program provides funding for up to one-third of the cost of a capital project. If the amount of funding requested exceeds \$100,000, the project sponsor should contact the regional representative for information and assistance. The RFD program is not suitable for major initiatives so there is no official program, with associated policies and controls, for large capital projects.
- 8.45** Because there is no grant program suitable for major facilities, such grants have been funded as “strategic initiatives” over the past two years (see paragraph 8.41 above). The accountability for these grants needs to be improved.

- 8.46** The letter from the Minister that accompanies the grant cheque includes terms and conditions, including the requirement to file a statement of construction costs incurred upon completion of the project and the need to follow fair tendering practices. However, there is no requirement for the recipient to formally agree to abide by these conditions. In order to improve accountability for the funds received, the recipient should be required to formally commit to compliance with the program area's requirements. Management indicated that the new application to be used for 2006-07 grants includes a statement referring to the need to comply with RFD guidelines.
- 8.47** The timing of the transfer of funds is an important consideration in managing a grant program with due regard for economy and efficiency. Funds should not be transferred in advance of need because there is an interest cost associated with the funds. For the strategic initiatives funded over the past two years, there is evidence that funds were transferred in advance of construction for certain projects (see paragraph 8.57). Construction has not yet started on one of the projects funded in March 2004 (a university arena).

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#### **Recommendation 8.4**

**We recommend that government review the funding process for construction of major recreation facilities to ensure adequate accountability, a transparent awards process, and an appropriate policy framework. We also recommend that the timing of distribution of funds be linked to the incurrence of construction costs.**

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### **Grant Programs**

- 8.48** The Sport and Recreation program area administers a number of grant programs which are described in Exhibit 8.3. Exhibit 8.4 shows the amounts expended by major grant program during 2004-05.
- 8.49** The program area provides distinct types of funding. Some organizations are eligible to apply for "block funding" which results in a longer-term funding commitment for a four-year period. Other organizations are eligible to receive funding on a "project" basis which means that they must reapply for future projects. Still other organizations receive funding based upon signed contracts.
- 8.50** We tested a sample of 21 grants from 7 programs for appropriate controls, compliance with policies and due regard for economy and efficiency. Our findings are reported in the following paragraphs.

### **Grant Application and Award Process**

- 8.51** We reviewed the award process for grants and found it to be transparent to recipients. Recipients are provided with required information. Grant applicants are well informed about programs and assessment criteria through both

documentation and informal communication with program area staff. Sport and Recreation has program guidelines available for applicants for most programs and standard application forms are used.

- 8.52** At the time of our audit, however, there was no internal policy manual to provide guidance to Sport and Recreation staff on how to administer the grant process. All grant programs should have established policies and procedures to ensure due diligence in the selection and approval of grant recipients, even when there are changes in personnel and job responsibilities. Sport and Recreation is currently working on developing a policy manual for the review, approval, payment and monitoring of grants. We acknowledge that individual staff is knowledgeable about the program area's policies.

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### Recommendation 8.5

**We recommend that the Sport and Recreation program area continue to document and formally approve its policies and procedures for the grant process, and that these be made available to all program area staff.**

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- 8.53** For most programs, there is an assessment and prioritization process which is based on evaluation by a group of staff. Depending on the program, approved projects and funding levels are prioritized based on evaluation against criteria, a numerical ranking score, amount of funding available or targeted recipients.
- 8.54** After program administrators compile lists of assessed and approved grants, including amounts awarded, these are reviewed by senior management of the program area and forwarded to the Minister of OHP. Once the Minister approves the listings, committal letters are prepared by staff and signed by the Minister.

### Grant Disbursement Process

- 8.55** After grants are approved for disbursement, there should be controls to ensure that funds are distributed efficiently and in compliance with approvals.
- 8.56** The cheque requisition process is consistent for all grants and programs we reviewed. We found that set payment schedules were followed and specific information requirements were met, such as receipt of a statement of costs incurred, prior to release of final payment.
- 8.57** **Advance payments** - We found some instances where payments had been made at year end to cover expenditures that would be incurred by recipients in the following year. These expenditures, although not individually significant, were charged to the Office of Health Promotion's expenses in the year when the payment was made. There are several issues associated with the advance payments:
- **Generally accepted accounting principles** - Generally accepted accounting principles require that certain conditions be met before grants are recorded as

expenditures in the government's financial statements (see section PS3410.07 of the Public Sector Accounting Handbook of the Canadian Institute of Chartered Accountants). Otherwise, the advance payments should be recorded as prepayments. We did not see any evidence that advance payments were analyzed to determine the appropriate fiscal period for recording of the expenditure on the financial statements.

- *Cash flow* - The government incurred unnecessary interest costs related to paying out the funds before they were actually required.
- *Increased risk* - Advance payments result in greater risk that recipients will not comply with program terms than the normal practice of reimbursing costs already incurred. Making payments in advance requires good accountability and monitoring after payments are made to ensure funds were spent as intended, and a process for recovering any funds that were not spent as intended.

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#### **Recommendation 8.6**

**We recommend that OHP and financial support staff at DOH develop policies which require analysis of all advance grant payments before they are made to determine (1.) whether the advance is necessary, and (2.) the appropriate fiscal year for recording of the related expenditure in accordance with generally accepted accounting principles.**

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- 8.58** *Accounts payable* - We observed an additional issue regarding cut off and security of requisitioned cheques at year end. There were instances where the final installment of approved grants for the year could not be made prior to year end because the relevant documents had not been received or work had not been completed. Appropriate control over such situations would require appropriate application of generally accepted accounting principles and recording of accounts payable for those amounts that represent liabilities of the program area at year end.
- 8.59** The program area does not record accounts payable. Rather, cheques were requisitioned at year end and held until the required information was received. Management indicated that this practice originated many years ago when staff were instructed by central government to handle final payments in this manner rather than through accounts payable.
- 8.60** During our audit, at the end of April 2005, we requested a list of 2004-05 cheques on hand and the total was \$1.1 million. The total cheques on hand on April 1, 2005 would have been higher as some payments had been made during the month of April. The cheques are not held in a safe or other secure environment which increases the risk of loss. Subsequent to our audit, management developed and implemented a policy on the security of cheques.
- 8.61** Of the \$1.6 million in strategic initiative funding for recreational facilities development approved in 2004-05 (see paragraph 8.39 above), cheques for three

projects totaling \$0.8 million were prepared; however, cheques were not mailed because all program requirements had not been met. One of the projects has been delayed, and it is likely that the cheque for \$0.5 million will become stale dated. It will either be re-issued or the expense will be reversed in 2005-06. This is an example of requisitioning cheques in advance of need as noted in paragraph 8.57 above, and the expenditure is likely recorded in the wrong fiscal period according to generally accepted accounting principles.

- 8.62** Financial support staff at DOH have recently met with Sport and Recreation staff to discuss processing of year-end payments and setting up accounts payable. In addition, DOH financial support staff have arranged to make a presentation on proper financial procedures to Sport and Recreation program staff at an upcoming meeting. It is expected that the problem will be resolved by the end of the 2005-06 fiscal year.

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#### **Recommendation 8.7**

**We recommend that OHP and financial support staff at DOH develop policies which require analysis of all unpaid final grant installments at year end and recording of accounts payable when appropriate according to generally accepted accounting principles.**

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### **Monitoring of Grant Recipients**

- 8.63** Effective monitoring can be done formally and informally. Sport and Recreation places heavy reliance on informal monitoring such as familiarity with entities and projects, the relationships established between staff and grant recipients, and ongoing communication. Other forms of informal monitoring by Sport and Recreation include attendance at recipients' meetings and other events. A recent change to policy now requires program staff to prepare notes of all meetings attended.
- 8.64** Sport and Recreation staff perform formal monitoring of programs. Financial statements are required to be submitted annually (or at the project end for recreational facilities development projects) for all entities receiving funding. In addition to financial statements, recipients are required to submit either annual reports or project reports, depending on the program. These are reviewed by program area staff to ensure agreed-upon objectives were met and funds were used as intended. The details vary among the programs and agreements but all provide relevant information for monitoring.
- 8.65** Some recipient organizations are incorporated under the Societies Act which does not require audited financial statements. We believe the Office of Health Promotion's decision to accept financial statements without an auditor's opinion from small not-for-profit organizations is reasonable because of the costs associated with having an audit performed.

**8.66** However, the Office of Health Promotion has agreements with larger grant recipients, such as Sport Nova Scotia and Recreation Nova Scotia. The agreement with Recreation Nova Scotia has requirements for accountability including submission of audited financial statements. The Memorandum of Agreement with Sport Nova Scotia, however, does not require submission of audited financial statements.

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**Recommendation 8.8**

**We recommend that the Memorandum of Agreement between the Office of Health Promotion and Sport Nova Scotia include accountability requirements. The Agreement should require Sport Nova Scotia to submit audited financial statements.**

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**8.67** Another formal monitoring tool used by the program area is membership on the Board of Directors of entities with ongoing agreements with Sport and Recreation. In most cases, program area staff are ex officio, non-voting members, but they attend meetings and receive reports provided to Board members which provide useful opportunities for monitoring.

**Performance Reporting by Grant Recipients**

**8.68** Performance reporting by grant recipients should provide information on:

- whether the program or project is meeting the approved objectives set during the awards process; and
- how the program is aiding the granting organization in achieving its performance goals.

**8.69** Recipients are required to report on whether project outcomes were achieved. However, information reported is only used for performance reporting on a project basis. It is not compiled for the grant program as a whole or used for reporting its success. (See paragraph 8.26 above)

**Implementation of Community Investment Management System (CIMS)**

**8.70** In the past, the system for tracking payments made under various programs was informal. The CIMS software program was endorsed by government for use in certain departments to manage project investments. CIMS provides a database and interactive management tool to facilitate tracking of grant applications, awards and other details.

**8.71** The interdepartmental committee formed for this project did not develop an implementation plan. Sport and Recreation tested CIMS using the RFD and Physical Activity grants during 2004-05. Sport and Recreation is planning to transfer all its grants to CIMS during 2005-06 and has begun to do so. Other

government departments are using the program and one issue that has arisen is the assignment of project profiles; applicants are sometimes assigned new profiles for each grant instead of the profiles already recorded. Sport and Recreation staff has been instructed during the software training to check for duplicate profiles before a new profile is established. Assigning duplicate profiles increases the difficulty of tracking all government transactions for the same applicant.

- 8.72** We believe that implementation of the CIMS program will allow program area staff to track approvals, payments and receipt of required information from applicants. The system will also facilitate checking to determine if other departments are funding the same project.

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**Recommendation 8.9**

**We recommend the Sport and Recreation program area continue to implement the CIMS system for all grant programs.**

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**CONCLUDING REMARKS**

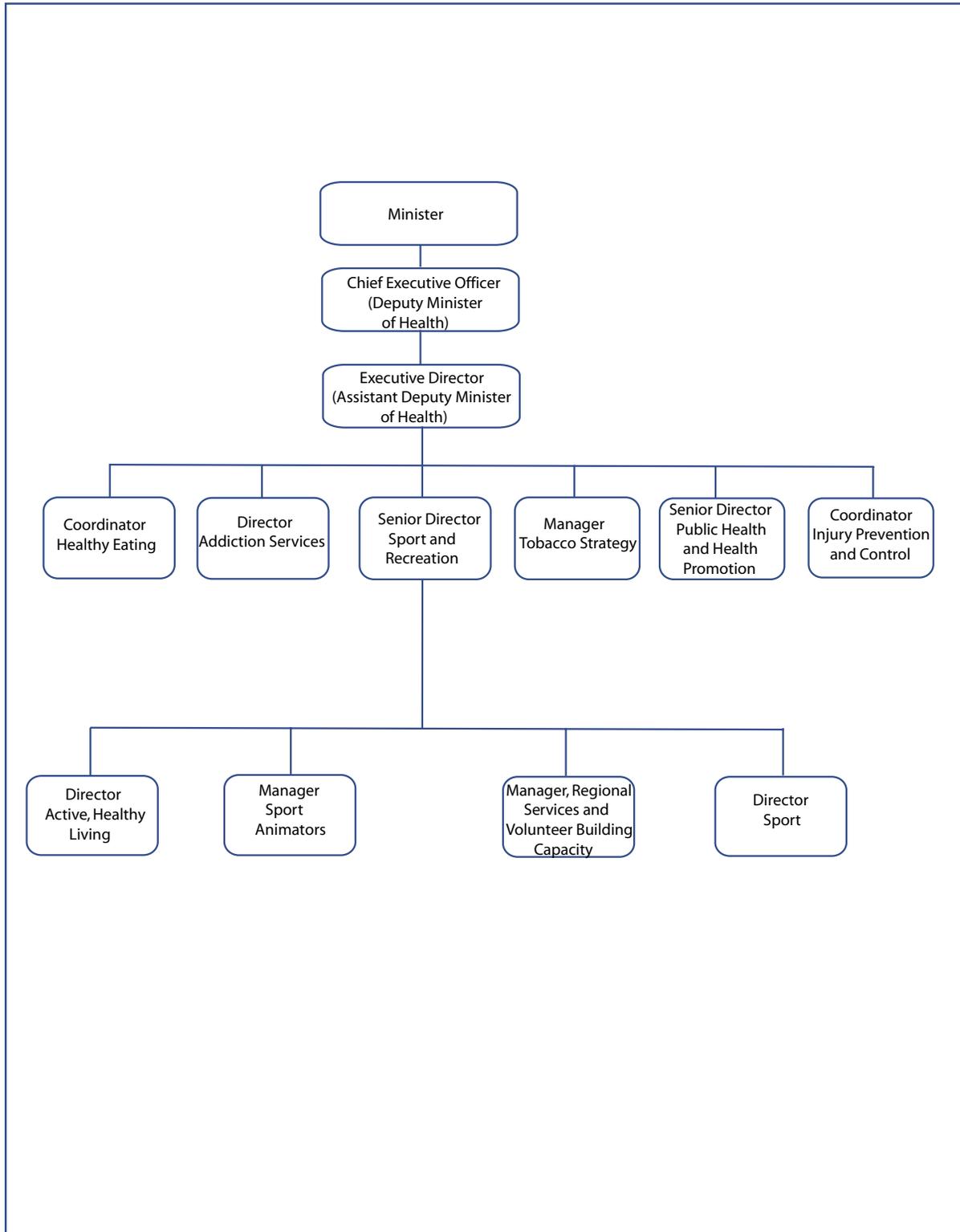
- 8.73** Our audit indicated that the Office of Health Promotion's Sport and Recreation program area has reasonable planning and financial management processes in place. The linkages between various aspects of the planning process are apparent, and progress in achieving goals is tracked. We believe it would be useful to provide periodic reports on progress in achieving the strategic plan.
- 8.74** Control over grants is generally adequate with two significant exceptions. The accounting and control related to unpaid grant amounts at year end needs to be improved. The Office also needs to review its practice of making advance payments at year end for expenditures that will be incurred by recipient organizations in the next fiscal year. Every advance payment should be reviewed to ensure that the accounting complies with generally accepted accounting principles.
- 8.75** Major recreation facility construction grants are currently funded as "strategic initiatives" which require additional appropriations. We have recommended that these be included in the Estimates process and approved by the House of Assembly.
-

## Sport and Recreation Program Area Priorities for 2004-05 (from Office of Health Promotion's 2004-05 Business Plan, p. 10)

The OHP is working with a wide variety of partners and organizations across the province to increase the physical activity rates of Nova Scotians by developing, encouraging, establishing, coordinating, implementing and promoting sport and recreation programs and services.

- **Active Kids/Healthy Kids:** Expand the reach of the Active Kids/Healthy Kids strategy and promote increased participation in sport, recreation and physical activity by children and youth.
- **Sport and Development:** Encourage Nova Scotians to be physically active and offer a quality sport and recreation experience in compliance with national and Atlantic standards.
- **Sport, Recreational and Physical Activity Programs and Facilities:**
  - Increase the capacity, effectiveness and sustainability of organizations in providing sport, recreational and physical activity opportunities for all Nova Scotians.
  - Support and encourage initiatives aimed at maintaining and improving the quality of sport, recreation and physical activity programs and the safety of their participants in recreation areas and facilities.
  - Improve access, availability, condition, safety and sustainability of indoor and outdoor facilities that provide venues for sport, recreation and physical activity.
- **Leadership Development:** Increase the number of leaders and improve leadership skills in all areas of sport, recreation and physical activity in Nova Scotia.
- **Equity and Access:** Reduce disparities and improve access to sporting, recreation and physical activities for women, members of ethnic minorities, people with disabilities and persons of low socio-economic status.

# Office of Health Promotion - Organization Chart



## Summary of Sport and Recreation Grant Programs

### Recreation Facilities Development

Funding for recreational facility development is provided under the following programs:

- **Planning Assistance Grant Program** - Funding is made available annually to assist municipalities and community organizations obtain professional assistance in planning, designing and researching proposed and existing recreational facilities.
- **Community Recreation Capital Grant Program** - Funding is made available annually to assist in the development of small scale indoor and outdoor capital recreation projects.
- **Recreation Facility Development (RFD) Grant Program** - Funding is made available annually to assist municipalities and community groups in the planning, construction, renovation, conservation or acquisition of facilities for public recreational purposes.

### Sport Nova Scotia (SNS)

Funding is provided to Sport Nova Scotia, a Province-wide, not-for-profit organization that is the voice for sport in Nova Scotia. SNS promotes the benefits of health, personal development and achievement of all participants.

Funding is also provided to operate the Sport & Recreation Administrative Center, which provides administrative support to Provincial sport and recreation organizations.

SNS operates programs such as the Sport Futures Leadership program and the KidSport program on behalf of the OHP (See Business Plan Priorities below). The Sport Futures Leadership program provides assistance to Provincial sport organizations to provide fun, safe and inclusive sport activities for children and youth as well as funding for technical Sport Futures Leaders to work with volunteers of sport programs to improve sport programming and increase the recruitment of participants. The KidSport program provides assistance to children by overcoming financial barriers which limit their participation in organized sport.

### Provincial Sport Organizations

Financial assistance is provided to eligible Provincial sport organizations to assist in their operations.

### Recreation Nova Scotia

Funding is provided to Recreation Nova Scotia, a Province-wide, not-for-profit organization that promotes the values and benefits of recreation and leisure.

## **Provincial Recreational Organizations**

Financial assistance is provided to eligible Provincial recreation organizations to assist in their operations. Provincial organizations with mandates other than recreation and fitness may be eligible for one-time project funding that improves recreation or fitness opportunities.

### **Water Safety**

Funding is provided for the Nova Scotia Lifeguard Service (NSLS), a joint project of the OHP and the Lifesaving Society, Nova Scotia Branch. The NSLS provides supervision of key beaches in Nova Scotia.

### **Active Living**

The OHP funds a number of active living programs such as the following:

#### **Active Kids/ Healthy Kids (AKHK)**

The AKHK program is an interdepartmental initiative created in 2002 to increase the number of children and youth who accumulate at least 60 minutes of moderate or vigorous physical activity each day. Funding is provided to promote active communities, active school communities and active community environments as well as public education.

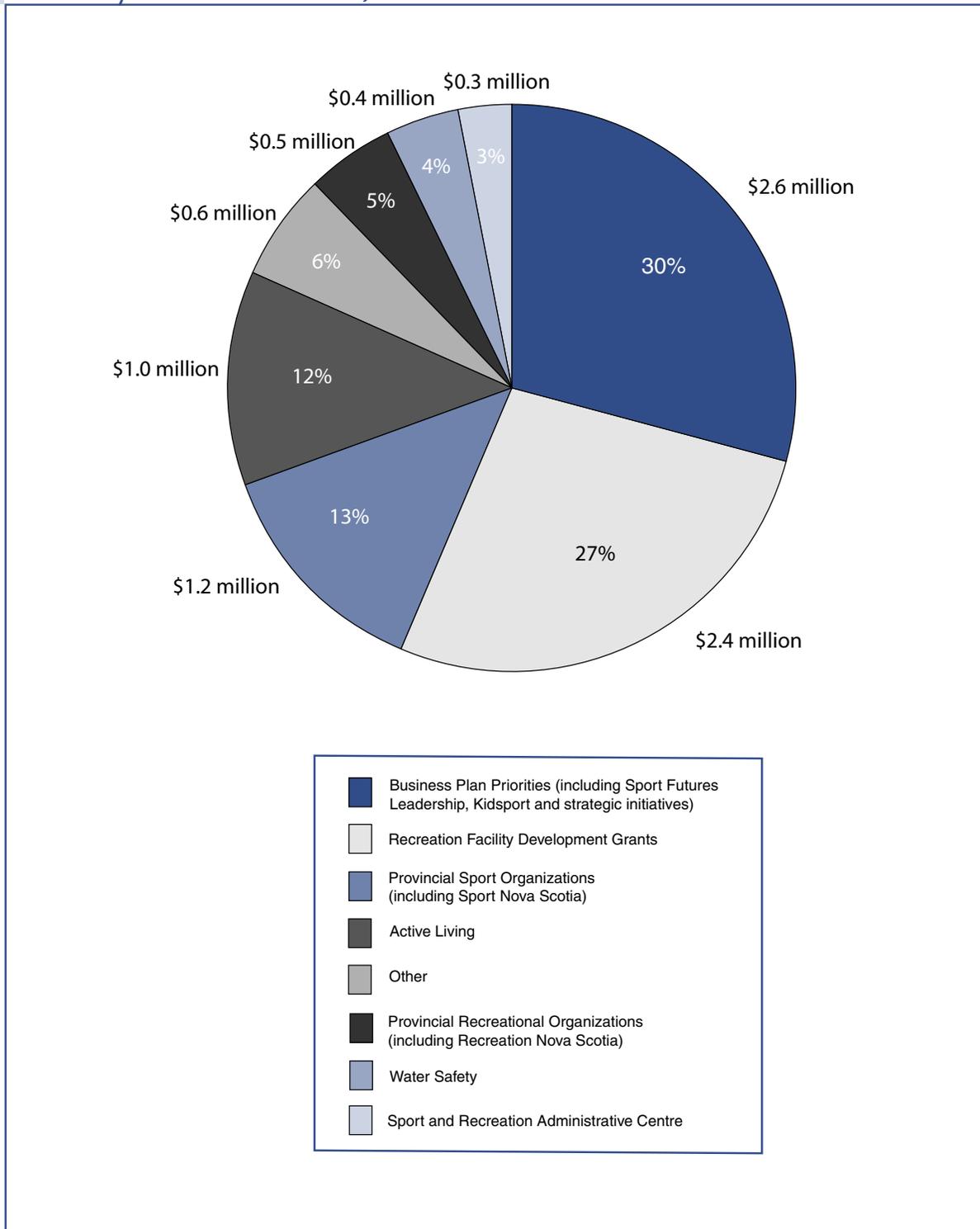
#### **Physical Activity**

Funding is available to organizations to fund initiatives that provide a new or expanded opportunity and contribute to regular physical activity. Funding children and youth is a priority, but all population groups are eligible.

### **Business Plan Priorities**

Various payments are made to organizations to support sport, recreation and active living activities under this area. OHP provides funding for certain initiatives which are listed as priorities in the Business Plan. Examples of these initiatives are grants paid to Sport Nova Scotia to administer the Sports Futures Leadership program and the KidSport program. In addition, grants for seven recreational facilities under the strategic initiatives program were funded.

### Summary of Expenditures for Sport and Recreation Program Area for the year ended March 31, 2005



Source: Office of Health Promotion expenditures per SAP

## OFFICE OF HEALTH PROMOTION'S RESPONSE

The audit of Nova Scotia Health Promotion's physical activity, sport and recreation area was conducted in a collaborative manner. Meetings were held prior to the audit to outline what the roles, responsibilities, and expectations were before, during, and after the audit. The staff who conducted the audit were extremely cooperative and enabled the process to be conducted in a positive manner.

The audit is a tool that will enable the physical activity, sport, and recreation (PASR) program area of Nova Scotia Health Promotion (NSHP) to review current practice and make necessary revisions in order to be more effective, efficient, and accountable in the future. NSHP is a new, progressive, innovative Office of the provincial government and an exciting place to work. The PASR program area is now working in a new professional environment and, therefore, the opportunity to step back and assess how we do business has been positive.

The focus of the audit was grant programs administered by PASR. It is heartening to read that the auditors recognize the difficulties we have administering grants to the many volunteer organizations we work with. We do not deliver programs, we provide leadership and support to partner organizations to deliver programs in communities. Therefore we are often dealing with organizations that are run by volunteers and many are "kitchen table" operations. This creates challenges which I am proud to say my staff manage well as they provide services to communities.

During the audit, as ideas and suggestions came to light regarding areas of weakness, senior staff immediately began to address these issues. Therefore I feel that we are already on the road to improving the policies, processes and systems needed to become more accountable.

In awarding grants, we are, in the case of Recreation Facility Development Grants (RFD) at the mercy of Acts of God and the efficiency of the building trades and their suppliers. The process is a sound one and has controls in place.

The poor state of facilities in NS has created a situation where Cabinet has generously supported funding for projects that are crucial to the delivery system of PASR. These projects are ones that have been on our books for some time and are beyond the scope of the RFD envelope.

A policy has been put in place to assure the security of cheques that are being held; i.e., waiting for financial statements from organizations upon completion of work.

More specifically, I offer the following responses to the audit recommendations:

Recommendation 8.1: *Releasing an annual/bi-annual progress report* has been taken to the NSHP Executive table and this will be put in place during the next fiscal year in all program areas of NSHP.

Recommendation 8.2: *Performance targets* are in the process of being implemented at all levels of PASR; individual work plans, team work plans and program area work plans.

Recommendation 8.3: Regarding the *approval of grants in the estimates process* needs discussion re: the practicality of implementing this recommendation and how it will affect opportunities at the community level.

Recommendation 8.4: NSHP is in discussions with the F-P/T Infrastructure Work Group to develop a framework for a national infrastructure program that could include F-P/T/Municipal cost sharing. Program process will be developed as a part of this national program.

Recommendation 8.5: Regarding *continuing to document and formally approve policies and procedures for grant processes* - this is in progress.

Recommendation 8.6: *Advance grant payments* will be reviewed by NSHP/PASR, however the grants provided are only a fraction of the total cost of the facility or program costs.

Recommendation 8.7: We continue to work on the *year-end disbursement process* with our financial staff.

Recommendation 8.8: We presently receive audited financial statements from Sport Nova Scotia (Deloitte and Touche) and suggest that this accountability combined with the MOA addresses *accountability requirements*.

Recommendation 8.9: We are in the process of implementing the *CIMS database system*.

Upon consultation with Treasury and Policy Board, we were advised item 8.37 and 8.41 probably should not be included in this response. This is a very common event/occurrence when it comes to new monies from the federal government mid-stream in a province's fiscal year. This occurrence is not relevant or worthy of noting as any type of finding. That is not a documented finding where something can be changed from our end. We feel that it is an operational observation, which can't be changed.

In closing I reiterate that this has been a very informative, positive experience and that we as an organization look forward to the challenge of improving the accountability of grant program administration in the physical activity, sport and recreation program area of NSHP. We will do so with the support of our DoH financial support and our own policy and planning program team.



# Other Audit Observations

# 9

# REVIEW OF FINANCIAL STATEMENTS AND MANAGEMENT LETTERS

## INTRODUCTION

- 9.1** The financial statements of crown corporations, agencies and funds of the government of Nova Scotia, and trusts administered by the government of Nova Scotia, are in some cases audited by the Office of the Auditor General and in other cases by private sector auditors licensed under the Public Accountants Act.
- 9.2** Section 17 of the Auditor General Act permits this Office to conduct additional reviews of those entities where financial statements are reported on by private sector auditors. This Chapter of our Report contains comments on our review of the results of financial statement audits by private sector auditors, as well as comments on audits performed by this Office.

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## FINANCIAL STATEMENT AUDITS

- 9.3** The Auditor General is responsible for the annual audit of the consolidated financial statements of the Province of Nova Scotia. See Chapter 2 of this Report for comments and observations on our audit of the Province's March 31, 2005 statements.
- 9.4** In preparing this chapter, we reviewed the audited financial statements and reports prepared by our Office and by private sector auditors. Our review focused on whether:
- there were any qualifications of auditors' opinions on the financial statements;
  - the audit opinion was based on Canadian generally accepted accounting principles, or on a disclosed basis of accounting;
  - there was any indication of inadequate controls over accounting records; and
  - there was timely preparation and audit of annual financial statements.
- 9.5** The following observations resulted from our review.

### Reservations of Opinion

- 9.6** The result of an audit is an opinion on whether financial statements present fairly the financial position of the entity at its fiscal year end and the results of its operations for the year then ended. Where there are qualifications of an audit opinion or situations in which it was not possible to render an opinion, we believe it is appropriate to report on such matters and have done so below.

- The auditor's report on the March 31, 2005 financial statements of the Industrial Expansion Fund was qualified because certain expenses and revenues were not reflected in the financial statements. The report was further qualified because a statement of cash flow was not provided and classification and disclosure of receivables was not adequate. In addition, the write-offs of assistance reflected in the financial statements had not been approved by the Governor in Council as required.
- The auditor of the Nova Scotia E911 Cost Recovery Fund issued a qualified audit opinion on the financial statements. The Fund is managed by the Emergency Measures Organization which has the ability to incur expenses on behalf of the Fund. The completeness of the expenses that the Fund incurs is not susceptible to conclusive audit verification.
- The auditors of the Annapolis Valley Regional School Board and the Strait Regional School Board, respectively, issued qualified audit opinions on the financial statements. The boards are required to report school-based funds in their financial activities. The completeness of revenue earned from school-generated funds is not susceptible to satisfactory audit verification.
- The auditor's report for the Halifax Regional School Board was qualified because the completeness of revenue earned from school-generated funds is not susceptible to satisfactory audit verification. As well, the auditors were unable to verify the accuracy of opening balances or expenditures from school-funded activities.
- The auditors' reports for the South Shore Regional School Board, Tri-County Regional School Board, and the Conseil scolaire acadien provincial, respectively, were qualified because the boards did not include school-based fund activities in their financial statements. The reports for the South Shore Regional School Board and the Tri-County Regional School Board were further qualified because the most recent actuarial report on the pension plan was in 2001 when the two boards were amalgamated. In 2004, the board was split into two and the auditors were unable to determine the extent of any possible liability related to the pension plan at each of the two newly created boards.
- As in prior years, the auditor of the Art Gallery of Nova Scotia issued a qualified audit opinion on the March 31, 2005 financial statements. As a charitable organization, the Art Gallery of Nova Scotia derives revenues from donations, special events, corporate campaigns and other sources. The completeness of this revenue is not susceptible to conclusive audit verification. This is the usual situation for charitable organizations that receive donations.
- As in prior years, the auditor's report for the Nova Scotia Talent Trust was qualified because the Trust derives revenues from fund-raising activities and donations. The completeness of this revenue is not susceptible to conclusive audit verification. This is the usual situation for this type of organization.

- As in prior years, the auditor's report on the March 31, 2005 financial statements of the Public Trustee Trust Funds was qualified because the nature of the Public Trustee's operations makes it impossible to provide an opinion on the completeness of its trust assets and trust income. This is not an unusual situation for such trust funds.

## Disclosed Basis of Accounting

- 9.7** As the result of changes to the Canadian Institute of Chartered Accountants Handbook, auditors can no longer give unqualified opinions on general purpose financial statements unless the statements comply with Canadian generally accepted accounting principles (GAAP). The audit reporting on financial statements prepared using a disclosed basis of accounting which is not generally accepted is deemed to be for specific users - not for general purpose - and should include wording similar to the following:

*“these financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles, are solely for the information and use of (the addressee) and; the regulator or legislator ... for the (purposes(s)), and are not intended to be and should not be used by anyone other than the specified users, or for any other purpose...”*

- 9.8** The preparation of financial statements on other than a GAAP basis reduces the value of the statements to the House and the general public.
- 9.9** The following entities' financial statements were prepared on a disclosed basis of accounting rather than Canadian generally accepted accounting principles.
- The financial statements for the SouthWest Regional School Board for the four months ended July 31, 2004 were prepared using accounting principles for Nova Scotia School Boards as prescribed by the *District School Board Financial Handbook* published by the Department of Education. Effective July 31, 2004 the Board was dissolved and the South Shore Regional School Board and the Tri-County Regional School Board were established. In March 2005, an amended Financial Handbook was issued which requires financial statement reporting using Canadian generally accepted accounting principles.
  - The Nova Scotia Power Finance Corporation and Sydney Environmental Resources Limited financial statements were prepared on a disclosed basis of accounting.
  - The Sherbrooke Restoration Commission's financial statements were prepared using accounting principles for museum boards in Nova Scotia as prescribed by the Department of Tourism, Culture and Heritage.

## Financial Controls and Records

- 9.10** During financial statement audits, situations were noted where accounting and control systems or procedures were deficient. These weaknesses in internal

controls were reported by the auditors in management letters to the crown corporations or agencies. Although they were not of a magnitude to require reservation of an audit opinion, the more significant observations are summarized below.

- The auditors of the Capital District Health Authority identified opportunities to improve the security over access to computer applications and strengthen internal controls in the pharmacy inventory system.
- The auditors of the Cumberland Health Authority noted significant billings were not done on a timely basis and suggested controls over materials management inventory be reviewed.
- The auditors of the Guysborough Antigonish Strait Health Authority recommended improvements to accounts receivable review procedures and commented on an access control issue in the accounting system.
- The auditors of the Annapolis Valley, South Shore and South West Nova District Health Authorities noted that the timeline for conversion of the payroll system to SAP may pose an interim risk for payroll support before the conversion can take place. The auditors also noted the timeliness and quality of monthly variance analysis could be improved.
- The auditors of the Halifax Regional School Board raised concerns over the controls around school-based funds. The auditors also noted weaknesses in the payroll reconciliation process.
- The auditors of the South Shore Regional School Board and the Tri-County Regional School Board identified a number of weaknesses related to computer system access, authorization and monitoring controls.
- The auditors of AgraPoint International Inc. noted that payroll and cash management processes could be improved.
- The auditors of the Halifax-Dartmouth Bridge Commission identified weaknesses in the payroll process and sales recording procedures.
- The auditors of the Highway 104 Western Alignment Corporation commented on control weaknesses in the tolling system. As noted in prior years, the design limitations of the tolling system do not support individual user profiles and passwords for staff. The auditors also noted a security deficiency on the server at the Toll Plaza.
- The auditors of the IWK Health Centre raised concerns surrounding various computer and access control issues including weaknesses in access and change controls to employee masterfiles on the payroll system.
- The auditors of the Nova Scotia Community College supported implementation of the College's internal auditor's recommendations to address

access control concerns and segregation of duties issues between the payroll and human resources functions.

- The audit of the Nova Scotia Fisheries and Aquaculture Loan Board revealed problems with the completeness and accuracy of information presented to the Board of Directors.
- The auditors of the Nova Scotia Health Research Foundation identified problems with the accuracy and completeness of the accounts and grants payable systems.
- The audit findings for the Nova Scotia Housing Development Corporation noted concerns regarding the completeness of documentation supporting certain approved grants.
- The auditors of the Nova Scotia Innovation Corporation noted segregation of duties issues with the position of Director of Finance and Information Technology. They also raised concern with the effectiveness of an audit committee consisting of only one member.
- The auditors of the Nova Scotia Legal Aid Commission recommended improving controls around accounts payable, including monthly balancing of the subledger to the general ledger and reconciling outstanding payables to supplier statements.
- The auditors of the Nova Scotia Liquor Corporation identified concerns with controls and access to the accounting system. They also noted that accounts payable balances for significant trade accounts are not regularly reconciled with vendor statements.
- As noted in prior years, the audit findings for the Nova Scotia Public Trustee outlined the need for the reconciliation of the mail book to deposit slips to ensure all money received is deposited.
- The audit findings for the Nova Scotia Talent Trust noted that controls over disbursements need to improve as instances were noted where cheques and money orders were prepared with only one signature rather than two signatures as required. Cash depositing practices also need to improve as delays up to four months between receiving and depositing funds were noted.
- The auditors of the Nova Scotia Utility and Review Board noted that the information technology policies and practices could be improved and a disaster recovery plan should be developed.
- The auditors of Resource Recovery Fund Board Inc. raised concerns that cheques were presigned and not issued in numerical sequence. The auditors also identified weaknesses in the invoice payment process.

## Timeliness of Financial Reporting

- 9.11** The Provincial Finance Act requires that financial statements for government business enterprises and governmental units be submitted to the Minister of Finance by June 30 following the fiscal year end (usually March 31).
- 9.12** There continue to be problems with receiving submissions by the deadline. This year, there were 21 entities (8 in 2004) that were not fully successful in providing audited financial statements and requested information by June 30. Of these entities, six were also late submitting statements last year.
- 9.13** The Province's March 31, 2005 consolidated financial statements were released on September 28, 2005 meeting the reporting requirement set out in the Provincial Finance Act.
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# Appendix

**AUDITOR GENERAL ACT****SECTION 8 Examination of account**

The Auditor General shall examine in such manner and to the extent he considers necessary such of the accounts of public money received or expended by or on behalf of the Province, and such of the accounts of money received or expended by the Province in trust for or on account of any government or person or for any special purposes or otherwise, including, unless the Governor in Council otherwise directs, any accounts of public or other money received or expended by any agency of government appointed to manage any department, service, property or business of the Province, and shall ascertain whether in his opinion

- (a) accounts have been faithfully and properly kept;
- (b) 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;
- (c) money which is authorized to be expended by the Legislature has been expended without due regard to economy or efficiency;
- (d) money has been expended for the purposes for which it was appropriated by the Legislature and the expenditures have been made as authorized; and
- (e) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

**SECTION 9 Annual report on financial statements in public accounts**

- (1) The Auditor General shall report annually to the House of Assembly on the financial statements of the Government that are included in the public accounts required under Sections 9 and 10 of the *Provincial Finance Act*, respecting the fiscal year then ended.
- (2) The report forms part of the public accounts and shall state
  - (a) whether the Auditor General has received all of the information and explanations required by the Auditor General; and

(b) whether in the opinion of the Auditor General, the financial statements present fairly the financial position, results of operations and changes in financial position of the Government in accordance with the stated accounting policies of the Government and as to whether they are on a basis consistent with that of the preceding year.

(3) Where the opinion of the Auditor General required by this Section is qualified, the Auditor General shall state the reasons for the qualified opinion.

## **SECTION 9A Annual report on work of Auditor General**

(1) The Auditor General shall report annually to the House of Assembly and may make, in addition to any special report made pursuant to this Act, not more than two additional reports in any year to the House of Assembly on the work of the Auditor General's office and shall call attention to every case in which the Auditor General has observed that

(a) any officer or employee has wilfully or negligently omitted to collect or receive any public money belonging to the Province;

(b) any public money was not duly accounted for and paid into the Consolidated Fund of the Province;

(c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by the Legislature;

(d) an expenditure was not authorized or was not properly vouched or certified;

(e) there has been a deficiency or loss through fraud, default or mistake of any person;

(f) a special warrant, made pursuant to the provision of the *Provincial Finance Act*, authorized the payment of money; or

(g) money that is authorized to be expended by the Legislature has not been expended with due regard to economy and efficiency.

(2) The annual report of the Auditor General shall be laid before the House of Assembly on or before December 31<sup>st</sup> of the calendar year in which the fiscal year to which the report relates ends or, if the House is not sitting, it shall be filed with the Clerk of the House.

(3) Where the Auditor General proposes to make an additional report, the Auditor General shall send written notice to the Speaker of the House of Assembly thirty days in advance of its tabling or filing pursuant to subsection (2).

(4) Whenever a case of the type described in clause (1)(a), (b) or (e) comes to the attention of the Auditor General, the Auditor General shall forthwith report the circumstances of the case to the Minister.

(5) The Auditor General shall, as soon as practical, advise the appropriate officers or employees of an agency of Government of any significant matter discovered in an audit.

(6) Notwithstanding subsection (1), the Auditor General is not required to report to the House of Assembly on any matter that the Auditor General considers immaterial or insignificant.

## **SECTION 9B Annual review of estimates**

(1) The Auditor General shall annually review the estimates of revenue used in the preparation of the annual budget address of the Minister of Finance to the House of Assembly and provide the House of Assembly with an opinion on the reasonableness of the revenue estimates.

(2) The opinion of the Auditor General shall be tabled with the budget address.

## **SECTION 15 Special audit and report**

Notwithstanding any provision of this Act, the Auditor General may, and where directed by the Governor in Council or the Treasury and Policy Board shall, make an examination and audit of

- (a) the accounts of an agency of government; or
- (b) the accounts in respect of financial assistance from the government or an agency of the government of a person or institution in any way receiving financial assistance from the government or an agency of government,

where

- (c) the Auditor General has been provided with the funding the Auditor General considers necessary to undertake the examination and audit; and
- (d) in the opinion of the Auditor General, the examination and audit will not unduly interfere with the other duties of the Office of the Auditor General pursuant to this Act,

and the Auditor General shall perform the examination and audit and report thereon.

## SECTION 17 Examination by chartered accountant

(1) Where the Governor in Council pursuant to this Act or any other Act has directed that the accounts of public money received or expended by any agency of government shall be examined by a chartered accountant or accountants other than the Auditor General, the chartered accountant or accountants shall

(a) deliver to the Auditor General immediately after the completion of the audit a copy of the report of findings and recommendations to management and a copy of the audited financial statements relating to the agency of government; and

(b) make available to the Auditor General, upon request, and upon reasonable notice, all working papers, schedules and other documentation relating to the audit or audits of the agency accounts.

(2) Notwithstanding that a chartered accountant or accountants other than the Auditor General have been directed to examine the accounts of an agency of government, the Auditor General may conduct such additional examination and investigation of the records and operations of the agency of government as he deems necessary.