



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

...**2005**

**June
Highlights**

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

HIGHLIGHTS

PREFACE

Under Section 9A(1) of the Auditor General Act, I have the mandate to report annually to the House of Assembly and may make, in addition to any special report, not more than two additional reports in any year. The deadline for the Annual Report is December 31.

This Report includes the results of audit work completed from December 2004 to May 2005.

In an attempt to give readers an appreciation of the most significant findings contained in my June 2005 Report, I publish this highlights volume. It provides a brief summary of the results of audit work carried out to date in 2005.

However I do suggest that those who wish a fuller understanding of any or all of these matters should refer to the full Report. The highlights volume notes the page numbers of the full Report for each of the subjects.

Again this year we have set out our recommendations to government in each Chapter. To assist readers we have also included all 42 recommendations in this highlights volume. I hope this is useful.

It is also the intent of myself and my staff to provide our messages as clearly and concisely as possible. Comments from readers on the value of this highlights volume or on the complete Report would be welcomed.

A handwritten signature in black ink, reading "E R Salmon". The signature is written in a cursive, flowing style.

E. ROY SALMON, FCA
Auditor General

Halifax, Nova Scotia
May 27, 2005

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INTRODUCTION

Message from the Auditor General

Pages 3 - 4

- 1.1 The objective of this Report is to provide information to the House of Assembly on a more timely basis and allow the Public Accounts Committee to consider these matters and call witnesses on a more timely basis. Discussions with members of the Committee indicate they favour this approach.
- 1.2 Consistent with one of the major priorities outlined in my 2005 Business Plan, some of the audits focus on specific program areas as opposed to higher-level departmental matters. I would welcome comments on the more in-depth focus of the program audits. I would also like to express my appreciation to my staff for their efforts in producing this Report, and adapting to this change in priorities and timelines.

GOVERNMENT-WIDE ISSUES

Government Financial Reporting

Pages 6 - 19

- 2.1 The Auditor General's opinion on the government's 2005-06 revenue estimates was qualified because the revenue estimates are not presented on the same consolidated basis as the Province's consolidated financial statements. It was tabled April 26, 2005 as part of the Nova Scotia Budget publication (page A2). A management letter on this year's review was issued to government in May 2005.
- 2.2 Our audit of the Province's March 31, 2005 consolidated financial statements will be completed between May and September 2005.

The target deadline for providing our opinion on those statements, for printing purposes, is September 22, 2005. The scheduled date assumes year-end accounting and audit readiness requirements are met.

- 2.3 Additional appropriations of \$99,017,194 for 2003-04 program expenses were approved on December 3, 2004 by Order in Council 2004-469. No special warrants have been approved since our last Report. Based upon forecast information included in the 2005-06 budget document, additional appropriations of approximately \$222.2 million may be required for 2004-05.
- 2.4 In order for the Province to issue debt in the United States market, government must file an Annual Report (Form 18K) with the U.S. SEC. This report is supposed to be updated annually by December 31. At the time of writing this Report, the Province's Form 18K had not been updated since December 2003.
- 2.5 We acknowledge that government made amendments to the presentation of the surplus amounts in the 2005-06 budget documents to ensure they are GAAP compliant. We support Finance's plan to review the content of government's financial reports to ensure they meet the needs of their users. These actions contribute to the quality of government's financial reporting.
- 2.6 Our recommendations to government from this chapter and the revenue estimates management letter are as follows:

Recommendation 2.1

We recommend that the development of the economic assumptions and estimated revenues

for each revenue line item be completed after the Executive Council has approved planned revenue and spending decisions for the coming year. The impact of those decisions should be specifically incorporated into the development of the economic assumptions and the revenue line items.

Recommendation 2.2

We recommend the effective date of the economic assumptions be the date they are approved by the Executive Council.

Recommendation 2.3

We recommend all key economic assumptions used in the development of the revenue estimates be approved by the Executive Council.

Recommendation 2.4

We recommend that, in accordance with GAAP, Federal transfer payments be included in revenue as opposed to being netted against expense appropriations.

Recommendation 2.5

We recommend the budget process be reviewed and revised to ensure there is proper cut off of information and that the revenue estimates reflect the most current information available.

Recommendation 2.6

We recommend the budget process be reviewed and revised to ensure Finance is made aware of

all potential revenue line items so the Department can assess relevant information when determining the Province's estimated revenues and related disclosures.

Recommendation 2.7

We recommend government take steps to ensure the necessary resources and processes are in place to ensure the Province's annual SEC Form 18K report is filed as required on a timely basis.

Government Systems and Controls

Page 20 - 30

- 3.1 Good systems and controls can be costly, while too many or less than optimized controls can also be costly. Government's challenge is to ensure that the risks of loss or misuse are appropriately identified and that decisions made about the level of control to be in place appropriately mitigate risks on a cost-benefit basis. The goal is not more or too many controls, but rather cost-effective optimization of control against risks.
- 3.2 The government has a number of significant systems and control initiatives in process at this time. The capacity of existing resources assigned to such initiatives needs to be monitored effectively in order to achieve successful results and outcomes.
- 3.3 The first independent service audit of the SAP Customer Competency Centre of the Department of Finance, reported in January 2005, contained a reservation of opinion.
- 3.4 The results of the annual independent service audit of control procedures in place for processing on government's large mainframe

computer systems provide reasonable, but not absolute, assurance on the adequacy of controls. The audit deals with control procedures at a specific point in time, and only those that are the responsibility of the contracted service organization. There are significant matters not covered by the audit which are government's specific and direct responsibility.

- 3.5 Better reporting to the House of Assembly in regards to annual business planning information and accountability reporting on the Industrial Expansion Fund is required.
- 3.6 We reviewed the second edition of the *Business Climate Index (Index)*, published for 2003, in which Nova Scotia ranked fourth. We selected a sample of the indicators, to determine whether the Index reflected the underlying Statistics Canada data. We noted no issues with the sample indicators.
- 3.7 The information on tangible capital assets in government's corporate financial management system (CFMS) is not always updated in a timely manner for asset transfers from one department to another or for disposal of an asset.
- 3.8 Our recommendations to government from this chapter are as follows:

Recommendation 3.1

We recommend government assess the adequacy of its own control procedures associated with data processing service provider arrangements.

Recommendation 3.2

We recommend that annual business planning information and accountability reporting on the Industrial Expansion Fund be made available to

the House of Assembly on at least the same basis as such information is currently available on other crown entities.

DEPARTMENT AUDITS

• • Education

Special Education

Pages 32 - 64

- 4.1** Implementation of the Special Education policy began only ten years ago. The Department of Education and Regional School Boards (RSBs) still encounter challenges on a daily basis to ensure that students that most need Special Education services are receiving the supports they require to succeed. The demand for Special Education services is high and program costs are increasing. Not every identified need can be met. In this environment, prioritization processes are very important and should be based on appropriate, reliable information about demand, services offered, educational outcomes and costs.
- 4.2** The Department of Education's Student Services Division attempts to collect information on programs and outcomes. However, there are no formal systems in place to generate this information. The information is primarily collected by annual surveys. The *Tracking Our Progress* survey is a positive initiative because the RSBs and schools undertake a comprehensive self-assessment of Special Education. However, the information provided is not verified and is sometimes incomplete.
- 4.3** We are concerned with the overall quality of the financial and student specific information available to management for the Special Education program. For example, we could not determine all direct costs of offering

Special Education programs at the RSBs audited, or the number of students waiting for services. Information that is accurate, timely and complete is essential to effective decision making and improvements are needed. Better quality information should enhance the business planning process and enable both the Department and RSBs to assess the needs of Special Education students and make better decisions with respect to meeting those needs.

- 4.4** The roles and responsibilities with respect to Special Education programs and services are well documented. There are clear lines of accountability and roles with respect to Special Education programs and services are understood.
- 4.5** Neither the Regional School Boards (RSBs) nor the Department have readily available information on all students and special education services provided to them to enable performance measurement and assist in decision making. We acknowledge that this information is available at the school level and that RSBs and the Department are able to request it. The Department and the RSBs should analyze information needs for Special Education and collaborate in the development of a Province-wide student information system.
- 4.6** The Department of Education requires RSBs to prepare comprehensive annual reports on the Severe Learning Disabilities Program and the Reading Recovery Program. These include information on models of service delivery, student numbers, results of standardized testing and satisfaction surveys. This requirement should be extended to all major Special Education programs and services.
- 4.7** The Department requires RSBs to conduct annual surveys of compliance with policies at

the school level. There is little verification of information reported due to the small number of staff in the Student Services Division at the Department. Also, at the RSBs, there is no formal independent review of the allocation of teaching assistants to students within individual schools. The Department and RSBs should consider conducting more reviews for verification of compliance and sharing of best practices, similar to the Department's review of the Annapolis Valley Regional School Board in 1999.

- 4.8** The RSBs indicated that the issue of liability for performance of medical procedures by Teaching Assistants is a concern. The Department of Education has provided policy guidance to the RSBs with respect to the performance of medical procedures and related training requirements. The guidance suggests that RSBs work with the District Health Authorities to establish protocols to be followed.
- 4.9** The guidance with respect to how Regional School Boards should account for Special Education expenditures is not clear or complete which limits comparability of financial statements and results in a likely understatement of total costs of Special Education. The Department of Education should improve its guidance to RSBs regarding accounting for Special Education expenditures. A direct costing model should be adopted to ensure that all significant Special Education costs are being appropriately identified, classified and reported on a consistent basis at all Boards.
- 4.10** Our recommendations from this audit are as follows:

Recommendation 4.1

We recommend that all RSBs conduct regular evaluations of Special Education programs with input from all stakeholder groups to serve as a basis for planning and performance reporting.

Recommendation 4.2

We recommend the Department and RSBs analyze information needs for Special Education and consider the development of a Province-wide student information system to accumulate and report data.

Recommendation 4.3

We recommend that the Department of Education require RSBs to prepare a comprehensive annual report on the performance of all major Special Education programs. The annual report should be made available to stakeholders including the Department, parents, and members of the House of Assembly.

Recommendation 4.4

We recommend that the Department and RSBs reestablish the practice of conducting peer reviews of RSBs for verification of compliance with legislation, regulations and policies and sharing of best practices.

Recommendation 4.5

We recommend that government review and update the Education Act and related regulations to ensure that they reflect the current funding environment.

Recommendation 4.6

We recommend that the RSBs negotiate with the District Health Authorities to establish a documented protocol with respect to the performance of medical procedures. Where the procedures are to be performed by teacher assistants, related training needs should be addressed.

Recommendation 4.7

We recommend that the Department of Education improve its guidance to RSBs regarding accounting for Special Education expenditures to specifically describe which costs can be charged and how they are to be calculated. A direct costing model should be adopted to ensure that all significant Special Education expenditures are being appropriately identified, classified and reported on a consistent basis at all Boards.

• • Finance

Pension Administration System (PenFax)

Pages 65 - 79

- 5.1 We have reported on the Penfax system implementation problems in the past. Although we repeat our concerns expressed in the previous Reports, this Report indicates that the system, as implemented, is functioning in a controlled manner, though improvements should be considered by management.
- 5.2 Further we note that the expenditures on the Penweb element, approximately \$1 million, have achieved little or no benefit.
- 5.3 There are important lessons to be learned - some of them fairly expensive - by the Department of Finance and government overall

from the Penfax implementation. We urge government to ensure that the lessons learned are appropriately documented so that future system implementations can benefit.

- 5.4 The controls for the general computer environment for the Penfax system were assessed as being adequate. There are some areas where improvements should be made.
- 5.5 The controls over completeness, accuracy, authorizations and the adequacy of management trails were assessed as being adequate. There are some areas where improvements should be made.
- 5.6 As the Penfax Completion Project final report is still in progress, we have not had an opportunity to review the final assessment of the deliverables of the Completion Project. We have recently been informed by management that the cost of the Penfax Completion Project was \$378,911.
- 5.7 The cost of the Penweb component, which was added to the original Penfax project scope in December 2001 (i.e., at a time when that project was already in trouble), was approximately \$1,000,000. This does not include the cost of Department of Finance Pension Services Group (PSG) staff working, often full time, on this project. The Penweb component was not completed and implemented. The government and the pension funds have received little or no value for the money expended on this element of the project.
- 5.8 Our recommendations from this audit are as follows:

Recommendation 5.1

We recommend that the PSG establish and test an appropriate disaster recovery plan for the

Penfax system. This should include service level agreements with entities external to the PSG.

Recommendation 5.2

We recommend the establishment of a policy requiring departments to have an appropriate business continuity plan, and that this plan be kept up-to-date. Further, we recommend the establishment of an initiative to undertake the development and implementation of a corporate business continuity planning process.

Recommendation 5.3

We recommend that, in conjunction with the development of a corporate business continuity planning process, the Business Technology Advisory Committee (BTAC) examine the needs for a corporate disaster recovery planning process, as it relates to the provision of information technology services.

Recommendation 5.4

We recommend that PSG management enter into appropriate service level agreements with the Resources Corporate Services Unit.

Recommendation 5.5

We recommend that management periodically review security matters surrounding the Penfax system.

Recommendation 5.6

We recommend that the PSG develop security and privacy policies and communicate these to staff. The signing of a security and confidentiality agreement by

employees should be an integral component of these policies.

Recommendation 5.7

We recommend that a sign-off procedure for file reviews be designed and implemented. A check list could be inserted into the member file noting review procedures with sign-off required when the work is completed.

Recommendation 5.8

We recommend that PSG management continue with its data integrity initiatives and contact with employers to prevent errors from occurring in the pension source data.

Recommendation 5.9

We recommend that data transfer procedures between employers and PSG be standardized, to meet the requirements of the Penfax system, and that employers be accountable for data accuracy.

• • Health

Nova Scotia hospital Information System (NShIS) project

Pages 80 - 105

- 6.1** 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 sites visited.

- 6.2** The NSHIS project has many benefits, both medical and financial. Before the benefits can be achieved, 6000 professional and other staff will change and standardize the way their daily activities are completed and 3000 nurses will change and standardize nursing practices. Physicians will also benefit from the system.
- 6.3** The duration of implementation will exceed the planned schedule. As pointed out by external parties, the implementation schedule was aggressive. The Nova Scotia experience was the first jurisdiction-wide, multi-hospital implementation in North America where separate governing bodies (i.e., multiple DHAs) were involved. We concluded that the project management techniques used were consistent with best practices.
- 6.4** DHA management and users have expressed high levels of satisfaction with the system and its benefits.
- 6.5** In March 2001, the Department of Finance informed DOH of the opportunity to use newly available capital funds “so long as we can purchase and receive product by the end of this fiscal year”, three weeks away. Four days later, the Business Technology Advisory Committee (BTAC) and the Department began negotiations to acquire the hospital clinical information system pursuant to a request for proposals (RFP) process concluded in late 1999. On March 30, 2001 the Deputy Minister signed the supplier purchase agreement, amounting to approximately \$20 million for hardware and software. We are concerned that this very tight timeframe may have impacted the decision to proceed with the results of the 1999 Request for Proposals rather

than enter into a new RFP. We understand that the results of the 1999 RFP had undergone an extensive review process and that DOH wanted to move forward with a system that already had the support of the DHAs.

- 6.6** We examined the project management methodology used by the project manager and compared it to the Project Management Institute's *A Guide to the Project Management Body of Knowledge* (PMBOK Guide, 2000 Edition). The project management methodology was consistent with the PMBOK. Although not all documentation was in the exact form suggested by the PMBOK, the methodology applied addressed key PMBOK areas.
- 6.7** The development of Province-wide practice standards was necessary for the project to succeed. This was a significant task as the result needed to be that all functional units within hospitals in the Province would capture the same data and document patient-related activities in a consistent and comparable way. The standards changes played a major role in the problems which surfaced at the first patient care system module implementation (DHA 7 regional hospital). Lessons learned from that experience have been incorporated in the remaining implementation plans and activities.
- 6.8** There have been reductions in the scope of the project due mainly to issues which were not anticipated in the planning phase. For example, the Patient Care System (PCS module) likely will not be fully implemented by all sites at the conclusion of the project, and there are still issues associated with when physicians will have remote access from their offices. The PCS module has been implemented in 6 of the 34 hospitals. A revised implementation strategy has been developed resulting in extending implementation timing into 2007. Additional

funds will be required for related computer equipment. However, the costs of the software and estimated training are included in the NShIS budget.

- 6.9** Management indicates security and confidentiality of patient information and records, and system backup and recovery have been addressed, but NShIS data center disaster recovery plans should be formalized and tested.
- 6.10** The ability of the three hospital information systems (IWK Health Centre, Capital District Health Authority and NShIS) to communicate and share information formed part of the objective for the NShIS. This issue is now being addressed separately as the approach has broadened to include more health systems than just the NShIS. Partial implementation is planned for the summer of 2005.
- 6.9** Our recommendation from this audit is as follows:

Recommendation 6.1

We recommend the disaster recovery plans and procedures for NShIS be formalized and tested.

Audit of Performance Indicators

Pages 106 - 112

- 7.1** Over the past several years, much has been said and written by others on the need for better health information and reporting of outcomes. The Department of Health has taken steps to achieve this including issuing *A Measure of Our Health and Health System* and engaging our Office to provide an opinion on the report. Our audit provides assurance to the reader on the quality of the data.

- 7.2 We were able to give an unqualified opinion on the indicators reported by the Department of Health in the November 2004 publication, *A Measure of Our Health and Health System*. We are encouraged by the work undertaken by the Nova Scotia Department of Health in the preparation of that report.
- 7.2 We were also requested by the Department of Health to undertake additional audit work related to three specific performance measures, not included in *A Measure of Our Health and Health System*, that originate from Provincial systems. We were only able to conclude that systems are adequate to produce data which is complete and accurate for one of the three measures audited. The Department of Health is planning to work with the responsible entities to make improvements to the processes for collecting data for the other two indicators.

• • **Natural Resources and Transportation and Public Works**

Fleet Management

Pages 113 - 137

- 8.1 Fleet management in the Nova Scotia government is not coordinated across the Provincial fleet. Each government department is responsible for the management of any fleet assets employed. Detailed information on the composition and operation of the entire Provincial fleet is not readily available.
- 8.2 There is limited coordination of fleet operations between Transportation and Public Works (TPW) and Natural Resources (DNR). We identified opportunities to promote economy, efficiency and control over government fleet operations by improving the level of coordination between

the two Departments in areas such as policy development, information systems, acquisitions, disposals and fleet maintenance.

- 8.3** The management information system in TPW is adequate to provide management with information needed to manage the Department's fleet. We were unable to conclude on the adequacy of the DNR systems due to lack of Department knowledge of systems and absence of related documentation. We noted under-utilization of data gathering, reporting and other capabilities of the management information systems in both TPW and DNR.
- 8.4** Acquisition of fleet assets at TPW and DNR generally complied with existing legislation, regulations and policies.
- 8.5** We were unable to obtain sufficient, appropriate audit evidence to conclude on whether there is due regard for economy and efficiency in fleet asset acquisition and disposal practices at the Departments. There is insufficient analysis and documentation to support decisions.
- 8.6** We were unable to conclude on whether there was due regard for economy and efficiency in the maintenance and operation of fleet assets in TPW and DNR due to deficiencies in fleet management systems, analysis and documentation. We noted incomplete vehicle log books, vehicles without log books, inadequate maintenance schedules and records, incomplete information on distance driven, and incomplete warranty information. We also observed instances where routine maintenance was performed long after it was due according to maintenance schedules.
- 8.7** In DNR, we identified approximately \$45,000 in expenses which were inappropriately charged

to fleet operations. We were advised that staff had been instructed to charge these expenses to fleet operations due to availability of unspent budget allocations for the year. Such accounting practices do not provide for accurate financial reporting and are inappropriate.

- 8.8** We identified instances of non-compliance with the Provincial regulations related to fuel storage and instances of non-compliance with the Provincial procurement policy.
- 8.9** TPW has completed environmental site assessments on two-thirds of its estimated 80 base locations and identified environmental contamination on almost all of the sites assessed. An action plan to remediate the environmental contamination has not been prepared and the cost of clean-up has not been estimated. DNR has not had its fuel storage locations assessed for environmental contamination.
- 8.10** Controls over fuel expenses and fuel consumption in TPW and DNR are inadequate to ensure due regard for economy and efficiency. We found that some divisions analyze and monitor fuel expenses, while others do not. The Departments cannot assure that all recorded fuel expenses are incurred for government-related activities, and there are inadequate measures to detect excessive fuel usage due to poor operating and maintenance practices.
- 8.11** Our recommendations to government from this audit are as follows:

Recommendation 8.1

We recommend that Transportation and Public Works and Natural Resources investigate ways of coordinating their fleet management operations in order to promote economy and efficiency. In doing

so, consideration should be given to including fleet operations of other government departments and agencies.

Recommendation 8.2

We recommend that the Department of Natural Resources' fleet management branch review and assess its current information needs and evaluate the ability of current systems to meet them. The Department should also assess the need for additional staff training in fleet management systems and practices.

Recommendation 8.3

Government should review the policy on acquisition of fleet assets and assess the reasonableness of the \$25,000 limit and/or clarify the application of the limit to the different vehicles employed in Provincial fleet operations.

Recommendation 8.4

We recommend that acquisition and disposal decisions be better documented in both Departments, and be based on analysis of the best means of meeting operational needs.

Recommendation 8.5

We recommend that life-cycle costs, environmental performance, and operational performance of similar fleet assets previously acquired be considered in purchase decisions.

Recommendation 8.6

We recommend that the Department of Natural Resources improve safeguarding of its fleet assets, parts and supplies.

Recommendation 8.7

We recommend that Transportation and Public Works and Natural Resources develop a formal fleet maintenance policy and improve existing systems and practices to ensure vehicles are properly maintained. We further recommend that maintenance activities be adequately supported by appropriate documentation.

Recommendation 8.8

We recommend that Transportation and Public Works and Natural Resources obtain and use information necessary to monitor whether fleet assets are used efficiently and only for authorized purposes.

Recommendation 8.9

We recommend that government require reimbursements for personal use of government vehicles based on full operating and capital costs.

Recommendation 8.10

We recommend that Transportation and Public Works document the value in permitting certain unreimbursed use of vehicles by staff who are on-call or standby. TPW should also submit for expert analysis its practices in this area to ensure full compliance with the Income Tax Act.

Recommendation 8.11

We recommend that the current registration process be reviewed to determine if there is an opportunity to improve the efficiency of registering Provincial vehicles with the Registry of Motor Vehicles.

Recommendation 8.12

We recommend that expenses of the Department of Natural Resources be recorded in appropriate general ledger accounts, and that the Department's budget have no role in how expenses are classified.

Recommendation 8.13

We recommend that Transportation and Public Works and Natural Resources ensure that bulk fuel storage for fleet operations complies with Provincial regulations. Documentation for inspection and maintenance of storage tanks should be improved. Responsibilities for fuel storage should be clearly assigned and communicated.

Recommendation 8.14

We recommend the preparation and implementation of a government-wide policy for the storage and handling of fuel. The policy should be adequately communicated and address all requirements of the Petroleum Management Regulations and Dangerous Goods Management Regulations. Environmental site assessments should be performed on all fuel storage sites operated by the Provincial government, and contaminated sites requiring remediation should be remediated in a timely manner.

Recommendation 8.15

We recommend that the Department of Natural Resources comply with sole-sourcing approval and reporting provisions of the Provincial Procurement Policy.

Recommendation 8.16

We recommend measures be taken by Transportation and Public Works and Natural Resources to improve controls over fuel expenses and consumption.
