

1

INTRODUCTION AND CHAPTER SUMMARIES

MESSAGE FROM THE AUDITOR GENERAL

- 1.1 I am pleased to present my June 2007 Report to the House of Assembly on work completed by my Office in the first half of 2007.
- 1.2 In addition to this Report, I have also submitted the following this year:
- My 2007 Strategic Plan was distributed to Members of the House of Assembly and the Public Accounts Committee on April 13, 2007.
 - My Report on the Estimates of Revenue for the fiscal year ending March 31, 2008, dated March 22, 2007, was included with the Budget Address tabled by the Minister of Finance on March 23, 2007.
- 1.3 As the Province's Auditor General, my goal is to work towards better government for the people of Nova Scotia. As an independent non-partisan officer of the House, I and my Office help to hold the government to account for its management of public funds and contribute to a well-performing public sector. I consider the needs of the public and the House, as well as practical realities facing management, in providing sound practical recommendations to improve the management of public sector programs.
- 1.4 My priorities, during my term of office, are: to focus audit efforts on areas of high risk that impact on the lives of Nova Scotians; to contribute to a more efficient, effective, and better performing public service for Nova Scotia; and to foster better financial and performance reporting to the Legislature and the people; all while promoting excellence and a professional and supportive workplace at the Office of the Auditor General. This Report reflects this service approach.
- 1.5 I wish to acknowledge the valuable efforts of my staff who deserve the credit for the work reported here. As well, I wish to acknowledge the cooperation and courtesy we received from staff in departments and agencies during the course of our work.

WHO WE ARE AND WHAT WE DO

- 1.6 The Auditor General is an officer of the Legislature, appointed by the House of Assembly for a ten-year term. He or she is responsible to the House and to the people of Nova Scotia for providing independent and objective assessments of the operations of government, the use of public funds and the integrity of financial and performance reports.

- 1.7 The Auditor General's mandate, responsibilities and powers are established by the Auditor General Act. The Act provides the Auditor General with the authority to require the provision of any documents required by the Auditor General in the performance of his/her duties. The Auditor General Act requires all public servants to provide the Auditor General free access to any and all information and explanations which he requires.
- 1.8 The Auditor General Act stipulates that the Auditor General shall provide an annual report and opinion on the government's financial statements; provide an opinion on the revenue estimates in the government's annual budget address; examine the management, use and control of public funds; and report to the House at least once, and up to three times annually, on the work of the Office.
- 1.9 The Office has a mandate under the Act to audit all parts of the Provincial public sector including government departments and all agencies, boards, commissions or other bodies responsible to the crown, such as Regional School Boards and District Health Authorities, as well as transfer payment recipients external to the Provincial public sector.
- 1.10 In its work, the Office of the Auditor General is guided by, and complies with, the professional standards established by the Canadian Institute of Chartered Accountants, otherwise known as Generally Accepted Auditing Standards (GAAS). We also seek guidance from other professional bodies and audit-related best practices in other jurisdictions.
- 1.11 This Report presents the results of the Office's audits and reviews conducted in 2006 and 2007 and completed in the first half of 2007 at a number of departments and agencies, as well as some comments on government financial reporting. Where appropriate, we make recommendations for improvements to government operations, processes and controls. Department or agency responses have been included for each chapter. We will follow up on the implementation of our recommendations in two years, with the expectation that significant progress will be made.
- 1.12 A separate booklet also provides highlights and summaries from this Report.

SIGNIFICANT ISSUES AND COMMON THEMES

- 1.13 In conducting our audits, we sometimes identify issues that may have broader applicability beyond the particular entities in which the issues emerged.
- 1.14 First, we found deficiencies this year in basic internal controls in some program areas. These weaknesses increase the risk of financial loss through error or fraudulent actions. In some cases, the internal controls had been designed properly but were not functioning as intended. In other cases, adequate controls did not exist. Some of the weaknesses related to manual controls such as authorizations and monitoring. Others, such as poor access controls, related to

computer systems. The importance of adequate internal controls, and the concept of management responsibility for internal controls, have gained international attention in recent years following several widely-publicized corporate failures, and the passing of the Sarbanes-Oxley Act in the United States. We urge the Nova Scotia government to focus on the design and proper functioning of internal controls.

1.15 Secondly, our audits of health-related programs identified the need for increased quality assurance on non-financial databases such as those which control access to programs or report wait time information. These databases produce information which is used as support for important decisions relating to access to health services; accuracy in this data is important.

1.16 Finally, we note that there is a need for clear accountability frameworks which define performance expectations for entities funded by the Province. The accountability frameworks may take different forms (such as service agreements, contracts, legislation or policies), but they should all include standard provisions such as:

- objectives;
- performance expectations and targets;
- reporting requirements for regular submission of both financial and non-financial performance information;
- monitoring provisions including audit access by the relevant Department and/or the Auditor General, depending on the circumstances; and
- the right of government to take corrective action if results do not meet expectations.

EXECUTIVE SUMMARY BY CHAPTER

1.17 The Report presents our findings, conclusions and recommendations resulting from audits and reviews in the following areas. Responses received from auditees have been included in the appropriate chapter.

Health

Chapter 2 Management of Diagnostic Imaging Equipment - Capital Health and Cape Breton District Health Authority

1.18 We conducted an audit of the management of MRIs and CT scanners at the Department of Health, Capital Health and the Cape Breton District Health Authority. This audit was conducted jointly with legislative auditors in several Canadian jurisdictions. The Auditor General of Ontario released his report from this audit to the Legislative Assembly of Ontario in December 2006 and other legislative auditors will issue reports in the future.

1.19 We found that the DHAs we audited generally had processes in place to provide for patient safety and prioritize patient access to required services. One of the factors

that impacts timely access to diagnostic services is whether the equipment is used for medically necessary, appropriate examinations. We believe the Department of Health and DHAs should incorporate use of clinical practice guidelines in their policies to decrease the risk that the ordered examination is not appropriate. We also recommend that the Department of Health take a more active role in assuring adequate quality assurance processes are in place for diagnostic imaging equipment throughout the Province.

- 1.20** The Department of Health does not have a formal capital planning process in place for medical equipment. A capital plan is necessary to ensure that high priority equipment needs are met on a Province-wide basis. Capital Health and the Cape Breton District Health Authority have adequate capital planning processes in place but have significant unmet equipment needs due to insufficient funding. Funding limitations for capital equipment at the District Health Authorities has been a recurring finding in prior audits.

Chapter 3 Emergency Health Services

- 1.21** We performed an audit of certain aspects of Emergency Health Services' ground ambulance program. EHS contracts the day-to-day operation of the program to EMC Emergency Medical Care Inc. - a wholly-owned subsidiary of Medavie Blue Cross.
- 1.22** The contract between EMC and the Province does not specifically address the right of the Office of the Auditor General to audit EMC's operations. EMC management agreed to our request to perform the audit. We believe that any significant service delivery contracts should include audit access for the Auditor General to ensure that the House of Assembly receives assurance that public funds are appropriately controlled and expended with regard to value for money.
- 1.23** EHS has adequate procedures to ensure EMC complies with the performance standards established in the ground ambulance contract. However, we made recommendations for improvements to EHS' monitoring practices for financial information and user fee collection.
- 1.24** We found EMC had paid retention bonuses to its senior management. Although the payments did not violate the company's agreement with the Province, the accounting treatment and disclosure highlight weaknesses in the accountability framework of this program. The Department of Health was unaware of the specific details of these payments although the amounts had been partially funded by the Department. This instance of unusual payments supports the need for increased financial monitoring by the Department of Health.
- 1.25** EMC uses sophisticated techniques to deploy ambulances across the Province and meet response times. There are two related issues which should be examined by government: delays at emergency rooms pose a risk that response times may not be achieved; and there is a risk that some ambulances may be deployed to communities which do not meet deployment criteria.

Chapter 4 Long-term Care - Nursing Homes and Homes for the Aged

- 1.26** The Department of Health's Long-term Care program has undergone a number of major changes in the past few years including introduction of Single Entry Access, the Cost of Care Initiative, the Continuing Care Strategy and the recent announcement of new and replacement beds. The legislation is outdated and needs to be amended to reflect these changes.
- 1.27** Our audit found a need to improve the accountability framework for nursing homes to more clearly set out performance expectations and reporting requirements. We also report weaknesses in documentation and processes related to the annual licensing and inspection process, which should be addressed to improve control over quality of care and ensure compliance with legislation in nursing homes.
- 1.28** A major objective of our audit was to review and assess the SEAscape computer system which is used to manage access to all nursing homes in the Province. We found instances of inaccurate information and, when we tested placement decisions for a small sample of clients, we found four situations where clients appear to have been placed in nursing homes in a manner that was not consistent with DOH placement policies. We acknowledge that circumstances may exist in specific situations which would warrant exceptions to the placement policy but, in these cases, there was no supporting documentation to explain the rationale for placement of these clients before others on the wait list. We believe there is a need to establish a quality control process over the data in the system and to document management approval of exceptions to policy.

Justice

Chapter 5 Maintenance Enforcement Program

- 1.29** The Maintenance Enforcement Program administers and enforces orders of the court requiring individuals to make spousal or child support payments. Some payments received are deposited to a trust account and then disbursed to recipients. Others flow through the Program to a recipient without being deposited to the trust account. We found trust account assets were not adequately safeguarded because of deficiencies in internal control, and the Department does not prepare annual audited financial statements or other information to demonstrate how it has discharged its fiduciary responsibility for the trust account. Similarly, there is a lack of performance information and reporting to demonstrate whether the Program is fulfilling its mandate in an efficient and effective manner.
- 1.30** We also note that collection processes are inadequate to ensure the full and timely collection and payment of maintenance orders. For example, confirmations of payer employment information were not documented in the majority of cases, making it difficult to determine if they are occurring. Also, there were many cases where a Federal notice of intercept was not in place.

- 1.31** We note that no professional accounting staff has been engaged to manage and control the financial operations of this Program and that there is a need to apply additional resources and expertise to this area. The current deficiencies negatively impact Program operations and pose a significant risk.

Community Services

Chapter 6 Regional Housing Authorities

- 1.32** The Housing Authorities manage the day-to-day operations of the public housing stock in the Province. We completed a performance audit at the Metropolitan Regional Housing Authority and the Cape Breton Island Housing Authority. The Housing Authorities receive direction and guidance from the Department of Community Services and function similarly to a division of the Department.
- 1.33** We found that system controls over the receipt, recording and depositing of revenues are adequate, but we identified instances of the use of inaccurate information in the calculation of rental charges. We also found weaknesses in controls over access to the Housing Authorities' computer system, and in control procedures relating to the processing of expenditures at both Housing Authorities. While certain controls over revenues, expenditures and the general computer environment are adequate, we identified a number of control weaknesses that increase the risk of financial loss, either through error or fraudulent actions.

Finance

Chapter 7 Government Financial Reporting

- 1.34** Significant steps have been taken towards preparing and presenting the government's revenue estimates in full compliance with generally accepted accounting principles (GAAP). Department of Finance and other staff are to be commended for the progress they have made in improving government's financial reporting.
- 1.35** However, we found it necessary to qualify the opinion on the government's revenue estimates in the budget, because the revenue estimates were not presented on the same consolidated basis as the Province's consolidated financial statements. The Department of Finance was also not able to provide support for third-party revenues of certain consolidated government units. Accordingly, we were unable to form an opinion on the reasonableness of these revenues or the support for the underlying assumptions.
- 1.36** The Department of Finance is planning to release the Province's March 31, 2007 consolidated financial statements before the end of August. This is earlier than the legislated date of September 30, 2007. We commend and support the Department of Finance in its efforts to improve the timeliness of the financial statements.