



Office of the Auditor General

Auditor General's Statement to the Media

Release of February 2010 Report to the Nova Scotia House of Assembly

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Good afternoon, ladies and gentlemen. Today, as you now know, I released my February 2010 Report to the House of Assembly. This report included the results of three performance audits conducted during the summer and fall of 2009 and three chapters on government financial reporting.

I want first to give credit where it is due: to all the staff in my Office for the high degree of diligence, professionalism and hard work that went into these audits and the resulting report.

I also extend my thanks, as well as that of my staff, to the many public servants across the provincial government whose insight, input and cooperation is essential to our work.

The objective of this report, as always, is to contribute to a more efficient, effective, and better performing public service, and to foster better reporting to the legislature and to the people of the province. We continue to focus our efforts on areas of high risk that impact the lives of Nova Scotians.

I want to comment briefly on the chapters in the order they appear in the report, and then I will take your questions.

Electronic Health Records

We are recommending the Department of Health develop and implement a formal IT strategy in order to ensure the success of its various initiatives to develop electronic health records.

Last year legislative auditors in six provinces, including this one, audited projects under way in their respective jurisdictions to automate and store health records. This is considered a priority by auditors across the country. This spring the Auditor General of Canada will issue a joint summary report of these audits, which will also include the results of her 2009 examination of the national funding initiative known as Canada Health Infoway.

The project in Nova Scotia, funded in part by Infoway, is called SHARE, for Secure Health Access Record. We found that this project is well planned and well managed, although at the time of our audit we did identify some privacy and security issues. The department is confident those will be addressed before the project is completed, through a combination of legislation introduced last fall and improvements in the process and the technology.

The problems with electronic health records in Nova Scotia, however, become apparent when we look beyond SHARE at other components of the EHR system.

Because there is no overall IT strategy, EHR systems are being developed as money comes available, without proper regard for the big picture. A case in point is the Health Department's separate initiative to move physicians to electronic patient records. There is no integration of this initiative with SHARE and therefore no assurance the two systems will be compatible.

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Another essential component of a comprehensive electronic health records system, the inclusion of drug information, is in the planning stage. However, there is no formal, funded plan to move it forward.

These and other initiatives all need to be integrated and coordinated.

The Department of Health has accepted each of the eight recommendations we offered to help address the shortcomings we observed, and plans to implement them all.

Contract Management of P3 schools

At the Department of Education, we audited overall management of the contractual relationships between the province and its private sector partners in what are referred to as P3 schools. The 20-year contracts for these 39 schools are at or just past their half-way point. We audited 31 of the schools and found significant weaknesses in management processes and procedures related to the contracts, as well as some serious weaknesses in the terms of the agreements themselves.

These contracts represent significant expenditures with costs of well over 800 million dollars over their term. In my opinion, the department has not met its duty to taxpayers or to students, to manage the contracts appropriately.

The department relies primarily on school board staff to ensure that service levels are provided as called for in the contracts. If there are no complaints, the department assumes the contract is being fulfilled. The fact that the principals and other school board staff were not aware of the service requirements is just one of the flaws in this system.

We found that procedures in place to monitor contract compliance are wholly inadequate. For example, many staff contracted to work in schools by the developers had not cleared criminal or child abuse checks as required by the contracts. Fire inspections, for the most part, had not been carried out as required.

Two developers subcontracted school maintenance back to school boards, effectively transferring responsibility for operating and maintaining the schools back to government. The boards are delivering these services at a lower cost than the developers will receive from the province. The added value for taxpayers in these arrangements is questionable.

Our audit discovered instances in which boards were underpaid. In one case, the Strait Regional Board did not receive cost of living increases paid to the developer by the department, to which the board was entitled under its contract with the developer. I understand the board has recently settled for a payment of over \$700,000 for the years to date. If not detected by us -

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and we found nothing to suggest the board would have discovered this error - losses would have continued to climb to the end of the contract.

Our report provides the province and the boards with 21 recommendations to clarify, and tighten up the management of, these contracts. The boards have accepted those recommendations that are relevant to them.

The response from the department of education, as reproduced in my report, is disappointing. It amounts to a defensive justification for lax management, and fails to answer for any of the deficiencies we found. The department's response all but ignores our recommendations, a failure that would seem to confirm our conclusion that, in this matter, the department of education is failing its duty to taxpayers as well as to a large number of the very students it purports to serve.

Members' expenses

Our audit of constituency and other expenses claimed by Members of the Legislature uncovered a system and processes that are inadequate either to protect taxpayers against inappropriate use of public funds, or to protect members themselves against the appearance of impropriety.

We recommended, and the government has initiated, a comprehensive examination of the system for determining members' expenses, to be followed by changes to that system aimed at eliminating erroneous, excessive and unreasonable expense claims.

Before highlighting some of the general findings of our audit, I need to make two points.

First: Since we finished our audit, the government has made changes that tighten some of the procedures that invite misuse; and certain members have already reimbursed the Office of the Speaker for errors and questionable expenses.

Second: While our report identifies specific incidents of excessive or inappropriate expense claims, we do not identify the members involved. While this is in keeping with the policy of our office, an argument can be made that there is both a public interest and a right to know.

Ultimately, I decided to exclude Members' names from the report, not for their protection, but because I hope to focus attention on a broken system that requires fixing, rather than on individuals. I have identified to the Speaker, and the Internal Economy Board of the House, the specifics of every error and every claims we consider questionable or inappropriate. This will enable the recovery of funds from the members involved.

Our audit covered all expense claims for the year July 2008 to June 2009, as well as constituency claims and claims under a fund for electronic technology for the three years, July 2006 to June 2009.

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We found inappropriate claims for personal items; for expenses already covered by other allowances; for services received from relatives; and for items that had been previously claimed. All of those claims are not in accordance with regulations and should have been disallowed.

There is another class of claims submitted and paid, that are not contrary to the rules of the day, but that in my opinion are either excessive or unreasonable in amount. These were allowed because of the vague nature of the regulations and guidelines.

A flawed process is also evident in the payment of salaries to members' own staff. A payroll service administered by the Speaker's office is used to pay some of these employees, but members also use their allowance to supplement these salaries and to pay other staff. They have not, however, made payroll remittances on these additional salaries for taxes, Canada Pension and employment insurance, or issued T4's.

It is not clear - beyond the employees themselves - who may be in jeopardy from these deficiencies. It could be the province, or it could be the members themselves.

In summary, system weaknesses enabled irresponsible spending by some members, who may have received inappropriate personal benefits. The extent to which system weaknesses, processing errors, innocent mistakes or conscious decisions by members contributed to these expenditures is unclear.

What is clear, is that ambiguous rules have contributed to irresponsible practices and questionable expenditures.

Financial reporting

The balance of my report deals with matters of financial reporting. Given the length of my comments, I won't discuss these chapters in detail now, but will point out that accurate and timely financial reporting is essential to government accountability. A range of improvements remain to be made in financial reports across the government, and we have made recommendations with respect to these improvements. We have also commented on continuing practices regarding excessive year-end appropriations and the timing of university funding.

Chapter 6 of my report represents an initial attempt by my office to provide some indicators of the overall financial condition of the province. Last year, the Public Sector Accounting Board recommended the use of such indicators by governments so they can demonstrate their ability to respond to changes in economic conditions.

While the indicators we have selected show an overall improvement in the financial condition of the province between 2002 and 2008, one indicator may best illustrate the shape of things to

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come. In 2008-09, the province posted its lowest surplus in the decade, foreshadowing the risks ahead in maintaining programs and services.

Thank you for your attention, and now I will take your questions.