Office of the Auditor General

Our Vision

A relevant, valued and independent audit office serving the public interest as the House of Assembly's primary source of assurance on government performance.

Our Mission

To make a significant contribution to enhanced accountability and performance in the provincial public sector.

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1 Message from the Acting Auditor General

I am pleased to present my May 2014 Report to the House of Assembly on work completed by my Office in early 2014.

As the Province's Acting Auditor General, my goal is to work towards better government for the people of Nova Scotia. As an independent, nonpartisan 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 House and the public, as well as the realities facing management, in providing sound, practical recommendations to improve the management of public sector programs.

This report presents the results of audits completed in early 2014 at a number of departments and agencies. Where appropriate, we make recommendations for improvements to government operations, processes and controls. Department or agency responses have been included in the appropriate chapter. We will follow up on the implementation of our recommendations in two years, with the expectation that significant progress will have been made.

2 Follow-up of 2010 and 2011 Performance Audit Recommendations

Government continues to take too long to implement recommendations from our performance audits. For more than five years, progress made to address identified weaknesses has been inadequate. Only 45% of our 2011 recommendations have been implemented. Overall, only 50% of recommendations from our 2010 and 2011 reports have been implemented. Government departments and agencies are not taking enough action to correct operational deficiencies they know to exist.

The low implementation rate of 45% for 2011 is, in large part, due to very low rates at four entities: the Chief Information Office (20%), and the Departments of Service Nova Scotia and Municipal Relations (33%), Labour and Advanced Education (40%), and Economic and Rural Development and Tourism (43%) . This lack of action has practical consequences in the management of programs. It means, for instance, that:

- planned disaster recovery of the provincial data centre may not be adequate;
- critical systems security weaknesses and collision reporting issues at the Registry of Motor Vehicles may still remain;
- fire safety in municipalities and public schools may continue to be at risk; and
- deficient processes, controls and documentation supporting the granting and monitoring of business loans may continue.

Positive steps have been taken to help address the continued poor implementation results. The Public Accounts Committee has accepted our proposals that the Committee formally accept and endorse the recommendations in our audit reports and request that the Government Audit Committee take responsibility for the ongoing monitoring and oversight of implementation. The Public Accounts Committee deferred acceptance of our third proposal of holding an annual hearing with the Audit Committee on the status of implementation of the accepted recommendations. We are encouraged by the Committee's actions and believe that these changes will result in more effective government monitoring and oversight leading to more timely correction of the operational deficiencies identified in our reports.

Details on the status of all performance audit recommendations from 2010 and 2011 can be found on our website at oag-ns.ca.

3 Communications Nova Scotia: Advertising, Procurement, and Performance

We found advertising campaigns and other communications from Communications Nova Scotia were generally nonpartisan in nature. However, the Agency persistently failed to follow the Province's procurement rules.

Eighty-four percent of the procurements we tested had problems. Issues included work commencing before purchase orders were created or contracts were signed, and large payments split into several smaller payments which fell just below the threshold for Procurement Office involvement. This demonstrates a lack of regard for the Province's procurement policies; we recommended the Agency ensure policies are followed.

We identified potential noncompliance with Canada Revenue Agency rules related to employees versus independent contractors. Communications Nova Scotia hires contractors to fulfill various roles. Many of these contractors work with the Agency over an extended period; it is difficult to distinguish these individuals from Provincial employees. We identified 10 instances in which the relationship appeared to meet many of Canada Revenue Agency's requirements for an employer-employee situation. We recommended that Communications Nova Scotia seek advice on this matter and obtain legal advice on how to address this situation if concerns are identified.

We also identified a potential concern when departmental Twitter accounts are used to retweet from political party accounts. The Agency's social media policy does not address Twitter and we have recommended it be updated.

Communications Nova Scotia's performance measurement, both at the Agency and advertising campaign levels, needs work. The Agency's objectives are difficult to assess because its accountability reports focus mostly on the work completed, rather than assessing the effectiveness of that work. At the advertising campaign level, objectives and campaign evaluations were inconsistent. We also found those campaigns with which Communications Nova Scotia was not involved were more likely to have issues.

Recommendations

Recommendation 3.1
Communications Nova Scotia should review and update its social media policies, including providing direction regarding the appropriate use of Government social media accounts.

Recommendation 3.2
Communications Nova Scotia should develop a schedule for future review of its social media policy. This schedule should provide for timely review, considering the rate of change in available social media communication tools.

Recommendation 3.3
Communications Nova Scotia should follow its current policies and obtain documented approval from the client department before releasing any communications pertaining to that department.

Recommendation 3.4
Communications Nova Scotia should require vendors to provide detailed information on invoices to support their billings.

Recommendation 3.5
Communications Nova Scotia should comply with Provincial procurement rules.

Recommendation 3.6
Communications Nova Scotia should seek advice to determine whether some of the individuals it engages as contractors may be considered employees by Canada Revenue Agency. Communications Nova Scotia should also obtain legal advice on how to best address this situation if concerns are identified.

Recommendation 3.7
Communications Nova Scotia should implement a process to monitor significant external and internal projects. Documentation of monitoring should include information about project budgets and deadlines.

Recommendation 3.8
Communications Nova Scotia should develop measurable goals and objectives for the Agency. These should be reported against targets in the annual accountability report.

Recommendation 3.9
Communications Nova Scotia should include clearly-defined goals and objectives for all significant advertising campaigns.

Recommendation 3.10
Communications Nova Scotia should fully evaluate all significant advertising campaigns against objectives.

4 Education and Early Childhood Development: iNSchool Student Information System

The iNSchool student information system does not fully protect the confidentiality, integrity and availability of information on students in the public school system.

We identified security weaknesses with the iNSchool system. We chose three school boards to test and exploited those weaknesses to gain unauthorized access to confidential student information such as grades, medical conditions, health card numbers, parental or guardian contact information and home addresses. Unauthorized access to student information presents very serious risks, including unauthorized changes to data (e.g., grades, allergy warnings), student safety by having contact information available, and identity theft. Before we wrote this report, the iNSchool project team fixed the critical security issues that enabled us to gain access to the student accounts.

Government systems containing personal information are required to have a privacy impact assessment prepared to evaluate and mitigate privacy risks, such as the ones we found in iNSchool. An assessment was started for the system, but it was not completed. Important components of the assessment, such as strategies to mitigate privacy risk, remain unfinished.

The Department of Education and Early Childhood Development has implemented controls to protect the network and physical equipment that host iNSchool. These include intrusion detection systems, firewalls, performance and capacity monitoring, incident management (e.g., responding to hacking attempts), offsite back up of critical data and measures against environmental threats (e.g., fire). We made recommendations to enhance these processes to help ensure continuous availability of data and protect against unauthorized access to systems.

The development of the iNSchool system was aided by an appropriate governance structure with involvement from users and other stakeholders. Reasonable project management practices were used throughout the project lifecycle.

The design requirements of the new system appropriately considered the needs of its users and the concept of value for money.

Government's procurement rules were followed in selecting the iNSchool system.

Recommendations

Recommendation 4.1
The Department of Education and Early Childhood Development and school boards should implement consistent, strong controls on the operating systems, databases and applications of iNSchool, including enforcement of strong passwords and account settings.

Recommendation 4.2
The Department of Education and Early Childhood Development should work with the school boards to develop a process that tracks requests for, and changes to, access to iNSchool.

Recommendation 4.3
The Department of Education and Early Childhood Development should work with the school boards to develop a process that records the outcome of the periodic review of accounts and the details of the resulting disabled accounts.

Recommendation 4.4
The Department of Education and Early Childhood Development should complete and approve a privacy impact assessment for iNSchool. Processes should be developed and implemented to address any risks identified in the assessment.

Recommendation 4.5
The Department of Education and Early Childhood Development should prepare a disaster recovery plan that includes the iNSchool system. The Department should provide training and perform testing on the disaster recovery plan.

Recommendation 4.6
The Department of Education and Early Childhood Development should validate with the building owner that generator maintenance is performed as scheduled, including a full load test.

Recommendation 4.7
The Department of Education and Early Childhood Development should install a water sensor in its server room.

Recommendation 4.8
The Department of Education and Early Childhood Development should document and implement a performance management process that includes procedures to indicate which networking hardware, servers and metrics should be monitored, how frequently it should occur, what staff should look for, and steps to take if incidents are identified.

Recommendation 4.9
The Department of Education and Early Childhood Development should work with the school boards to document and track iNSchool system incidents. Incidents should be analyzed to identify and respond to their root causes.

5 Environment: Public Drinking Water Supply Program

The Department of Environment is not adequately monitoring public drinking water supplies to ensure public safety risks are appropriately addressed. Audits are an important component of the Department's oversight role. Audits of municipal facilities were generally conducted on schedule; however registered facilities are not audited every three years as required. We also identified instances in which required audit procedures were not completed or water samples were not obtained from facilities within 30 days after a boil water advisory was removed. These are important controls to ensure the safety of public drinking water supplies.

Guidance for staff is not adequate in many important areas, including conducting, reporting and following up on deficiencies identified during audits. This has resulted in inconsistencies in how audits are conducted, timing of audits of newly registered facilities, audit reports not issued in a timely manner, and inadequate follow up of deficiencies. Clear guidance is necessary to help ensure risk areas are addressed, the Department's resources are used efficiently and effectively, and all facilities receive equitable treatment.

Management does not use the Department's information system to its fullest potential. Management needs to review its system to gain full advantage from the information it can provide. This will facilitate a greater ability to identify and manage risks.

We have made a number of recommendations to address the weaknesses identified during the audit which, if implemented, will strengthen the public drinking water supply program. These include the need for appropriate file review by management and a recommendation that the Department move forward with the planned review of its quality assurance process.

Recommendations

Recommendation 5.1
The Department of Environment should conduct registered facility audits at the required frequency.

Recommendation 5.2
The Department of Environment should investigate why errors exist with scheduled audit dates in the activity tracking system and take the necessary action to address the problem.

Recommendation 5.3
The Department of Environment should require inspectors to determine if appropriate contingency plans exist when auditing registered facilities.

Recommendation 5.4
The Department of Environment should develop and implement clear guidance supporting the areas covered during facility audits, including the nature and extent of water testing.

Recommendation 5.5
The Department of Environment should evaluate whether the current requirement for water testing by inspectors at registered facilities is appropriate and implement changes where required.

Recommendation 5.6
The Department of Environment should complete all required procedures when conducting registered facility audits.

Recommendation 5.7
The Department of Environment should record all deficiencies in the activity tracking system as required.

Recommendation 5.8
The Department of Environment should obtain documented acknowledgement from facilities that they have received the audit report.

Recommendation 5.9
The Department of Environment should establish time frames indicating when inspectors should issue audit reports. The Department should monitor compliance with these time frames.

Recommendation 5.10
The Department of Environment should develop and implement a policy regarding the timing and nature of deficiency follow-up required by inspectors.

Recommendation 5.11
The Department of Environment should ensure all annual reports are received and reviewed in a timely manner, and that they contain all required information.

Recommendation 5.12
The Department of Environment should conduct all boil water advisory confirmatory samples within the 30-day requirement.

Recommendation 5.13
The Department of Environment should develop and implement guidelines for contacting facilities when a boil water advisory is issued.

Recommendation 5.14
The Department of Environment should establish a policy clarifying the time frame in which newly registered facilities should have an initial audit.

Recommendation 5.15
The Department of Environment should utilize information available in the activity tracking system for trend analyses and identification of risks.

Recommendation 5.16
The Department of Environment should track time for key inspector activities for use by management in operational planning and monitoring.

Recommendation 5.17
The Department of Environment should conduct its planned review of the quality assurance process and implement changes as required.

Recommendation 5.18
The Department of Environment should complete management file reviews as required.

Recommendation 5.19
The Department of Environment should review management reports from the activity tracking system in a timely manner and take appropriate action to address issues identified.

6 Department of Health and Wellness: Physician Alternate Funding Arrangements

The Department of Health and Wellness' monitoring of alternative payment and academic funding plans is poor. Approximately $251 million per year is paid to physicians under these plans but the Department does not know if contract requirements are met.

Alternative payment plans have limited reporting requirements making it difficult for the Department to determine if an appropriate level of service is provided. When physicians paid through academic funding plans submit reports on contract deliverables, no review is completed. If the Department becomes aware that reporting requirements are not met, it does not take steps to achieve compliance.

Our work included testing at three academic funding departments to assess whether contract deliverables were met. Our testing results indicated those departments met their academic funding plan requirements for the deliverables we tested.

Although progress has been made towards the development of new academic funding and alternative payment models, considerable work is still needed. The Department has been working on improvements to these plans since 2008 and 2010. Health and Wellness must still develop detailed processes to guide daily operations, including an adequate monitoring process.

Health and Wellness contracts with a private company (Medavie Blue Cross) to audit physician compensation. However, the Department requested too few audits of alternate funding arrangements during our audit period. Medavie provides an annual risk analysis for alternative payment plans, but the majority of the physicians identified through the risk analysis are not selected by the Department for audit. We recommended the Department develop a risk-based approach to audit selection.

Additionally, the Department is not taking timely action to address issues. There were concerns around a specific group of alternative payment plan physicians as far back as 2009, but this group was not selected for audit until 2013. The audit results, which were very negative, were reported to the Department on September 30, 2013 but, as of January 2014, the Department had failed to take any action

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to address the findings. We recommended the Department develop a process to address all audit results in a timely manner.

Recommendations

Recommendation 6.1
The Department of Health and Wellness should obtain a signed letter from all physicians added to academic funding plans acknowledging the physician's acceptance of the terms of the academic funding plan. This letter should be signed before services are provided and payments are made. Similarly, the Department should obtain signed contracts from alternate payment plan physicians before services are provided and payments made.

Recommendation 6.2
The Department of Health and Wellness should have current, signed contracts for all alternative payment plans and academic funding plans.

Recommendation 6.3
The Department of Health and Wellness should develop targets for all academic funding plan deliverables. Targets should be reviewed annually to determine if changes are necessary.

Recommendation 6.4
The Department of Health and Wellness should include reporting deadlines in all academic funding plans.

Recommendation 6.5
The Department of Health and Wellness should develop physician-specific contract deliverables for alternative payment plans. Contracts should include reporting timeframes and actions to be taken if deliverables are not met.

Recommendation 6.6
The Department of Health and Wellness should develop and implement processes to track and monitor performance against deliverables in alternative payment and academic funding plans. This should include action to be taken if reports are not provided or if deliverables are not met.

Recommendation 6.7
The Department of Health and Wellness should develop a risk assessment process for the selection of alternative payment and academic funding audits. This should include criteria to evaluate the risk analysis provided by Medavie.

Recommendation 6.8
The Department of Health and Wellness should re-evaluate the mix of audits selected each year to determine if audit resources are being allocated to the appropriate areas.

Recommendation 6.9
The Department of Health and Wellness should follow up on out-of-province billing audits and collect any unbilled amounts.

Recommendation 6.10
The Department of Health and Wellness should establish a process to communicate audit results and discuss Medavie audit findings with physicians in a timely manner. Discussions with physicians should be documented and action plans developed as needed to ensure deficiencies are corrected.

Recommendation 6.11
The Department of Health and Wellness should take action to address completed audits that have not yet been discussed with physicians.

Recommendation 6.12
The Department of Health and Wellness should not sign contracts with alternative payment plan physicians until deliverables have been finalized and included in the contracts.

Recommendation 6.13
The Department of Health and Wellness should review all alternative payment plan deliverables developed by district health authorities for the new model prior to signing contracts to ensure consistency across the Province.

7 Natural Resources: Mineral Resource Management

The Department of Natural Resources is not adequately managing mineral resources in the Province. While the Department is issuing mineral exploration licenses and leases in compliance with the Act and Regulations, many fundamental administrative practices are not completed. A number of our recommendations address the need to implement basic processes which should have been in place prior to our audit. Implementing our recommendations will strengthen and enhance the management of mineral resources in the Province.

The Department's monitoring of mining activity is not adequate. Operator annual reports are not received and reviewed, and site visits are not conducted by the Department as often as intended. The Department is not doing enough to ensure the security it holds is adequate to cover potential costs for reclaiming mining sites. There is inadequate documentation and approval supporting decisions to accept security which does not cover all future site reclamation costs. No assessment has been completed to evaluate the Department's overall exposure for site reclamation costs and whether the risk is being appropriately managed. Additionally, the Department did not track and ensure lease rental payments due for 2012 and 2013 were received as required.

The Department does not have adequate processes to ensure gypsum income tax and mineral royalty payments are complete and accurate. It does not regularly review quarterly returns and payments and it does not have processes to ensure late or inaccurate payments are addressed. We recommended the Department verify the accuracy and completeness of royalty and gypsum income tax payments and follow up on late or inaccurate returns. Without adequate verification the Department may not be receiving full compensation for mineral resources mined in the Province.

Administration of the mineral incentive program needs to be strengthened. We found grant application and reporting deadlines were not always tracked and enforced, and expense requirements were not always supported before final grant payments were made. We also made recommendations for improvement in these areas.

Recommendations

Recommendation 7.1
The Department of Natural Resources should develop guidelines to assist staff in calculating reclamation cost estimates.

Recommendation 7.2
The Department of Natural Resources should document its rationale and obtain approval from senior management when less than 100% of the estimated reclamation cost is obtained as security.

Recommendation 7.3
The Department of Natural Resources should assess the estimated cost to reclaim mining sites against the current security held, and complete an assessment of the overall risk to the Province. If the existing security is inadequate, steps should be taken to reduce identified risks to acceptable levels.

Recommendation 7.4
The Department of Natural Resources should regularly identify and assess sites requiring updated cost estimates, and ensure adequate security is maintained.

Recommendation 7.5
The Department of Natural Resources should implement and monitor processing time performance standards for mineral exploration license applications and renewals.

Recommendation 7.6
The Department of Natural Resources should review and assess lease annual reports to ensure they meet reporting requirements. The review should be documented and report deficiencies followed up.

Recommendation 7.7
The Department of Natural Resources should establish and implement a process to track and receive lease payments on a timely basis.

Recommendation 7.8
The Department of Natural Resources should develop and implement a policy on completing site visits, including documentation requirements and frequency.

Recommendation 7.9
The Department of Natural Resources should identify their information needs and implement regular reporting from the mineral information system.

Recommendation 7.10
The Department of Natural Resources should define and communicate the basis for calculation of mineral royalties to those operators not using a rate per ton.

Recommendation 7.11
The Department of Natural Resources should establish and implement guidelines for the review of quarterly royalty or tax returns, including follow up of inaccurate returns or returns with incomplete information.

Recommendation 7.12
The Department of Natural Resources should establish and implement guidelines for the tracking and use of interest and penalties on late or inaccurate royalty or tax returns.

Recommendation 7.13
The Department of Natural Resources should compare information in operator's annual reports to royalty or tax payments received and investigate significant variances.

Recommendation 7.14
The Department of Natural Resources should establish and implement guidelines to identify and periodically request additional information, such as financial statements, reports, or other supporting information, to verify the accuracy and completeness of royalty or tax returns.

Recommendation 7.15
The Department should determine an appropriate timeframe and implement regular review of royalty rates to ensure they reflect the optimum economic benefit to the Province.

Recommendation 7.16
The Department of Natural Resources should evaluate the success of the mineral incentive program in achieving its objectives prior to making a decision on whether to continue the program.

Recommendation 7.17
The Department of Natural Resources should verify and document that successful grant applicants meet established eligibility criteria.

Recommendation 7.18

The Department of Natural Resources should develop and implement processes to receive grant applications and reports by established deadlines.

Recommendation 7.19

The Department of Natural Resources should verify and document mineral incentive grant requirements are met before final payments are made.

Recommendation 7.20

The Department of Natural Resources should exclude HST as an eligible grant expense for applicants eligible for federal government reimbursement of the tax.