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.

1888 Brunswick Street
Suite 302
Halifax, NS B3J 3J8
Telephone: (902) 424-5907
Fax: (902) 424-4350
E-mail: oaginfo@gov.ns.ca
Website: http://www.oag-ns.ca

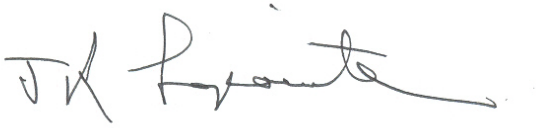
NOVA SCOTIA

Honourable Charlie Parker
Speaker
House of Assembly
Province of Nova Scotia

Dear Sir:

I have the honour to submit herewith my 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



JACQUES R. LAPOINTE, CA
Auditor General

Halifax, Nova Scotia
October 29, 2010

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Introduction

1 Message from the Auditor General

Introduction

1.1 I am pleased to present my November 2010 Report to the House of Assembly on work completed by my Office in the spring and summer of 2010.

1.2 During 2010, I submitted the following reports.

- My Report to the House of Assembly on work completed in the summer and fall of 2009, dated January 19, 2010, was tabled on February 3, 2010.
- My Report on the Estimates of Revenue for the fiscal year ending March 31, 2011, dated April 3, 2010, was included with the budget address delivered by the Minister of Finance on April 6, 2010.
- My Report to the Speaker on my forensic investigation with respect to the Members' expenses was issued on May 18, 2010.
- My Report on the Province's March 31, 2010 consolidated financial statements, dated June 30, 2010, was tabled with the Public Accounts by the Minister of Finance on July 29, 2010.
- My Business Plan for 2010-11 and my Report on Performance for 2009-10 were provided to the Public Accounts Committee on June 4, 2010 and July 13, 2010 respectively.

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, 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.

1.4 My priorities are: to conduct and report audits that provide information to the House of Assembly to assist it in holding government accountable; to focus audit efforts on areas of higher risk that impact on the lives of Nova Scotians; to contribute to a better performing public service for Nova Scotia; and to encourage continual improvement to financial reporting by government, 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 board members and staff in 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 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 needed in the performance of his or her duties. Additionally, public servants must provide free access to all information which the Auditor General 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. We also seek guidance from other professional bodies and audit-related best practices in other jurisdictions.

Chapter Highlights

1.11 This Report presents the results of audits and reviews completed in the spring and summer of 2010 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 be made.

Performance Audits

Chapter 2 – Rent Supplement Housing

1.12 The Department of Community Services' policies for rent supplement arrangements are outdated, with some policies dating back to 1994. We identified areas in which policies should be strengthened as well as instances in which existing policies were not followed. The Department's policies for housing authority inspection of rental supplement units for safety issues have not been updated in over 15 years. Additionally, the Department's process to award subsidies for developing new affordable rental housing units is not adequate.

Chapter 3 – Services for Persons with Disabilities

1.13 The Department of Community Services has been involved in an ongoing review of the services for persons with disabilities program since 2002. While many changes have taken place in recent years, further work is needed. The Department's policies for follow up and resolution of incidents and complaints received concerning unlicensed service providers are not adequate. We also found a lack of compliance with policies and procedures for client assessment, placement and reassessment. The Department has draft policies in this area and we recommended these be finalized and implemented. We also identified concerns with waitlists; there was no current waitlist in one region we visited and another region has a waitlist but inadequate support for priority placement on the waitlist.

Chapter 4 – Registry Systems

1.14 The Department of Service Nova Scotia and Municipal Relations does not have adequate controls in place to ensure the confidentiality, integrity and availability of information in certain of its registries. We examined business process controls and found day-to-day data collection, input and maintenance procedures associated with the registries functioned within a solid control framework. We also examined information technology controls and concluded that there are security vulnerabilities stemming from weaknesses in areas such as user account management, configuration

settings, and the maintenance of operating systems, databases and software. We also concluded that there is a risk of exploitation from system users operating within the provincial network, such as employees and contract staff. Unauthorized access to the systems or databases supporting the registries could result in the disclosure of sensitive information, modification or deletion of registry information, or disruption of registry operations.

Financial Reporting

Chapter 5 – Government Financial Reporting

1.15 The review opinion of the 2010-11 Revenue Estimates included in the April 6, 2010 Budget Address was again qualified because third-party revenues were not estimated or included in the revenue estimates. The Auditor General's opinion on the March 31, 2010 consolidated financial statements was unqualified. Government has made progress in documenting its internal controls and is continuing this process. We noted the Province's new Finance Act does not prescribe the accounting principles to be adopted by the Province. We feel that sound financial reporting would be strengthened by inclusion of a requirement in the Finance Act to comply with generally accepted accounting principles.

Chapter 6 – Indicators of Financial Condition

1.16 In this Report, we expanded the information on financial indicators by including comparative information on these indicators from five similar jurisdictions. We believe information on financial condition is helpful to users of financial statements because it demonstrates how the government may be able to respond to changes in the economic climate. The indicators we considered each demonstrate an aspect of the financial condition of the Province.

Chapter 7 – Review of Agency Financial Statements and Management Letters

1.17 During our review of management letters for agencies which form part of the government reporting entity, we found auditors had identified numerous internal control and information technology deficiencies. Many deficiencies identified by auditors in the prior year still existed in 2009-10. We noted that approximately 33% of the recommendations made in 2009-10 were repeated from 2008-09 and, of these, over half had been reported in 2007-08.

Performance Audits

2 Community Services: Rent Supplement Housing

Summary

The Department of Community Services' policies for rent supplement arrangements are outdated with some policies dating back to 1994. We identified areas where policies should be strengthened, as well as instances in which existing policies were not followed. For example, we found instances of noncompliance with applicant placement policies at Annapolis Valley Housing Authority. The lack of up-to-date policy guidance may lead to inconsistent approaches between Housing Authorities which could result in applicants and tenants being treated differently across the Province. We also identified instances at Annapolis Valley Housing Authority and Metropolitan Regional Housing Authority in which waitlist information could be negatively impacted by failure to follow processes.

The Department's process to award subsidies for developing new affordable rental housing units is not adequate. In recent years, the Department has received a number of unsolicited proposals to develop new affordable rental housing. DCS does not have documented evaluation criteria for these proposals. Additionally, there is no evidence the Department followed a consistent process to assess the various proposals. Without formal processes, developers may not be treated consistently when proposals are reviewed.

The Department's policies for housing authority inspection of rental supplement units for safety issues have not been updated in over 15 years. Although policy requires unit inspections prior to a tenant moving in, we found two instances at Annapolis in which inspections were not completed and one instance in which identified safety issues were not followed up to ensure appropriate resolution.

We also found the Department of Community Services is not measuring and reporting on the effectiveness of its rent supplement programs. The Department has one performance measure in its business plan related to rent supplements; however no targets have been established for either 2009-10 or 2010-11 for this measure. Additionally, DCS does not have performance measures or targets for the housing authorities despite a recommendation by this Office in our June 2007 Report.

2 Community Services: Rent Supplement Housing

Background

COMMUNITY SERVICES: RENT SUPPLEMENT HOUSING

2.1 In Nova Scotia, several groups are involved in providing affordable housing. Public housing in Nova Scotia is owned by the province through the Nova Scotia Housing Development Corporation. It has no direct employees; the Department of Community Services (DCS) staff carry out management and administration functions. The Corporation enters into housing-related agreements with the Canada Mortgage and Housing Corporation on behalf of the province. The province also has agreements with private landlords for affordable rental units and with co-operatives and non-profits for affordable housing.

2.2 Housing authorities are responsible for operating and managing approximately 12,000 public housing units across the province, and for monitoring approximately 800 rent supplement arrangements with third-party landlords.

2.3 Nova Scotia Housing Development Corporation and Canada Mortgage and Housing Corporation signed an Affordable Housing Agreement in 2002. The agreement defines affordable housing as modest housing, priced at or below average market rents for the area.

2.4 Under the Affordable Housing Agreement, Federal funding (through Canada Mortgage and Housing Corporation) is provided for capital subsidies to developers to a maximum of $75,000 per unit or half of the capital cost per unit. The subsidy is designed to decrease the initial capital costs associated with building new affordable rental housing units or converting existing buildings into affordable rental housing. Funding is provided to developers through a secured mortgage which is forgiven over the term of the agreement. Units are required to remain affordable for at least 10 years.

2.5 The Province and its Affordable Housing projects partners (municipalities, developers, etc) are required to provide matching funds over the life of the agreement. Developers are asked to provide land, cash, or in-kind contributions. To fulfill its contribution requirements, the province may enter into rent supplement agreements for completed units. Rent supplements are arrangements between the tenant, landlord, and the Department of Community Services. The rent supplement is designed to cover the difference between the market rent of the unit and the tenant's

rent payment which is calculated based on the tenant's income. There is no requirement for all units created through capital subsidies for new rental housing to have a rent supplement associated with the unit.

2.6 DCS also has older rent supplements which fall under the 1997 Social Housing Agreement. Although the sources of funding are different, the administration, monitoring, and functioning of the rent supplements is the same.

2.7 Nova Scotia has seven housing authorities established under the Housing Act. The authorities report to the Executive Director of Housing Authorities and Property Operations at the Department of Community Services. The Department is responsible for providing policy direction, including policy manuals. The authorities manage the day-to-day operations of public housing, tenant applications, and placement. Applicants may be placed in either public housing or rental supplements, depending on location, availability, and the applicant's circumstances. Most tenants are added to the housing authorities' chronological waitlists; however applicants may be given priority access in emergency situations.

2.8 Private landlords are responsible for the maintenance of rent supplement units. Should a landlord or tenant not comply with the terms of the rent supplement agreement, the housing authority can cease to pay the supplement or cancel the arrangement.

Audit Objectives and Scope

2.9 In the summer of 2010, we completed a performance audit of rental housing operations and monitoring. We examined rent supplements under both the Social Housing Agreement and Affordable Housing Agreement to determine whether the province has adequate processes to ensure affordable housing is available and provided. We also examined subsidies to developers for creating new rent supplement units under the Affordable Housing Agreement.

2.10 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.

2.11 The objectives of the audit were to assess:

- the Department's process for assessing applicants to the rent supplement program;

- whether the final placement of applicants from the waitlist to rent supplement units was consistent with Department policies;
- whether the entity has adequate processes in place to measure and report on the effectiveness of the rent supplement program which it administers;
- whether the Department is actively monitoring rent supplement units to ensure they are safe to meet the needs of the clients living there; and
- whether there is an adequate process to award subsidies for rental housing units and to assess compliance with that process.

2.12 Audit criteria were developed for this audit. These criteria were discussed with, and accepted as appropriate by, senior staff at the Department of Community Services, Metropolitan Regional Housing Authority (Metro), and the Annapolis Valley Housing Authority (Annapolis).

2.13 Our audit approach included an examination of the process to award subsidies for rental housing units under the Affordable Housing Program, a review of tenant placement in rent supplement units, compliance with policies, and interviews with management and staff at the Department of Community Services, Metropolitan Regional Housing Authority, and Annapolis Valley Housing Authority. Our audit did not include co-operative housing, not-for-profit housing, or public housing owned by the province.

2.14 Housing authority waitlists were at a point in time only. As a result there were no historic records available for us to test. Metro management wanted to explore having their IT staff recreate the waitlist. However we would have no way to know that this list represented the complete waitlist as of a specific past date, so we did not pursue this further.

2.15 We wish to acknowledge the work of the staff of the Department of Community Services Housing Services division, Metropolitan Regional Housing Authority and Annapolis Valley Housing Authority in helping us to complete this audit.

Applicant Assessment and Placement

Conclusions and summary of observations

Policies and procedures to assess and place tenants in rental housing units have not been updated since 2001. We identified areas in which existing policies should be strengthened and instances of noncompliance with policies, some of which could

negatively impact the quality of waitlist information. This could increase the apparent demand for housing. The lack of current policy guidance increases the risk of tenants being treated differently across regions of the Province.

2.16 *Background* – The *Applicant/Tenant/Property Management – Policy Manual* (Manual) is supposed to document assessment and placement policies and procedures for housing authorities. The Manual was last updated in 2001.

2.17 *Application testing* – We tested 30 approved housing applicant files (Metro – 15, Annapolis – 15). While the Authorities generally complied with assessment policies, we found these policies should be clarified and strengthened. For example, the Manual requires staff to verbally support rejection recommendations to the Board. However, there is no requirement to document the reason for rejection in the application file.

2.18 In June 2007, our Office reported the results of our audit of Regional Housing Authorities (Chapter 6); we recommended (6.2) that *"...policy and procedure manuals, including financial and system training manuals, be reviewed and updated in a timely manner."* This recommendation is still in progress. The Department has draft versions of several updated financial manuals and timelines to review other policies but after three years, DCS has still not fully addressed this issue. Accordingly, we have repeated our recommendation below.

Recommendation 2.1
The Department of Community Services should update policy and procedure manuals and establish a process to ensure manuals are reviewed and updated regularly in the future.

2.19 Although the Manual is not current, we found that Metro has detailed documentation of assessment and placement procedures for its region. These procedures reflect current practices at Metro and provide guidance for situations not covered by the Manual. Additionally, Metro uses an initial assessment form to track the status of outstanding applicant information. Annapolis does not have current documented procedures and does not have as robust a means for tracking outstanding information. Current documented procedures and checklists help to ensure that required information is obtained from applicants and that policies are appropriately applied. The Department of Community Services and the housing authorities should consider sharing such best practices between housing authorities. The lack of current policies and documented processes leads to the risk that clients will not be assessed and placed consistently throughout the Province.

2.20 Prospective tenants apply for housing through housing authorities. There is one application process for housing, regardless of the type of unit that a tenant is eventually placed in. Depending on the waitlist, availability of units and the applicants' choice of location, they may be assigned to public housing or a rent supplement unit.

2.21 *Waitlist* – Once applicants are approved, they are placed on the housing authority waitlists. Waitlists are chronological by building. When there is a vacancy, a tenant on the waitlist is contacted. The unit may be public housing or a rent supplement unit depending on the location selected and unit availability. Tenants who have a priority need such as family violence issues, inadequate housing, or medical conditions are given priority placement on the waitlist.

2.22 Waitlists are a key indicator of whether the Department of Community Services is able to provide housing to approved applicants in a timely manner. Program policy requires an applicant's effective waitlist date to be the date the application was received. During our testing of approved applicant files (Metro – 15, Annapolis – 15), we identified concerns with waitlist information.

- Three instances (Metro – 1, Annapolis – 2) in which the application was not date-stamped. Since this date is used when adding clients to the waitlist, we could not determine whether the applicants were appropriately added to the waitlist.
- One instance in which Annapolis could not locate the prospective tenant's application. We were unable to complete any testing on this file. For example, we could not determine whether the client was appropriately added to the waitlist.
- Two instances at Metro in which the Board did not approve an applicant who was added to the waitlist.

2.23 We also wanted to test whether applicants were appropriately selected from the waitlist and provided with housing. Management at both housing authorities told us that the waitlist is as of the current date only. There were no records that would allow us to determine whether applicants were selected from the waitlist in compliance with placement policies.

2.24 *Placed applicant file testing* – We examined the files of 30 tenants (Metro – 15, Annapolis – 15) in rent supplement units and assessed compliance with placement policies and procedures. Placement criteria include determining the number of bedrooms required and verifying household income.

2.25 All 15 files examined at Metro complied with the policies and procedures we selected for testing.

2.26 Six of the 15 files examined at Annapolis did not comply with all policies and procedures tested. We identified six instances in which the rental subsidy calculation was not reviewed by a property manager as required. This could lead to the Authority paying the wrong supplement amount on behalf of the tenant. During our testing, we also noted one instance in which documentation to support the client's income had not been filed approximately ten months after the tenant provided the information.

2.27 *Monitoring of placed applicants* – Housing authorities are responsible for monitoring the tenant's income source and calculating the tenant's rent payment and the related rent supplement at least once a year. Both the tenant and landlord are to be notified of the tenant's rent as well as the supplement amount to be paid by the housing authority.

2.28 Housing authorities require tenants to sign letters indicating they understand the terms and conditions of the rent supplement program. The authorities are also responsible for informing the tenant and landlord of the rent to be paid by the tenant and the supplement amount to be paid by the authority.

2.29 We examined 30 rent supplement tenant files (Metro – 15, Annapolis – 15). We did not note any instances of noncompliance with the placement policies we tested at Metro. We found the following instances of noncompliance at Annapolis.

- One instance in which no rent information was sent to the landlord.
- One instance in which there was no signed letter of understanding on file indicating the tenant understood the terms and conditions of rent supplement program.

2.30 The lack of rent information being sent to the landlord by the housing authority could increase the risk that a tenant may overpay their rent to the landlord. The lack of letters of understanding signed by the tenant means that the tenant may not understand the terms of the rent supplement program.

Recommendation 2.2
Annapolis Valley Housing Authority management should implement controls, such as periodic file reviews, to ensure applicant placement policies are followed.

2.31 *Rejected applicants* – Housing applications may be rejected for several reasons including exceeding income limits, past arrears, criminal convictions, or otherwise posing a safety risk. Rejected applicants are to be notified in writing of the reason the application was rejected. They have 30 days to file an appeal.

2.32 We selected ten rejected application files (Metro – 5, Annapolis – 5) and assessed compliance with policies and procedures. All five Metro files we tested demonstrated that policies were followed. Three of five Annapolis files complied with policies. Of the remaining two Annapolis files, we found the following.

- One application was not date stamped. If an applicant successfully appealed his or her rejection, the application date stamp would be used as the effective date of the application for placement on the waitlist.
- One instance in which a rejection letter was not sent to the applicant. Informing applicants of their rejection in a timely manner is important in order to allow rejected applicants to file an appeal if desired.

Recommendation 2.3
Annapolis Valley Housing Authority management should implement controls, such as periodic file reviews, to ensure applicant rejections comply with program policies.

Approval and Monitoring of Subsidies to Developers

Conclusions and summary of observations

The process to award subsidies to developers of new affordable rental units is not adequate. The Department originally issued three formal request for proposals and had a template with detailed eligibility requirements against which proposals could be evaluated. Subsequent to the formal request for proposals, the Department continued to receive unsolicited proposals. DCS did not develop evaluation criteria or formally document the process to evaluate these unsolicited proposals. Without a formal evaluation process, prospective developers may not be treated the same and this could result in one proposal being approved while a similar proposal is rejected. We also found the Department is not monitoring units which do not have rent supplements to ensure rents remain affordable.

2.33 *Subsidies to developers* – DCS had three formal request for proposals (RFPs) starting in 2002 under the Affordable Housing Agreement for developers seeking subsidies. Subsequent to the formal RFPs, DCS continued to receive unsolicited proposals from developers for additional projects. DCS management informed us that proponents with unsolicited proposals were directed to the RFP template for guidance on the proposal format and requirements. However the Department did not develop evaluation criteria or formally document the process to evaluate these unsolicited proposals.

2.34 *Approved subsidy testing* – We tested eight unsolicited proposals which were approved for development subsidies. We used the assessment criteria and requirements identified in the RFP template as well as Canada Mortgage and Housing Corporation requirements under the Affordable Housing Agreement. We found one of the eight files tested did not meet the RFP requirements. The submission was not complete because it did not include development plans, such as a construction contract or schedule. As a result, we were unable to test compliance with standards for modest housing or capital cost per unit.

Recommendation 2.4
The Department of Community Services should establish a formally documented process to assess rental housing development proposals, including unsolicited proposals.

2.35 Once units are constructed, those which do not have rent supplements are not monitored to ensure rents remain affordable as required under the subsidy agreements with developers. Although the subsidy agreements with developers give the Department the authority to examine books and records related to the program, DCS has not exercised these rights since the program started in 2002. Without ongoing monitoring, there is a risk these housing units may no longer have affordable rents.

Recommendation 2.5
The Department of Community Services should establish and document regular monitoring of units created using subsidies to developers to ensure these units remain affordable for the required ten years.

Rental Unit Inspection

Conclusions and summary of observations

Policies regarding the inspection of rental units have not been updated in over 15 years, and do not reflect the addition of the affordable housing rent supplement program. There are areas related to safety which could be strengthened. Although policy requires unit inspections prior to a tenant moving in, we found two instances at Annapolis in which inspections were not completed before the tenant moved in, and one instance in which identified safety issues were not followed up to ensure deficiencies were appropriately resolved.

2.36 *Policies for unit inspections* – The policies for inspection of rental units have not been updated since 1994 and predate the Affordable Housing Program.

2.37 The existing policies require housing authorities to conduct move-in inspections once an applicant has been selected for a rent supplement unit. In practice, Metro and Annapolis only conduct move-in inspections of existing units. The Authorities are not involved in the inspection of newly-constructed units. In these instances, the Department of Community Services relies on the municipal occupancy permit process to ensure there are no safety issues.

2.38 For existing units, we wanted to see that inspection policies had been followed. For newly-constructed units, we wanted to verify that DCS had obtained the municipal occupancy permit as evidence there were no safety issues with the unit.

2.39 For the 12 newly-constructed units (Metro – 3, Annapolis – 9), DCS was only able to provide an occupancy permit for one building. DCS management informed us it is often difficult to match occupancy permits with specific construction locations. Since DCS is relying on these permits, it is important that the Department ensure each building has a valid occupancy permit.

Recommendation 2.6
The Department of Community Services should obtain municipal occupancy permits prior to tenants moving into newly-constructed units.

2.40 We tested 12 existing unit inspections at Metro and did not identify any concerns.

2.41 Of the six existing unit inspections we examined at Annapolis, we found the following deficiencies.

- In two instances, no initial inspection was performed prior to the tenant moving into the unit.
- One instance in which identified safety deficiencies were not followed up to ensure the concerns were addressed.

2.42 Failure to complete inspections and follow up to ensure safety issues are addressed prior to a client moving in leads to the risk that safety issues will not be addressed and could pose a danger to the tenant.

2.43 Management at both housing authorities informed us that it is the tenant's responsibility to bring safety issues to the landlord's attention. Management also stated that tenants could bring safety issues to an Authority's attention if necessary.

Recommendation 2.7
The Department of Community Services should update policies for inspection of rental units, including documenting how deficiencies are to be followed up.

2.44 Annual inspections are also required by existing policies but neither Metro nor Annapolis complete annual inspections.

Recommendation 2.8
The Department of Community Services, Metropolitan Regional Housing Authority and Annapolis Valley Housing Authority should assess the risks associated with rent supplement housing and determine if annual inspections are required. Policies should be updated to reflect the results of the risk assessment.

Measuring and Reporting on Program Effectiveness

Conclusions and summary of observations

The Department of Community Services is not measuring and reporting the effectiveness of its rent supplement program. The performance measure established related to rent supplements considers the funding committed, however no targets have been established. Performance measures and targets have not been developed for the housing authorities, despite a recommendation by our Office in June 2007 to establish performance measures.

2.45 *Performance reporting DCS* – There is regular quarterly reporting to Treasury Board of funds committed and units created under the various housing programs. Management informed us that ad-hoc reports are also prepared in response to requests from MLAs. The Department of Community Services establishes performance indicators through its annual business plan and accountability reports.

2.46 The Department's 2009-10 business plan established three performance measures for housing. These measures are to be used to *"track the department's performance in the provision of a range of safe, appropriate affordable and sustainable housing options for Nova Scotians in need."* One of the performance measures relates to rent supplement units which were the focus of this audit. *"Affordable Housing Agreement funds committed to creating or renovating housing units."*

2.47 We found that no target has been established for this performance measure for either 2009-10 or 2010-11. To effectively monitor the performance of

its operations, the Department needs to establish targets. The established performance measure is not linked to demand to ensure that new units are addressing existing and future housing demands.

2.48 *Performance reporting: housing authorities* – Housing authorities report monthly to the Executive Director of Housing Authorities and Property Operations on the general operations of housing programs. These reports include information such as the number of vacancies, as well as identifying issues with filling units or other areas of concern regarding housing authority operations. There were no performance measures and targets established for the housing authorities in the DCS 2009-10 business plan; however the 2009-10 plan stated indicators will be developed for 2010-11.

2.49 In June 2007, our Office completed an audit of Regional Housing Authorities (Chapter 6), in which we recommended (6.1) *"performance outcomes, measures, and targets be developed for the Housing Authorities and that performance against these targets be assessed on a regular and timely basis."* In our June 2010 report, DCS indicated that this recommendation was a work in progress. The progress to date on this recommendation is not sufficient given the importance of performance measures to ensure programs are operating effectively and to ensure programs are meeting established objectives. As such we have repeated our recommendation below.

Recommendation 2.9
The Department of Community Services should establish performance measures and targets for the Housing Authorities, and performance against these targets be assessed on a regular and timely basis.

Response: Department of Community Services

The Department of Community Services (DCS) has prepared this coordinated response to Office of the Auditor General's audit of the Rent Supplement Program on behalf of the Department, the Annapolis Valley Housing Authority and the Metropolitan Regional Housing Authority. The Department would like to thank the Office of the Auditor General for the opportunity to respond to their audit report. The Department's Social Housing Agreement Programs and Affordable Housing Programs are annually audited by the firm PriceWaterhouseCooper, on behalf of CMHC, and have been found to be in compliance with policy. We are pleased that the recommendations of this audit are consistent with the work that we have been undertaking since 2007 to strengthen policies, standards, processes, and procedures.

As per the following, the Department has responded to each of the audit's recommendations on an individual basis. In many cases, the Department has work ongoing and has partially completed many of the recommended actions.

Recommendation 2.1
The Department of Community Services should update policy and procedure manuals and establish a process to ensure manuals are reviewed and updated regularly in the future.

Management Response:

- An extensive review of the policy and procedures manuals has been completed and they will be moving forward through the Department's approval process in the coming months.
- The Department will implement a process to ensure that the Policy and Procedures manuals are regularly reviewed and updated as required.
- Housing Authority policies will be consistently delivered and procedures consistently applied across all five housing authorities.

Recommendation 2.2
Annapolis Valley Housing Authority management should implement controls, such as periodic file reviews, to ensure applicant placement policies are followed.

Management Response:

- The three western area housing authorities are being merged effective December 1, 2010. Once completed, the Housing Authority management team will work with DCS Head Office to implement newly updated policies and controls including file reviews.

RESPONSE: DEPARTMENT OF COMMUNITY SERVICES

Recommendation 2.3
Annapolis Valley Housing Authority management should implement controls, such as periodic file reviews, to ensure applicant rejections comply with program policies.

Management Response:

- The Housing Authority management team will work with DCS Head Office to implement the newly updated policies and controls including file reviews.

Recommendation 2.4
The Department of Community Services should establish a formally documented process to assess rental housing development proposals, including unsolicited proposals.

Management Response:

- The Department of Community Services uses the Request for Proposals (RFP) process to outline the Department's requirements. All proposals submitted contain the information requested in the three RFPs and are assessed on that basis.

Recommendation 2.5
The Department of Community Services should establish and document regular monitoring of units created using subsidies to developers to ensure these units remain affordable for the required ten years.

Management Response:

- The Department of Community Services enters into contribution agreements for the construction of new affordable housing rental units. These agreements are one time contributions which are forgiven over a period of 10 to 15 years. There is no ongoing subsidy.
- Of the 39 projects, the Housing Authorities are involved in 32 through the placement of clients. The Department agrees to check the remaining units for compliance to the contribution agreements.

Recommendation 2.6
The Department of Community Services should obtain municipal occupancy permits prior to tenants moving into newly-constructed units.

Management Response:

- The Department will obtain copies of occupancy permits for all files. It is important to note that the issuance of building permits and occupancy permits is the domain of municipalities.

Recommendation 2.7
The Department of Community Services should update policies for inspection of rental units, including documenting how deficiencies are to be followed up.

Management Response:

- An extensive review of the policy and procedures manuals including inspections policies has been completed. These policies will be moving forward through the Department's approval process in the coming months.

Recommendation 2.8
The Department of Community Services, Metropolitan Regional Housing Authority and Annapolis Valley Housing Authority should assess the risks associated with rent supplement housing and determine if annual inspections are required. Policies should be updated to reflect the results of the risk assessment.

Management Response:

- Rent supplements are one option delivered and utilized by Housing Authorities to assist low income clients. Rent supplement units are inspected prior to occupancy by DCS clients and the Department retains the right to inspect these units at any time.
- The Department will assess the risks associated with annual inspection of rent supplement units and update policies with the results of this assessment.

Recommendation 2.9
The Department of Community Services should establish performance measures and targets for the Housing Authorities, and performance against these targets be assessed on a regular and timely basis.

Management Response:

- Performance outcomes, measures and targets are already in place for the Housing Authorities and will be further expanded. While the Department monitors these activities, DCS will formally document these.
- Housing Authorities have budget targets and five year asset and maintenance targets for capital replacement. Additional targets are already in place concerning performance and reporting. The Department has immediately taken steps to address this issue.

3 Community Services: Services for Persons with Disabilities

Summary

The Department of Community Services has been involved in an ongoing review of the services for persons with disabilities program since 2002. Over the years, three reports have been prepared. While elements of a strategic plan are included in these documents; no operational plans have been developed. Although these reports provide the general direction for the future of the program, and many changes have taken place as a result, including implementing new program streams; there are still a number of areas in which draft policies should be implemented and operational plans prepared to guide the program into the future.

We found the Department has inadequate policies and processes for the follow up and resolution of incidents and complaints concerning unlicensed service providers. Additionally, those policies which are in place are not always followed. There is no system to record and track the status of incidents and complaints and we could not determine whether appropriate action was taken to follow up and resolve issues. We recommended that the Department implement a formal review process if the client is not satisfied with the resolution of an incident or complaint.

There was a lack of compliance with policies and procedures for client assessment, placement and reassessment. The Department has developed draft policies and we recommended these policies be implemented. We also recommended that the Department establish monitoring processes to ensure policies and procedures are followed.

At the time of our audit, Western region did not have a current waitlist. We have no way of knowing whether clients were placed according to priority. Central region had a current waitlist but we could not test this information as priority placement on the waitlist is determined through discussions among regional staff which are not documented in client files

We recommended signed service agreements with all service providers. Additionally, standards regarding the operation of small option homes need to be strengthened and regulations need to be finalized and implemented.

3 Community Services: Services for Persons with Disabilities

Background

COMMUNITY SERVICES: SERVICES FOR PERSONS WITH DISABILITIES

3.1 The mission of the Department of Community Services is *" ... to ensure the basic needs of individuals and families are met by protecting children and adults at risk, and by providing financial support to persons in need"*. The Family and Community Supports Division has overall responsibility for programs which provide services to persons with disabilities.

3.2 The services for persons with disabilities (SPD) program provides residential and day programs to individuals with intellectual disabilities, long-term mental illness, or physical disabilities. Community-based options range from support for families caring for a family member with a disability in their own home to residential options providing care 24 hours a day. The following table summarizes the programs and supports available to clients.

Clients by Program - September 30, 2010 (unaudited)

	Number of Clients	Number of Homes
Community-based options		
Direct family support	1943	N/A
Alternative family support	201	125
Independent living support	700	N/A
Small options	608	211
Total community-based options	**3452**	**336**
Residential-based options		
Group homes/developmental residence	548	96
Residential care facility	458	23
Adult residential centre	480	8
Regional rehabilitation centre	186	4
Total residential-based options	**1672**	**131**
Adult service centres	1950	30

Source: Department of Community Services

3.3 Our audit focused on community-based options programs.

- The direct family support (DFS) program provides supports and services to children and adults with disabilities who live at home with their families.

- The alternative family support (AFS) program provides support to persons with disabilities in an approved, private family home.
- The independent living support (ILS) program provides up to 21 hours of supports and services per week to individuals who are semi-independent and require minimum support in their own apartment or home.
- Small option homes provide care for up to three persons with disabilities in a home setting. Client needs vary from minimum support to complex needs.

3.4 Services are delivered through the Department's four regional offices and multiple district offices. There are approximately 60 care coordinators providing services to SPD clients throughout the Province.

Audit Objectives and Scope

3.5 In the summer of 2010, we completed a performance audit of the services for persons with disabilities program at the Department of Community Services. The audit was conducted in accordance with Section 8 of the Auditor General Act and audit standards established by the Canadian Institute of Chartered Accountants.

3.6 The objectives for this assignment were to determine:

- whether the Department has evaluated the services for persons with disabilities program and has implemented a process to address issues identified;
- whether the Department has a long range plan for the services for persons with disabilities program which includes an assessment of the Department's ability to meet current and future demand for services;
- the adequacy of the assessment, placement and reassessment processes for services for persons with disabilities clients and to assess compliance with assessment, placement and reassessment policies;
- the accuracy of client information on waitlist reports;
- whether there are written agreements with service providers which clearly specify the roles and responsibilities of the Department and the service providers; and
- the adequacy of, and compliance with, the complaints process.

3.7 Generally accepted criteria consistent with the objectives of this audit did not exist. Audit criteria were specifically developed for this assignment. These criteria were discussed with, and accepted as appropriate by, senior management of the Department.

3.8 Our audit approach included examining reports, manuals, policies and other documents; interviews with management and staff; and testing processes and procedures. Complaints testing covered the period from April 1, 2008 to March 31, 2010 for Central region and from April 1, 2009 to March 31, 2010 for Western region. Assessment testing covered the period from April 1, 2008 to March 31, 2010. Compliance testing for reassessments covered the period from April 1, 2009 to March 31, 2010. We conducted audit work at the Department of Community Services head office as well as the Central and Western regional offices. Our comments related to client file testing are limited to the two regions we visited.

Significant Audit Observations

Program Evaluation and Long-range Planning

Conclusions and summary of observations

The Department does not have a comprehensive strategic plan for the services for persons with disabilities program. Three reports which have been released since 2002 provide the general direction for the future of the SPD program and include many elements of a strategic plan. However there are no operational plans to guide the implementation of the remaining recommendations from these reports. Management informed us that implementation of some recommendations has been delayed due to the lack of available funding. We also found that the Department has not determined the future demand for SPD services or the availability of service providers and trained staff. Additionally, the Department needs to monitor all program objectives to fully assess program effectiveness and plan for the future.

3.9 *Program review* – In order to assess the effectiveness of a program, an entity must establish goals, objectives and priorities, and assess whether these are being met. Typically, goals, objectives, priorities and related performance targets are documented in a strategic plan.

3.10 The Department has been involved in an ongoing review of the SPD program since 2002. Over this time, three key reports were published (*Consultation Summary* – 2004, *Report of Residential Services* – 2008, and *Vocational and Day Program Services for Adults with Disabilities in Nova Scotia* –

2008). Management informed us that DCS accepted all recommendations from these reports.

3.11 Many changes have taken place as a result of the ongoing review of the SPD program. Draft policies and procedures have been prepared; new program areas have been developed and implemented.

3.12 *Strategic planning* – There is no strategic plan for the SPD program; however, most of the elements of a strategic plan are included in the three reports noted above. SPD staff informed us they are focusing on the recommendations in these reports. However there is no formal operational plan to guide the implementation of the remaining recommendations, no established timelines, and no formal monitoring of progress.

3.13 These reports included 74 recommendations. We followed up 58 of these to determine whether they had been implemented. We did not follow up the remaining 16 recommendations as they were less significant (e.g.: rename group homes). Of the 58 recommendations we followed up, 16 are complete, 32 are in progress, and no action has been taken to implement the remaining 10.

3.14 Department of Community Services management informed us that implementation of some recommendations has been delayed due to the lack of funding. In light of this, DCS has focused on implementation of initiatives that can be moved forward with current resources, such as a new assessment system and the development of related policies and standards. Other initiatives, such as the continued expansion of alternative family support and independent living support programs, have been delayed.

3.15 The Department's future plans for the SPD program should be formalized into a current strategic plan and related operational plan. These plans would assign responsibility for recommendations, establish timelines, and address future funding and staffing requirements. They would also provide a basis to formally monitor and report implementation status.

Recommendation 3.1
The Department of Community Services should prepare a comprehensive strategic plan for the services for persons with disabilities program.

Recommendation 3.2
The Department of Community Services should develop a formal operational plan to address the outstanding recommendations related to the services for persons with disabilities program.

3.16 *Performance measurement* – Certain of the Department's objectives and priorities for the SPD program are monitored through an initiative tracking system (a government pilot project which DCS is participating in). However, this system does not monitor achievement of all program objectives. Such monitoring is important to fully assess the program's effectiveness and plan for the future.

Recommendation 3.3
The Department of Community Services should establish a process to monitor all goals, objectives and priorities for the services for persons with disabilities program.

3.17 The Department has some performance measures for the SPD program, such as the number of independent living clients with current and future performance targets. However, performance measures have not been prepared for all the objectives of the program.

Recommendation 3.4
The Department of Community Services should develop performance indicators, with established targets, for all objectives of its services for persons with disabilities program.

3.18 *Future demand for services* – The vision of the SPD program is *"...to enable individuals with disabilities to live to their fullest potential within their communities."* At the time of our audit, the Department did not have an analysis of the future need for SPD services. Such analysis would allow DCS to determine necessary steps for the Department to achieve its vision.

3.19 The three reports developed from the ongoing review process outline the general direction the SPD program should take in order to meet future demand for services. The Department is currently in the process of identifying the future support needs of all SPD clients. This project will identify the need for various program options in all areas of the Province.

3.20 *Future availability of resources* – DCS has not determined the resources (service providers, staff and facilities) required to meet the future demand for SPD services. The Department has not prepared a human resources strategy to ensure there will be a sufficient supply of service providers, staff and facilities to provide the future demand for services.

3.21 SPD staff represent the Department on committees and organizations such as the Health Care Human Resource Sector Council, which is mandated to deal specifically with issues relating to the human resource planning and development in the continuing care sector.

Recommendation 3.5
The Department of Community Services should identify the future needs for services for persons with disabilities and determine the service providers, facilities, and human resources required to address these needs.

Assessment, Classification and Placement

Conclusions and summary of observations

General policies and procedures for the assessment, classification and placement of clients are outdated. At the time of our audit, the Department had implemented some of its proposed new policies, procedures, processes and forms related to the assessment, classification and placement of clients, while others were still outstanding. We recommended the Department implement any remaining draft policies. We tested assessments and found instances in which total hours of support required was not noted and instances in which there was no evidence that the total planned support fully addressed client needs. We also found instances in which individual service plans and program plans were not prepared.

3.22 *Background* – When an individual applies for assistance through the services for persons with disabilities program, an assessment is completed. This includes gathering medical and financial information, performing a functional assessment, and determining the individual's unmet needs which could be addressed by the program.

3.23 *Policies and procedures* – General policies and procedures for the assessment, classification and placement of clients are outdated. The Department is working on a revised policy manual. While there are current program eligibility requirements for all program streams, these are not as comprehensive for small option homes as for direct family support, alternative family support, and independent living support program streams.

Recommendation 3.6
The Department of Community Services should finalize and implement the revised services for persons with disabilities policy and procedure manual.

Recommendation 3.7
The Department of Community Services should develop specific policies for its small option homes program stream.

3.24 *Assessment, classification and placement client file testing* – A Department-wide case management system was implemented in 2007 for the SPD

program. At the time of our audit, the Department was implementing revised policies, procedures and forms to strengthen its processes. We tested a sample of 35 client files and found assessment, classification and placement policies were not always followed. Note that certain requirements do not apply to all program streams audited and therefore some testing results will be reported for fewer than 35 files. We found the following instances of noncompliance with policy.

- For 10 of 35 clients, there was no application on file. The application form provides general information concerning the client and establishes program eligibility.
- For 4 of 35 clients, a financial assessment was not completed. This assessment is necessary to determine program eligibility. Additionally, financial assessment forms were not always used and it was often difficult to determine whether the client or their family had been assessed for program income thresholds.
- For 1 of 35 clients, there was no evidence of a medical assessment by a qualified medical professional. This is necessary to determine program eligibility.
- All client files tested included a functional assessment; however in 11 instances the assessment did not address all of the client's unmet needs. Functional assessments are required to document how the applicable SPD program stream will meet the client's needs.
- For 5 of 8 independent living support files tested, the total hours of support required were not documented. This is significant because total hours of support represent the maximum hours of service which can be provided by service providers.
- For 1 of 23 direct family support and alternative family support clients, the level of support was not documented. This information determines the payment amount which can be made to families and service providers.
- For two alternative family support files, there was no evidence that client information was sent to the provincial database as required by policy.

3.25 There is no formal quality assurance process in place to ensure the assessment, classification and placement of clients is being performed in accordance with the services for persons with disabilities policy. Our testing identified a number of instances in which policies were not followed. Noncompliance with program policy could result in the failure to appropriately assess client needs. This could lead to the approval of ineligible clients or clients being approved for supports and services which do not meet their needs.

Recommendation 3.8
The Department of Community Services should implement a quality assurance process to ensure all classification, assessment and placement policies are followed.

Recommendation 3.9
The Department of Community Services should develop processes to ensure client files demonstrate how the client's needs will be met by the program or document outstanding needs to be addressed by alternate means.

Recommendation 3.10
The Department of Community Services should communicate all services for persons with disabilities program policies to regional staff.

3.26 *Service plans* – Individual support plans are prepared by SPD staff and summarize the supports and services to be provided to clients related to their unmet needs and individual goals. We found regional office staff do not prepare individual support plans in a standard format. For some clients, goals and objectives were documented throughout the file rather than in one specific document. This made it difficult to determine if an individual support plan had been created. If program staff change, new staff may have difficulty finding all elements of the support plan.

3.27 Individual program plans are prepared by service providers and detail how a client will achieve his or her personal goals. We found there was no standard format for an individual program plan. However, we noted that draft service standards for the residential care sector establish a format for an individual program plan. Using a consistent format would ensure plan details are more readily available to new staff who are not familiar with the client.

Recommendation 3.11
The Department of Community Services should implement its draft service standards for the residential care sector.

3.28 We tested a sample of client files to determine if support plans and program plans were prepared according to policy.

- There was no individual support plan for eight of 14 clients. Of the six clients with support plans, none were prepared using Department-approved templates and forms, and four were not signed.
- There was no individual program plan for seven of 12 clients. For the five clients with a program plan on file, these plans were not prepared in a consistent format.

3.29 For some clients we were informed there were no changes in the client's circumstances; however, these comments were not supported by information in the client's files. If changes in a client's circumstances are not followed up, there is a risk that a client could receive inappropriate or unnecessary services.

Recommendation 3.12
The Department of Community Services should establish processes to ensure individual support plans and individual program plans are prepared in accordance with services for persons with disabilities policies. Additionally, plans should be prepared in a consistent format.

Review and Reassessment

Conclusions and summary of observations

The Department is not fully complying with review and reassessment policies. We found instances in which reviews were not completed as required, client files were not updated, or we could not determine whether files were updated for review and reassessment results. We found the Department has no quality assurance processes to ensure reviews are completed and that related information is consistently documented in client files. While the Department has implemented, and is continuing to implement, new policies and procedures for annual reviews and reassessment of clients, it needs to strengthen its processes to ensure policies are followed. We recommended the Department finalize and implement its remaining draft policies for review and reassessment.

3.30 *Background* – For certain services for persons with disabilities clients, a review must be conducted three months after initial program admission. Most program streams require an annual review for each client, including a reassessment if the client's circumstances have changed. The Department has implemented, and was continuing to implement, new policies and forms concerning annual reviews and reassessments. We found the existing policies for small option homes do not specify the frequency of reassessment. Management informed us that these clients must be reviewed annually. However without a formal requirement, these reviews may not take place. Clients in small option homes could have a change in circumstances which would not be identified in a timely manner due to the lack of policy in this area.

Recommendation 3.13
The Department of Community Services should finalize the implementation of revised review and reassessment policies, procedures and forms.

3.31 *Client file testing* – We tested a sample of 33 client files and found instances in which reassessment policies and procedures were not followed. Note that certain policies do not apply to all client files tested and therefore some results are reported for fewer than 33 files.

- 9 of 12 instances in which reassessments were not completed within the required three months after initial program admission.
- 21 of 33 clients were not reassessed annually.
- Individual support plans were not updated for 15 of 21 clients.
- Individual program plans were not updated for 13 of 18 clients.

3.32 In many files it was difficult to determine whether a change in client circumstances occurred because reassessment documentation was in different formats and there was no indication of whether the client's circumstances had changed. For example, reassessments were often handwritten notes on the original assessment.

3.33 Current policy requires the individual support plan for clients in the alternative family support and independent living support program streams be updated during the reassessment process. However, for clients in small option homes, there is no requirement to update individual support plans during the reassessment process. However, we were informed that in practice, support plans are to be updated during reassessment. We found instances in which these support plans were not updated.

3.34 If regular reviews are not completed, changes in client circumstances may not be identified on a timely basis. Clients may not receive the services which meet their needs, ineligible clients may receive services, or a client's situation could worsen without the Department's knowledge.

3.35 The Department does not track when reviews are due; there are no processes to ensure these are completed on a timely basis. Additionally, the Department does not have processes to ensure reassessments are properly conducted and documented in client files. Consistency of file documentation is important. If program staff change, it may be difficult for new staff to follow a client's file.

Recommendation 3.14
The Department of Community Services should implement a quality assurance process to ensure reviews and reassessments are performed and documented on a timely basis.

Waitlists

Conclusions and summary of observations

At the time of our audit, the Department was implementing changes to its waitlist processes. Western region did not have a current waitlist so we have no way of knowing whether clients were placed according to priority. While Central region had an up-to-date waitlist, we could not test this as priority on the waitlist is determined by discussions between regional staff. The processes and controls to prepare and monitor waitlists need to be strengthened.

3.36 *Background* – There is no centralized waitlist for the services for persons with disabilities program as most clients receive services within their region. A central waitlist is only significant for clients of larger residential centers who may be placed outside their home region.

3.37 *Western region* – The Western region only updates their waitlist periodically. At the time of our audit, this region had not prepared a waitlist for four months. Without a current waitlist there is no evidence that clients were appropriately placed based on application date and priority of need. Management informed us they have no dedicated staff to monitor and update the client and service provider information required to facilitate placements. Presently, placements occur when service providers contact the Western regional office to indicate there is an opening and the SPD supervisor, in consultation with care coordinators, discusses suitable clients waiting for placement.

3.38 *Central region* – The waitlist for the Central region is updated monthly. This region has a dedicated staff member responsible for managing the waitlist and placement availability lists. Management informed us that the Central region waitlist is updated continuously as staff are contacted when client circumstances change. Although the waitlist notes client priority, we could not test to verify this since priority is assigned based on discussions between regional staff. These discussions are not documented in client files.

3.39 *Waitlist submission forms* – Waitlist submission forms are used to record, track, and organize placements. There was no waitlist submission form for 2 of 4 client files tested in which clients were waiting for service placement.

3.40 The Department of Community Services has a draft waitlist policy which requires a regional waitlist be maintained and updated as changes occur. This draft policy will require waitlists to be accessible to all program staff. Additionally, management informed us staff will be able to generate standard waitlist reports as required.

3.41 At the time of our audit, new waitlist, procedures and forms were being implemented Key changes include revised waitlist priorities for placement, a requirement for clients on the waitlist to be reviewed at least annually, and a requirement to maintain waitlist databases which are accessible to all services for persons with disabilities program staff.

Recommendation 3.15
The Department of Community Services should finalize and implement its new waitlist policies, procedures and forms.

Recommendation 3.16
The Department of Community Services should prepare monthly waitlists for the services for persons with disabilities program. Appropriate procedures should be implemented to ensure the waitlists are complete and accurate.

Incidents and Complaints

Conclusions and summary of observations

The Department of Community Services policies for follow up and resolution of incidents and complaints are inadequate. Policies are outdated and do not reflect current practices. Neither the Central nor Western regions are following all policy requirements. We could not determine whether appropriate action was taken to follow up and resolve incidents and complaints selected for testing. The files we tested did not have evidence that complaints and incidents were addressed. Additionally, the Department does not have systems to record and track the status of complaints or incidents. We also noted, there is no formal review process if the client is not satisfied with the result of an incident or complaint.

3.42 *Background* – Complaints and incidents include general complaints, allegations of abuse or neglect, and incidents which are reported to the Department.

3.43 There are no legislative requirements concerning the reporting, follow up and resolution of incidents and complaints regarding community-based options service providers. The Protection of Persons in Care Act has specific requirements for the investigation of allegations of abuse or neglect concerning persons living in residential facilities licensed under the Homes for Special Care Act. Amendments to this Act which have yet to be proclaimed will require licensing of small option homes providing care to three or more residents. Once licensed, these service providers will be subject to the provisions of the Protection of Persons in Care Act. Additionally, management informed us that while homes with less than three

residents will not be licensed, the Department plans to update Regulations to make these homes subject to the provisions of the Act.

Recommendation 3.17
The Department of Community Services should require small option home operators to follow the same incident and complaint policies as other services for persons with disabilities program service providers.

3.44 *Policies* – The Department's policies for follow up and resolution of incidents and complaints are outdated. We identified areas in which policies could be improved or updated to reflect current practices. For example, the policy does not reflect the roles and responsibilities of the Department's new licensing section and does not address response time standards depending on the seriousness of the complaint.

3.45 *Complaint and incident monitoring* – The Department does not have processes in place to ensure service providers report all complaints and incidents. There is no formal system to record and track status. Central region does prepare monthly incident reports; however Western region does not prepare any reports. Additionally, there are no summary reports prepared for review by Department management. Community Services management informed us that an incident reporting system is being developed which will provide detailed incident information to both management and staff.

Recommendation 3.18
The Department of Community Services should implement a reporting system which maintains a centralized record of incidents and complaints and their disposition, and which tracks the status of ongoing items.

3.46 *Complaint and incident testing* – There was no way to separate the population for testing into incidents, general complaints and allegations of abuse or neglect. We selected a random sample from Central and Western regions and tested compliance with policies. Our sample included incidents which service providers reported to the Department, as well as general complaints, but did not include allegations of abuse or neglect.

3.47 We found neither region is following the existing policy. We were unable to determine if Western and Central regions are taking appropriate action to follow up and resolve incidents and complaints. The files we tested were lacking evidence to demonstrate how the complaints were addressed. We found instances in which insufficient information was documented regarding incidents and complaints, we could not determine who followed up concerns, how issues were followed up, or what action was taken to resolve the incident or complaint.

3.48 Program staff must use their judgment to prioritize incidents and complaints received. Although we were informed issues related to the health and safety of clients are dealt with immediately, there was no evidence in the files we tested to demonstrate that these were prioritized and followed up in a timely manner. We were also unable to determine whether incidents and complaints were forwarded to staff on a timely basis, or whether the issue was followed up and resolved on a timely basis. For most incidents and complaints tested, the services for persons with disabilities specialist was not involved in following up or reviewing the results. Additionally, we found Department staff were not informed of incident and complaint resolution as required by policy.

3.49 Noncompliance with policy or inadequate processes could result in the inconsistent or inappropriate resolution of incidents. Incidents may not be followed up and resolved on a timely basis.

3.50 Services for persons with disabilities staff are developing new policies and procedures for the notification, follow up and resolution of incidents and complaints. The proposed policy provides a listing of priorities, follow-up timelines and procedures, and required documentation. A draft incident reporting spreadsheet has been developed to record information on all incidents and complaints.

Recommendation 3.19
The Department of Community Services should finalize and implement its new policies and procedures related to the notification, follow up and resolution of incidents and complaints.

3.51 *Review of decisions* – There is no formalized review process if an individual is not satisfied with the resolution of an incident or complaint. Such a process is an important element of any program area. It provides another opportunity for clients or family members to attempt to resolve outstanding issues and concerns.

Recommendation 3.20
The Department of Community Services should implement a formal review process for decisions made during the follow-up of program incidents and complaints.

Payments for Services

Conclusions and summary of observations

Service agreements are not signed with all service providers. We recommended service agreements be signed with all service providers. We also recommended draft service standards with the residential care sector be implemented. The Department has established a rate review process for residential service providers. Budgets are prepared for each client and there are policies on how to develop budgets. We tested a sample of payments made to, or on behalf of, clients. We found instances in which payments were not authorized, the amounts paid did not agree to the approved budgets, and required receipts and reports were not submitted. Finally, we concluded the Department needs to strengthen processes to ensure supports and services are being delivered to clients or being used in accordance with approved service plans.

3.52 *Eligible costs* – Budgets are prepared for each client based on an individual support plan. The Department has policies to determine the items which can be included in a client's budget and how these items are calculated. We noted special needs items (items or services not considered a basic requirement) are specified in the current policy manual. A draft special needs policy has been developed which provides specific guidance regarding which special needs can be included in a client's budget, how amounts are to be calculated, and the maximum amount which can be approved. These changes will help ensure special needs are calculated consistently.

Recommendation 3.21
The Department of Community Services should finalize and implement its draft special needs policy.

3.53 *Client file testing* – We tested a sample of 32 payments made to, or on behalf of, clients and noted instances of noncompliance with policy. Note that certain policies do not apply to all client files tested and therefore some results are reported for fewer than 32 files.

- In 2 of 32 instances, there was no authorization of monthly payments. This could result in payments being made to clients or service providers without receiving proper approval.
- We noted 8 instances in which there was either no support to show how the budget amount was calculated or the amounts paid did not agree to the approved budgets.
- In 6 of 9 instances, the service provider did not submit required reports. These reports are essential to ensure that the placement is working for both the client and the service provider.

- In 6 of 12 instances, there were no invoices or receipts to support expenses and ensure payments are made for approved services only.
- In 10 of 19 instances, there were incomplete or no receipts for respite services provided through the direct family support program.
- In 4 of 19 instances, there was no evidence that a respite worker had been hired. Without specific file documentation, such as the name of the respite worker, we cannot determine if respite payments were made to the actual respite worker hired by the family or guardian.

3.54 Failure to follow payment policies could lead to the Department paying the wrong amount for goods and services provided to clients.

Recommendation 3.22
The Department of Community Services should review the services for persons with disabilities program payment processes and implement additional controls to ensure amounts paid are in accordance with approved budgets and all supporting documentation and reports have been received.

3.55 *Rate setting process* – The Department provides funding for residential service providers. In January 2008, the Department implemented a rate review process for residential service providers, including the operators of small option homes. The objective of the rate review was to establish an annual budget for each service provider. We examined the results of this review and only noted one issue. The draft staffing guidelines for service providers have not been approved and implemented; these guidelines impact annual budgets and will help ensure similar service providers are consistently staffed.

Recommendation 3.23
The Department of Community Services should finalize the implementation of its draft residential staffing guidelines.

3.56 *Service agreements* – External service providers deliver the various services for persons with disabilities programs. In such situations, it is important that the Department have service agreements with service providers specifying the roles and responsibilities of all parties.

3.57 Signed service agreements are required for independent living support and alternative family support service providers. These service agreements specify the roles and responsibilities of the service providers and the Minister.

3.58 We were informed service agreements are not used in the direct family support program stream because funding provides respite services for family caregivers and supports unmet needs associated with the client's disability. While we understand why the Department does not require the family to sign service agreements, a letter of understanding to the client and the family would help ensure the roles and responsibilities of all parties are clearly documented and understood.

Recommendation 3.24
The Department of Community Services should provide a letter of understanding to the family or caregiver of direct family support clients outlining the roles and responsibilities of all parties.

3.59 *Service agreements*: *small option homes* – The standards for small option homes need to be strengthened. For example, the standards do not require signed agreements with operators; additionally, the standards do not clearly detail the roles and responsibilities of the Department and the operators. The Department has developed draft service agreements and standards for the residential care sector which clearly outline the roles and responsibilities of Department and the service providers.

Recommendation 3.25
The Department of Community Services should implement signed service agreements and service standards with all service providers.

Quality Assurance

Conclusions and summary of observations

The Department has established a program review function; however, activity to date has focused on a review of residential service providers. We recommended that program reviews include testing to ensure clients receive planned services. Additionally, the Department should implement file checklists and other quality assurance processes to ensure policies are complied with.

3.60 The existence of properly functioning review and quality assurance processes are key controls to ensure Department staff follow policies and service providers deliver supports and services to clients in accordance with approved program plans.

3.61 The Department established a coordinator of program review function in 2009. Activity has focused on a review of residential service providers; however, only four inspections have been conducted to date. The scope

of these reviews should include testing to ensure service providers are delivering services to clients in accordance with their individual program plans as well as compliance with Department policies. DCS management informed us the staff member responsible for these program reviews has a number of other job responsibilities and consequently cannot complete as many reviews as a full-time reviewer could. Additionally, the reviews are intended to examine compliance with policy and there have been ongoing changes in policies and processes.

Recommendation 3.26
The Department of Community Services SPD program reviews should include testing to ensure clients receive services in accordance with their individual program plans. Additionally, reviews should verify compliance with Department policies.

3.62 Throughout this Chapter we noted numerous instances of lack of compliance with assessment, reassessment, waitlist, and payment policies and procedures. For example, during our assessment testing we noted numerous instances in which required documents were not in client files. Documented policies help ensure all clients are treated consistently and only eligible clients receive program services. Implementation of file checklists and other quality assurance processes would assist the Department in ensuring policies are complied with.

Recommendation 3.27
The Department of Community Services should implement file checklists and other quality assurance processes to ensure policies and procedures are followed.

Legislation

Conclusions and summary of observations

Recent changes to the Homes for Special Care Act, which have not been proclaimed, will now require all homes providing care and support to three or more individuals to be licensed. This is a significant initiative which will impact small option homes and ensure these service providers are subject to the same legislation and regulations as other service providers.

3.63 *Legislative requirements* – There is no single piece of legislation covering the services for persons with disabilities program. The Homes for Special Care Act and Regulations, which are administered by the Department of Community Services and the Department of Health, govern the operation

of licensed residential options that provide care and support for four or more individuals. The four programs we audited deal with unlicensed service providers and are not currently subject to the requirements of this Act. Department management informed us that many of the requirements in the Act and Regulations need to be updated as they do not reflect current standards. Recent changes to the Act, which have not been proclaimed, will require all homes providing care and support for three or more individuals to be licensed. A project team has been established to identify changes to policies, and to update related Regulations. These changes must be implemented and Regulations updated before the revisions to the Act are proclaimed.

Recommendation 3.28
The Department of Community Services should finalize and implement Regulations related to the Homes for Special Care Act.

Recommendation 3.29
The Department of Community Services and Executive Council should move forward with the proclamation of amendments to the Homes for Special Care Act.

Response: Department of Community Services

The Department of Community Services (DCS) has prepared this response to the Office of the Auditor General's audit report of the Services for Persons with Disabilities Program, community-based options programs. In 2006, the Department implemented three new community-based options programs, the Direct Family Support Program, the Independent Living Support Program and the Alternative Family Support Program. In 2008 the Department released a Report of Residential Services, which included a review of the community-based Small Option Program. We are pleased that the recommendations of this audit are consistent with the work that we have been undertaking since 2008 to strengthen policies, standards, processes, procedures, and to implement service agreements for all Services for Persons with Disabilities programs.

Recommendation 3.1
The Department of Community Services should prepare a comprehensive strategic plan for the services for persons with disabilities program.

The Department has prepared a strategic framework and will examine formalizing this plan.

Recommendation 3.2
The Department of Community Services should develop a formal operational plan to address the outstanding recommendations related to the services for persons with disabilities program.

Of the 58 recommendations, only 10 are outstanding. The Department will develop a formal operational plan to address these recommendations.

Recommendation 3.3
The Department of Community Services should establish a process to monitor all goals, objectives and priorities for the services for persons with disabilities program.

A number of performance indicators have already been established and they are included in the Department's Business Plan, however the Department will establish a process to monitor all goals, objectives and priorities.

Recommendation 3.4
The Department of Community Services should develop performance indicators, with established targets, for all objectives of its services for persons with disabilities program.

The Department will develop performance indicators, with established targets, for all objectives of the Services for Persons with Disabilities Program.

RESPONSE: DEPARTMENT OF COMMUNITY SERVICES

Recommendation 3.5
The Department of Community Services should identify the future needs for services for persons with disabilities and determine the service providers, facilities, and human resources required to address these needs.

On a regular basis, the Department utilizes evidence-based sources and data for the purpose of determining future needs for the services for persons with disabilities program. As well, a recent client reassessment project will provide information for future support planning for current clients. This information will provide a basis for identifying future demands for service requirements and human resources.

Recommendation 3.6
The Department of Community Services should finalize and implement the revised services for persons with disabilities policy and procedure manual.

The Department has developed an implementation plan and has scheduled dates to orient staff.

Recommendation 3.7
The Department of Community Services should develop specific policies for its small option homes program stream.

Currently the policy for small option homes is incorporated into the overall Policy Manual for services for persons with disabilities. However, the Department has finalized and is implementing new policies for all residential services, including small option homes.

Recommendation 3.8
The Department of Community Services should implement a quality assurance process to ensure all classification, assessment, and placement policies are followed.

The Department has staff in each region whose responsibilities include a quality assurance component. The Department will look at opportunities to augment and standardize the quality assurance process, to ensure classification (level of support), assessment, and placement policies are followed.

Recommendation 3.9
The Department of Community Services should develop processes to ensure client files demonstrate how the client's needs will be met by the program or document outstanding needs to be addressed by alternate means.

The Department has initiated a process to ensure standards for client files and documentation are implemented.

Recommendation 3.10
The Department of Community Services should communicate all services for persons with disabilities policies to regional staff.

The Department has already placed all policies on a shared electronic drive that can be accessed by regional staff. All new staff are provided with training, in addition staff receive training on an ongoing basis as new policies are developed.

Recommendation 3.11
The Department of Community Services should implement its draft service standards for the residential sector.

The Department has established a process to review draft service standards with residential stakeholders, and will make necessary adjustments based upon feedback. This work will be integrated in the process of licensing of small options homes.

Recommendation 3.12
The Department of Community Services should prepare individual support plans and individual program plans in accordance with services for persons with disabilities policies. Additionally, plans should be prepared in a consistent format.

The Department implemented a new assessment and support plan form in March 2010. Individual program plans that are completed by service providers will be developed in accordance with the requirements of new residential service standards.

Recommendation 3.13
The Department of Community Services should finalize the implementation of revised review and reassessment policies, procedures and forms.

The Department has finalized new reassessment policies, procedures and forms, which will be implemented in November 2010.

Recommendation 3.14
The Department of Community Services should implement a quality assurance process to ensure reviews and reassessments are performed and documented on a timely basis.

The Department has staff in each region whose responsibilities include a quality assurance component. The Department will strengthen and standardize the existing quality assurance process, to ensure reviews and reassessments are performed and documented on a timely basis.

RESPONSE: DEPARTMENT OF COMMUNITY SERVICES

Recommendation 3.15
The Department of Community Services should finalize and implement its new waitlist policies, procedures and forms.

The Department implemented new waitlist policies, procedures and forms in September 2010.

Recommendation 3.16
The Department of Community Services should prepare monthly waitlists for the services for persons with disabilities program. Appropriate procedures should be implemented to ensure the waitlists are complete and accurate.

The Department is preparing monthly waitlists and procedures have been implemented to ensure the waitlists are complete and accurate.

Recommendation 3.17
The Department of Community Services should require small option home operators to follow the same incident and complaint policies as other services for persons with disabilities providers.

Since the process was implemented in January 2000, the Department requires all small option home operators to follow the same incident and complaint policies as other service providers.

Recommendation 3.18
The Department of Community Services should implement a reporting system which maintains a centralized record of incidents and complaints and their disposition, and which tracks the status of ongoing items.

The Department has a reporting process for incidents and complaints which will be centralized and strengthened through an updated policy and process.

Recommendation 3.19
The Department of Community Services should finalize and implement its new policies and procedures related to the notification, follow up and resolution of incidents and complaints.

The Department is currently implementing new policies and procedures related to the notification, follow up and resolution of incidents and complaints.

Recommendation 3.20
The Department of Community Services should implement a formal review process for decisions made during the follow up of program incidents and complaints.

The Department is implementing a formal review process for decisions made during the follow up of program incidents and complaints.

Recommendation 3.21
The Department of Community Services should finalize and implement its draft special needs policy.

The Department is currently in the process of orienting staff on the revised special needs policy.

Recommendation 3.22
The Department of Community Services should review the services for persons with disabilities program payment processes and implement additional controls to ensure amounts paid are in accordance with approved budgets and all supporting documentation and reports have been received.

The Department will review and strengthen the payment process and implement additional controls to ensure amounts paid are in accordance with approved budgets and that all supporting documentation and reports have been received.

Recommendation 3.23
The Department of Community Services should finalize the implementation of its draft residential staffing guidelines.

The Department is currently finalizing the staffing guidelines for implementation.

Recommendation 3.24
The Department of Community Services should provide a letter of understanding to the family or caregiver of direct family support clients outlining the roles and responsibilities of all parties.

The Department will develop a letter of understanding to the family or caregiver of direct family support clients outlining the roles and responsibilities of all parties.

Recommendation 3.25
The Department of Community Services should implement signed service agreements and service standards with all service providers.

The Department has a service agreement template which has been signed by a number of service providers. There is an implementation plan to have signed service agreements and service standards with all service providers.

RESPONSE: DEPARTMENT OF COMMUNITY SERVICES

Recommendation 3.26
The Department of Community Services SPD program reviews should include testing to ensure clients receive services in accordance with their individual program plans. Additionally, program reviews should verify compliance with Department policies.

The Department program reviews will ensure that clients receive services in accordance with their individual program plans. Additionally, program reviews will verify compliance with Department policies.

Recommendation 3.27
The Department of Community Services should implement file checklists and other quality assurance processes to ensure policies and procedures are followed.

The Department is implementing file checklists and other quality assurance activities to ensure processes, policies and procedures are followed.

Recommendation 3.28
The Department of Community Services should finalize and implement Regulations related to the Homes for Special Care Act.

The Department is currently working on regulation changes related to the licensing of small option homes.

Recommendation 3.29
The Department of Community Services and Executive Council should move forward with the proclamation of amendments to the Homes for Special Care Act.

As referenced in 3.28, this work is on-going.

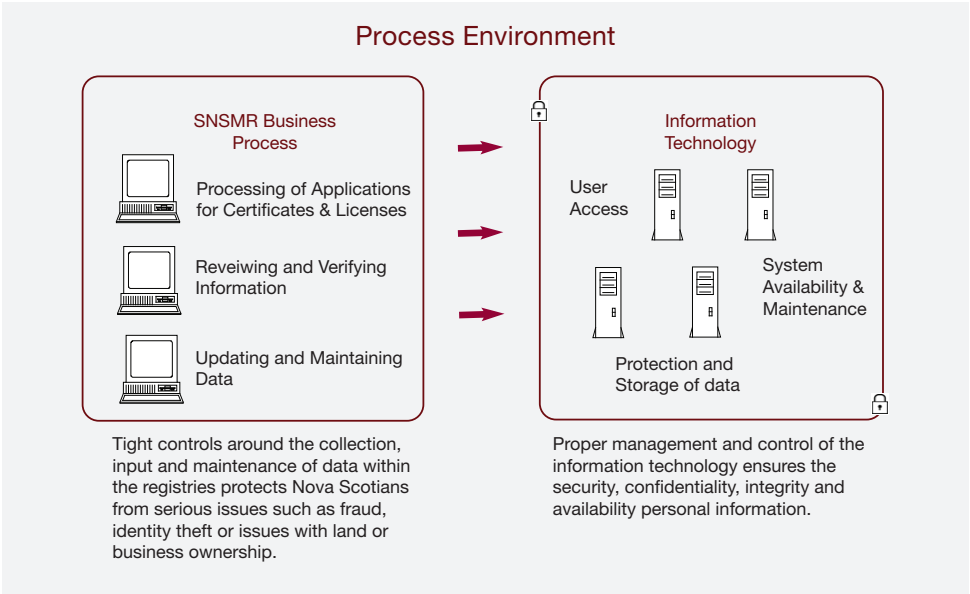
4 Service Nova Scotia and Municipal Relations: Registry Systems

Summary

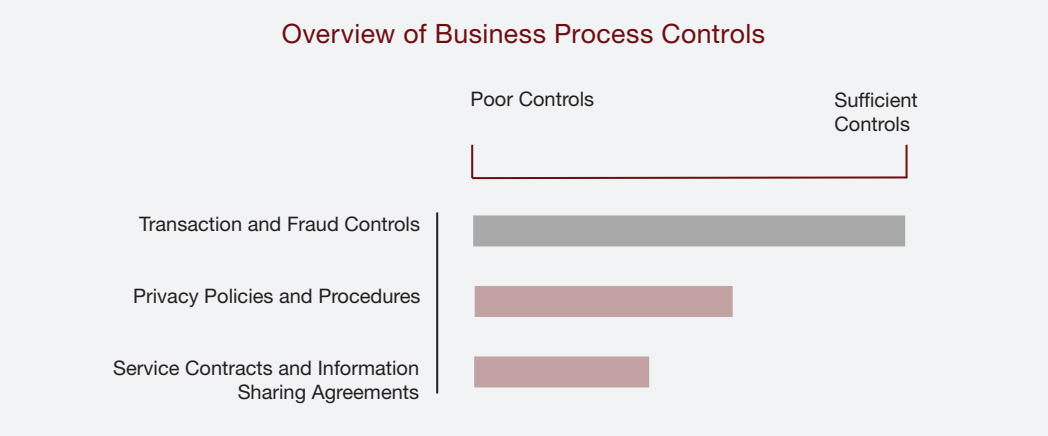
The Department of Service Nova Scotia and Municipal Relations (SNSMR) does not have adequate controls in place to ensure the confidentiality, integrity and availability of information in certain of its registries. Strong control is required to protect the privacy, safety and economic viability of the Department's public and business clients.

SNSMR is responsible for issuing the majority of the provincial government's licenses, permits, registrations and certificates. Many important business and personal activities cannot proceed without these documents. Collection of a significant amount of information from individuals and businesses is necessary to assess their eligibility. Much of this information is inherently sensitive and needs adequate levels of security and control to protect its confidentiality, integrity and continued availability. Business units within SNSMR administer these processes through registries, including the four that were the subject of our audit: Land Registry, Registry of Joint Stock Companies, Nova Scotia Business Registry, and Registry of Vital Statistics.

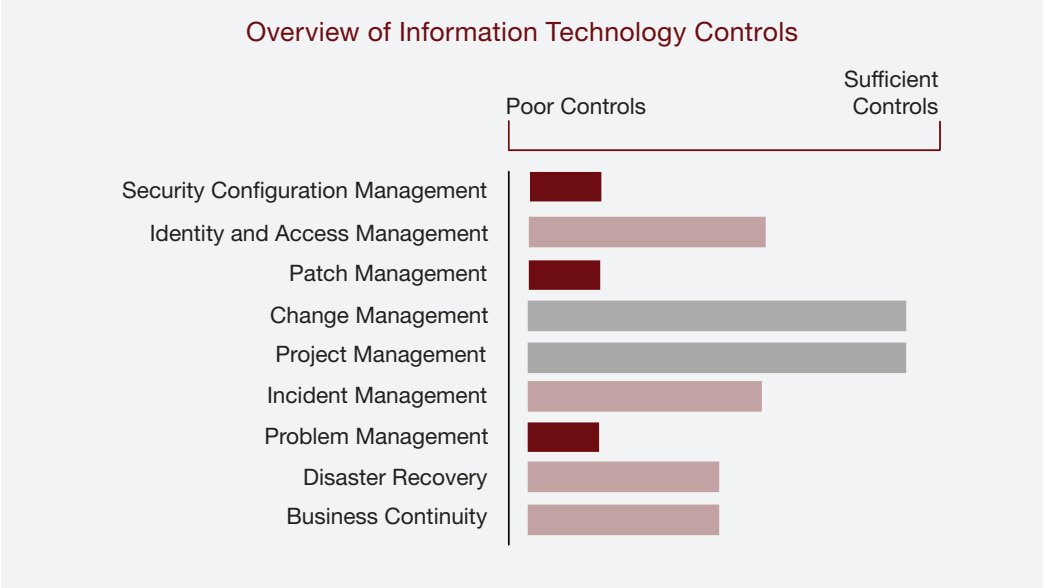
To process licenses, permits, registrations and certificates, these business units rely heavily on departmental business processes, as well as the information technology (IT) functions that store and protect registry information. Both of these areas need to be well controlled and, consequently, were included in our audit.



Business Process Controls: We found the transaction processing controls associated with the registries were adequate. However, we identified shortcomings related to adequacy of communications; application and availability of privacy policies; and sufficiency of controls around service contracts. The following chart provides an overview of the state of the business process controls our audit tested.



Information Technology Controls: We concluded that there are security vulnerabilities stemming from weaknesses in areas such as security configuration settings, patch management and problem management. The following chart provides an overview of the state of the information technology controls our audit examined.



Our audit considered various methods to disrupt, corrupt or gain unauthorized access to the registries. We concluded that there is a risk of exploitation from system users operating within the provincial network, such as employees and contract staff. It

is important to note that internal threats can be equally as concerning as external threats. There have been at least two alleged cases of fraud by government employees reported in recent years. External hackers can also target internal contacts to exploit systems, through collusion, bribery and blackmail.

Unauthorized access to the systems or databases supporting the registries could result in the disclosure of sensitive information, modification or deletion of registry information, or disruption of registry operations. Impacts to individuals could include identity theft, loss of land ownership, inability to obtain needed information and certificates, or disruption of business operations.

The majority of our recommendations require relatively minimal resources to implement. These recommendations do not require the acquisition of new systems or expensive software, but rather configuration changes to existing systems and possibly additional policies and procedures. Furthermore, the control improvements we recommend will strengthen areas beyond the four registries we audited because other functions of the Department rely on the IT systems we examined.

4 Service Nova Scotia and Municipal Relations: Registry Systems

Background

4.1 The Government of Nova Scotia is responsible for information it collects on Nova Scotians, as well as thousands of businesses within the Province. For example, anyone who experiences a significant life event in Nova Scotia (e.g., birth, marriage, death), buys or sells land, or incorporates and operates a business in Nova Scotia must provide information to the provincial government.

4.2 The Department of Service Nova Scotia and Municipal Relations (SNSMR) maintains most of the government registries that issue licenses, permits, registrations and certificates to Nova Scotia businesses and members of the public. It maintains computer databases to support the various registries and, accordingly, relies heavily on information technology (IT). The four registries that were the subject of our audit are:

- *Nova Scotia Business Registry* – This registry enables the use of the Canada Revenue Agency's business number as the unique identifier for business clients. Through the use of the business number, this registry provides business licensing, permitting, registration and inspection services on behalf of SNSMR and other provincial government departments. The Nova Scotia Business Registry was formed through a partnership among SNSMR, the Canada Revenue Agency and the Workers' Compensation Board.

- *Registry of Joint Stock Companies* – This registry enables the formation and registration of various forms of business and non-profit organizations operating in Nova Scotia (e.g., companies, partnerships, sole-proprietorships and societies). This registry also provides the public with access to public information about these organizations.

- *Registry of Vital Statistics* – This registry maintains a record of all vital events that occur within the Province of Nova Scotia. This includes the registration of births, marriages, deaths, stillbirths and domestic partnerships, as well as issuing certificates relating to these events.

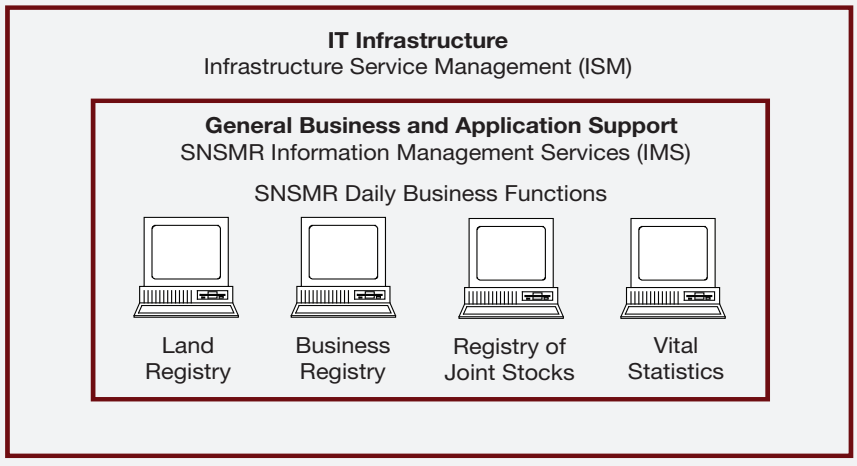
- *Land Registry* – This registry provides for the submission, processing and safe keeping of all real property transactions and related documents. It also creates and maintains a link between land interests and land parcel identifiers; and between the identifiers and the assessment accounts. Additionally, it provides appropriate access to land-related documents and information.

4.3 These four registries provide a central, electronic repository of information that is accessible to all authorized users, where there is access to government networks regardless of geographic location. Much of the information collected for these registries is inherently sensitive. Proper management of the information technology supporting these registries is critical to ensuring the confidentiality, integrity and availability of the information maintained in them. As well, strong controls will protect the public from negative experiences such as fraud, identity theft or inaccurate land and business ownership caused by inappropriate access to, and use of, the registries.

4.4 Groups within and outside the Department provide support for SNSMR's IT systems and daily business functions.

- *Information Management Services (IMS)* – This division of SNSMR is the primary group that manages the information technology that supports the various registries. IMS provides support for IT systems as well as some of the server support.
- *Infrastructure Service Management (ISM)* – This division of the Chief Information Office administers access to the wide-area network and manages IT infrastructure, including some of the servers that support the SNSMR registries. The servers are hosted at the provincial datacentre, which has recently become the responsibility of the Chief Information Office. At the time of our fieldwork, the Department of Community Services provided desktop support functions for hardware and access to the network. This responsibility has since been transferred to the Chief Information Office.

Support Environment



Audit Objectives and Scope

4.5 In the summer of 2010, we completed an audit of the IT infrastructure and service delivery processes supporting various registries at Service Nova Scotia and Municipal Relations (SNSMR). The engagement was conducted in accordance with Section 8 of the Auditor General Act and auditing standards established by the Canadian Institute of Chartered Accountants. The purpose of our audit was to determine if there are sufficient controls in place for the registries at SNSMR to adequately serve and protect businesses and members of the public who rely upon them. Audit fieldwork was conducted between September 2009 and April 2010, with a testing period covering transactions between September 1, 2008 and September 30, 2009.

4.6 The objectives of our audit were to assess the adequacy of:

- business controls and IT controls to ensure the completeness, accuracy and availability of information collected, produced and reported;
- fraud prevention practices, policies and procedures;
- systems and processes to protect the privacy of information collected and stored;
- procedures and policies to ensure the confidentiality, integrity and availability of web-based (e-commerce) information technology services; and
- control over information shared with other government entities.

4.7 We selected four registries to be the subjects of our audit: the Land Registry, Nova Scotia Business Registry, Registry of Joint Stock Companies and the Registry of Vital Statistics. We are not providing assurance on these registries individually. The findings from our examination of each support our opinion on the Department's overall management and control of these registries combined. We did not audit the controls around access to the systems from outside the Province's wide-area network. Management engaged an external firm to perform a vulnerability assessment that would look at these controls. This assessment was not finalized when we completed our audit.

4.8 We used criteria developed by our Office to audit the business processes of the four registries. The majority of the criteria used for assessing the registries' IT controls were taken from the IT Governance Institute's *Control Objectives for Information and related Technology (COBIT 4.1)*,

which is a widely-accepted international source of best practices for the governance, control, management and audit of IT operations. SNSMR also stores and processes credit card information and, as a result, is required to be compliant with the Payment Card Industry Data Security Standard (PCI DSS). Our audit approach, therefore, integrated the PCI DSS standard with COBIT standards.

4.9 These objectives and criteria were discussed with, and accepted as appropriate by, members of management responsible for the systems we audited.

Significant Audit Observations

Transaction and Fraud Controls

Conclusions and summary of observations

Controls around transaction processing are adequate, and particularly strong with respect to the Registry of Vital Statistics. However, we noted a lack of formalized procedures regarding management review and oversight of information maintained by the registries we audited. Strong control over day-to-day processing of transactions, as well as management's monitoring of these activities, are critical to preventing fraudulent activity and maintaining the completeness and accuracy of information in the registries.

4.10 *Transaction processing controls* – We examined a sample of business transactions from the period of September 1, 2008 to September 30, 2009 to determine compliance with departmental policies, procedures and related controls. No exceptions were identified during this testing period and, in particular, the controls in place within Vital Statistics to process, balance and manage information were found to be ideal. Vital Statistics employs a combination of manual and system controls to tightly manage and monitor information flow.

4.11 *Personally identifiable information* – It is policy of the Business Registry and the Registry of Joint Stock Companies to remove some personal information, such as credit card and social insurance numbers, from documentation retained. For documents under the central control of the business registries, we observed that staff members consistently remove specific personal information prior to scanning documents into the registry systems and when preparing them for filing. However, we observed several instances where documentation relating to licenses and permits maintained by government departments other than SNSMR still contained personal

information. This documentation is not available to the public, but increases the risk of inappropriate access.

4.12 *Fraud awareness* – Only the Vital Statistics business unit provides orientation and manuals that include a focus on fraud awareness. We suggested to the Department that the other registries might benefit from a strategy for providing effective fraud awareness, protection and detection training.

4.13 *Management reporting and monitoring* – There is a lack of formal management monitoring and review of transaction processing and data accuracy within three of the four registries we examined. More specifically, we found the following.

- The Land Registry has a process whereby supervisors are to regularly review transactions on a test basis to check the quality of staff members' work against policies and procedures. We found that this review had not been performed in four months.
- Staff of the Land Registry and the Registry of Joint Stock Companies review client applications with the aid of checklists to validate that client applications meet all requirements. There is no requirement to retain these checklists and therefore they are not available for review by management.
- Supervisors within the Business Registry have access to reports they can use to review the accuracy of transactions processed and to assess the productivity of staff. We could not determine whether this control procedure is operating properly because there is no evidence of this review.
- Section 2.1.3 IV of the Land Registration Act Agreement between the Department and the Barristers' Society of Nova Scotia requires the Department to perform *"...internal system quality control functions, by evaluating whether human and information technology resources of government are performing as expected."* During testing in November 2009, we noted this review had not been performed since March 2008.

4.14 It is important to verify that processed transactions are accurate and in accordance with Departmental procedures, and to identify any need for process improvements as a result of common errors noted. Without formalized monitoring procedures and regular review of retained control documentation, it is difficult to control and improve the registry systems. Insufficient monitoring of registry systems could lead to undetected fraudulent activity and errors such as inaccurate land titles, invalid business registrations, or inappropriately issued permits.

Recommendation 4.1
Service Nova Scotia and Municipal Relations should formalize its management monitoring processes and include the requirement to produce and retain evidence of management review of transactions.

Recommendation 4.2
Service Nova Scotia and Municipal Relations should ensure there are procedures in place at the Land Registry to meet the monitoring requirements of the Land Registration Act Agreement with the Barristers' Society of Nova Scotia.

Privacy Policies and Procedures

Conclusions and summary of observations

Systems and processes used to protect the privacy of confidential information stored in the registries are not sufficient. There are deficiencies in communicating with staff with respect to privacy policies. Contracts, agreements and procedures relating to the Department's web-based services are not in full compliance with the Payment Card Industry Data Security Standard or the province's Personal Information International Disclosure Protection Act. Due to the sensitive nature of some of the information the registries maintain and share, communication of current policies and procedures and compliance with relevant laws and regulations is imperative to protect such information. Without these measures, exposure of confidential information related to individuals and businesses is at risk.

4.15 *Communication of policies* – There are documented policies and procedures to protect information collected and stored against unauthorized access and inappropriate disclosure. However, there are deficiencies in the communication of those policies.

4.16 There are IT policies throughout government that apply to SNSMR and they include policies to protect privacy of information. However, there is no centralized collection of IT policies at the Department. This makes it difficult for employees to be aware of, locate and follow these policies. SNSMR employees and contractors need to know what IT policies are in place to govern their use of information technology. Without knowledge of these policies, employees and contractors may misuse computer systems, intentionally or not, resulting in security vulnerabilities, and breach of privacy.

4.17 Communication of the policies that address privacy is inadequate. We found that, while there are security and privacy awareness initiatives and documents, not all staff members were aware of their existence. In addition,

staff members are informed there are policy manuals available, but privacy legislation requirements have not been added to each manual. Insufficient knowledge of the privacy requirements of current provincial legislation by staff can affect the security of private information. In addition, the Department could be found liable if there is a privacy breach and it is demonstrated that the Department did not comply with privacy laws.

Recommendation 4.3
Service Nova Scotia and Municipal Relations should ensure all of the policies and procedures necessary for the security of its information are current, communicated, and readily accessible to its staff and contractors.

4.18 *Privacy breach protocol* – The Department has a privacy breach protocol to provide direction to staff in the event of a suspected or confirmed breach of the privacy of confidential information. We found that staff members operating each of the four registries were unaware that an official protocol exists, despite it having been presented to Departmental staff members at least two months prior to our discussing this with them. Failure to ensure staff members understand the policy and its applications may result in ineffective containment of a breach of privacy, failure to notify appropriate persons of privacy incidents, no identification of issues arising from the breach, and no strategies being devised to reduce the likelihood of future breaches.

Recommendation 4.4
Service Nova Scotia and Municipal Relations should formalize its communication with and training of staff on privacy policies and the privacy breach protocol.

4.19 *Privacy impact assessments* – The Department is required to prepare a privacy impact assessment (PIA) before it makes significant changes to its information systems or implements new information technology processes. PIAs outline the likely impact of new information systems and system changes on the privacy of confidential information collected and stored by departments. Various levels of department and government management must approve PIAs. We reviewed a number of system changes at SNSMR that required a PIA and found that an approved PIA was on file for each, with no significant privacy risks identified. Discussions with staff indicated, however, that there is no formal process to ensure the implementation of recommendations for the mitigation of privacy risks identified in the approved PIA. We were informed an assurance framework that is currently under development will address this issue.

Recommendation 4.5
Service Nova Scotia and Municipal Relations should include follow-up procedures as part of its privacy impact assessment approval process to ensure any identified privacy issues are addressed before new systems or system changes are implemented.

4.20 *Credit card information processing controls* – Payment Card Industry Data Security Standard (PCI DSS) is an international information security standard defined by the Payment Card Industry Security Standards Council. The Council is a consortium of major credit card companies. The Standard identifies annual control validation requirements for any organization that processes, maintains or exchanges credit card information. The Standard also requires assessment of an organization by a third party to confirm that their information technology controls meet the Standard set by the Council. The level of testing and reporting required by each organization is dependent on the volume of credit card transactions it processes.

4.21 Based on credit card transaction volume information provided to us, the Province should be performing an annual self-assessment against the Standard, as well as obtaining a quarterly network security review from an approved vendor. Neither of these requirements has been met and therefore the Province, and all of its departments that process credit card transactions, are not PCI DSS compliant. Becoming compliant is a significant undertaking for an organization and management has told us that they have communicated with one of the major credit card companies to inform them of their plan to move toward compliance. A significant amount of the Province's credit card transactions are processed through SNSMR. Part of the Province's compliance initiative requires SNSMR to report on its state of readiness and become the baseline for all other departments that process credit cards. We were informed that this process is ongoing and all impacted departments will have tasks to complete in order for the Province to achieve compliance. This includes any infrastructure components that are the responsibility of the Chief Information Office.

4.22 *Compliance with legislation* – Government web-based services provide the public with the ability to conduct business and communicate with government through the internet. SNSMR enables businesses and the public to use the internet to see various records (e.g., public information on specific businesses), obtain specific documents (e.g., birth certificates), register interests in land, and renew business registration licenses.

4.23 SNSMR's use of web-based services results in the collection of personal information (e.g., names, addresses, credit card numbers) over the internet. Nova Scotia entities that collect such information, including all provincial departments and agencies, must adhere to the Personal Information

International Disclosure Protection Act (PIIDPA). PIIDPA is provincial legislation intended to prevent personal information from leaving Canada without the notification and consent of the person to whom the information applies. The Act also requires government departments to disclose annually to the Minister of Justice what personal information in their possession has left Canada.

4.24 SNSMR outsources the collection of credit card information for online transactions to a private-sector company. That company submits specific pieces of the information collected to companies outside of Canada for processing. Customers who submit their credit card information online are not informed that some personal information is leaving Canada and, therefore, do not have the opportunity to provide consent. In addition, for the period under audit, the Department did not inform the Minister of Justice of the transmitting of personal information outside of the country. Management informed us after the conclusion of our audit fieldwork that future annual reporting to the Minister of Justice would contain this required information.

Recommendation 4.6
Service Nova Scotia and Municipal Relations should ensure it adheres to the requirements of the Personal Information International Disclosure Protection Act and, specifically, that there is appropriate consent and reporting for all information being sent out of Canada.

Service Contracts and Information Sharing Agreements

Conclusions and summary of observations

The majority of the Department's agreements for sharing registry information with other government entities are outdated. SNSMR contracts with a private-sector company for its registry web services, but relies on the company to generate reports on their own performance. The Department does not form its own assessment of whether service providers are meeting contracted levels of performance. In addition, the Department does not obtain an independent assessment of the adequacy of its web service provider's control over the confidential information SNSMR provides.

4.25 *Inter-jurisdictional agreements to share information* – SNSMR shares information from its registries with other provincial departments and agencies, as well as other levels of government (i.e., Federal government and various municipalities). Similarly, these entities provide information to SNSMR's registries. Information shared back and forth includes items such as land transactions, information on births and deaths of Canadians while

they are outside of their home province, and business related information with various tax and workers' compensation authorities.

4.26 Our audit indicated that not all of these sharing arrangements are supported by a formal agreement as we found some for which an agreement was not finalized or signed. In addition, some of the agreements are outdated and do not reflect current standards or legislation (e.g., the Freedom of Information and Protection of Privacy Act). Without signed agreements, there is no legal requirement for either party to fulfil obligations to protect the privacy of information. This increases the risk of misuse or poor control of information shared. Updated agreements are necessary to ensure service delivery requirements are relevant and feasible. Agreements that are not current and do not reflect regulatory and privacy requirements can result in the disclosure of personal information if the level of care is not defined, and such disclosure can result in legal proceedings.

Recommendation 4.7
Service Nova Scotia and Municipal Relations should ensure no information is shared before signed agreements are in place.

Recommendation 4.8
Service Nova Scotia and Municipal Relations should monitor information sharing agreements on a regular basis to ensure they reflect all applicable standards and legislation and are relevant to current operations.

4.27 *Management and review of service contracts* – Management does not review service level agreements on a regular basis. Review generally only occurs upon recognition of a change to the services received or provided. A review of agreements on a periodic basis would help ensure they have not expired and that the terms are still valid and complied with by all entities involved.

4.28 SNSMR entered into an agreement with a company to provide e-commerce services to support SNSMR business functions. These services are very important to the core business of the registries we audited. SNSMR relies on the service provider to generate reports on the level of service provided. SNSMR cannot confirm that the reported service levels are accurate.

4.29 We also noted that SNSMR does not obtain an independent assessment of the controls that protect the financial and personal information maintained by the web service provider on SNSMR's behalf. If the Department does not receive such assessments, it cannot know whether confidential information handled on its behalf is adequately controlled.

Recommendation 4.9
Service Nova Scotia and Municipal Relations should use performance measures and other processes, including independent assurance, to determine if external service providers are meeting service level agreements and information maintained is secure.

Security Configuration Management

Conclusions and summary of observations

Security configuration settings for the IT systems that support the registries are not sufficient to prevent unauthorized access. They do not provide for logging of user actions or restrict access to various computer directories, files and programs. In addition, computer systems are at an increased risk of exploitation due to the use of programs with known security vulnerabilities. Improperly configured systems limit SNSMR's ability to ensure information it retains is secure.

4.30 *Background* – Configuration settings are the options available in computer systems that define how the computer system will function. These settings require careful management to ensure computer systems function properly. Password and user account configuration settings provide some of the key security controls of the system. These settings can include:

- whether a password is required;
- the minimum length of the password;
- the length of time the password can be used;
- whether previous passwords can be reused; and,
- the consequences of entering the wrong password too many times.

4.31 Security configuration settings also determine what information a person is able to access. This includes files, directories and even programs. If password and file settings are not appropriate, an individual could gain unauthorized access to computer systems and steal, disclose, modify or delete confidential information.

4.32 *Security application configuration* – There are two components to each registry. The application component is what users interact with for data entry, reporting and queries. The database component is where information is stored and processed. The database holding registry information is accessible independently of the application. The design of three of the four registries we examined allows an individual who has access to the

specific registry application (e.g., a registry employee) to also access the database that supports the application. Vital Statistics is the only registry that does not permit this. Only IT administrators should have access to these associated systems. There are controls within each application to restrict access to personal and confidential information. As discussed in the following paragraphs, the databases do not have the same level of control in place and as a result, data is at risk of inappropriate access.

4.33 *Security configuration standards* – The Chief Information Office is responsible for the IT networks and some of the infrastructure that host the registries (see paragraph 4.4). We assessed whether the Chief Information Office maintains configuration standards or performs reviews of existing computer settings to ensure the security of the systems hosting the registries. We found there are no documented security configuration standards, and that settings for systems supporting the registries are inconsistent.

4.34 *Security configuration settings* – Both the Chief Information Office and the Department have configuration responsibilities for specific components of the registries' computer systems. We examined security configuration settings of the network, registry applications, operating systems and databases to determine if the settings appropriately prevent or detect unauthorized access to the systems. Some of the systems do not sufficiently log use of the computer systems. Therefore, detection of unauthorized access is not possible. We also noted that operating systems used on computers supporting registry systems contain security vulnerabilities that could allow them to be hacked. These include the use of vulnerable programs, weak password and account settings, as well as inappropriate file and directory access permissions. Based on the findings described in the following paragraphs, we concluded that control over the prevention of unauthorized access is weak.

4.35 *Logging* – Maintaining a record of computer system use provides management with information to investigate fraud or unauthorized actions by employees. It also provides them with the ability to determine if registered system users still require their computer accounts. We found that 17 of the 19 systems supporting SNSMR registries do not record sufficient information on system user activity.

4.36 *Clear text services* – Some programs send confidential information such as user names and passwords, computer commands and data files over the network without first encrypting the information. Interception of such information could provide a person with inappropriate access to a system or the ability to read personal and confidential information. The service can also be utilized by hackers to transfer files to and from the server once the server has been compromised. We identified six registry-hosting servers with these programs enabled through configuration settings.

4.37 *Password settings* – Access to a computer system requires a user name and a password. The password prevents unauthorized use of an account by others. However, individuals could attempt to crack a password by employing software that tries all possible character (e.g., upper and lower case letters, numbers) combinations. Longer passwords, and more types of characters used, increases the number of combinations and time required to crack the password. This increases the level of security associated with the password.

4.38 We assessed the password and user account settings for the registry applications, the operating systems running the applications, and the databases that store registry information. We noted that the registry applications do require the use of passwords and user accounts to restrict access to only authorized users. However, the password settings for the operating systems and databases managed by SNSMR do not prevent users from using weak passwords.

4.39 We obtained a copy of the system password file and used a password-cracking tool to determine if the accounts on the operating systems contained weak passwords. The tool was able to crack the password of four user accounts within a 20-hour period. Being able to crack even one password poses a risk to system security.

4.40 SNSMR's password configuration settings generally follow the government's wide-area network password policy. However, we identified some network user accounts that do not comply with this policy. We examined 1,472 accounts and found 12 that do not meet the minimum password length policy and six that do not force the account to require a password. These accounts could potentially have very weak or no passwords, providing easy access to computer systems by individuals operating within the government network.

4.41 *Password expiration* – Password expiration settings define how long users can use their passwords before they are required to change them. Changing passwords on a periodic basis helps reduce the risk of the inappropriate use of a compromised password for extended periods. We reviewed the administrator accounts for the systems supporting the registries to identify the most recent password changes. Our analysis found administrator accounts with passwords unchanged over a time span between seven months and four years. In addition, we found one administrator password unchanged since activation.

4.42 *Password history* – Password history settings can define how many different passwords a user must use before allowing them to reuse a previously expired password. If users can frequently reuse old passwords, previously stolen passwords are at risk of reactivation, providing unauthorized access

to the systems. We noted that systems hosting the registries do not prevent users from reusing recently used passwords.

4.43 *Simultaneous login* – The simultaneous login settings define how many times a person can use their user name and password on multiple computer systems at the same time. If a person can sign into different computer systems at the same time, there is a greater risk they may share their user name and password with another individual. Employees may decide to provide access to others who are assisting them or to those who can no longer use their own account. This could provide that individual with the ability to obtain unauthorized access to information. We reviewed the network setting that allows simultaneous logins and noted settings ranged from one to 34 times.

4.44 *File and directory permissions* – File and directory permissions are the settings that define what information or computer programs a user or groups of users can access on a computer system. If these settings are not appropriate, a user could gain access to information not needed to fulfil their day-to-day responsibilities. Our analysis of file and directory permissions identified that system users could gain access to specific system programs, database configuration files, process schedulers and encryption keys that they do not require.

4.45 Management informed us that the current wide-area network standards address some, but not all, of these issues. However, some of the registry systems were implemented before these standards came into effect. As these systems undergo periodic maintenance, their security configuration settings should be updated.

Recommendation 4.10
The Chief Information Office should update security configuration standards based upon industry best practices and require that all government system security configurations be realigned with these standards during the system maintenance life cycles.

Identity and Access Management

Conclusions and summary of observations

There are deficiencies in the management of user access to the registries. No process is in place to identify and remove dormant user accounts. The process to manage access is inconsistent across all registries. Processes relating to the termination and expiration of user accounts are inadequate, and procedures for issuing and changing temporary passwords are poor. The configuration of network accounts belonging to external contractors and consultants needs improvement.

4.46 *Background* – Access management is the process of providing employees with computer accounts, setting and changing their ability to access different types of information, and removing computer accounts when employees are no longer with the organization. Employees only need the level of access that allows them to perform their job. Those with more access than necessary have an increased ability to see confidential information or commit fraud. Employees terminated by an organization could retaliate by disclosing, modifying or deleting sensitive information if deactivation of their user accounts does not occur at the time of their termination.

4.47 *Access management process* – There are currently, at minimum, three different processes within SNSMR to manage access to the network and the registries. Two of the four registry business units handle their own access requests, while the network and the other two registries use external service desks to facilitate the management of access. During our audit, service desk responsibility transferred from the Department of Community Services to the Chief Information Office. Multiple processes to manage access requests decrease the ability of management to grant and terminate access appropriately.

4.48 *Vital statistics* – Managing access to the Vital Statistics registry occurs at the division level within SNSMR. Access levels and roles are defined and approved by authorized division staff. After a new user has been created through the service desk and a network identity has been assigned, department staff members enter the required information and assigned network identity into the provincial identity management system. This provides the user with the approved level of access to the Vital Statistics registry. Division management regularly confirm all users are current and that assigned access privileges are appropriate for their job responsibilities. We reviewed user access to the system and found that all users were active employees and their assigned access privileges were appropriate.

4.49 *Land Registry* – The Land Registry can provide two levels of access: query access and submission access. Query access allows a user to view information, but not change it. Submission access allows a user to submit information for recording in the database. Users who are lawyers and require submission access must have specific prerequisites (e.g., member of the Nova Scotia Barristers' Society) documented before SNSMR provides access. We reviewed files for 15 lawyers with submission access and found that there was documented evidence of the required prerequisites for each of them.

4.50 We noted that Land Registry staff generate user names and passwords, and store them centrally in an electronic document. The document is not password protected and is available to four Land Registry staff members and network administrators. In the event that unauthorized individuals

access the password document, they would have access to all user accounts and have the ability to submit electronic documents online without proper authorization. Further, when new users log in, the system does not force them to change their initial, temporary password.

4.51 Users with multiple accounts increase the difficulty for administrators to manage access and could result in active accounts being accessible to unauthorized users. We noted 146 individuals who had multiple user accounts to access the registry. This also increases the pervasiveness of dormant accounts as discussed in paragraph 4.53.

Recommendation 4.11
Service Nova Scotia and Municipal Relations should regularly review all of its Land Registry accounts to ensure deletion of unnecessary duplicate accounts, deactivation of dormant accounts, and changing of the initial, temporary password.

4.52 *Access management* – An external service desk (see paragraph 4.4) provides help desk services to SNSMR to facilitate access to the wide-area network, the Nova Scotia Business Registry, and the Registry of Joint Stock Companies. However, for registry access, they forward the request to the SNSMR registry business unit to approve and administer. We selected a sample of 44 employees who had either joined, transferred to another department, or were terminated from SNSMR, and reviewed their system access request and termination forms. We found the following areas of concern.

- Issuance of the same temporary password for network access to new employees occurs frequently. Individuals with knowledge of this practice could inappropriately access a new employee's account before the temporary password is changed and review, copy or change information anonymously.
- Access was granted to two registries for one employee but there was no application request form on file.
- Network access privileges set up for new users are often copies of privileges granted to similar employees. This speeds up the process. We saw no evidence of a review of such access privileges prior to copying to ensure they were appropriate for the new user. By copying an existing employee's permissions in this manner, there is a risk that new employees may obtain more system access than is required to perform their job.
- There was no termination request form on file for five of twenty employees terminated. The removal of access privileges may not

happen if the service desk does not receive formal termination request forms.

- The removal of access for fifteen of the twenty former employees with termination request forms on file was, on average, five days after the termination date stated on the form. Employees leaving the Department could use their access during this period to copy, modify or delete important registry information.

- Seventy of seventy-two external contractors and consultants identified in our examination did not have their network passwords set to expire after a set length of time. The use of a contractor is typically a defined-term arrangement. Setting contractor user accounts to expire after a specified period ensures contractors no longer have access when they are not providing services to the Department.

Recommendation 4.12
The Chief Information Office should generate unique temporary passwords for all new system accounts to prevent inappropriate access to new accounts before the passwords are changed.

Recommendation 4.13
Service Nova Scotia and Municipal Relations should review termination listings from its human resources division on a regular basis to verify the removal of network and registry user accounts belonging to terminated employees.

Recommendation 4.14
Service Nova Scotia and Municipal Relations should establish a process to ensure user accounts for external contractors are set to expire after a specified period to ensure contractors no longer have access when they are no longer providing services to the Department.

4.53 *Dormant accounts* – Dormant accounts are computer accounts that belong to employees who have not used their accounts for a significant period or accounts which have not been disabled or deleted and are associated with individuals who are no longer with the organization. These user accounts remain functional and available for use. An individual with knowledge of the user name and password of a dormant account could use that account to gain unauthorized access to information (see the Security Configuration Management section starting on page 65 for findings regarding passwords). We analyzed user accounts for the network, the various registries, the supporting operating systems, and the databases. Our analysis identified a significant number of dormant accounts on these systems.

- 9.8% of all SNSMR network accounts had never been logged into.
- 17.1% of all SNSMR network user passwords had expired.
- 12.6% of all Registry of Joint Stock Companies accounts were dormant.
- 11.6% of all Business Registry accounts were dormant.
- 8.25% of the accounts for the computer servers supporting the registries were dormant.
- There were no dormant accounts for the Registry of Vital Statistics.

4.54 Administrators should routinely identify and eliminate such accounts, ensuring few or no dormant accounts exist.

4.55 The Land Registry does not maintain a record of when users last accessed the registry. As a result, management cannot review system-generated reports to identify dormant accounts. We selected a sample of accounts and reviewed them with management to determine the employment status of the account owner. Through this testing, we identified 28 functional accounts for individuals no longer working for the registry. Three of these are of higher risk to system security because they are administrator accounts, which come with more authority for making system changes and accessing confidential system information.

4.56 The following are best practices that could mitigate the weaknesses identified above.

- On a quarterly basis, identify all accounts that have not accessed the system for a predetermined period.
- On a quarterly basis, obtain a formal listing from Human Resources of all terminated employees since the last user account review to ensure there are no active accounts belonging to terminated employees.
- Annually validate that all existing employee user accounts provide only the access employees require to fulfil their job responsibilities. This will usually require communication with the managers or supervisors of system users to have them review for changes in job responsibilities during the year.

Recommendation 4.15
Service Nova Scotia and Municipal Relations should ensure there is a process in place that requires the following:

- configuration of its systems to include logs and reports of when user accounts were last accessed;
- regular reviews of reports and logs;
- regular reviews of user accounts and associated access privileges for all existing networks, applications, operating systems and databases; and
- procedures to determine if the owner of an account still requires access, or if certain access privileges need modification or termination.

Patch Management

Conclusions and summary of observations

There is inadequate patching of the registries' computer systems. We assessed whether SNSMR and the Chief Information Office have a process to identify and apply patches provided by software vendors for the systems that support the registries. We concluded that there are limited documented procedures to review and implement vendor patches in a timely manner.

4.57 *Background* – Software sold or freely provided by vendors can have flaws that require correction. These flaws can negatively affect computer system performance and can create security vulnerabilities. Individuals with malicious intent research these flaws and attempt to use them to hack computers. To help prevent this from occurring, vendors routinely provide fixes (patches), or groups of fixes (service packs). These fixes should be applied shortly after a vendor provides them in order to reduce the opportunity for someone to use the flaw to hack a computer system. A hacker could affect the availability, confidentiality and integrity of information contained within systems.

4.58 *Patches* – We found that only nine of 36 operating systems supporting SNSMR registries and the government's network had all current patches or service packs implemented. Patching of the remainder of the systems is behind by up to three years.

4.59 One system's vendor releases patches for its database software every three months. There was no evidence these updates were applied to SNSMR's databases during our audit testing period from September 1, 2008 to September 30, 2009.

Recommendation 4.16
Service Nova Scotia and Municipal Relations and the Chief Information Office should develop a process for identifying, reviewing and implementing patches to their software in a timely manner utilizing Information Technology Infrastructure Library best practices.

Change Management

Conclusions and summary of observations

We assessed SNSMR's process for making changes to its computer systems and concluded there is a well-designed process in place. However, some enhancements are required to ensure the retention of documentation for all changes made and approvals granted. We also noted that the development of some web applications does not always follow secure programming practices that ensure the applications do not contain exploitable vulnerabilities to hack SNSMR websites or other computer systems.

4.60 *Background* – Change management is the formal process to add, modify or remove information technology from an organization. This process requires testing and approval of changes prior to implementing them on the computer systems used by employees or customers. Such processes reduce the risk of changes negatively affecting the performance of a system, and prevent employees from making changes to computer programs to commit fraud or access confidential information without proper authorization.

4.61 *Change management process* – On March 1, 2009, SNSMR implemented a new process for making changes to computer systems. We found the new process to be well designed. However, we also found that parts of the new process are not being followed. We reviewed a sample of 40 system changes to determine if they were tested, approved and sufficiently documented to support the change. We identified the following issues.

- Management did not provide approval to move system changes from a test environment into the production (live) environment for three of the 40 changes tested. Emergency changes accounted for two of the three exceptions and management indicated that approvals were verbal. The other change occurred during the initial stages of implementing the new change management process.
- SNSMR requires approval of emergency system changes by a group of advisors known as the Emergency Change Advisory Board. We saw no evidence that this group reviewed the emergency changes in our sample.

- There is no review by management to ensure retention of all significant documentation, including all approvals, to support system change.
- Two application programmers have access to operating systems supporting the registries. Programmers with access to these systems could create and implement changes without obtaining proper authority.

Recommendation 4.17
Service Nova Scotia and Municipal Relations should perform a periodic review of system changes to ensure the retention of all required approvals, testing results and other key documentation.

Recommendation 4.18
Service Nova Scotia and Municipal Relations should review all access provided to programmers to ensure there is not a segregation of duties risk that could allow the programmer to develop and implement code without authorization.

4.62 *Secure development* – We identified that web application programming does not comply with industry-standard secure coding techniques such as the Open Web Application Security Project (OWASP). Such techniques help prevent security vulnerabilities that could be attacked over the internet to illegally gain access to Department systems. We found that security vulnerabilities exist in the web applications for one of the registries. An external service provider hosts websites for the other three registries and our assessment did not extend to the practices of this private-sector company.

Recommendation 4.19
Service Nova Scotia and Municipal Relations should use industry-standard secure coding techniques and perform security assessments to prevent security risks in its web applications.

Project Management

Conclusions and summary of observations

SNSMR has a well-designed, documented process for managing projects. We found that more management oversight is required to ensure all documentation required by the process is prepared and retained.

4.63 *Background* – Projects are changes in an organization that require a significant amount of time or money to complete. In order for implementation of these changes to be as planned, timely and on budget, a formal process is required to track and manage the project from planning to completion. Improperly managed IT projects can result in cost overruns, missed deadlines, service interruptions, increased security risks, or implementation of information technology that does not meet the needs of its users.

4.64 *Project management framework* – SNSMR has developed a framework to guide projects from initiation to completion. This framework includes steps to ensure the approval, planning, documentation, testing and implementation of projects. We concluded that the framework is well designed and appropriately documented.

4.65 *Active projects* – SNSMR had 48 active projects during the period of our audit. These resulted from information technology upgrades, new legislative requirements, business process re-engineering, and the automating of business processes. We examined two projects from the seven completed during the period of our audit and noted the following.

- There was no evidence of a formal documented risk assessment for one of the projects. However, various documents outlined potential risks associated with the project. Failure to perform a formal risk assessment prior to implementing new technology could introduce vulnerabilities that may be exploited and affect the overall security of Department systems.

- There was no lessons learned document available for one of the projects. SNSMR's project management framework requires preparation of such a document upon the completion of a project. Documenting successes and shortcomings within a project enables managers to learn from previous mistakes and to employ new best practices that increase the success of projects.

Recommendation 4.20
Service Nova Scotia and Municipal Relations should develop processes which ensure all required documentation, as outlined in the Department's project management framework, has been produced or obtained for system development projects.

Incident and Problem Management

Conclusions and summary of observations

We concluded that SNSMR has a process to address computer problems. However, this process does not include the identification and long-term resolution of the root cause of recurring computer problems to prevent future occurrences.

4.66 *Background* – Incident management is the process of identifying and resolving any IT-related event that has a negative impact on an organization's operations. This process focuses primarily on fixing the issue and not attempting to determine why it occurred. Problem management is the process to investigate why the incident occurred in the first place and to attempt to fix the issue that caused the incident. If these processes are not in place, extended interruption of the information services could result.

4.67 *Incident management* – At the time of our fieldwork the Department of Community Service's Help Desk received calls from SNSMR system users to report computer incidents. The Help Desk recorded all relevant information in their ticket (service request) tracking software. For issues that related to SNSMR computer systems, the Help Desk forwarded the ticket to a SNSMR IT specialist to be resolved. However, the process to document and respond to these events did not require classification of security incidents according to level of impact or provide response plans according to the severity of the incident. This can reduce the ability of staff to respond appropriately to incidents.

4.68 *Problem management* – We found that SNSMR does not have a problem management process to identify and address the root causes of incidents.

4.69 *Help desk software* – The ticket tracking application used by the Help Desk did not have the ability to identify and report SNSMR-specific issues. Without this ability, it is difficult to look for potential larger issues that could indicate there is a system weakness that is causing multiple computer incidents to occur.

Recommendation 4.21
Service Nova Scotia and Municipal Relations should have formal, documented problem and incident management processes. This should include using help desk software that can identify recorded incidents specific to the Department and provide sufficient reporting to allow for the analysis of such incidents.

Business Continuity and Disaster Recovery Planning

Conclusions and summary of observations

There are deficiencies in the Department's planning for the maintenance of business services and restoration of computer systems in the event of a prolonged interruption in the availability of important computer systems. SNSMR has a formal business continuity plan, but it is not complete. The Department also has a disaster recovery plan, but it is still in a draft state. The Chief Information Office does not have a formal disaster recovery plan for its datacentre, which hosts the registries of SNSMR.

4.70 *Background* – Organizations require formal plans for the maintenance and restoration of business functions and the information technology that supports them in the event of a disaster. If such plans are not in place, there is a risk that services provided by the organization will be unavailable for an excessive length of time.

4.71 *Business continuity plan* – A business continuity plan assigns a priority to services provided by an organization and outlines a plan to restore those services from the highest to lowest priority in the event of a disaster. This could include moving to a new location, outsourcing services to another organization, or using paper-based processes in place of computer systems. SNSMR has a documented business continuity plan, but the action plans specific to the various business units to restore business services are incomplete.

4.72 *Disaster recovery plan* – We noted that SNSMR has a draft version of a disaster recovery plan and cannot finalize the plan without a service-level agreement with the provincial datacentre, which is managed by the Chief Information Office. SNSMR relies on the datacentre to operate the computers that support its registries and, without a service-level agreement, the Department does not have the documentation that describes the responsibility of each party to resume registry operations in the event of a disaster.

4.73 We also noted that the Chief Information Office does not have a formal, documented disaster recovery plan. Datacentre management indicated that there are informal plans and processes to restore computer systems.

Recommendation 4.22
Service Nova Scotia and Municipal Relations should complete the outstanding items in its business continuity plan, provide training to all relevant employees, and test the plan.

Recommendation 4.23
Service Nova Scotia and Municipal Relations should negotiate system restoration times and services with the Chief Information Office to allow for the completion of its disaster recovery plans.

Recommendation 4.24
The provincial datacentre, which is managed by the Chief Information Office, should document a formal disaster recovery plan for the restoration of its systems in the event of a disaster.

Response: Service Nova Scotia and Municipal Relations

Service Nova Scotia and Municipal Relations (SNSMR) is pleased to provide a response to the Auditor General's review of Registry Systems. We appreciate the extensive work done by the Auditor General's staff to identify areas that can be improved in the management of these registries. This review has provided SNSMR with a number of recommendations that when implemented, will improve registry operations and reduce the risk of unauthorized access to registry information.

SNSMR recognizes the importance of minimizing the risk of unauthorized access to its electronic registries and has put in place extensive measures to protect access to its registries. There is no indiction from either the audit or from the department's experience that any of the deficiencies identified in the review have resulted in any unauthorized access to registries. We generally agree with the report's conclusion that the recommendations for improving information technology controls will require relatively minimal resources to implement. The recommendations are focused on configuration changes to existing systems and additional policies and procedures. SNSMR will be working closely with the CIO to ensure that these recommendations are implemented in a timely manner.

The Auditor General's recommendations for SNSMR are accepted in principle and work has begun to put these in place. We are confident that the implementation of these recommendations will strengthen both the business process and information technology controls for the registries.

Recommendation 4.1
Service Nova Scotia and Municipal Relations should formalize its management monitoring processes and include the requirement to produce and retain evidence of management review of transactions.

SNSMR accepts this recommendation. A formal management review process will be developed and implemented to assess transaction quality. The results of these reviews will be documented and retained according to departmental records management practices.

Recommendation 4.2
Service Nova Scotia and Municipal Relations should ensure there are procedures in place at the Land Registry to meet the monitoring requirements of the Land Registration Act Agreement with the Barristers' Society of Nova Scotia.

SNSMR accepts this recommendation.

Recommendation 4.3
Service Nova Scotia and Municipal Relations should ensure all of the policies

and procedures necessary for the security of its information are current, communicated, and readily accessible to its staff and contractors.

SNSMR accepts this recommendation. All corporate and departmental policies and procedures related to information security and privacy will be made available electronically at a single centralized location.

A communications strategy will also be developed to make staff aware of these policies and procedures.

Recommendation 4.4
Service Nova Scotia and Municipal Relations should formalize its communication with and training of staff on privacy policies and the privacy breach protocol.

SNSMR accepts this recommendation.

Recommendation 4.5
Service Nova Scotia and Municipal Relations should include follow-up procedures as part of its privacy impact assessment approval process to ensure any identified privacy issues are addressed before new systems or system changes are implemented.

SNSMR accepts this recommendation.

Recommendation 4.6
Service Nova Scotia and Municipal Relations should ensure it adheres to the requirements of the Personal Information International Disclosure Protection Act and, specifically, that there is appropriate consent and reporting for all information being sent out of Canada.

SNSMR accepts this recommendation with the following clarification.

With respect to credit card information being sent outside Canada, it has been SNSMR's position that appropriate consent occurs in the agreement between the customer and the credit card issuer. Therefore SNSMR has been in adherence to the requirements of the Personal Information International Disclosure Protection Act. The Canadian Privacy Commissioner's findings for PIIDPA Case #2005-313 for CIBC Visa is seen to support this position.

SNSMR's future PIIDPA reports to the Minister of Justice will now identify credit card transaction information being sent outside Canada.

SNSMR will also publish a notice in its online services informing customers of the possibility that their credit card information may be sent outside of Canada for processing.

RESPONSE: SERVICE NOVA SCOTIA AND MUNICIPAL RELATIONS

Recommendation 4.7
Service Nova Scotia and Municipal Relations should ensure no information is shared before signed agreements are in place.

SNSMR supports this recommendation and will develop a process to ensure that all agreements contain the necessary signatures.

Recommendation 4.8
Service Nova Scotia and Municipal Relations should monitor information sharing agreements on a regular basis to ensure they reflect all applicable standards and legislation and are relevant to current operations.

SNSMR supports this recommendation and will review information sharing agreements on a regular basis, with input from legal counsel, to ensure they reflect all applicable standards and legislation.

Recommendation 4.9
Service Nova Scotia and Municipal Relations should use performance measures and other processes, including independent assurance, to determine if external service providers are meeting service level agreements and information maintained is secure.

The company with which SNSMR has contracted e-commerce services meets on a monthly basis with departmental staff to review performance measures. In addition, a quarterly independent vulnerability assessment is completed as part of their requirement to provide PCI-DSS compliance. SNSMR will request that the company provide a summary of the vulnerability assessment be made available to the department for review.

Recommendation 4.11
Service Nova Scotia and Municipal Relations should regularly review all of its Land Registry accounts to ensure deletion of unnecessary duplicate accounts, deactivation of dormant accounts, and changing of the initial, temporary password.

SNSMR accepts this recommendation and will develop a procedure to regularly review Land Registry accounts.

Recommendation 4.13
Service Nova Scotia and Municipal Relations should review termination listings from its human resources division on a regular basis to verify the removal of network and registry user accounts belonging to terminated employees.

SNSMR accepts this recommendation.

Recommendation 4.14
Service Nova Scotia and Municipal Relations should establish a process to ensure user accounts for external contractors are set to expire after a specified period to ensure contractors no longer have access when they are no longer providing services to the Department.

SNSMR accepts this recommendation.

Recommendation 4.15
Service Nova Scotia and Municipal Relations should ensure there is a process in place that requires the following:

- ***configuration of its systems to include logs and reports of when user accounts were last accessed;***
- ***regular reviews of reports and logs;***
- ***regular reviews of user accounts and associated access privileges for all existing networks, applications, operating systems and databases; and***
- ***procedures to determine if the owner of an account still requires access, or if certain access privileges need modification or termination.***

SNSMR agrees with this recommendation and will work with the CIO to ensure that this process is in place.

SNSMR will also continue to improve its current user account lifecycle management processes to ensure that all network, applications, operating system and database accounts are current and assigned the appropriate privileges.

Recommendation 4.16
Service Nova Scotia and Municipal Relations and the Chief Information Office should develop a process for identifying, reviewing and implementing patches to their software in a timely manner utilizing Information Technology Infrastructure Library best practices.

SNSMR accepts this recommendation. SNSMR has developed an application patch management process and will work closely with the CIO to ensure this process is integrated into their infrastructure patch management process.

Recommendation 4.17
Service Nova Scotia and Municipal Relations should perform a periodic review of system changes to ensure the retention of all required approvals, testing results and other key documentation.

SNSMR accepts this recommendation.

Recommendation 4.18
Service Nova Scotia and Municipal Relations should review all access provided

to programmers to ensure there is not a segregation of duties risk that could allow the programmer to develop and implement code without authorization.

SNSMR accepts this recommendation in principle. SNSMR has implemented a full change management process based on the ITIL framework. The ability to fully implement this recommendation will be dependent on staff levels.

RESPONSE: SERVICE NOVA SCOTIA AND MUNICIPAL RELATIONS

Recommendation 4.19
Service Nova Scotia and Municipal Relations should use industry-standard secure coding techniques and perform security assessments to prevent security risks in its web applications.

SNSMR accepts this recommendation.

SNSMR has conducted security vulnerability assessments on its recent web application implementations, and will develop a process to continue such assessments for new or changed applications in the future. This will be accomplished either through the acquisition of an appropriate suite of assessment tools or through contracting an external service provider to perform the assessments on our behalf.

Recommendation 4.20
Service Nova Scotia and Municipal Relations should develop processes which ensure all required documentation, as outlined in the Department's project management framework, has been produced or obtained for system development projects.

SNSMR accepts this recommendation.

Recommendation 4.21
Service Nova Scotia and Municipal Relations should have formal, documented problem and incident management processes. This should include using help desk software that can identify recorded incidents specific to the Department and provide sufficient reporting to allow for the analysis of such incidents.

SNSMR accepts this recommendation in principle.

SNSMR has had incident management processes in place since 2007.

The ability to fully implement problem management processes may be limited due to the requirement for additional staff resources and/or investments.

Recommendation 4.22
Service Nova Scotia and Municipal Relations should complete the outstanding

items in its business continuity plan, provide training to all relevant employees, and test the plan.

SNSMR accepts this recommendation. SNSMR has a very robust business continuity plan that has been rolled out to management and the remaining staff will receive training and information before December 2010. Part of the ongoing maintenance of the plan will include testing, updating, and continuous improvements.

Recommendation 4.23
Service Nova Scotia and Municipal Relations should negotiate system restoration times and services with the Chief Information Office to allow for the completion of its disaster recovery plans.

SNSMR accepts this recommendation.

Response: Chief Information Office

The Chief Information Office would like to thank the staff of the Auditor General for their courtesy and professionalism while conducting this audit. One of the responsibilities of the Office is to supply infrastructure support services to departments including Service Nova Scotia and Municipal Relations. We are committed to providing quality secure services to our client departments.

RESPONSE: CHIEF INFORMATION OFFICE

The Chief Information Office has recently taken on the support responsibilities from the Corporate Service Units and from Corporate IT Operations for a good deal of government's infrastructure. Much of the efforts to date have been in rationalizing infrastructure and services, simplifying our technical environment and continuously working to evolve and advance our security measures as technology changes.

Currently we are focused on adopting industry recognized ITIL best practices for the processes that support the infrastructure environment as well as working to define standards for technology solutions and applications.

The Auditor General's four recommendations related to the Chief Information Office are accepted in principle. The results of the audit will be forwarded to the appropriate Technology and Information governance committees. The Office, as secretariat support to governance, and as corporate service providers will investigate COBIT and ITIL in order to provide advice in determining next steps.

Financial Reporting

5 Government Financial Reporting

Summary

Financial reporting is a key component of government's accountability framework. Financial reports must be reliable and accurate, and must be provided on a timely basis so that they are relevant.

Our review opinion of the 2010-11 revenue estimates included in the April 6, 2010 Budget Address was again qualified. Third-party revenues were not estimated or included in the revenue estimates and therefore the budget was not prepared on the same basis as the consolidated financial statements. This is a requirement of generally accepted accounting principles (GAAP). We have again recommended these revenues be estimated to ensure compliance with GAAP. We have also recommended that Government implement the recommendations of a consultant's report, which it has accepted, to disclose these third-party revenues in the revenue estimates, for the preparation of the next estimates.

The Minister of Finance tabled the Province's Public Accounts for the year ended March 31, 2010 on July 29, 2010. The Auditor General's opinion on the consolidated financial statements included in the Public Accounts was unqualified. In October 2010, we provided a management letter to the Minister of Finance with detailed audit findings and recommendations. Our quantitative findings were neither individually nor cumulatively significant enough to affect the audit opinion; however, all findings impact the integrity of the financial statements. We noted Government has made progress in documenting its internal controls and is continuing this process.

The Province has a new Finance Act, effective August 1, 2010. Although the Province's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles for the public sector, the new Finance Act does not prescribe the accounting principles to be adopted by the Province. We feel that sound financial reporting would be strengthened by inclusion of a requirement in the Finance Act to comply with generally accepted accounting principles.

The March 31, 2010 consolidated financial statements include a $132.6 million provision for the cost of remediation of the Sydney Steel Corporation (SYSCO) and adjacent sites. Last year, we noted that a critical step in updating the estimate of the provision would be an independent analysis of the costs necessary to complete the remediation of the sites. At the time of our audit for the March 31, 2010 year end, the terms of reference for this analysis had been prepared and discussions with the consultant had commenced. We have again recommended this analysis be completed on a timely basis and that the balance of the provision be adjusted to reflect this estimate.

5 Government Financial Reporting

Background

5.1 Government financial reporting serves many purposes and is provided to stakeholders in various forms. Reports may be prepared to meet the needs of specific users, such as credit rating agencies and lenders. Individual entities may produce reports, such as annual reports, to demonstrate how they have complied with legislation throughout the year, and to measure and report on their financial condition and on the performance of funds, programs and activities. Financial reports prepared by government are intended to provide information on past or future activities to a variety of users for numerous reasons.

5.2 Financial reports are a means through which government fulfils its accountability responsibilities regarding the use of public funds and demonstrates its stewardship over those funds. Financial reports assist us in evaluating operating results and assessing the level of services the government provides. These financial reports must therefore be relevant, reliable, understandable and released on a timely basis if they are to be used to hold government fiscally accountable.

5.3 The Provincial Finance Act details the financial reporting cycle of the Province, from budget to actual results. The Act prescribes detailed financial reporting requirements as annual estimates (budget), regular forecast updates, and tabling of the Public Accounts (actual financial results). These annual reporting requirements are part of the government's accountability framework and contribute to oversight and the effective and efficient use of resources.

Budgets

5.4 Government uses the budget process to inform stakeholders of its fiscal plan and priorities for the upcoming year. The budget is a key policy document and, in Nova Scotia, forms the basis for the legal authority to spend throughout the year through the voting and approval of the Appropriations Act.

5.5 The budget is a critical component of government accountability against which forecast updates and actual performance are compared. Since the provincial government manages billions of dollars of public funds each year, the budget process is essential to effective fiscal management.

Forecasts

5.6 Forecasts provide a comparison of activity to date to the approved budget for the year, and update the estimate of the surplus or deficit for the year based on results to date.

5.7 Forecast updates are an important element of accountability. They enhance transparency by providing current information on the government's financial situation, and contribute to effective management of public funds. In order to be an effective accountability tool and to provide appropriate information for decision making purposes and resource allocation, forecast updates must be prepared with due diligence and adequate oversight.

Public Accounts

5.8 Financial statements are the final component in the financial reporting cycle. The Canadian Institute of Chartered Accountants' (CICA) Public Sector Accounting Board (PSAB) notes that *"They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. [They]... are a principal means of communicating financial information to those not involved in the government's financial administration."*

5.9 The Province's annual Public Accounts are prepared by the Controller on behalf of the Minister and Deputy Minister of Finance. The Provincial Finance Act required the Public Accounts to be tabled by September 30 each year.

5.10 The Public Accounts include Financial Statement Discussion and Analysis (FSD&A), which is a recommended practice by PSAB, and the audited consolidated financial statements (CFS) of the government. The FSD&A provides comparative financial highlights of the CFS and information on certain financial indicators. The CFS provide audited financial information for two years as well as comparison of budget to actual results. As the budget reflects the plan approved by the House, the comparison of budget to actual enhances transparency. The information provided in the Public Accounts can be used for a variety of purposes, including:

- to evaluate the government's performance for the year as compared to budget and prior year; and
- to form the basis of analyzing government's financial performance and condition.

5.11 The release of the Public Accounts is a key component in the accountability framework of the government, comparing actual results for the year

against the approved budget, and providing important information to all stakeholders, including taxpayers and members of the House of Assembly.

Chapter Objective

5.12 The objective of this Chapter is to provide summary comments and recommendations on government financial reporting, specifically:

- the results of our review of the revenue estimates included in the April 6, 2010 budget address;
- information resulting from our audit of the Province's March 31, 2010 consolidated financial statements; and
- other financial reporting matters.

5.13 During the year, the Provincial Finance Act was repealed. The new Finance Act was proclaimed and was in effect on and after August 1, 2010. Throughout this Chapter, we will refer to legislation under the Provincial Finance Act as that was in effect during the period of our review and audit, except where the new Finance Act is specifically referenced.

Significant Observations

Review of 2010-11 Revenue Estimates

5.14 *Background* – Under Section 9B of the Auditor General Act, the Auditor General is required to provide an opinion on the reasonableness of the revenue estimates included in the budget tabled with the House of Assembly. The Auditor General's opinion on the 2010-11 revenue estimates was tabled in the House of Assembly on April 6, 2010 along with the Government's budget documents.

5.15 *Results of review* – The opinion on the revenue estimates indicates whether:

- at the date of the opinion (April 3, 2010), the assumptions used by departmental management are suitably supported and consistent with the plans of the government, as described by management, and provide a reasonable basis for the 2010-11 revenue estimates;
- the 2010-11 revenue estimates fairly reflect these assumptions; and
- the 2010-11 revenue estimates comply with the presentation and disclosure standards of the CICA.

5.16 Consistent with prior years, the opinion on the 2010-11 revenue estimates was qualified with respect to the CICA's presentation and disclosure standards. Specifically, the opinion was qualified for two reasons as discussed in the following paragraphs.

5.17 *Presentation of revenue estimates* – There was a reservation of opinion because revenues of certain government units were excluded from the revenue estimates. These revenues relate primarily to the Departments of Health (district health authorities) and Education (school boards). Canadian generally accepted accounting principles require the budget to be prepared using the same accounting principles as the historical financial statements against which they will be compared – in this case, the Province's consolidated financial statements. Therefore, revenues of these government units are to be reported as separate line items in the Province's revenue estimates because they are reported, on a consolidated basis, as separate line items in the consolidated financial statements.

5.18 In addition, the estimates for these revenues, which include third-party revenues such as ancillary operations in health authorities or municipal funding in school boards, are included elsewhere in the budget as an offset to related expenses for these government units and are therefore presented on a net basis. This presentation is not consistent with CICA standards which require that the revenue estimates be presented on the same gross basis as the consolidated financial statements. Since these revenues are excluded, the related departmental budgets are not complete. This means all revenues and expenditures of the departments are not subject to review and challenge in the budget process.

5.19 *Supporting information* – Management does not have support for these third-party revenues and consequently, there is a scope limitation on our review of the revenue estimates. We were unable to perform a review of these third-party revenues, which would include determining their nature and amount.

5.20 In each of the past several years we have recommended that the revenue estimates include all revenues of the consolidated entity so that the revenue estimates comply with Canadian generally accepted accounting principles. This was never intended as a recommendation to revise the way in which the government prepares its budget for operating purposes. Rather, it is a recommendation made for the sole purpose of advising that the presentation of the revenue estimates included in the annual budget should be on a gross basis to ensure consistency with the consolidated financial statements of the Province.

Recommendation 5.1
The Department of Finance should include estimates of all revenues of the consolidated entity in the Provincial budget, including all agencies' third-party revenues, to ensure the budget is prepared and presented fully in accordance with Canadian generally accepted accounting principles.

5.21 The above recommendation is consistent with that provided by a Government-hired consultant whose objectives included recommending an approach to resolving the qualification on future revenue estimates. The consultant, Deloitte LLP, released its report in November 2009 and recommended that a schedule of all revenues be prepared for inclusion in the budget documentation. The Government accepted all the recommendations of the consultant's report but has taken no steps to implement this recommendation.

Recommendation 5.2
The Department of Finance should implement the recommendations of the Deloitte LLP report, previously accepted by the Government, to disclose agencies' third-party gross revenues in the revenue estimates, for the preparation of the next estimates.

5.22 The qualified opinion on the 2010-11 revenue estimates is indicative of deficiencies in the budget process as it relates both to completeness of revenues at specific departments (Health and Education as discussed above) and also accountability to the Department of Finance, which has overall responsibility through the Minister and Deputy Minister, as per the Provincial Finance Act, to examine and compile the annual estimates, including the budgeted revenue figures.

5.23 There are challenges to estimating third-party revenues of these entities. However, we emphasize the need to recognize these revenues in the budget and therefore, we have recommended that future revenue estimates include these amounts. The assumptions and calculations used to determine these revenues should be provided to the Department of Finance.

5.24 To effectively carry out its budget mandate, the Department of Finance must be able to hold all department management accountable for the timely preparation and presentation of budget information. No changes to this aspect of the budget development protocols were undertaken in the current year despite this Office's previous recommendations and, as a result, we encountered many of the same issues found in 2009-10 when reporting on the 2010-11 estimates.

5.25 The duties of the Deputy Minister of Finance, as described in Section 11 (3) of the Provincial Finance Act (effective to July 31, 2010; Section 12(3) of

the new Finance Act (effective August 1, 2010)), provide the authority for the Deputy Minister to compel departments to provide necessary support, on a timely basis, for completion of the revenue estimates. This authority should be exercised in the preparation of future revenue estimates.

Recommendation 5.3
The Department of Finance should obtain all necessary information from departments to prepare the revenue estimates, including estimates of third-party revenues of government units, in accordance with generally accepted accounting principles.

5.26 *Economic forecasting model* – In the preparation of the 2010-11 revenue estimates, material adjustments were made to the Provincial forecasting model for the impact of the Government of Nova Scotia Economic Stimulus Package. It was difficult to review changes made to economic assumptions due to incomplete management and audit trails supporting such adjustments. Adequate documentation would ensure there is support to facilitate independent review and approval of changes to the model.

Recommendation 5.4
The Economic and Statistics Division of the Department of Finance should ensure key economic assumptions are supported appropriately and that clearly documented management and audit trails of adjustments are maintained.

5.27 *Petroleum royalties* – The management review and challenge of the assumptions used in the royalties models is informal, as is the approval of the resulting estimated revenue. Controls would be improved if there was an independent check on the inputs to the models used to estimate this revenue to ensure no errors were made. Controls would be further improved if there were support for management's assessment that changes in certain market data have a negligible impact on the forecast.

Recommendation 5.5
The Department of Finance should implement a process for a formal and documented review and challenge of the assumptions used in the preparation of the petroleum royalties estimate.

Audit of the March 31, 2010 Consolidated Financial Statements

Introduction

5.28 The Province's consolidated financial statements (CFS) are included in Volume 1 of the Public Accounts. The Auditor General is required to report

annually to the House on these financial statements, under Section 9(1) of the Auditor General Act.

5.29 The Minister of Finance tabled Volume 1 of the Public Accounts on July 29, 2010. An unqualified audit opinion dated June 30, 2010 was issued on the March 31, 2010 consolidated financial statements.

5.30 A management letter including detailed audit findings, recommendations and other comments was provided to the Minister in October 2010. The unqualified audit opinion on the CFS indicates that there were no quantitative findings, either individually or cumulatively, which were significant enough to impact our opinion. However, the management letter included several recommendations for improvements to be implemented by the Department of Finance. We discuss the key findings and recommendations in the following paragraphs, under these headings:

- required communication of audit results;
- systems and controls;
- audit misstatements and accounting policies;
- general ledger maintenance and other reportable matters;
- audit completion; and
- accounting and auditing standards.

Required communication of audit results

5.31 *Responsibility for the consolidated financial statements* – The preparation of the consolidated financial statements in accordance with Canadian generally accepted accounting principles for the public sector is the responsibility of the Department of Finance's Government Accounting Division. Government management is also responsible for the maintenance of adequate accounting records and internal controls; prevention and detection of fraud and errors; safeguarding of assets; selection and application of suitable accounting policies; and appropriate disclosure of financial information in the financial statements.

5.32 Our Office is the legislated auditor of these financial statements. Audit standards require that we report the following information.

- We plan and perform our audit procedures to provide reasonable, but not absolute, assurance of detecting fraud and errors that have a material effect on the financial statements.
- Based on our audit, we concluded the consolidated financial statements presented fairly, in all material respects, the financial

position of the Province as at March 31, 2010, and the results of its operations, changes in net direct debt and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles for the public sector.

- We reviewed, but did not audit, the information in the Financial Statement Discussion and Analysis (FSD&A) section of Volume 1 of the March 31, 2010 Public Accounts. We did not find any inconsistencies between the information in the FSD&A and the information in the consolidated financial statements.

- At the conclusion of this year's audit, there were no significant outstanding concerns with the estimated accounting balances used in preparing the March 31, 2010 consolidated financial statements, including those estimates that are particularly sensitive to differing future actual results.

5.33 In September 2010, subsequent to the release of the CFS, senior Department of Finance staff brought to our attention an error in the audited consolidated financial statements. The error resulted in personal income tax (PIT) revenue being overstated by $87.7 million (including related prior year adjustments) for the year ended March 31, 2010. The error was discovered by Department of Finance staff during the September 2010 forecast update on the 2010-11 budget. We were provided details on the error and the full impact on financial reporting. Management further advised that comparative figures which will be included in the 2010-11 Public Accounts will be adjusted to reflect adjusted PIT revenue for 2009-10. We commend management for promptly addressing this issue in an open and transparent manner.

Systems and controls

5.34 *Responsibility of the auditor* – As part of our audit, internal controls were studied and evaluated to the extent considered necessary under Canadian generally accepted auditing standards. We did not determine whether internal controls are adequate for management's purposes. Our audit will not necessarily disclose all deficiencies requiring attention by management. In addition, we have placed reliance on the audit work of public accounting firms appointed to report on the financial statements of agencies included in the consolidated entity. Chapter 7 in this Report includes information and commentary on selected weaknesses in internal controls, and other deficiencies, which were reported to those entities by their auditors.

5.35 *Responsibility for internal control* – Roles and responsibilities concerning internal controls are delegated throughout government. While the Provincial Finance Act included general references to the roles and responsibilities of

the Minister and Deputy Minister in this regard, additional guidance needs to be developed, and effectively communicated on a more comprehensive basis. This would include the roles and responsibilities of departmental and crown entity governing bodies and senior management in the design, implementation, operation and maintenance of internal controls. We had commented on the need for action in this area in our Reports as early as 2003 continuing through to Chapter 5 (Government Financial Reporting) of the February 2010 Report of the Auditor General.

GOVERNMENT FINANCIAL REPORTING

5.36 Government has begun the process of identifying internal controls related to financial reporting. The first phase of this project has been completed and a report has been issued by the Department of Finance. This phase of the project focused on entity-level controls. The assessment of these was completed by management with the assistance of contracted expertise. The report identifies internal control objectives, key controls, control tests and results of these tests. These results indicate whether the key control is effective or ineffective. The report notes that the controls assessed as being ineffective were not materially significant and that remediation actions have been identified. We noted that documentation supporting the assessment of deficiencies was inadequate and suggest such documentation be stronger in future reports on controls.

5.37 We acknowledge management's efforts in this project. The report completes the first phase of the Government's project to support the annual certification requirement by management on the consolidated financial statements, and to address recommendations related to the documentation and communication of internal controls made by this Office in prior years. However, because the annual certification by management relates to a system of internal controls for the consolidated financial statements, and not just the Consolidated Fund (i.e., the Fund that includes the results of departmental activities), our prior recommendations on internal controls over financial reporting on a government-wide basis still need to be implemented.

Recommendation 5.6
Management should complete the review and documentation of internal controls for the consolidated financial statements and include the documentation in the Corporate Policy Manuals.

Recommendation 5.7
Management should assign roles and responsibilities for the design, implementation, operation and maintenance of internal controls as part of the documentation of internal controls.

5.38 Management's response to similar recommendations resulting from our March 31, 2009 audit noted that the internal control project will become more robust over time.

5.39 As noted in paragraph 5.33, a significant error was included in the CFS for year-end March 31, 2010. In addressing the error during the September 2010 forecast update for the 2010-11 fiscal year, management discussed the ongoing project with respect to internal controls over financial reporting and advised that evaluating the existing controls over revenue would be given priority. We are pleased with management's commitment to identifying and evaluating weaknesses in its controls over revenue in order to mitigate the risk of significant revenue errors in future financial reports. As part of the audit of the CFS, we will continue to monitor management's progress in implementing the above recommendations.

5.40 *Seniors' Pharmacare Program* – The Seniors' Pharmacare Program is administered on behalf of the Province by a third-party service provider. Seniors pay a premium during the year and also make a copayment on each prescription filled. The net cost to the Province for the Program is $137.9 million.

5.41 The Province relies on the service provider's computer system to adjudicate pharmacy claims and determine the amount of copayment to collect on each prescription and the amount to be paid by the Program. Copayment revenue is recorded by the Department of Health based on a report the Department generates from this system. The amount is assessed for reasonableness but is otherwise not verified by the Department.

5.42 Copayment revenue is a key component in determining the total cost of the Program and therefore in determining premiums to charge seniors. The Department of Health should assess the processes in place to ensure the accuracy and completeness of the copayment revenue. We understand other insured services are subject to internal audit activities at the service provider and suggest the Department should consider requesting copayment information produced by the computer system be subject to internal audit as well.

Recommendation 5.8
The Department of Health should develop and implement controls that would ensure the accuracy and completeness of revenues and expenses of the Seniors' Pharmacare Program.

5.43 *Reconciliations* – Reconciliations are an important control process that ensure the government's general ledger agrees with reports provided by third parties. Regular reconciliations also ensure the general ledger

reflects current results. Without regular reconciliations, there is a risk that management is making decisions based on incorrect information.

5.44 Certain of the government's revenues are determined annually through the use of revenue models. Reconciliations of those model-determined revenues to the related accounts receivable or accounts payable should be performed at least on an annual basis. Outstanding amounts related to taxation years that have been finalized by the Canada Revenue Agency will be neither collected nor received, and should be adjusted to income. During the March 31, 2010 audit, we analyzed the accounts receivable and accounts payable of certain model-determined revenues and concluded there were amounts that should have been adjusted. Regular reconciliations would have more promptly identified these adjustments.

Recommendation 5.9
The Department of Finance's Taxation and Fiscal Policy Division should perform regular reconciliations of model-determined revenues and related accounts receivable or payable. Outstanding amounts related to closed years should be adjusted to income.

5.45 *Payroll termination processes* – We updated our system description for payroll and noted that the termination process does not include formal documentation to remove access for terminated individuals from certain government systems, including the Province's general ledger system (SAP), and that each department has its own process for eventually addressing access removal.

5.46 One of the risks of unauthorized access to SAP is that it increases the possibility of inaccurate financial reporting. There should be a process to ensure access to SAP of individuals no longer employed by the Province is removed immediately as part of the termination process. This process should be formalized to be consistently applied throughout government. Department of Finance staff have indicated procedures to address this deficiency have been established since it was identified during the audit.

Recommendation 5.10
The Department of Finance's Payroll Division should ensure the process to terminate employees includes removal of access to SAP.

Audit misstatements and accounting policies

5.47 *Accounting errors* – As noted above, we issued an unqualified opinion on the March 31, 2010 consolidated financial statements. In forming this opinion, we considered any unresolved, unadjusted errors or differences in determining whether the statements were presented fairly in accordance

with GAAP. Management has represented, and we have concluded, there were no errors or differences that would, individually or collectively, materially affect the Province's reported financial position, results of operations, changes in net direct debt or cash flows.

5.48 Generally accepted auditing standards require that all non-trivial, known errors identified in the Province's consolidated financial statements during the year-end accounting or audit processes be corrected, and this is not being done. These errors should be corrected to enhance the accuracy of the financial statements. We have commented on this in past years and again recommend that action be taken to correct identified errors.

Recommendation 5.11
The Department of Finance's Government Accounting Division should ensure all non-trivial, known errors identified during the audit are corrected.

5.49 *Other matters* – Additionally, there were a number of other accounting, disclosure and audit issues which arose and were communicated to government staff at various points in the audit process. Some of these issues were resolved either by review of additional information provided to us or by adjustments to the financial statements.

5.50 *Significant accounting policies* – Our management letter resulting from the March 31, 2010 audit identified certain areas in which improvements to the consolidated financial statements were needed to ensure full compliance with GAAP. We expect these matters to be resolved during next year's audit. We made a recommendation, as noted below, with respect to one matter related to Tangible Capital Assets.

5.51 In each of the past several years, we have noted our concern over the high level of thresholds used by government for capitalizing certain classes of Tangible Capital Assets. We are especially concerned with the threshold related to roads, bridges and highways. We contacted staff in several other legislative audit offices to determine the threshold for these asset classes in their respective jurisdictions. The highest threshold in any jurisdiction we contacted was $100,000, considerably lower than the $500,000 threshold used in Nova Scotia.

Recommendation 5.12
The Department of Finance's Government Accounting Division should lower the threshold for capitalizing roads, bridges and highways from $500,000 to a level more consistent with common practice.

General ledger maintenance and other reportable matters

5.52 *Business areas in the general ledger* – The Province's general ledger is divided into business areas, each of which is used to record transactions related to a department or other entity such as special operating agencies of government (Sydney Tar Ponds Agency, for example). The general ledger also includes business areas used to record transactions for operations that are not part of the government reporting entity, and for recording transactions of other entities which use the Province's bank accounts rather than establishing their own bank account.

5.53 During the audit, we prepare an analysis of these business areas to ensure balances are appropriately reflected in the CFS. In each of the last three years, errors were noted in the consolidation process of these business areas. This further supports the recommendation we have made in the past that the Government Accounting Division should determine if it is appropriate for the Province's general ledger to include business areas of stand-alone entities or to include business areas to record transactions for operations which are not part of the government reporting entity. Any business areas considered inappropriate should be removed from the general ledger.

Recommendation 5.13
The Department of Finance's Government Accounting Division should remove all inappropriate business areas and any entities which are not part of the consolidated entity from the general ledger.

5.54 *Contractual obligations* – We continue to receive inaccurate information from departments on contractual obligations. This year the information provided to us to support the balance of contractual obligations disclosed in the CFS had errors totalling $30.6 million. These errors were corrected.

5.55 We acknowledge the amounts included in Note 12 to the CFS do not impact the operating results or accumulated deficits of the Province. However, these contractual obligations represent significant future expenditures of the Province and provide useful information for assessing program costs. The information provided to Government Accounting and to this Office as part of our audit requirements should be accurate.

Recommendation 5.14
The Department of Finance's Government Accounting Division should instruct departments on the identification and disclosure requirements related to determining the amount of contractual obligations at year end.

5.56 *Up-to-date revenue models* – Tax revenues included in the consolidated financial statements are point-in-time estimates calculated through revenue

models. A model is also used to determine royalty revenue. These models, which consider provincial and global economic circumstances as appropriate, and actual payments received during the year for each revenue stream, are also used to forecast revenues during the year.

5.57 The March 31, 2009 Public Accounts were released on September 10, 2009. The royalty revenue included in the CFS was based on a model prepared in June 2009. Significant tax revenues, including corporate and personal income tax, and harmonized sales tax, were based on models dated prior to June 2009. No further update was provided to us as part of the audit.

5.58 Subsequent to our audit and the release of the Public Accounts, the 2009-10 Budget was released in late September 2009. An updated royalty model was prepared for the Budget and a $14.5 million decrease to prior year revenues (i.e., 2008-09) was recognized at that time. Updated tax revenue models were also prepared for the Budget. Our preliminary assessment of the update for the personal income tax (PIT) model indicates forecasted PIT revenues for 2008-09 declined by approximately $27 million. All adjustments to prior year revenues are recorded in the current year and therefore these decreases impacted 2009-10 results.

5.59 The Province's CFS should reflect the most current information. Government Accounting should ensure updates to models used to forecast revenues are provided for the audit within a reasonable timeframe prior to the release of the statements. This reduces the risk of necessary adjustments being deferred to a subsequent year.

Recommendation 5.15
The Department of Finance's Government Accounting Division should ensure updated revenue models are prepared for the audit of the consolidated financial statements.

5.60 *Presentation of gross unmatured debt and sinking fund assets* – Schedule 4 of the consolidated financial statements includes details of gross debt and sinking fund assets. The net amount of unmatured debt on this Schedule agrees to the Consolidated Statement of Financial Position.

5.61 The narrative accompanying the Schedule notes that of the $2.2 billion in sinking fund assets held at March 31, 2010, $1.0 billion of this amount is an investment in the Province's own debentures. Consequently, the amount of both gross debt and sinking fund assets shown in Schedule 4 is overstated by $1.0 billion since this debt is not owed to any third-party entity. This presentation does not accurately disclose the gross amount of outstanding debt and related sinking fund assets and should be corrected.

5.62 We understand there is rationale for not formally cancelling this debt, including legal and other fees. We suggest the Department of Finance explore the process to cancel this debt.

Recommendation 5.16
The Department of Finance should revise Schedule 4 of the consolidated financial statements to disclose the gross debt and sinking fund assets of the consolidated entity.

Audit completion

5.63 *Timing of release* – The consolidated financial statements were issued on July 29, 2010, well in advance of the legislated requirement of September 30. Our audit opinion was dated June 30, 2010. The audit deadline was met through cooperation from departments and other entities included in the consolidated financial results of the Province.

5.64 *Difficulties encountered performing audit* – Each year, a schedule of audit deliverables, including the due date, is provided to departments. For the most part, the audit working papers and other documentation we requested from departments were received as requested and in a timely manner. However, we encountered significant delays in receiving requested support from Treasury Board for certain expenses as well as from the Department of Finance's Taxation and Fiscal Policy Division for model-determined revenue.

5.65 The target for the release of the Public Accounts results in tight deadlines and our resources are scheduled based on the due dates included in the schedule of audit deliverables. This Office requires receipt of accurate information by the due date. It is evident, based on delays encountered this year and last year, that processes must be developed to ensure the accuracy and timeliness of audit support being provided to this Office.

Recommendation 5.17
The Department of Finance's Government Accounting Division should monitor the progress of departments, including significant divisions within departments, in providing information to the Office of the Auditor General, as detailed in the schedule of audit deliverables for the consolidated financial statement audit.

Accounting and auditing standards

5.66 *New accounting standards* – There are new accounting pronouncements and some in process that will have an impact on the government's future financial reporting. Some of the more significant issues on which the Public Sector Accounting Board (PSAB) has recently released final or revised

pronouncements or is developing new or revised pronouncements, or issuing statements of principle, include tax revenue, government transfers and financial instruments.

5.67 New formal recommendations or guidance in such areas could require changes to government's financial reporting in the future. The nature and impact of required or planned accounting changes should be disclosed 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.

5.68 In addition, there are accounting topics which will impact those crown corporations and agencies that determine adoption of PSAB is appropriate for their organizations, including first-time adoption of this accounting framework.

5.69 As well, the move to international accounting standards is fast approaching. Publicly accountable enterprises in Canada, which include government business enterprises, are to adopt International Financial Reporting Standards starting for fiscal years beginning on or after January 1, 2011. Other government organizations will need to determine which GAAP is appropriate based on the guidance provided by PSAB.

5.70 Numerous entities within the government reporting entity have independent boards of directors or other oversight bodies to assist in the decision as to the appropriate accounting framework. However, each entity in which there is discretion over the selection of an accounting framework should ultimately reflect the financial reporting objectives of government. Government Accounting and/or the Deputy Minister of Finance should provide guidance to entities to determine appropriate accounting standards.

Recommendation 5.18
The Government Accounting Division should initiate appropriate measures to ensure that all organizations forming part of the government reporting entity adopt the appropriate GAAP based on the amendment to the Public Sector Accounting Handbook.

5.71 *New auditing standards* – The Canadian Auditing and Assurance Standards Board is adopting International Standards on Auditing as Canadian Auditing Standards (CAS) for the audits of financial statements for periods ending on or after December 14, 2010. As a result, the audit of the CFS for the year ended March 31, 2011 will be conducted under CAS rather than the existing standards. We anticipate changes in our audit approach including increased involvement in the independent audits of significant agencies included in the consolidated financial statements.

Other Financial Reporting Matters

Introduction

5.72 During the audit of the consolidated financial statements and throughout the rest of the year, we became aware of other financial reporting matters for inclusion in this Chapter. We provide details of each of these under the following headings.

- Variance explanations
- Additional appropriations
- Accounting principles
- Provision for remediation
- Audit of governance and control framework
- Special warrants
- Cash and other losses

Variance explanations

5.73 Government has provided explanations for certain variances that resulted in a reduced deficit by comparing the budget estimate and actual results for the Consolidated Fund in the Financial Statement Discussion and Analysis included in the Public Accounts.

5.74 On consolidation, departmental results vary significantly from pre-consolidation results in several departments. The budget, which is prepared on a non-consolidated basis as noted previously in this Chapter, is adjusted during the preparation of the consolidated financial statements for revenues and expenses of government agencies, in order to provide comparative amounts. However, there are insufficient variance explanations relating to consolidated results.

5.75 The following table provides a comparison of results of certain departmental expenses before and after consolidation.

Department	Budget per 2009-10 Estimates (000's)	Consolidated Budget (000's)	Actual Expenses (000's)	Variance per Consolidated Financial Statements (Under) Over Budget (000's)
Community Services	$ 945,813	$1,020,009	$ 941,186	($78,823)
Education	$1,285,147	$1,614,084	$1,654,183	$40,099
Health	$3,422,276	$3,530,898	$3,557,162	$26,264
Total of above departments	$5,653,236	$6,164,991	$6,152,531	($12,460)
Total expenses	$8,115,994	$9,663,362	$9,511,589	$151,773
% of Total expenses	69.7%	63.8%	64.7%	

5.76 Users of the consolidated financial statements cannot determine from the Public Accounts why actual expenses in the above departments vary from the consolidated budget. It is not possible to identify whether budget variances are due to changes in programs delivered through government agencies such as school boards and health authorities. It is also not possible to evaluate whether variances resulting in the current year will impact program delivery in subsequent years.

5.77 Variance explanations assist users in evaluating results. These explanations also support government's stewardship over resources, and enhance transparency. Expanding the variance explanations in the Financial Statement Discussion and Analysis to discuss significant variances in consolidated results would increase the usefulness of the Public Accounts in evaluating performance.

Recommendation 5.19
The Department of Finance should consider expanding the Financial Statement Discussion and Analysis to include variance analysis of actual consolidated results to the consolidated budget.

Additional appropriations

5.78 *Required reporting* – We are required under Section 9 of the Auditor General Act to report on any appropriations that were exceeded during the year. Subsequent to year end, Executive Council approved additional appropriations of $23.8 million via Order-in-Council 2010-292.

5.79 *Significance of additional appropriations* – In total, additional appropriations of $23.8 million were approved for the year ended March 31, 2010. This is significantly less than any amount approved since 2005-06. The following exhibit notes total additional appropriations in each of the last five years.

Additional Appropriations

(in millions of dollars)

Year	Surplus/(Deficit)	Additional Appropriations
2009-10	($242)	$24
2008-09	$26	$408
2007-08	$419	$385
2006-07	$182	$222
2005-06	$239	$111

Source: Public Accounts, Volume 1

5.80 The most significant source of additional appropriations in 2007-08 and 2008-09 related to Assistance to Universities - $165.8 million and $256 million respectively. These additional appropriations resulted from the decision to advance funding to the universities a year earlier than scheduled per the Memorandum of Understanding between the Province and these institutions. This practice was ended in 2009-10.

Accounting principles

5.81 As Government policy, the Province's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles for the public sector. Those standards provide guidance for accounting in the public sector and define generally accepted accounting principles for public sector organizations. Adherence to generally accepted accounting principles ensures both comparability with other jurisdictions and consistent treatment of similar transactions. It also promotes transparency and confidence in financial reporting results.

5.82 The Provincial Finance Act did not prescribe the accounting principles to be adopted by the Province. The new Finance Act is also silent on this issue. We feel that sound financial reporting would be strengthened by the inclusion of a requirement in the Finance Act to comply with generally accepted accounting principles.

Provision for remediation

5.83 The consolidated statement of financial position includes a $132.6 million provision for the remediation cost of the Sydney Steel Corporation (SYSCO) and adjacent sites, including the Sydney Tar Ponds Agency (STPA). At the start of last year's audit, we were provided with an internal report prepared by senior management of the Sydney Tar Ponds Agency to support the reduced general ledger balance recorded at that time. The report explained the need to reduce the provision at December 2008 to reflect only those future costs required to complete the project. During the audit, the

reduction in the provision was reversed and the previous balance of the provision reinstated.

5.84 Last year, we noted that a critical step in updating the estimate of the provision would be an independent analysis of the costs necessary to complete the remediation of Sydney Steel Corporation and related sites. Management advised the analysis should commence in 2009-10 and the provision would be adjusted accordingly upon completion and acceptance of the costing.

5.85 During the 2009-10 audit, we were advised by management that a Terms of Reference has been prepared for this analysis, and that a proposal has been received and negotiations with the consultant were underway. Given the significance of the amounts related to this provision, we have repeated our recommendation that this analysis be completed on a timely basis.

Recommendation 5.20
The Department of Transportation and Infrastructure Renewal should ensure an independent analysis of the costs necessary to complete the remediation project of Sydney Steel Corporation and adjacent sites is conducted. The balance of the provision should be adjusted to reflect this estimate.

Audit of governance and control framework

5.86 An audit of the governance and control framework of the Investment Management, Liability Management and Treasury Services, and the Capital Markets Administration Divisions of the Department of Finance was conducted by an external audit firm and completed in 2004. The resulting report, issued in December 2004, identified several control weaknesses which resulted in a denial of opinion.

5.87 Substantial short-term investment activity is conducted through the Liability Management and Treasury Services Division. In addition, this Division and the Capital Markets Administration Division are responsible for the Province's $13.3 billion in unmatured debt, approximately $5 billion in derivative instruments, and $2 billion in sinking fund assets. The transactions processed by these divisions are significant and complex.

5.88 In 2007, the Internal Audit Centre conducted a follow-up to the 2004 audit of these Divisions. The objective of that engagement was to determine whether the recommendations of the 2004 audit had been implemented, or, if not implemented, that strategies had been developed to mitigate related risks. The results of the follow-up note that one significant issue from the 2004 audit was resolved through the establishment of a separate function (a middle office) to ensure that investment and debt management activities

comply with legislation and Department of Finance policies. In addition, an Executive Director of Liability Management and Treasury Services was appointed subsequent to the 2004 audit. The oversight provided by this new position is a positive addition to the governance structure.

5.89 We have repeatedly recommended an audit by an external, experienced private sector firm be conducted to obtain an unqualified audit opinion on the governance and control framework of these divisions. This has not occurred. Consequently, it is our intention to conduct this audit ourselves within the next two years.

Special warrants

5.90 *Required reporting* – Section 9A of the Auditor General Act requires that we report whether any special warrants have been issued. A special warrant is required under Section 29 of the Provincial Finance Act for expenses that have not been provided for by the Legislature and are immediately and urgently required for the public good. No special warrants were issued since our last Report.

Cash and other losses

5.91 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."*

5.92 There is no longer a requirement in the Corporate Policy Manuals for departments and crown entities to report losses to this Office. However, during the year, the Department of Justice reported cash losses totalling $2,481 and the theft of an LCD Projector. We appreciate receipt of this information.

Response: Department of Finance

Thank you for the opportunity to review and respond to the draft of Chapter 5 "Government Financial Reporting" in your November 2010 report. We offer the following comments, which may be included in your report as the response of the Department of Finance.

Review of 2010-11 Estimates

Recommendation 5.1
The Department of Finance should include estimates of all revenues of the consolidated entity in the Provincial budget, including all agencies' third-party revenues, to ensure the budget is prepared and presented fully in accordance with Canadian generally accepted accounting principles.

Management recognizes that the annual Estimate includes revenue for only the Consolidated Fund and not all revenues of the Government Reporting Entity. The inclusion of all revenues, and the associated offsetting expenses in the annual budget, would require changes in the provincial budgeting process and additional resources to coordinate this additional information. Management does not feel the benefits provided by this recommendation warrant the resources required to implement this change at this time.

It is important for readers to understand that the Public Sector Accounting Handbook does not include presentation or disclosure standards for budgeting. The underlying accounting policies in the annual budget are consistent and in accordance with GAAP. An Estimate reconciliation to the presentation format of the actual results is included in the Public Accounts.

Recommendation 5.2
The Department of Finance should implement the recommendations of the Deloitte LLP report, previously accepted by the Government, to disclose agencies' third-party gross revenues in the revenue estimates, for the preparation of the next estimates.

Phase two of the Deloitte Report was provided to the Government in November 2009. Upon receipt of that report, the Minister of Finance stated that "… government will consider the options presented as it moves forward with the next budget." The recommendations are still under consideration.

Recommendation 5.3
The Department of Finance should obtain all necessary information from departments to prepare the revenue estimates, including estimates of third-party revenues of government units, in accordance with generally accepted accounting principles.

RESPONSE: DEPARTMENT OF FINANCE

The inclusion of third party revenues is not so much a matter of having, or using, authority provided to the Department of Finance under the Finance Act. As stated in our response to recommendation 5.1, management does not feel the benefits provided by this recommendation warrant the resources required to implement this change at this time.

Recommendation 5.4
The Economic and Statistics Division of the Department of Finance should ensure key economic assumptions are supported appropriately and that clearly documented management and audit trails of adjustments are maintained.

The Economics & Statistics Division prepared process documentation on material changes made to the forecast to accommodate planned increases in government infrastructure spending. The process documentation included a detailed description of how the forecast was adjusted to reflect infrastructure spending. The impacts of these adjustments were documented at each step in the process. In the Department's view, documentation was adequate to review the accuracy of key economic assumptions and the reasonableness of the forecast.

Recommendation 5.5
The Department of Finance should implement a process for a formal and documented review and challenge of the assumptions used in the preparation of the petroleum royalties estimate.

Management agrees with this recommendation. The Department conducts review and challenge sessions as part of the revenue estimates including revenue associated with petroleum royalties.

Audit of the March 31, 2010 Consolidated Financial Statements

Recommendations 5.6
Management should complete the review and documentation of internal controls for the consolidated financial statements and include the documentation in the Corporate Policy Manuals.

Recommendation 5.7
Management should assign roles and responsibilities for the design, implementation, operation and maintenance of internal controls as part of the documentation of internal controls.

Management agrees with both of these recommendations. Management is committed to completing its multi-year project to review and document internal controls for financial reporting. It should be noted that the Internal Controls over Financial Reporting project, and the annual certification requirements will become

more robust over time. The focus however will remain with the Consolidated Fund and the interactions between the Consolidated Fund and consolidated entities. Management will advise consolidated entities on the need to assign and document internal controls within their organizations.

Recommendation 5.8
The Department of Health should develop and implement controls that would ensure the accuracy and completeness of revenues and expenses of the Seniors' Pharmacare Program.

Management agrees with this recommendation. Prior to April 1, 2008 the Senior's Pharmacare Program was operated as a trust and was therefore subject to an external audit. In August 2010, external auditors were engaged to review and assess the service provider's compliance with the criteria established by the contractual arrangement. This will include processes and controls in place relating to Senior's registrations, premium calculations, premium collections, premium adjustments and refunds through to the inclusion in reports. The scope of the audit will cover both the 2008-09 and 2009-10 fiscal years.

Recommendation 5.9
The Department of Finance's Taxation and Fiscal Policy Division should perform regular reconciliations of model-determined revenues and related accounts receivable or payable. Outstanding amounts related to closed years should be adjusted to income.

Management agrees with this recommendation. The Department reconciles model determined revenues on an accrual basis and accounts receivable and payable at the end of each year. Generally, reporting determined by revenue models are not finalized for as many as six years after the publication of the public accounts. Similarly the amount receivable, amount payable, or income associated with the revenue is not finalized until such time. The Department accommodates for this annually through a process of reconciliation between prior year adjustments, and amounts receivable or payable.

Recommendation 5.10
The Department of Finance's Payroll Division should ensure the process to terminate employees includes removal of access to SAP.

Management agrees with this recommendation, however it should be noted that responsibility of this recommendation does not rest with the payroll division. Processes are being put in place to ensure appropriate controls are in place for terminated employees.

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Recommendation 5.11
The Department of Finance's Government Accounting Division should ensure all non-trivial, known errors identified during the audit are corrected.

Management feels that the financial statements present fairly, in all material respects, the financial position of the Province as at March 31, 2010. Management is committed to correcting all known non-trivial errors identified during the course of the audit.

Management feels that any known errors not corrected are immaterial or insignificant items or matters and in accordance with paragraphs .13 and .14 of the introduction to public sector accounting standards.

Recommendation 5.12
The Department of Finance's Government Accounting Division should lower the threshold for capitilizing roads, bridges and highways from $500,000 to a level more consistent with common practice.

Thresholds for the Consolidated Fund are set high because the value of the operations is very large. The tangible capital asset (TCA) capitalization threshold is set to allow for the capitalization of the significant assets that have future benefit to operations. In a large organization, such as the Consolidated Fund, large dollar assets are capitalized as they are more material to decision making.

The Department of Transportation and Infrastructure Renewal (TIR) reported that in 2009/10 it cost approximately $3 million to twin 1 kilometre of highway. Building a new 2-lane 100-Series highway cost approximately $3.5 million, plus bridges and approximately $6 million for a new 4-lane highway. Based on these figures, management does not feel that the benefits of lowering its capitalization thresholds for roads, bridges, and highways would outweigh the administrative costs.

Recommendation 5.13
The Department of Finance's Government Accounting Division should remove all inappropriate business areas and any entities which are not part of the consolidated entity from the general ledger.

Management agrees with this recommendation. Government Accounting established a review process and will continue to monitor the 9900 Business Areas to ensure they are properly reflected in the consolidated financial statements.

Recommendation 5.14
The Department of Finance's Government Accounting Division should instruct departments on the identification and disclosure requirements related to determining the amount of contractual obligations at year end.

Management will continue to make efforts to address the deficiencies noted. In the 2009-10 fiscal year, refresher training was provided to departmental financial managers and further guidance is planned for 2010-11. In collaboration with the departments, Government Accounting will develop detailed procedures for the identification, quantification, and reporting of contractual obligations.

Recommendation 5.15
The Department of Finance's Government Accounting Division should ensure updated revenue models are prepared for the audit of the consolidated financial statements.

Management agrees that up-to-date revenue models should be used for the audit of the consolidated financial statements .

Recommendation 5.16
The Department of Finance should revise Schedule 4 of the consolidated financial statements to disclose the gross debt and sinking fund assets of the consolidated entity.

Management has interpreted the public sector accounting standard on Long-Term Debt (PS 3230) as providing the option to disclose repurchased financial liabilities or to derecognize them. We continue to support paragraph PS 3230.22 and are of the opinion that financial liabilities should not be derecognized unless they are cancelled or legally defeased. Governments that buy back some of their debt may do so as part of their sinking fund arrangements as the sinking fund investments represent separate instruments that can still be traded on the open market.

Recommendation 5.17
The Department of Finance's Government Accounting Division should monitor the progress of departments, including significant divisions within departments, in providing information to the Office of the Auditor General, as detailed in the schedule of audit deliverables for the consolidated financial statement audit.

Management agrees with this recommendation.

Recommendation 5.18
The Government Accounting Division should initiate appropriate measures to ensure that all organizations forming part of the government reporting entity adopt the appropriate GAAP based on the amendment to the Public Sector Accounting Handbook.

Management continues to be committed to GAAP compliance and therefore places a high priority on monitoring the developments in this area. The Controller

RESPONSE: DEPARTMENT OF FINANCE

and members of Government Accounting participate in teleconferences with the other Canadian governments to discuss new proposed standards (PSAB, CICA, and IFRS) and their possible impacts on government financial reporting.

Management has communicated with the Province's government business enterprises (GBEs) and other government organizations (OGOs) to notify them of the amendment to the Public Sector Accounting (PSA) Handbook as well as to request information to help us determine the impacts of their GAAP transition. Management has also conducted communication to its government not-for-profit organizations (GNFPOs). Government Accounting will be available to assist and support entities during this transition, while ensuring that these entities adopt the most appropriate GAAP for their financial statement users.

Recommendation 5.19
The Department of Finance should consider expanding the Financial Statement Discussion and Analysis to include variance analysis of actual consolidated results to the consolidated budget.

Management recognizes that expanding the variance explanations in the Financial Statement Discussion and Analysis to discuss significant variances in consolidated results would increase the usefulness of the Public Accounts in evaluating performance. This initiative would require changes in the consolidation process and additional resources to coordinate this additional information . Management will review to determine the extent of additional resources needed to implement this change.

Recommendation 5.20
The Department of Transportation and Infrastructure Renewal should ensure an independent analysis of the costs necessary to complete the remediation project of Sydney Steel Corporation and adjacent sites is conducted. The balance of the provision should be adjusted to reflect this estimate.

Management agrees that an independent costing analysis should be conducted on a timely basis to adequately assess the provision. The work to hire an independent consultant commenced in 2009-10 and will continue in 2010-11 with the goal of updating the cost estimates necessary to complete the remediation project of Sydney Steel Corporation and adjacent sites.

Indicators of Government Financial Condition

While the Department of Finance recognizes that the report in Chapter 6, "Indicators of Financial Condition" that was produced by the Office of the Auditor General does not offer specific recommendations, management felt it necessary to still provide comment.

It is management's responsibility to determine the format and type of reporting within Generally Accepted Accounting Principles (GAAP). "Indicators of Financial Condition" is a Statement of Recommended Practice, which is not required for GAAP compliance. We believe that most of the content is already available in other reports.

By producing this report, the Office of the Auditor General blurs the line between the preparer of financial reports and the reviewer of such information.

6 Indicators of Financial Condition

Summary

In the February 2010 Report of the Auditor General, we presented information on certain financial indicators for the Province of Nova Scotia for the first time. In this report, we have expanded our presentation by including comparative information on these indicators from five similar jurisdictions. The information in this Chapter is for consideration only.

Information on financial condition is helpful to users of financial statements because it demonstrates how the government may be able to respond to changes in the economic climate. The usefulness of this information is supported by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA). In 2009, PSAB issued Statement of Recommended Practices (SORP) 4: Indicators of Financial Condition.

The Public Accounts currently contain information on the economy but not information on how the Province is performing in that economy. That is the intent of the SORP. The SORP recommends that, at a minimum, indicators related to government's sustainability, flexibility and vulnerability to its economic climate be disclosed. Governments are not required to implement recommendations under the SORP.

The indicators we considered each demonstrate the financial condition of the Province. Most indicators present results from 2006 to 2010. This timeframe is shorter than that included in our February 2010 Report in order to easily present comparative information.

One indicator may best illustrate the challenges facing the Province. The annual operating results have been presented for nine years. The deficit of $329.6 million (restated) for the year ended March 31, 2010 is the first deficit of this decade. This indicator demonstrates the risks facing government in maintaining the programs and services it currently provides, as well as the policy and operational decisions it must make in light of its financial health.

6 Indicators of Financial Condition

Introduction

6.1 The consolidated financial statements provide a snapshot of the Province's financial position at its fiscal year end (March 31) and the results of its operations, and changes in both cash flow and net direct debt for the preceding year. However, the financial position of the Province as reflected in the consolidated financial statements is only one factor in determining the financial condition of the government. The consolidated financial statements do not provide a complete indication of the financial health of the Province nor indicate how well it is performing in relation to its economic and fiscal environment.

6.2 In 2009, PSAB issued its Statement of Recommended Practices (SORP) 4: Indicators of Financial Condition. The SORP notes that *"The main objective of reporting on financial condition is to expand on and explain information in the financial statements by assessing a government's financial condition..."* This information may help financial statement users better understand, for example, the risks facing a government in maintaining the programs and services it currently provides, as well as the policy and operational decisions it must make in light of its financial health.

6.3 This SORP is not part of generally accepted accounting principles (GAAP) and there is no requirement for governments to implement its recommendations. At present, the Province includes information on the economy in the Financial Statement Discussion and Analysis included in Volume 1 of the Public Accounts. However, this information does not link the consolidated financial statements to the economic climate in which the Province operates. The purpose of this Chapter is to help provide that link through numerical and narrative analysis of several indicators.

6.4 There may be numerous indicators to assess a government's financial condition. The SORP recommends that, at a minimum, indicators related to sustainability, flexibility and vulnerability be considered. Definitions of these assessors follow, as well as a selection of indicators related to each. The SORP also recommends that indicators include those specific to government and related to government, and notes that indicators related to the economy may be useful.

6.5 We feel it is important and useful to show indicators of financial condition regardless of whether the economy is strong, as it was a few years ago, or

recovering from a downturn, as is currently the global situation. In doing so, we are following a trend in several other legislative audit offices in Canada.

6.6 In 2009, we committed to expand and improve this reporting for future years. In order to present how Nova Scotia compares to other provinces, we have expanded our report to include five additional provinces: New Brunswick, Newfoundland and Labrador, and Prince Edward Island because they operate in the same regional economic environment; and Saskatchewan and Manitoba because they are comparable in population. The information in the following exhibits has been taken from these jurisdictions' public accounts from 2006 to 2010, with the exception of Prince Edward Island, and Newfoundland and Labrador, neither of which has yet released public accounts for the year ended March 31, 2010.

6.7 As noted in Chapter 5 (see paragraph 5.33), an error totalling $87.7 million was discovered in the March 31, 2010 financial statements subsequent to their release. This error impacts several amounts on the financial statements and will be corrected on the March 31, 2011 financial statements. Throughout this chapter, we will reference certain amounts from the March 31, 2010 financial statements, adjusting for the error. Details of restated amounts are noted below.

	Amount per Public Accounts ($ thousands)	Increase (Decrease) ($ thousands)	Restated Amount ($ thousands)
Statement of Financial Position			
Accounts Receivable and Advances	938,404	(87,721)	850,683
Total Financial Assets	3,478,961	(87,721)	3,391,240
Net Direct Debt	(13,018,556)	87,721	(13,106,277)
Accumulated Deficits	(8,402,784)	87,721	(8,490,505)
Statement of Operations			
Revenue Provincial Sources	4,849,920	(73,994)	4,775,926
Revenue Prior Year's Adjustment	48,234	(13,727)	34,507
Total Revenue	8,910,934	(87,721)	8,823,213
Deficit from Government Units	(600,655)	87,721	(688,376)
Provincial Deficit	(241,924)	87,721	(329,645)

6.8 Information on the Province's financial condition has been developed using certain indicators contained in the Statement of Recommended Practices. We note that there may be other relevant indicators which would provide additional useful information for stakeholders' assessment of financial condition. The indicators selected provide stakeholders with information

which may be used to assess the ability of the government to continue offering current programs and services along with its ability to respond to changes in economic conditions. The information also demonstrates the reliance the government places on funds received from the federal government.

Indicators

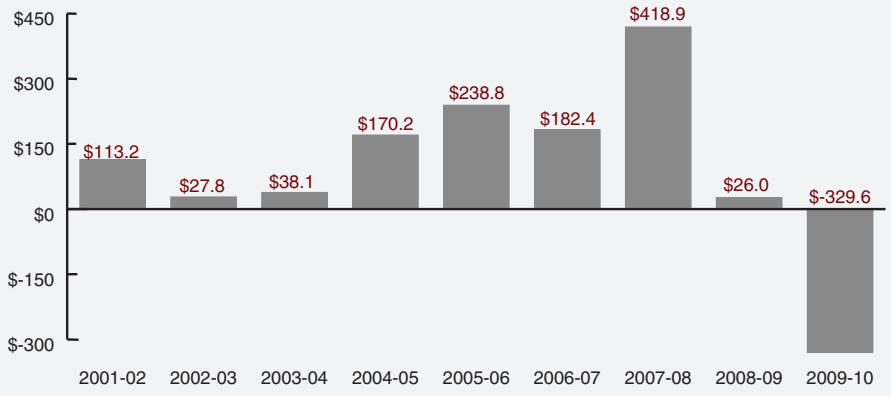
Sustainability

6.9 Sustainability measures the ability of a government to maintain its existing programs and services, including maintaining its financial obligations to creditors, without increasing its debt or raising taxes. The following indicators have been selected to assess sustainability.

Annual Surplus or Deficit

6.10 This annual result indicates the extent to which the government's revenues are more than its expenses during that year. A surplus means revenues exceed expenses while a deficit indicates that government has not lived within its means. In Nova Scotia, a deficit also means government has to increase its debt in order to finance its operations. As noted below, there are significant fluctuations in the annual results of the Province from 2002 to 2010, ranging from a surplus of $418.9 million in 2008 to a deficit of $329.6 million in 2010.

Nova Scotia Annual Surplus or Deficit
(in millions)



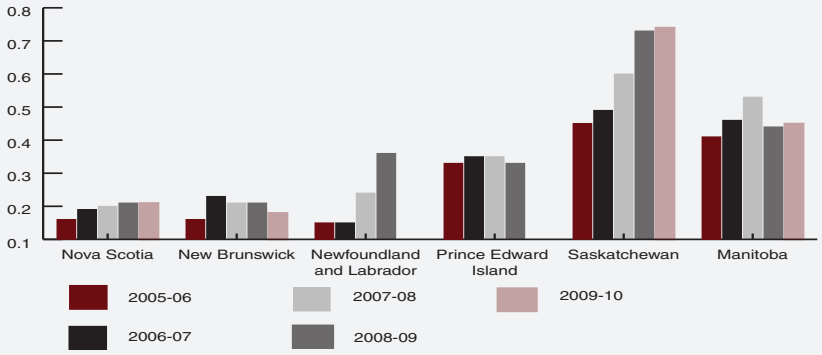
Source 1 (see end of chapter)

Financial Assets-to-Liabilities Ratio

6.11 This indicator shows the extent to which government's future revenues will be required to pay for past transactions or events. A ratio greater than

one indicates that financial assets are sufficient to meet obligations and to finance future operations while a ratio less than one may mean a reliance on future revenues or increasing debt to pay for past decisions. The ratios since 2006 are noted below and emphasize the degree to which liabilities exceed financial assets. It is noted, however, that the ratio for Nova Scotia has improved from 0.16 in 2006 to 0.21 at March 31, 2010, although it is significantly lower than most comparable jurisdictions.

Financial Assets-to-Liabilities Ratio



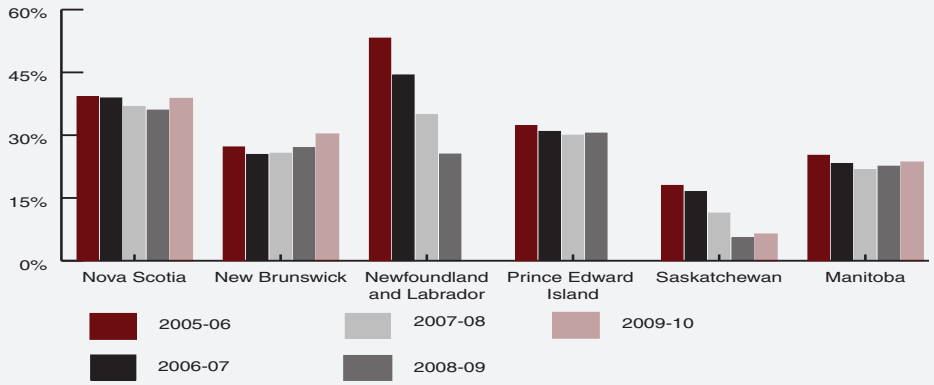
Sources 1, 2, 3 (see end of chapter)

Financial Assets-to-Liabilities Ratio for Nova Scotia			
Year Ending March 31	Financial Assets ($ millions)	Liabilities ($ millions)	Financial Assets/ Liabilities
2006	$2,355.7	$14,594.9	0.16
2007	$2,865.7	$15,222.9	0.19
2008	$2,962.2	$15,077.0	0.20
2009	$3,235.6	$15,553.8	0.21
2010	$3,391.2	$16,497.5	0.21

Net Debt as a Percentage of Provincial GDP

6.12 This indicator demonstrates the impact a government's debt may have on its economy. A higher percentage may indicate that government's debt places a burden on the economy. Nova Scotia's net direct debt increased from $12.2 billion in 2006 to $13.1 billion in 2010, while net direct debt as a percentage of provincial gross domestic product (GDP) declined in 2008 and 2009 before increasing to 38.7% in 2010. This ratio has not fluctuated significantly over the past five years in four of the six jurisdictions in the following exhibit although Nova Scotia's ratio has consistently been the highest among these four.

Net Debt as a Percentage of Provincial GDP



Sources 1, 2, 3, 4 (see end of chapter)

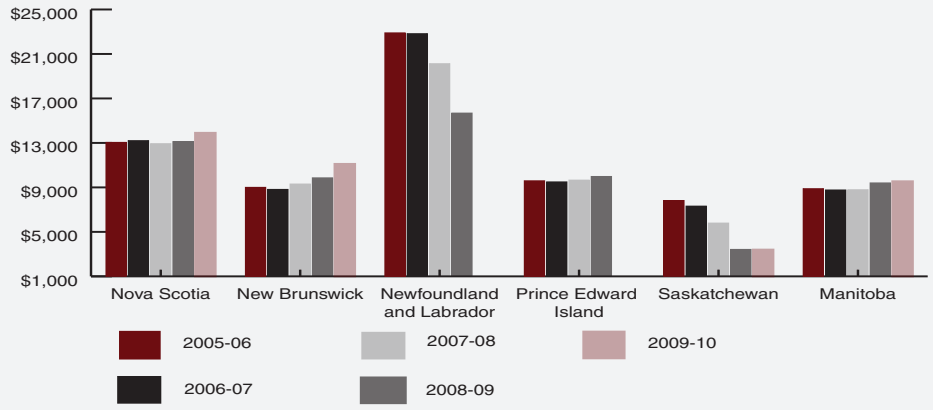
Net Debt as a Percentage of Provincial GDP for Nova Scotia			
Year Ending March 31	Net Debt ($ millions)	Provincial GDP ($ millions)	Net Debt as a % of GDP
2006	$12,239.2	$31,199	39.2%
2007	$12,357.2	$31,743	38.9%
2008	$12,114.8	$32,933	36.8%
2009	$12,318.2	$34,188	36.0%
2010	$13,106.3	$33,831	38.7%

Net Debt per Capita

6.13 This indicator provides an approximation of the net debt attributable to each resident of Nova Scotia. An increasing level of net debt per capita shows that the Province's debt is increasing at a rate exceeding population growth. Net debt per capita has been relatively stable from 2006 to 2010 with a 5 year average of $13,242 per resident and of high of $13,906 in 2010.

6.14 Nova Scotia currently has the second-highest net debt per capita among the provinces compared in the following exhibit. Net debt per capita has declined significantly in the past two years in both Newfoundland and Labrador, and Saskatchewan, which are resource-rich provinces.

Net Debt per Capita



Sources 1, 2, 3, 5 (see end of chapter)

Net Debt per Capita for Nova Scotia			
Year Ending March 31	Net Debt ($ millions)	Population (thousands)	Net Debt per Capita ($)
2006	$12,239.2	938.0	$13,048
2007	$12,357.2	935.8	$13,205
2008	$12,114.8	936.7	$12,933
2009	$12,318.2	939.1	$13,117
2010	$13,106.3	942.5	$13,906

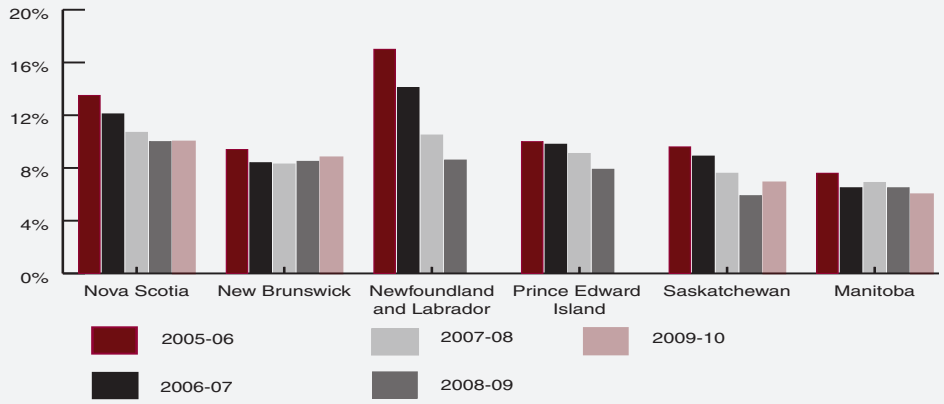
Flexibility

6.15 Flexibility describes the extent to which a government can change its debt burden or raise taxes within its economy. Increasing debt and taxation reduces flexibility and government's ability to respond to changing circumstances. The following indicators have been selected to assess flexibility.

Debt Servicing Costs as a Percentage of Revenue

6.16 The proportion of debt servicing costs to revenue indicates the amount of current revenue that is required to service past borrowing decisions and, as a result, is not available for programs and services. As indicated below, debt servicing costs were 13.5% of revenue in 2006 and steadily decreased to 10% at March 31, 2010. Most provinces below have experienced declining debt servicing costs over the past five years. This may result from declining interest rates as well as declining debt, and could also be attributable to increased use of derivative instruments to manage interest rate risk.

Debt Servicing Costs as a Percentage of Revenue



Sources 1, 2, 3 (see end of chapter)

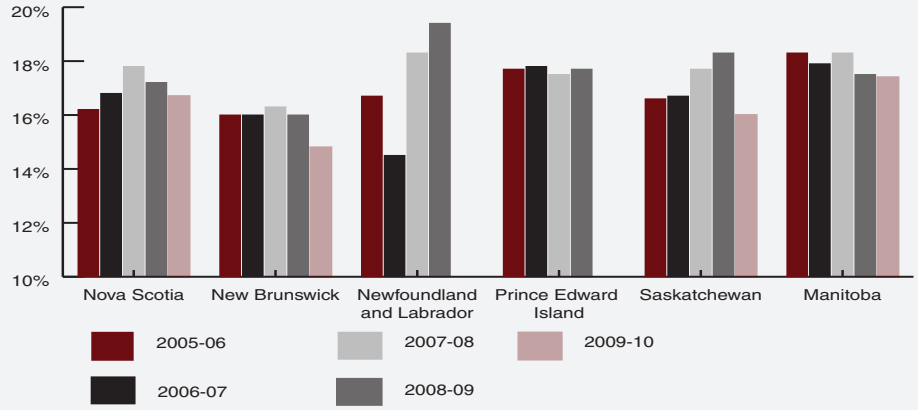
Debt Servicing Costs as a Percentage of Revenue for Nova Scotia			
Year Ending March 31	Debt Servicing Costs ($ millions)	Total Revenue ($ millions)	Debt Servicing Costs as a % of Revenue
2006	$1,017.8	$7,527.5	13.5%
2007	$958.7	$7,952.4	12.1%
2008	$953.7	$8,908.4	10.7%
2009	$887.5	$8,836.2	10.0%
2010	$880.1	$8,823.2	10.0%

Own-Source Revenue as a Percentage of Provincial GDP

6.17 Own-source revenue-to-provincial GDP is an indicator of government revenue derived from the provincial economy, through taxation or other sources, compared to the provincial GDP. Higher percentages may indicate a reduction in flexibility; however, the impact on flexibility would be affected by taxpayers' willingness for government to increase taxation or other own-source revenue. Tax rates and other own-source revenue that are currently high may also impact the government's ability to increase own-source revenue and may have a negative impact on flexibility.

6.18 For the purpose of the following chart, own-source revenue is defined as provincial source revenues, including prior years' adjustments, as noted in the Public Accounts (essentially, all revenue less federal transfers). Own-source revenue has remained fairly constant over the past five years in all provinces we compared, with the exception of Newfoundland and Labrador. Its increase in provincial revenues would relate to increased resource revenue.

Own-Source Revenue as a Percentage of Provincial GDP



Sources 1, 2, 3, 4 (see end of chapter)

Own-Source Revenue as a Percentage of Provincial GDP for Nova Scotia			
Year Ending March 31	Own-Source Revenue ($ millions)	Provincial GDP ($ millions)	Own-Source Revenue as a % of GDP
2006	$5,045.2	$31,199	16.2%
2007	$5,346.8	$31,743	16.8%
2008	$5,860.4	$32,933	17.8%
2009	$5,872.1	$34,188	17.2%
2010	$5,644.7	$33,831	16.7%

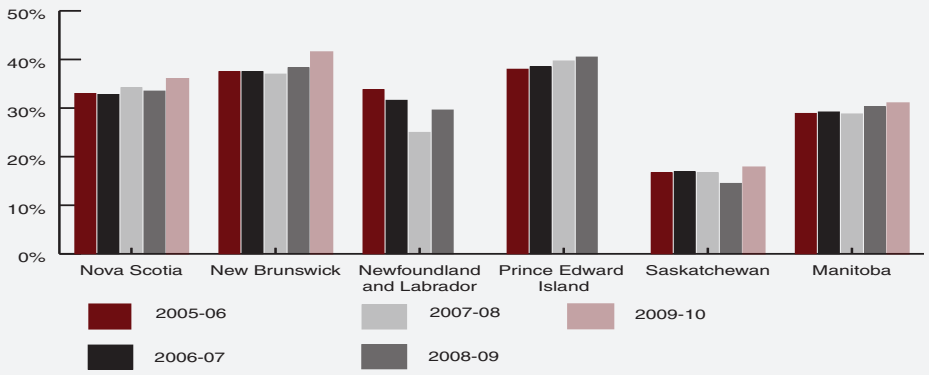
Vulnerability

6.19 Vulnerability indicators can measure the amount government is dependent on sources of revenue outside its control and its exposure to risks which might affect the government's ability to meet its commitments. The lower government's own-source revenue is, the more it relies on fiscal decisions of others. The following indicator has been selected to assess vulnerability.

Federal Government Transfers as a Percentage of Total Revenues

6.20 This indicator demonstrates the level of federal government transfers compared to total government revenues. The higher the percentage, the more reliance the provincial government has on receipt of funds from the federal government. These transfers are dependent on policy decisions at the federal level and outside the control of the provincial government. As noted in the following exhibit, federal transfers as a percentage of total revenue for the province can vary significantly from year to year. Since 2006, the percentage has ranged from a low of 32.8% in 2007 to a high of 36% in 2010. Overall, federal transfers as a percentage of total revenues have remained constant in each jurisdiction over the past five years.

Federal Government Transfers as a Percentage of Total Revenue

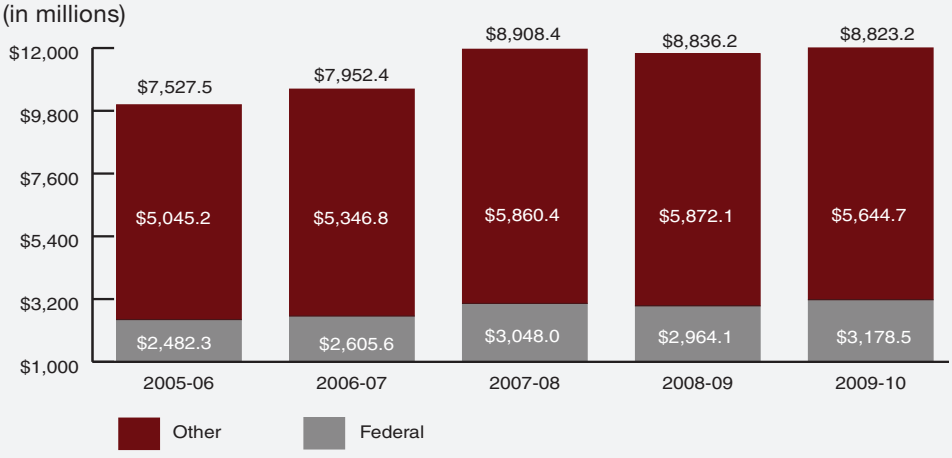


Sources 1, 2, 3 (see end of chapter)

Federal Government Transfers as a Percentage of Total Revenue for Nova Scotia			
Year Ending March 31	Federal Transfers ($ millions)	Total Revenue ($ millions)	Federal Transfers as a % of Total Revenue
2006	$2,482.3	$7,527.5	33.0%
2007	$2,605.6	$7,952.4	32.8%
2008	$3,048.0	$8,908.4	34.2%
2009	$2,964.1	$8,836.2	33.5%
2010	$3,178.5	$8,823.2	36.0%

Federal Government Transfers to Total Revenue for Nova Scotia

(in millions)



Source 1 (see end of chapter)

Sources:

(1) Nova Scotia – Public Accounts March 31, 2006 – March 31, 2010 (2010 revised for correction issued with September 22, 2010 Forecast Update)

(2) New Brunswick, Saskatchewan and Manitoba – Public Accounts March 31, 2006 – March 31, 2010

(3) Newfoundland and Labrador, Prince Edward Island – Public Accounts March 31, 2006 – March 31, 2009

(4) Statistics Canada – Gross domestic product, expenditure-based, by province and territory (2005–2008)

(5) Statistics Canada – Population by year, by province and territory (July 2006 – July 2010)

7 Review of Agency Financial Statements and Management Letters

Summary

Under Section 17 of the Auditor General Act, we conduct a review of the audit opinions and related management letters of agencies which comprise the government reporting entity (GRE) that are audited by private sector auditors. We consider those results, as well as results from our audits of agencies within the GRE, when auditing the consolidated financial statements of the Province. The purpose of this Chapter is to highlight matters of interest as a result of this review.

Although the majority of audits conducted on agencies within the GRE resulted in unqualified audit opinions, there were also a number of qualified opinions. The audit opinions for several of the school boards were qualified due to the inability of the auditors to verify the completeness of school-based funds. In our view, these qualified opinions do not diminish the usefulness of the related financial statements, however, we have suggested the Department of Education work with the boards to develop appropriate systems and controls to ensure the accuracy and completeness of this significant revenue, and to obtain unqualified audit opinions.

During our review of management letters we found auditors had identified numerous internal control and information technology deficiencies. Many deficiencies identified by auditors in the prior year still existed in 2009-10. We noted that approximately 33% of the recommendations made in 2009-10 were repeated from 2008-09, and of these, over half had been reported in 2007-08. Deficiencies were also identified in two provincial loan funds regarding documentation to support financial statement balances.

Control weaknesses will continue to be identified as auditors increase their awareness of the control environment in these agencies. Management should address the deficiencies identified by their auditors to ensure the integrity of their financial systems and financial reporting processes.

7 Review of Agency Financial Statements and Management Letters

Background

7.1 The audits of financial statements of crown corporations and agencies, funds of the Government of Nova Scotia, and trusts administered by the government of Nova Scotia, are mostly conducted by private sector auditors licensed under the Public Accountants Act. The Office of the Auditor General is the legislated auditor for the remaining entities.

7.2 Section 17 of the Auditor General Act permits this Office to conduct additional reviews of those agencies where financial statements are reported on by private sector auditors. This Chapter includes 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.

7.3 The Auditor General is responsible for the annual audit of the consolidated financial statements of the Province of Nova Scotia. Comments and observations on our audit of the Province's March 31, 2010 statements are noted in Chapter 5 of this Report.

Chapter Objective

7.4 The objective of the review of financial statements and management letters is to identify matters of interest to the users of public sector financial statements.

Significant Observations

Review of Audit Opinions

Conclusions and summary of observations

We noted qualified audit opinions were issued in several agencies due to the inability of their auditors to audit completeness of certain revenues. We also noted an instance where a qualified opinion was issued because the auditors were unable to determine if the opening balances for assets and liabilities were free

of material misstatement and because there was insufficient evidence to indicate whether expenses were complete.

7.5 *Background* – 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, in accordance with Canadian generally accepted accounting principles. Where there are qualifications of an audit opinion, or situations in which it is not possible to render an opinion, we believe it appropriate to report on such matters.

7.6 *Qualified audit opinions* – Several agencies included in the consolidated financial statements of the Province derive revenue from donations or other contributions, the completeness of which is difficult to verify during an audit. The audit opinions for these agencies are therefore qualified. This is a standard qualification for entities with these types of revenues.

7.7 Qualified audit opinions can also result from insufficient evidence to support financial statement balances or disclosures. The audit opinion of the Nova Scotia Farm Loan Board contained two qualifications. The auditors were unable to satisfy themselves that the opening balances for current year's assets and liabilities were free of material misstatement. Furthermore, there was insufficient evidence to indicate whether expenses of the Board were complete.

7.8 Qualified audit opinions were also issued by the auditors of the following agencies. The opinions are identical to those issued in 2008-09.

- Cape Breton Victoria Regional School Board, South Shore Regional School Board, Strait Regional School Board, Conseil scolaire acadien provincial, and Tri-County Regional School Board – due to the inability to verify the completeness of school-based funds
- Nova Scotia Power Finance Corporation – due to insufficient evidence of the historical cost and effective interest rate of investments
- Public Trustee – due to insufficient evidence to indicate whether trust income and assets are complete
- Art Gallery of Nova Scotia – due to insufficient evidence to indicate whether revenue is complete
- Nova Scotia Agricultural College Foundation – due to pledges not being recognized as revenue
- Nova Scotia E911 Cost Recovery Fund – due to insufficient evidence to indicate whether expenses of the fund were complete

- Nova Scotia Health Research Foundation – due to the inappropriate application of an accounting policy related to grants payable

7.9 The March 31, 2010 financial statements of the Province's eight school boards indicate school-based funds total $43.5 million. Five of the eight boards have received a qualified audit opinion with respect to the completeness of this significant revenue. We suggest the Department of Education work with the boards to develop the appropriate controls to ensure the accuracy and completeness of this revenue, and to remove the qualification from their audit opinions.

7.10 *Disclosed basis of accounting* – Auditors can no longer provide an unqualified opinion on general purpose financial statements prepared on a basis of accounting other than generally accepted accounting principles.

7.11 A qualified audit opinion was issued for the Sherbrooke Restoration Commission. The 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. This opinion is consistent with prior years.

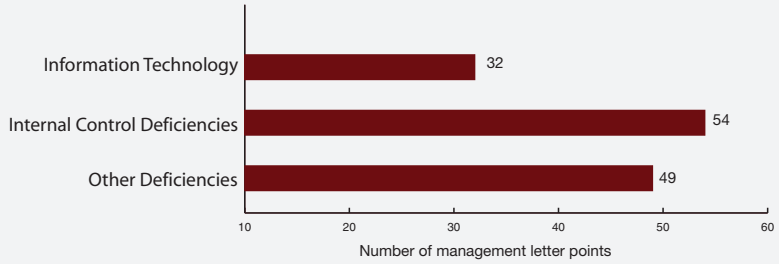
Review of Management Letters

Conclusions and summary of observations

Many of the findings noted in the management letters we reviewed were reported in prior years and management have failed to respond to auditors' recommendations for improvement. Responding to audit recommendations is an indication of a strong overall control environment in an entity. A significant number of internal control deficiencies were reported in several agencies. Examples include improperly prepared and supported account reconciliations, and poor segregation of duties. In addition, there are numerous findings and recommendations related to information technology, including system access issues such as continuing access rights for terminated employees and access rights that are in excess of those needed to perform duties.

7.12 *Information technology controls, and financial controls and records* – During financial statement audits, situations were noted where accounting and control systems or procedures, including those related to information technology systems, were deficient. These weaknesses were reported by the auditors in management letters to the crown corporations or agencies. Other deficiencies reported include matters related to governance, and other financial reporting matters. The exhibit below provides the number of weaknesses identified by type.

Summary of Recommendations by Type



Source: Management letters – Agencies in the government reporting entity.

7.13 Responding to audit recommendations is an indication of a strong overall control environment in an entity. The number of control recommendations that remain outstanding from one year to the next in several agencies is concerning, as is the number of new findings and recommendations. In fact, about 33% of the recommendations made in 2009-10 were repeated from 2008-09, and of these, over half had been reported in 2007-08. Management needs to address recommendations on a timely basis to ensure the integrity of their financial statements.

7.14 Although they were not of a magnitude to require reservation of an audit opinion, the auditors of several agencies recommended improvements to ensure financial records provide complete and accurate information on a timely basis. These recommendations are detailed below.

School Boards, Nova Scotia Community College and Atlantic Provinces Special Education Authority

7.15 *Annapolis Valley Regional School Board* – The auditors noted that two of the schools sampled when testing expenses from school-based funds had purchased goods exceeding $1,000 directly from the supplier, contrary to the funds' policies. All goods exceeding $1,000 should be purchased through the school board's purchasing department. The auditors also found that honorariums were paid to school staff from school-based funds. All payments to staff should be made through the payroll department and should be included on the staff member's T4 slip.

7.16 *Cape Breton Victoria Regional School Board* – Recommendations reported in prior year's management letters were noted again in the current year.

- Management should determine if there is any obligation to provide future health retirement benefits to confidential employees.
- As noted in 2008-09, improvements in cash flow are still needed. The auditors recommended the Board collect on the March 31, 2010 accounts receivable balance due from the Province.

- Management should assess the impact of exceptions noted to control objectives in the service provider's audit report for physical access controls, logical access controls, and application software development and implementation.

- The auditors recommended that management develop a plan to enable audit verification of school-based funds by providing additional training to staff and implementing the use of accrual-based accounting.

7.17 The 2009-10 management letter noted that time sheets and bank reconciliations should be approved in a timely manner. Also, the Board should have the Province provide the necessary support to facilitate charging and collecting interest from the schools' developer, and the Board should pursue the Province for payment of the shortfall in funding related to the Provincial Agreement with certain First Nations.

7.18 *Conseil scolaire acadien provincial* – In the prior year, the auditors recommended that all accounts and transactions related to school-based funds be included in the accounting system. In the current year, the auditors recognized that improvements have been made over the prior year as all accounts have been included in the system and a manual has been developed. The auditors recommended that standard procedures be implemented in all schools to ensure consistency.

7.19 Consistent with 2007-08 and 2008-09, no internal audit function or formal documentation and proof of monitoring of controls has been put in place. The auditors noted that having an internal audit group in place will prevent errors from occurring and detect whether controls are working properly.

7.20 *South Shore Regional School Board and Tri-County Regional School Board* – Although the Boards have made significant efforts to develop internal audit functions for school-based funds in the past few years, there is still a need to establish procedures for documenting, testing and evaluating internal controls at the individual school level to ensure complete and accurate disclosure of these amounts. Auditors are also concerned with the lack of segregation of duties in the accounts payable division and in the preparation of journal entries. These weaknesses were reported in 2008-09 and 2007-08.

7.21 *Strait Regional School Board* – The auditors noted 24 of 25 schools maintain their records using the same accounting system and they recommended the remaining school change its accounting system to promote consistency in reporting to the Board. The auditors also noted in their work on school-based funds that there was no indication certain source documents had been processed, or that bank reconciliations had been reviewed. However,

the auditors found that the individual schools within the Board have made significant improvements in procedures related to school-based funds.

7.22 *Nova Scotia Community College* – The auditors noted that there is no standardized approach to each campus reconciling its capital assets to the general ledger, which causes management to spend additional time reconciling the accounts for reporting purposes. The auditors recommended that a standardized template be developed to reconcile additions and disposals of capital assets for each campus in order to improve both consistency and quality of information used for management's purposes. Consistent with the prior year, the auditors recommended that password policies be revised to be consistent with leading industry practice.

District Health Authorities and the IWK Health Centre

7.23 *Annapolis Valley District Health Authority, South Shore District Health Authority, and South West Nova District Health Authority* – The auditors recommended that management make it a priority to identify, document and test the internal controls within its various business and financial reporting cycles.

7.24 The business support office undertook a Section 9100 report on specified audit procedures which resulted in a number of recommendations for improvements in controls. The auditors recommended management continue to follow up with the business support office to ensure the recommendations are addressed in a timely manner.

7.25 *Cape Breton Health* – Numerous recommendations reported in prior year's management letters were repeated again in the current year.

- Program maintenance processes are informal and lack consistency.
- Management does not currently perform IT vulnerability assessments designed to identify IT security vulnerabilities.
- New vendors are approved locally and forwarded to central operations in Halifax for initial set-up in the Board's general ledger system (SAP); however, a one-time vendor set-up was created for vendors that are not expected to be recurring, causing a risk of employees creating fictitious vendors without proper approval.
- There was a significant amount of overtime paid to employees. The auditors noted 26 employees receiving in excess of $25,000, including two employees' overtime of $161,533 and $90,217.
- There was a segregation of duties issue with the Meditech software. Finance management employees have access to the same modules as the clerks processing transactions.

7.26 The 2009-10 management letter also included the following new recommendations related to information technology.

- The auditors noted that user access to financial applications was not reviewed on a regular basis; therefore, unauthorized access could extend for indefinite periods of time. They also noted instances where key information technology functions had not been appropriately segregated. Additionally, requests for access to systems are documented through email and could be easily lost or misplaced. The auditors recommended that approval of access to all financial applications be formally documented and retained in a central repository.
- The Authority has several versions of one computer program stored in the same file directory with different names. The auditors recommended that separate libraries be created for storage, development, testing and production versions of program code.

7.27 *Capital District Health Authority* – The auditors identified considerations for management related to IT controls for SAP. A finding from 2008 related to password settings remains unresolved.

7.28 *Colchester East Hants Health Authority* – Once again, access control issues were highlighted in the management letter. Recommendations made in 2007-08 and 2008-09 to strengthen password controls in two applications were not acted upon, and similar issues with another system were found in the current year.

7.29 In relation to findings in 2009-10, the auditors noted that senior management review and approval of posted journal entries was not taking place. The auditors also noted errors in the materials management system which, while individually not material to the financial statements of CEHHA, has the potential for a significant cumulative error. In addition, the auditors concluded that user access to the financial applications including the human resources application is not reviewed on a regular basis to ensure the level and type of access for each user is current and required by the user to perform their job responsibilities while maintaining an appropriate separation of incompatible duties.

7.30 We are aware that all health authorities converted to the SAP system during the year. In both Cape Breton Health and Colchester East Hants Health Authority, the auditors recommended additional training in SAP, including its reporting capabilities.

7.31 *Cumberland Health Authority* – As reported in the prior year, there is still no reconciliation of employee benefits between the Authority's system and one of the employees' benefits providers. This has been outstanding since

2006. The auditors again recommended that procedures to standardize the process to terminate system access be developed.

7.32 The auditors also noted the following issues caused by the conversion to SAP during 2009-10.

- Various payroll duties are not completed on a timely basis, including reports not being prepared and presented to the Director of Finance regarding master file changes, and employee loans for benefits not being set up in the SAP payroll system.
- With respect to the purchasing process, older purchase orders are not followed up, receiving reports are not reviewed, and reconciliations of supplier statements are not completed on a timely basis.
- The accounts receivable subledgers have not been reconciled to the accounts receivable general ledger balance.

7.33 Other matters noted during the March 31, 2010 included segregation of duties issues in accounts payable and cash receipts, and with respect to system access. It was noted the employee master data had not been reviewed by management to ensure changes made were appropriate. Finally, the auditors recommended that computer policies be updated, and that the electronic funds transfer policy be written to formalize the policies and procedures to reduce the risk of unauthorized access changes.

7.34 *Guysborough Antigonish Strait Health Authority* – The auditors noted that a payroll journal or other report needs to be developed so management can ensure payroll for each individual has been recorded properly. They also noted that the SAP system improperly allocated some employees to cost centres, preventing managers from approving payroll for some of their employees. Additionally, expenses were improperly allocated which affected departmental budgets and expenses.

7.35 *Pictou County Health Authority* – Consistent with weaknesses found in the 2007-08 and 2008-09, the auditors noted password controls for certain applications could have been stronger.

7.36 *IWK Health Centre* – During the audit, the auditors noted that after the system conversion to SAP, the Health Centre's management had difficulties obtaining information for budget and audit purposes. The auditors indicated that findings observed during the interim audit in 2009-10 had been corrected by the year end audit.

Entities Providing Financial Assistance

7.37 *Industrial Expansion Fund* – Management prepares an annual review for each of the Fund's clients, but a more intensive review process was

recommended. The auditors also recommended that management ensure the balance of outstanding guarantees be properly set up in the accounting records. Consistent with the prior year, management has confirmed that there are no formal controls over journal entries.

7.38 *Nova Scotia Business Inc.* – As reported in prior years, management should consider an actuarial valuation for the public service awards liability. Furthermore, the auditor noted several account balances consolidated into one general ledger account code. Progress has been made in this area since the prior year, but there is still room for improvement.

7.39 In the current year, the auditors noted very little substance to support equity valuations and recommended reviewing the latest entity financial statements as part of the valuation process. Also, the review of payroll registers by management is inconsistent, and management has the ability to independently terminate an employee or make payroll changes without approval. Finally, the auditors noted that NSBI does not have a formal disaster recovery plan in place.

7.40 *Strategic Opportunities Fund Incorporated* – Consistent with prior years, the auditors recommended considering investments such as government treasury bills rather than bank deposits for cash on hand.

Government Business Enterprises

7.41 *Halifax Dartmouth Bridge Commission* – The auditors noted a significant number of inactive MacPass accounts with positive balances. Based on the customer agreement, a notice is to be mailed when a customer account is without activity for eighteen months, and the auditors recommended this process be followed. The auditors also recommended that the Commission set aside some investments to fund employee retiring allowances.

7.42 *Nova Scotia Gaming Corporation* – The auditors recommended that the Corporation perform a formal analysis of its accounting policy for prize expenses related to regional online games.

7.43 *Nova Scotia Liquor Corporation* – The auditors recommended that system access for terminated users be disabled or removed in a timely manner. Consistent with the prior year, the auditors continued to recommend the following improvements.

- Changes to user access rights in the Warehouse Management System (WMS) need to be made on a more timely basis.
- Access rights for those in the IT group need to be reviewed periodically.

- There are deficiencies in the password standards used in the WMS, and management should investigate options to implement and enforce separate password policies for each group within the system.
- There is a lack of segregation of duties in aspects of the WMS and other financial applications.
- Security-related logs should be independently reviewed.

Other Agencies

7.44 *Canada-Nova Scotia Offshore Development Board* – The Board should continue to assess the online payment system to ensure that all safeguards are being followed and that system passwords are routinely changed. This was consistent with the prior year.

7.45 As a result of the 2009-10 audit, the auditors recommended that the key code for the safe be changed after personnel changes to ensure there is no unauthorized access. Additionally, policies related to the use of Board credit cards should be revisited and credit card bills should be monitored. With respect to payroll, it was noted that vacation pay was not accrued at year end and should be recognized in the accounting records, and that some taxable benefits paid to employees were not included on their T4 slips.

7.46 *Canadian Blood Services* – The auditors recommended reviewing card access to the computer rooms and that a review of SAP user access be performed at least annually and include all key users and roles.

7.47 *Canadian Sport Centre Atlantic* – The auditors noted that Harmonized Sales Tax (HST) returns had not been completed and submitted on a timely basis since March 31, 2008, and that failure to submit could result in penalties. Consistent with the prior year, the auditors noted that when accounts receivable balances were paid in cash by vendors, revenue was credited a second time instead of reducing accounts receivable. The auditors recommended a monthly reconciliation be done to ensure all balances that have been paid are no longer included in the accounts receivable listing.

7.48 *Harbourside Commercial Park Incorporated (HCPI), and Nova Scotia Lands Incorporated* – The auditors recommended transferring excess cash into an income-generating financial instrument as it is currently in a non-interest bearing bank account. Furthermore, they noted land sales in HCPI in the current year equated to the value of the land at the date of purchase, and recommended that the company review the fair market value estimates for future land sales to ensure it is maximizing return.

7.49 *Medavie (for certain programs administered on behalf of the Department of Health)* – The auditors noted instances where user access had not been removed from applications and operating systems for terminated users, and user access was granted to operating systems without proper approval. The auditors further recommended that management review user access rights on a timely basis. This recommendation is consistent with 2008-09.

7.50 The auditors made the recommendation that physician licence numbers in the Medavie systems should be made a mandatory six-digit field and include a review process to ensure it is a valid license number. Furthermore, the auditors noted that detection edits to prevent duplicate claims were removed during the H1N1 pandemic, and recommended that changes to edits be tested, or that new controls be reviewed by a third party for design effectiveness, before implementation.

7.51 *Nova Scotia Crop and Livestock Insurance Commission* – Consistent with the prior year, the Commission should continue to work towards the development of a new computer system, and also develop a quality control process to ensure the premium rates on the insurance certificates are accurate. In the current year, the auditors noted the Commission does not have a formal investment policy, and recommended they develop a process to periodically monitor investment results to ensure investments made are in compliance with the policy.

7.52 *Nova Scotia Gaming Foundation* – Consistent with 2008-09, the Foundation's Board should develop a process for monitoring compliance with the investment policy and for measuring performance of the investment manager. In 2009-10, the auditors encountered numerous errors in accounting for the Foundation's new investment portfolio and recommended that the financial records should accurately and completely recognize the results of investment activities.

7.53 *Nova Scotia Health Research Foundation* – The auditors noted that grant processing is dependent on the accuracy of data entry and recommended that financial reports be verified against external source data.

7.54 *Nova Scotia Innovation Corporation (InNOVAcorp)* – The auditors recommended management remain closely involved through review of accounting activities and financial reports as a means to maintain effective internal controls until a more structured control environment becomes cost effective.

7.55 *Nova Scotia Legal Aid Commission* – The auditors noted that management should review the system to estimate certificate liabilities and should ensure older certificates are finalized on a timely basis. The auditors also noted

that the Commission should obtain an actuarial valuation for long service awards payable to retiring employees.

7.56 *Nova Scotia Public Service Long-Term Disability Trust Fund* – The auditors noted that the bank statement should be reviewed for unusual items, and that the bank reconciliation should be approved by the Board chair. They also noted that all journal entries should be printed and reviewed by a member of the finance committee. Finally, the auditors recommended that investment funds only be withdrawn upon receipt of a properly validated Board resolution.

7.57 *Nova Scotia School Boards Association (NSSBA)* – The auditors recommended that the Board establish an internal audit committee that reports directly to the Board. They also recommended NSSBA examine software alternatives that may provide a more efficient system.

7.58 *Provincial Drug Distribution Program (PDDP)* – It was recommended that a process be put in place to ensure interentity accounts receivable and accounts payable balances are reconciled on a monthly or quarterly basis. The auditors also recommended PDDP follow up with the various district health authorities to confirm drop shipments received prior to year-end as it would help ensure completeness of revenues and expenditures.

7.59 *Public Trustee Trust Funds* – The Public Trustee should develop a system to ensure revenue and expense transactions are properly classified as they are recorded and prepare the financial statements on an accrual basis to be in compliance with generally accepted accounting principles. The Public Trustee should establish a policy for valuing real estate, and should also recognize gains and losses on the sale of other assets. These findings and recommendations were all reported in the prior year. In the current year, the auditors noted that the individuals hired to remove assets from client's homes are not bonded, which transfers risk of theft to the Public Trustee. Furthermore, the auditors noted that the Department of Justice should establish an oversight role for the Office of the Public Trustee.

7.60 *Resource Recovery Fund Board* – The auditors continued to recommend that management determine the appropriate amount of administration fees to charge between the Resource Recovery Fund and the Resource Recovery Fund Board Inc. and that appropriate steps be taken to ensure HST is reported correctly in both funds. In the current year, the auditors recommended that the Board finalize, approve, and implement policies and procedures related to change management. The auditors also noted that the Board had implemented controls in the current year to address system deficiencies identified in prior years.

7.61 *Sherbrooke Restoration Commission* – The auditors again recommended that the Commission hire at least one member with financial reporting expertise.

7.62 *Sydney Tar Ponds Agency (STPA)* – Consistent with the 2008-09 year, the auditors noted that the Province has the ability to post transactions to the STPA general ledger. They have recommended these entries should only be made to reflect payments made by the Province on behalf of the Agency. The auditors have further recommended the Agency establish an audit committee. In the current year, the auditors recommended that all contracts clearly state reporting requirements and punitive provisions for the contracted company should they not meet the requirements. They also recommended that the Province reconcile payments to vendor statements periodically and follow up on variances on a timely basis to avoid potential disputes or double payments.

7.63 *Waterfront Development Corporation* – The auditors found that the segregation of duty issue identified in the prior year had been eliminated.

Timeliness of Financial Reporting

Conclusions and summary of observations

The usefulness of financial information is impacted by its timeliness. Management of all agencies within the government reporting entity need to ensure their financial statements are released as required by legislation. Timely financial results are important for decision-making purposes.

7.64 *Compliance with deadlines* – The Provincial Finance Act required that financial statements for government business enterprises and government units be submitted to the Minister of Finance by June 30 following their fiscal year end (usually March 31). The new Finance Act imposes the same deadline.

7.65 There continue to be problems with receiving submissions by the deadline although the number of agencies in violation of this deadline has decreased for the year ended March 31, 2010. In 2009-10, eight agencies were not successful in providing audited financial statements and requested information by June 30. Three of these agencies were also late in providing the requested information in 2008-09. This delay results in using unaudited information for planning and monitoring purposes in the current year. The following exhibit provides a complete list of late agencies for 2009-10.

Late Agencies

IWK Health Centre
Nova Scotia Health Research Foundation
Nova Scotia Strategic Opportunities Fund Inc.
Provincial Drug Distribution Program
Industrial Expansion Fund
Nova Scotia Fisheries and Aquaculture Loan Board
Nova Scotia Housing Development Corporation
Sherbrooke Restoration Commission

7.66 The Province's March 31, 2010 consolidated financial statements were released on July 29, 2010 meeting the reporting requirement set out in the Provincial Finance Act.

Appendix

An Act Respecting the Office of Auditor General

Short title

1 This Act may be cited as the Auditor General Act. *R.S., c. 28, s. 1.*

Interpretation

2 (1) In this Act,

(a) "agency of government" means any department, board, commission, foundation, agency, association or other body of persons, whether incorporated or unincorporated, all the members of which, or all the members of the board of management or board of directors of which,

(i) are appointed by an Act of the Legislature or by order of the Governor in Council, or

(ii) if not so appointed, in the discharge of their duties are public officers or servants of the Crown, or for the proper discharge of their duties are, directly or indirectly, responsible to the Crown;

(b) "Auditor General" means a person appointed pursuant to this Act and includes any person appointed in his place and stead;

(c) "Minister" means the Minister of Finance;

(d) "public property" means property immovable or movable, real or personal, belonging to Her Majesty in right of the Province and includes property belonging to an agency of Her Majesty in said right.

(2) Unless otherwise provided in this Act, the words and expressions used herein have the same meaning as in the Provincial Finance Act. *R.S., c. 28, s. 2.*

Auditor General and Deputy Auditor General

3 (1) Subject to the approval of the House of Assembly by majority vote, the Governor in Council shall appoint a person to be the Auditor General.

(1A) Subject to subsection (1B), the Auditor General holds office for a term of ten years and may not be re-appointed.

(1B) The Governor in Council shall remove the Auditor General on the passing by the House of Assembly of a resolution carried by a vote of two thirds of the members of the House of Assembly voting thereon requiring the Governor in Council to remove the Auditor General from office.

(2) The Auditor General shall be paid out of the Consolidated Fund of the Province such salary as the Governor in Council determines.

(3) Notwithstanding subsection (2) hereof, the salary of the Auditor General shall not be reduced by the Governor in Council except on the passing by the House of Assembly of a resolution carried by a vote of two thirds of the members of the House of Assembly voting thereon requiring the Governor in Council so to do.

(4) Upon written advice of the President of the Executive Council and the Leader of the Official Opposition, the Governor in Council may, at any time the Legislature is not in session, suspend the Auditor General for cause, but the suspension shall not continue in force beyond the end of the next ensuing session of the Legislature.

(5) The Governor in Council may appoint a person to be Deputy Auditor General who shall hold office during pleasure and shall be paid such salary as the Governor in Council determines and shall perform such duties as are assigned to him by the Auditor General and who shall during any vacancy in the office of the Auditor General or during the illness or absence of the Auditor General have and exercise all the powers of the Auditor General.

(6) Such officers and employees as are necessary to enable the Auditor General to perform his duties shall be appointed in accordance with the Civil Service Act.

(7) The Auditor General and the Deputy Auditor general shall be qualified auditors. *R.S., c.28, s.3; 2005, c.13, s.1.*

Experts

4 (1) The Auditor General may engage the services of such counsel, accountants and other experts to advise him in respect of matters as he deems necessary for the efficient carrying our of this duties and functions under this Act.

(2) The compensation paid to those persons mentioned in subsection (1) hereof shall be determined by the Auditor General within the total dollar limitations established for the Office of the Auditor General in The Appropriations Act for the year in which the compensation is paid and shall be paid out of the Consolidated Fund of the Province. *R.S., c.28, s.4.*

Oath

5 (1) The Auditor General and every officer, agent and other person employed in the execution of any duty under this Act or under any regulations made hereunder, before entering upon his duties, shall take and subscribe to the following oath:

> I, ...solemnly and sincerely swear that I will faithfully and honestly fulfil the duties that devolve upon me by reason of my employment in the Office of the Auditor General and that I will not, without due authority in that behalf, disclose or make known any matter that comes to my knowledge by reason of such employment. So help me God.

(2) This oath shall be taken before such person, and returned and recorded in such manner, as the Governor in Council perscribes. *R.S., c.28, s.5.*

Public Service Superannuation Act

6 The Auditor General and all officers and employees of the Auditor General are employees within the meaning of the Public Service Superannuation Act and are entitled to all benefits therein set forth. *R.S., c.28, s.6.*

Powers and duties

7 (1) The Auditor General shall supervise and be responsible for all matters relating to the conduct of his office and of persons employed by him and shall have all the powers and perform all the duties conferred and imposed upon him by this Act, any other Act and the Governor in Council.

(2) The Auditor General may delegate to any person employed by him any duty, act or function that by this Act he is required to do other than reporting to the House of Assembly or to the Governor in Council. *R.S., c.28, s.7.*

Examination of account

8 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. *R.S., c.28, s.8.*

Annual report

9 (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. *1998, c.5, s.1.*

Other reports

9A (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 willfully 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 provisions 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 31st 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. *1998, c.5, s.1.*

Review and opinion of revenue estimates

9B (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. *1998, c.5, s.1.*

Access to information

10 (1) Notwithstanding the provisions of any other Act, every officer, clerk or employee of an agency of government shall provide the Auditor General with such information and explanation as the Auditor General requires and the Auditor General shall have free access, at all times, to the files, records, books of account and other documents, in whatever form, relating to the accounts of any agency of government.

(2) The Auditor General, if he deems it expedient, may station one or more of his officers in any agency of government to enable him more effectively to carry out his duties under this Act, and the agency of government shall provide necessary office accommodation for such officer or officers. *R.S., c.28, s.10.*

Audit before payment

11 (1) The Auditor General, if directed by the Governor in Council, shall audit the accounts of any agency of government before payment.

(2) Where the Auditor General is directed to audit, before payment, certain accounts or classes of accounts, no payment of such accounts may be made until the Auditor General has certified them to be correct or the Minister directs. *R.S., c.28, s.11.*

Examination of security

12 The Auditor General may examine in such manner and to the extent he considers necessary such of the securities representing any debt of the Province which have been redeemed and cancelled. *R.S., c.28, s.12.*

Security required

13 The Auditor General shall require every person employed by him who examines the accounts of an agency of government to comply with any security requirements applicable to officers and employees of that agency of government. *R.S., c.28, s.13.*

Powers, privileges, immunities

14 The Auditor General shall have, in the performance of his duties, the same powers, privileges and immunities as a Commissioner appointed under the Public Inquiries Act. *R.S., c.28, s.14.*

Special audit and report

15 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. *R.S., c.28, s.15; 2005, c.13, s.2.*

Payment for statutory audit

16 (1) Where under this Act or any other Act of the Legislature, the Auditor General is, or may be, required to examine and audit or inquire into the accounts of any agency of government, the Governor in Council may direct that the cost of the examination and audit or inquiry be paid by that person, institution or agency of government, and upon such direction such payment shall be made.

(2) The Auditor General may charge fees for the examination and audit or inquiry, or such other professional services rendered by the Office of the Auditor General, on the basis approved by the Treasury and Policy Board. *R.S., c.28, s.16; 2005, c.13, s.3.*

Examination by chartered accountant

17 (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. *R.S., c.28, s.17; revision corrected 1999.*

Where other auditor designated

18 Nothing in this Act shall be construed to require the Auditor General to audit or report upon the accounts of any agency of government if the Governor in Council, in pursuance of statutory authority in that behalf, has designated another auditor to examine and report upon the accounts of the agency of the government. *R.S., c.28, s.18.*

Powers and authorities

19 The Auditor General shall have all the powers and authorities exercisable by a deputy head under the Civil Service Act. *R.S., c.28, s.19.*

Regulations

20 The Governor in Council may make such regulations as are deemed expedient for the better carrying out of this Act. *R.S., c.28, s.20.*

Annual estimate

21 The Auditor General shall prepare annually an estimate of the sums required to be provided by the Legislature for the carrying out of this Act during the fiscal year, which estimate shall be transmitted to the Treasury and Policy Board for its approval, and shall be laid before the Legislature with the other estimates for the year. *R.S., c.28, s.21; 2005, c.13, s.4.*

Expenses

22 The expenses to be incurred under this Act shall be paid out of the Consolidated Fund of the Province. *R.S., c.28, s.22.*

Regulations Act

23 Regulations made by the Governor in Council pursuant to Section 20 shall be regulations within the meaning of the Regulations Act. *R.S., c.28, s.23.*

APPENDIX I