



Report of the Auditor General of Canada to the Legislative Assembly of Nunavut—2009

Report No. 1

Financial Management Practices—
Nunavut Department of Health and
Social Services



Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

All of the audit work in this report was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

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Auditor General of Canada
Vérificatrice générale du Canada

To the Honourable Speaker of the Nunavut Legislative Assembly

I have the honour to transmit herewith my report on the Audit of the Financial Management Practices—Nunavut Department of Health and Social Services to the Nunavut Legislative Assembly in accordance with the provisions of section 48 of the *Nunavut Act*.

Yours sincerely,

A handwritten signature in cursive script that reads "Sheila Fraser".

Sheila Fraser, FCA

Ottawa, 31 March 2009

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Financial Management Practices

Nunavut Department of Health and Social Services

Main Points

What we examined

The Nunavut Department of Health and Social Services is responsible for delivering services to around 30,000 Nunavummiut, located in 25 communities widely dispersed across a vast area. In 2007–08 the Department spent a total of \$249 million delivering these services. It is the largest department of the Government of Nunavut, with more than 900 positions among its headquarters and three regional operations. In the last two years, about 35 percent of positions were vacant due to difficulties in recruiting and retaining qualified staff.

We undertook this audit at the request of the Legislative Assembly, which was concerned that Health and Social Services has incurred tens of millions of dollars in over-expenditures and budget shortfalls since 1999–00 and has contravened the *Financial Administration Act* provisions that prohibit over-expenditures. Historically, the Department has overspent its initial budget and requested supplementary appropriations every year to meet its financial obligations, frequently after the money has been spent.

We examined whether the Department is able to fulfill its legislative and regulatory requirements for managing financial resources. In particular, we looked at how the Department plans and budgets and how it monitors its spending. We also examined the systems for the processing of financial transactions, which is currently carried out by the Nunavut Department of Finance on behalf of Health and Social Services.

Why it's important

All managers in government are entrusted with public resources to deliver programs and services. The Department is entrusted with about one quarter of the entire territorial budget to provide health and social services to Nunavummiut. Effective financial management is an important part of what financial and program managers are expected to do in delivering programs and services and exercising stewardship over the resources provided to them.

What we found

- The Department has a history of exceeding its budget and requiring supplementary estimates. It does not prepare work plans as part of its budgeting process to determine what services it will be providing, how much it will cost to provide them, and whether it will need to choose which priorities can be managed within its spending target.
- The annual budgets do not reflect how and when the Department actually intends to spend the funds during the year. For example, it budgets for payroll costs as though all its positions were fully staffed, yet its vacancy rate from year to year has been around 34 percent. This budgeting practice misrepresents what the Department really expects to spend on payroll. During the year, the extra payroll funding is moved to other areas that were not budgeted for adequately. Moving funds from one budget area to another is a frequent practice of the Department during the year. These practices make it difficult for the Department to compare its spending during the year against its budget.
- The Department of Finance lacks the human resources capacity to collect amounts owed to Health and Social Services, such as money owed by other territorial and provincial governments for services provided to their residents while in Nunavut, or money owed by Nunavut residents as co-payment for travel and other costs. Little or no action is taken to collect these amounts because of staff shortages. As many of these accounts are more than a year old, it is unlikely that the Department will be able to collect the amounts owed.
- There are significant delays in paying suppliers. In fact, several suppliers have put the Department's credit on hold, which impedes operations. One pharmaceutical supplier has terminated its business relationship with the Department. Other vendors will no longer supply the Department unless paid in advance. We found that payments were made to vendors before the accounts were properly verified, which is not in compliance with authorities and represents a significant loss of control. Failure to pay vendors in a timely fashion impairs the Department's ability to do business.
- The Department has begun to take action to improve its financial management, in particular its budget management. Senior management has made efforts with the intention of ensuring that budget managers fully understand their financial management responsibilities and accountabilities. Delegated signing authorities

were revised with each budget manager being directed to control their budgets as they would be held accountable. Also in 2007, restructuring of regional corporate services occurred with the intention of enhancing service delivery related to financial functions. The Department has also recently introduced a set of financial desk procedures to assist managers in carrying out their financial obligations. At a senior management meeting in the spring of 2008, guidance was provided to managers regarding financial processes and accountability for budgets.

***The departments have responded.** The departments agree with our recommendations. Their responses follow the recommendations throughout the report.*

Introduction

1. During the 2008–09 fiscal year, the Government of Nunavut (the Government) plans to spend in excess of \$1 billion providing services to Nunavummiut (the people of Nunavut). The Government will spend approximately one quarter of this budget through the Department of Health and Social Services (the Department), its largest department. In the 2007–08 fiscal year, the Department spent a total of \$249 million delivering health and social services programs.
2. The Department reports to the Legislative Assembly of Nunavut through the Minister of Health and Social Services. The Department's mission is to promote, protect, and provide for the health and well-being of Nunavut residents so that they can lead self-reliant and productive lives.
3. The Department's headquarters is located in Iqaluit. Its three regional offices are located in Pangnirtung, Rankin Inlet, and Cambridge Bay. The Department operates the Qikiqtani General Hospital, the only hospital in the territory, which is located in Iqaluit, and health centres in the remaining 24 territorial communities. The Department is also responsible for social programs and services in all of the territory's communities. In addition to providing health and social services within the territory, the Department must send many Nunavummiut outside the territory for specialized care.
4. Maintaining human resources capacity is a long-standing challenge for the Government and the Department, and this topic will be the focus of a future audit. At 31 March 2008, the Department's overall vacancy rate was 36 percent, or approximately 348 of its 954 positions. For professional positions, the vacancy rate was 45 percent, with 172 of 381 professional positions unfilled. In addition to vacancy rates, there has been high turnover in staff at all levels in the Department, including senior management. Since its creation in 1999, the Department has had a total of nine deputy ministers; the current Deputy Minister assumed his post in May 2007. During the course of our audit, one of the two assistant deputy minister positions was vacant.
5. The primary authority that governs financial management in the Government is the *Financial Administration Act* (FAA). Nunavut's Financial Administration Manual (FAM) is the primary source of financial management policy. Its many directives set out detailed guidelines and delegations of authorities.

6. The Financial Management Board (FMB) is a committee of the Executive Council of the Legislative Assembly established under the authority of the FAA. It is responsible for the Government's overall financial planning, budgeting, allocating financial resources, and developing and implementing the rules that govern the accounting process. FMB approval is necessary for any financial matter requiring final approval by the Legislative Assembly, including the Government's Main Estimates for operations and maintenance expenditures, Capital Estimates, and supplementary appropriations.

7. The Nunavut Government has issued a key planning document, *Pinasuaqtavut: 2004–2009*, which establishes its commitments, goals, and values. This document talks about the goal of healthy communities in Nunavut.

8. Between 1999 and mid-2007, the Department of Health and Social Services was responsible for all aspects of its financial management, including departmental planning and budgeting, processing transactions, and general accounting operations. In mid-2007, the Department's responsibilities for transaction processing and general accounting operations were transferred to the Department of Finance at its Iqaluit, Rankin Inlet, and Cambridge Bay offices.

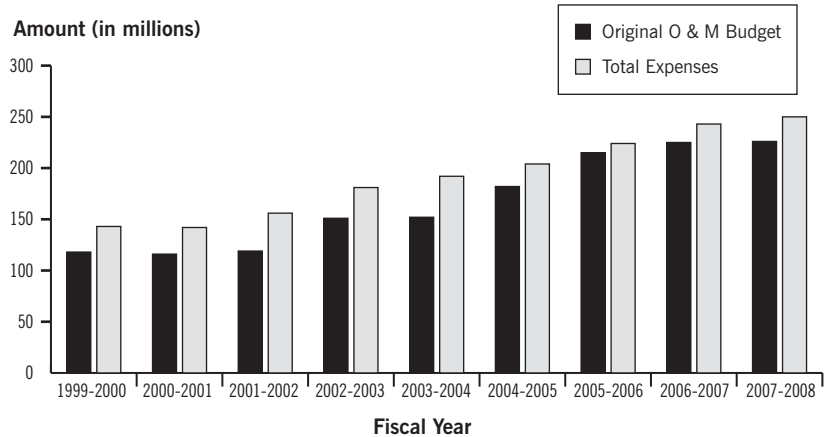
9. Every fiscal year since 1999–00, the Department has spent more money than was originally approved by the Legislative Assembly (Exhibit 1). This has resulted in the Department requesting more money, in supplementary appropriations, throughout the fiscal year in order to meet its financial obligations. We note that this overspending is a problem not only for the Department, but also for the Government as a whole. We identified this in our follow-up audit of the 2005 Report to the Legislative Assembly of Nunavut.

10. In response to the repeated requests from the Department for supplementary appropriations, in March 2007, the Legislative Assembly requested that the Auditor General undertake a performance audit of the Department's financial management practices.

Focus of the audit

11. We examined whether the Department can demonstrate that it has established a planning and budgeting process that enables it to meet its legislative and regulatory requirements for managing financial resources. We examined the Department's planning processes for the 2007–08 and 2008–09 fiscal years and we reviewed its capital plans

Exhibit 1 The Department spends more money than originally approved in its operations and maintenance (O & M) budget (Main Estimates)



for the fiscal years 2005–06 through 2008–09. We also examined the Department’s budgeting process and the processing of its payables and receivables for the 2007–08 fiscal year.

12. We examined how the Department managed the processing of financial transactions in the Department of Finance. In particular, we examined whether the processing of transactions provides for accurate, complete, and timely financial information.

13. We concluded our examination of the Department by looking at the monthly budget monitoring process and specifically whether this process provides managers with the necessary information and tools in order to manage their budgets. We also examined whether the Department has considered cost-recovery and collected on monies owed to it.

14. More information on the audit objective, scope, approach, and criteria are in **About the Audit** at the end of this report.

Observations and Recommendations

Planning and Budgeting

15. Planning and budgeting are important elements of financial management since they enable an organization to allocate financial resources based on its plans and expectations; that is, its long-term global objectives.

16. We expected that the Department of Health and Social Services would plan for the delivery of health and social services for the short and long term and that these plans would be consistent with Government expectations.

The Government has not defined long-term expectations for the Department

17. Long-term expectations for the Department would include the prescribed types and levels of health and social services to be provided to Nunavummiut for the foreseeable future. The Government of Nunavut would set these long-term expectations, support them, and commit to them.

18. In its planning document, *Pinasuaqtavut: 2004–2009*, the Government does not provide specific expectations as to the types and levels of services the Department is to provide. We did not find any additional documents that outline these expectations. As a result, the Department does not have clear direction to help it plan for both the short and long term.

The Department does not currently have a long-term plan

19. We found that the Department has not established plans for the long-term delivery of health and social services or for the **types** and **levels of service** to be provided to Nunavummiut. However, our examination indicated that senior management had established some short-term priorities and strategies for the coming years. For example, senior management has initiated a Nunavut Nursing Recruitment and Retention Strategy, which may help the Department to keep nurses in Nunavut. However, these short-term strategies are not part of a longer-term comprehensive plan that is in line with Government expectations.

20. Throughout the Nunavut government there is high staff turnover, at all levels, even the most senior level. It is critical that the Department clearly establish and communicate its longer-term expectations for service delivery, including the types and levels of service. Understanding these longer-term expectations allows

Type of service—addresses those fundamental questions of what services will be provided, for example, whether the Department would provide primarily in-territory or out-of-territory services, or physician or nurse practitioner services.

Level of service—considers questions of wait times, service coverage, and standards.

management to plan for and work toward specific goals. Without long-term expectations, Departmental goals and the subsequent plans can change frequently.

Capital plans are incomplete and do not show all of the Department's financial obligations

21. The Department is responsible for preparing a documented capital plan that includes all supporting estimates and assumptions, including the total cost of the projects the Department is undertaking and the necessary time to complete them. The plan should be complete and demonstrate the Department's total capital financial obligations to help both the Department and the Legislative Assembly make informed decisions. The Department should revise the plan accordingly to reflect progress to date and changes over time.

22. We compared the Department's approved capital plans for the past four fiscal years to assess their completeness. We noted many changes from one year to another:

- Some projects are not entirely defined and have references to "unknown" locations.
- Plans for some multi-year projects identify funding only for the projects' first few years, but not for later years; the plans therefore do not provide complete cost information.
- There were inconsistencies in the total cumulative costs of a project from prior years without any analysis or explanation.

23. For these reasons, the capital plans do not provide a complete picture of the Department's capital projects and their related financial commitments.

24. Without a complete capital plan that reflects the total financial commitments and time requirements, the Department cannot make informed decisions on what it can and cannot afford in the future. This could put at risk the Department's ability to complete projects already under way and increases the risk that capital expenditures could exceed available funding.

25. **Recommendation.** The Department of Health and Social Services should ensure that its capital plans are complete by including all capital projects and presenting its total financial obligations.

The Department's response. The Department of Health and Social Services agrees with this recommendation.

The Government's established capital planning process incorporates projects that result in the acquisition of new capital assets as well as expenditures that increase the expected useful life of existing capital assets. Capital projects may be undertaken in a single fiscal year or span several years.

The Department recognizes that individual projects may be impacted by changes that affect approved appropriations. Projects may be delayed or revised to meet shifting priorities as more urgent Government priorities are identified, either during the planning process or in the course of the fiscal year.

In 2009–10, the Department will realign job responsibilities to ensure that all future and ongoing capital project requirements and financial obligations are identified, included in the planning process, and monitored for progress against the capital plan.

Budget work plans do not exist

26. The purpose of budgeting is to support planning and to serve accountability by enabling managers to plan for and allocate the resources they need to deliver a product or service based on established expectations. It is important that a department prepare reliable budgets that include forecasts of the resources it needs to meet expectations.

27. We expected that the Department of Finance, in conjunction with the Department of Health and Social Services, would have established an annual expenditure target for the Department. We also expected that both departments would analyze this expenditure target against historical data. This analysis would include an identification of all major tasks and assumptions. Furthermore, we expected that once the annual expenditure target was approved, the Department would have prepared budget **work plans** that support this annual expenditure target and that these work plans would be prioritized, negotiated, and approved.

28. In the 2007–08 fiscal year, the Department spent \$249 million, which exceeded the expenditure target of \$225.6 million. The 2007–08 expenditure target was based on the initial budget estimate for the previous fiscal year and did not take into account the actual spending in 2006–07 or projected costs for the 2007–08 fiscal year. Nor did it consider the cost of major tasks and assumptions. In 2007–08, the Department again had to request supplementary appropriations.

29. We found that the Department develops its budget to support the expenditure target, which is established by the Department of Finance's Expenditure Management Group and approved by the FMB. The Department requires budget managers to develop and submit

Work plan—a list of all the operational activities to be performed; time requirements needed to carry out the activities; key milestones to be achieved; and resources (people, physical assets, technology, and dollars) needed to achieve expected operational results.

budgets for their respective areas that meet the expenditure target. However, some budget managers believe that the target may not be sufficient to meet operational needs. We found that managers do not develop work plans and therefore the Department cannot inform the Government of what it can and cannot provide.

30. Budget managers need to develop business cases to secure additional resources. While some budget managers are developing business cases, many informed us that they lacked the human resources capacity to assist them and time to do this. From the outset, some budget managers believe they will have to overspend in order to deliver the same level of health and social services as the previous year. As a result, there is a disconnect between the FMB target and the manner in which managers plan and manage their expenditures.

31. In an effort to harmonize the planning and management of expenditures in the Department, the Deputy Minister, upon his appointment in the spring of 2007, has undertaken a number of initiatives, including

- an initial restructuring of regional corporate services within the Department with the intention of improving the delivery of finance services;
- the initial withdrawal of delegated authorities for spending, contracts, and travel, to provide him with an understanding of how the Department conducts business and spends;
- the subsequent revision and restoration of delegated signing authorities to individual budget managers, with specific instruction to control their budgets since they are accountable for the budgets under their area of responsibility; and
- at a senior management meeting in April 2008, the provision of guidance to managers regarding financial processes and accountability for budgets.

32. In November 2008, for the first time in recent years, the Department was fully staffed in its corporate services division. At the time of this audit, it was too early to assess progress on these recent initiatives. However, over time these factors may help to improve financial management within the Department and specifically with its planning and management of expenditures.

33. Recommendation. The Department of Finance, in conjunction with the Department of Health and Social Services, should ensure that the Department's expenditure target incorporates estimates of major

tasks, historical data, and assumptions. The Department of Health and Social Services should develop work plans that are prioritized, negotiated, and approved to support the funds available.

The Departments' response. *The Department of Health and Social Services and the Department of Finance agree with this recommendation.*

The Department of Health and Social Services will work within the Government of Nunavut financial planning model to realistically forecast its expenditure requirements for health and social services programs and delivery mechanisms, incorporating the recommended elements.

The budget and financial managers are responsible for providing realistic, timely, and accurate variance reports to assist in ongoing financial projections related to original work plans.

Over the next three years, the Department of Health and Social Services' information systems will be developed, expanded, and/or improved as required. Once fully established, these systems will provide relevant and timely information on developing trends in Nunavut health care that will support the development of proactive work plans. This will support the Department of Health and Social Services in making strong business cases based on more relevant forecasts of the future needs of Nunavummiut.

The budget does not reflect the Department's anticipated expenditures

34. Once its budget is approved, a department should allocate the budget funds to reflect work plans and timing of spending. This is important to permit a budget manager to monitor spending against the budget throughout the year. We expected that the Department would have allocated the approved expenditures in a manner that reflects the work plans and timing of disbursements.

35. We found that the Department does not allocate its budget funds as it actually intends to spend them. For example, the Department budgets payroll costs as though all its positions were fully staffed. However, for the last two years, the Department has had a vacancy rate of approximately 35 percent. This budgeting practice misrepresents the true expected departmental expenditures for payroll. The budgeted payroll amount that was not used for payroll in the 2007–08 fiscal year was over \$21 million. The Department reallocated this extra payroll funding to other types of expenditures that were not adequately budgeted for.

36. Reallocation of budget funds to different areas further emphasizes the disconnect between the budget and actual

expenditures. The Department does not initially budget according to how it intends to spend the funds during the year. We found that, in addition to the extra payroll funds, the Department frequently reallocates other budget funding. In the 2007–08 fiscal year, there were a total of 58 budget transfers (high-level approvals of the movement of money), an average of more than one per week, which indicates significant budget adjustments during the year. As a result, staff spend time transferring funding in order to meet the Department's financial obligations. This reallocation of budgets makes budget monitoring more difficult for managers.

37. We found that the Department budgets its anticipated cash disbursements in equal monthly instalments, which does not reflect the anticipated expenditure pattern. The combination of the reallocation of funding and the equal cash flow disbursements makes it difficult for the Department to monitor, track, and analyze spending against its budget.

38. In our view, the 2007–08 annual budgeting process did not produce an accurate picture of the resources the Department needed to provide health and social services to Nunavummiut.

39. Recommendation. The Department of Health and Social Services should ensure that it allocates its budget based on work plans that show what it actually intends to do during the year. Anticipated cash disbursements should reflect planned spending patterns.

The Department's response. *The Department of Health and Social Services agrees with this recommendation.*

Departmental services include acute care, specialty clinics, routine medical travel, and emergency air medivacs. These services are often difficult to accurately predict in terms of the volume required in a given month. This impacts the ability to accurately forecast the timing of expenditures.

The budget and financial managers will be required to identify more realistic planned spending patterns in the detailed work plans for those areas that are predictable in nature. These spending patterns will be incorporated into the allocation of the departmental budget to potentially reduce the number of budget transfers required during the fiscal year.

Payables and Receivables

40. One of the primary responsibilities of an organization's finance group is to ensure that the traditional accounting functions, including the processing of payables and receivables, are adequately done to produce complete, accurate, and timely financial data.

41. In July 2007, the Department of Health and Social Services moved all the processing of its financial transactions, such as processing payments, recording amounts to be received, and processing manual entries for corrections, to the Department of Finance. The Department of Health and Social Services is now responsible for overseeing the processing of its transactions in the Department of Finance since this work affects the quality of its financial information and ultimately its capacity to plan and forecast variances to budgets.

The Department has developed guidance in authorizing transactions but more work needs to be done

42. We expected that the Department of Health and Social Services would have developed guidance for managers to facilitate the timely, complete, and accurate processing of transactions.

43. We noted that the Department has recently introduced a *Desk Procedures Manual*, which includes steps on how to proceed when authorizing transactions. It provided this Manual to all budget managers in the Department, offering the first set of uniform guidance for authorizing the transactions that the Department of Finance will process on its behalf. Training on the Manual was provided in most of the regional offices in the territory. These Desk Procedures are a step in the right direction toward providing managers with guidance to facilitate the processing of transactions. However, the procedures do not include some important elements to help managers monitor budgets and authorize transactions, such as the steps they need to take when they identify significant variances.

A memorandum of understanding to guide the responsibilities of the two departments is lacking

44. We expected that the Department would have a memorandum of understanding (MOU) or service agreement with the Department of Finance that would outline the roles and responsibilities of each department. This agreement would clarify expectations and help the Department to monitor the work that the Department of Finance is carrying out on its behalf. Although we were provided with draft copies of an agreement, it had not been finalized. Without an agreement in place between the two departments, there is a risk that when problems occur, it would not be clear who would address these issues and how.

45. **Recommendation.** The Department of Health and Social Services and the Department of Finance should finalize the service

agreement that outlines the roles and responsibilities of each department in the processing of transactions.

The Departments' response. *The Department of Health and Social Services and the Department of Finance agree with this recommendation.*

The Department of Health and Social Services has recently fully staffed the Corporate Services division, which is responsible for departmental financial management, planning, reporting, and monitoring. The Department of Health and Social Services will work with the Department of Finance to execute the final service agreement between the two departments before the end of the 2008–09 fiscal year.

The processing of payables is inaccurate, incomplete, and untimely

46. The processing of payables is important since it impacts the financial reports managers use for decision making, the Department's relationships with vendors, and its ability to ensure receipt of necessary supplies to properly deliver its services. We expected the Department of Finance to ensure that the processing of invoices is accurate and complete, and that payments are made in a timely manner. The quality of the financial information the accounting system generates through financial reports can be valuable only if each of these three qualities are respected.

47. The Department of Finance has no formal procedures to ensure the presence of controls and the standardization of processing. This lack of procedures is compounded by staff turnover and the lack of training offered to processing staff. Without formal procedures to follow, some regional managers have prepared a list of steps to guide the work of processing staff in their region.

48. To assess the timeliness of payments, we looked at accounting information for the financial year-end of 31 March 2008. We found that for the month of March 2008 it took on average 58 days to process an invoice, from invoice date to payment date. This means that the Department of Finance is unable to process payments within the time prescribed by the Financial Administration Manual (FAM), which is 30 days for out-of-territory businesses (20 days for Nunavut businesses). Moreover, we found that about 16 percent of the 3,070 invoices paid in March 2008 were paid more than 90 days after the receipt of the invoice. Because of delays in payments, many vendors are dissatisfied.

49. An examination of the Manual journal entries for the 2007–08 fiscal year (as of 10 July 2008) allowed us to assess both the timeliness and accuracy of the recording of transactions in the accounting

records. We found that 523 of all 1,066 Manual journal entries (49 percent) were made after the Department's March 31 fiscal year-end. Approximately 275 of these entries (53 percent) were for corrections, adjustments, and reclassifications. This implies that a significant amount of corrections, adjustments, and reclassifications occur after year-end, which calls into question the accuracy of the information contained in the monthly variance reports that managers review throughout the fiscal year.

50. We identified a total of 16 instances where two transactions had the same invoice number, same supplier, and same payment amount but were paid with two different cheques. These 16 instances represent potential overpayments totalling \$24,000. Staff confirmed that duplicate payments do occur since they have had vendors return cheques and indicate that they have already received payment. Staff informed us that approximately 5 to 10 percent of payments were made based on photocopies of invoices rather than the originals. Making payments based on photocopies is not a good practice and is a significant control weakness as it increases the risk of making duplicate payments. This practice is done to compensate for already late payments and to accommodate vendors by making payments more quickly. Finance officers indicated that they try to ensure, through a review of their accounting system information, that a payment has not already been made.

51. In assessing the completeness of the Department of Finance's processing of transactions, we observed many unprocessed invoices that were not even recorded in the financial system. The reports that the accounting system generates are only as valuable as the information that is entered into the system. The fact that not all invoices have been recorded indicates that the accounting system does not contain complete information on the Department's financial situation at any given time.

52. Late payment results in vendor dissatisfaction. We found that, mainly due to the late payment of invoices, vendors call repeatedly to inform both departments they have not been paid. Different levels of staff receive vendor complaints, including the deputy ministers of both departments. This situation is problematic, particularly in an understaffed environment, since staff need to devote time to handling these complaint calls.

53. As a result of vendor dissatisfaction, we observed that business relationships have been impaired or even terminated. For example, one specialized pharmaceutical supplier has decided to terminate its

business relationship with the Department on a permanent basis. In another case, because of frequent delays in processing payments, a group supplier of medical equipment informed the Department that it could no longer order at advantage prices. Instead, the Department must incur extra costs by purchasing from smaller suppliers.

54. Because of the delays in processing, vendors have taken steps to guarantee their payment from the Department. Some vendors such as airlines and hospitals now impose conditions of payment. Some withhold credit or ask for advance payments. This creates further administrative burdens for the Department since reconciliations between the amount advanced and the actual expenditures are necessary in order to ensure payments are supported by goods and services provided to the Department.

55. The Department has not respected the FAM timelines that govern payment terms. The Departmental workarounds to secure services and goods are reactions to a payment processing system that is not working. As a result of this weak payment processing system, the Department does not know at any given time how much it owes to its creditors.

56. Recommendation. The Department of Health and Social Services, in conjunction with the Department of Finance, should develop a process to ensure invoices are processed accurately, completely, and within the time frames outlined in the Financial Administration Manual. The Department of Finance should discontinue the practice of making payments based on photocopies and ensure any duplicate payments are recovered.

The Departments' response. *The Department of Health and Social Services and the Department of Finance agree with this recommendation.*

The Department of Health and Social Services will continue to work closely with the Department of Finance to define the ongoing roles, responsibilities, and procedures for all aspects of the accounts payable cycle to constantly improve and support the timely and accurate processing and recording of transactions.

The practice of processing transactions based on copies of invoices will be avoided. Where absolutely necessary due to extenuating circumstances, copies will be clearly identified as such by the initiating staff. When departmental staff identify duplicate payments, recovery actions will be promptly pursued by the Department of Finance.

Co-payment—a portion of the cost of travel provided by the Nunavut government that some travellers must pay back.

The Department is not collecting all monies owed

57. An organization's ability to collect on monies owed to it translates into more resources to purchase materials, hire employees, and deliver its services. The Department is mainly a service provider and most of its financial transactions are directed toward paying suppliers; however, the Department also has receivables and opportunities to recover funds. Examples of opportunities to recover funds include money owed by other territorial and provincial governments for medical care provided to their residents while in Nunavut, overpayments made to employees who left the Department, and **co-payments** for medical travel that some Nunavut residents must pay back.

58. At any given time, an organization should know the amount that it can potentially collect from its debtors. It should notify its debtors in a timely fashion and pursue collection actions to recover monies owed to it. We expected that the Department would record receivables in a timely fashion, take collection actions according to the Financial Administration Manual, and be able to identify the outstanding amount that it could possibly recoup at any given time.

59. The Department can indicate to us the total amount owed to it through its accounts receivable report. We reviewed this report to assess the timeliness of collection efforts. An aged receivables report, showing the amounts of receivables in prior periods, allowed us to determine the outstanding amount that the Department could possibly recover. We found that receivables older than a year represent a significant portion of the total outstanding receivables balance. As of 31 March 2008, the Department had a total of \$5,568,000 in receivables over 30 days, representing 93 percent of all receivables recorded at that date. Of the outstanding amounts, \$2,500,000, representing 42 percent of receivables, were over 365 days.

60. We have highlighted problems related to accounts receivable many times in the past. The Auditor General's most recent Follow-up on the 2005 Report to the Legislative Assembly of Nunavut also notes that this is a Government-wide issue.

61. The Department's ability to recover the monies owed to it is hindered since receivables positions in Department of Finance offices in Iqaluit and Cambridge Bay are not fully staffed. During our visit to Iqaluit, no staff member was working on collections at the Department of Finance. Some of the positions identified for this collection work have remained vacant for many months. The Department of Finance has considered the use of third-party collection in the past; however, it is not currently pursuing this option. It is aware that it has not taken

advantage of all opportunities to collect monies owed to the Department of Health and Social Services.

62. Recommendation. Both the Department of Health and Social Services and the Department of Finance should develop and implement an action plan that identifies opportunities to collect monies owed. If sufficient human resources are not available, the departments should consider engaging the services of a third party to collect accounts receivable.

The Departments' response. *The Department of Health and Social Services and the Department of Finance agree with this recommendation.*

The Department of Health and Social Services has collaborated with the Department of Finance on the development and implementation of an action plan that identifies and provides direction on the recovery of monies owed to the Government. In July 2008, the Financial Administration Manual (FAM) was revised to include the use of external collection agencies, and this change was incorporated into the action plan.

In October 2008, training was provided to staff in medical billing procedures to support the recovery of funds owing to the Government of Nunavut. The Department is in the process of staffing the Medical Services Billing Officer position to ensure that accounts owed to the Government of Nunavut for medical services provided are recovered on a timely basis.

Information The lack of quality information limits the Department's ability to recover costs

63. An organization should establish, communicate, and follow policies to ensure the integrity of its financial and non-financial information. Organizations should ensure that their information is properly controlled, maintained, and safeguarded and that they have procedures to collect information in a timely, complete, and accurate fashion to facilitate decision making.

64. We expected that the Department would have collected information that is complete, accurate, and timely. This information would be available to managers to help them plan, monitor, and make informed decisions, such as taking advantage of cost-recovery opportunities.

65. The previous section established that the Department's processing of transactions did not produce quality financial information for managers. We have also found limitations in the quality of the Department's non-financial information that have prevented it from recovering costs.

66. One area where the quality of non-financial information prevents recovery of monies is under the Non-Insured Health Benefits (NIHB) program. Under the NIHB, the Department can recover certain reimbursable costs from the federal government. However, the Department does not always collect the complete information necessary to recover some of these reimbursable costs. For every Nunavut resident who is sent to the south, a travel warrant is issued and forms must be completed by boarding homes and hospitals. The Department does not always collect complete and accurate information on the residents who are travelling on travel warrants. For example, it would record the wrong name of the patient seeking medical services in the south. Because of the lack of complete and accurate non-financial information, the Department cannot justify the expenses and does not meet the federal program requirements for reimbursement. Similarly, incomplete information impedes the Department's ability to recover monies from non-residents who require medical services in Nunavut.

67. We also found that the Department does not properly maintain information on Workers' Safety & Compensation Commission (WSCC) cases. The travel costs associated with these cases are reimbursable to the Department; however, we were informed that this travel is often recorded as medical travel as opposed to workers' compensation, thus preventing the Department from having the necessary information to recover these costs.

68. The Department has not established policies to guide staff and service providers in collecting quality non-financial information. The Department could not provide us with an estimate of the potential recoveries lost because of the poor quality of its non-financial information.

69. Recommendation. To maximize its cost recoveries, the Department of Health and Social Services should

- establish clear policies and procedures internally for its staff and externally for service providers so that all the information regarding the Non-Insured Health Benefits (NIHB) program and medical services to non-residents is available; and
- establish clear policies and procedures on the processing of Workers' Safety & Compensation Commission (WSCC) cases and train staff across the region on the need to properly code WSCC cases.

The Department's response. *The Department of Health and Social Services agrees with this recommendation.*

In November 2008, direction and training in the proper processing and coding of all financial transactions was provided to staff to ensure that amounts that are reimbursable from third parties such as the Workers' Safety & Compensation Commission (WSCC) are properly identified and recovered.

The Department of Health and Social Services has reviewed the reporting structure and workload of the Health Insurance operations to ensure that capacity and leadership issues are addressed.

The Department is developing clear policies and processes to be finalized and implemented in the 2009–10 fiscal year. These will be communicated to staff as well as to external service providers to accurately capture and provide the information required to support cost recovery for the Non-Insured Health Benefits (NIHB) program and the provision of medical services to non-residents.

Conclusion

70. The Department of Health and Social Services could not demonstrate that it has established a planning and budgeting process that is supported by timely, complete, and accurate information, and which enables it to fulfill its legislative and regulatory requirements for managing financial resources. However, the Department has made efforts to improve financial management, in particular budget management.

71. From a planning perspective, the Department did not have long-term plans that provide sufficient direction as to the type and level of health and social services to be provided. These long-term plans are very important in a department with human resource capacity challenges such as a high vacancy rate and high turnover in senior management. From a budgeting perspective, the establishment of an expenditure target was not supported by the analysis of historical data and assumptions, and managers did not prepare budget work plans to achieve the expenditure target.

72. Furthermore, we found that the processing of payables is inaccurate, incomplete, and untimely. As a result, financial reporting is inaccurate and unreliable and does not enable managers to appropriately monitor their progress against their budgets. The late payment of Department invoices has caused vendor dissatisfaction.

In addition, human resources capacity issues have prevented the Department from collecting a significant amount of monies owed to it and limitations in the quality of the Department's non-financial information have prevented it from recovering costs. These weaknesses can result in managers overspending their budgets, compromised business relationships, and lost opportunities for cost-recovery. As a consequence, the Department may need to seek supplementary appropriations.

About the Audit

Objective

The objective of this audit was to determine whether the Department of Health and Social Services could demonstrate that it has established a planning and budgeting process that is supported by timely, complete, and accurate information, which enables it to fulfill its legislative and regulatory requirements for managing financial resources.

Scope and approach

We examined the planning and budgeting process of the Department of Health and Social Services for the fiscal years 2007–08 and 2008–09. We also examined how the Department managed the processing of financial transactions in the Department of Finance. We concluded our examination of the Department by looking at the monthly budget monitoring process.

We interviewed management and staff at headquarters and in the regions in both departments. We obtained and analyzed information from the government's financial system and reviewed documents to support our examination.

Criteria

Listed below are the criteria that were used to conduct this audit and their sources.

Criteria	Sources
We expected that the Department could demonstrate that operational results, such as expected outputs, are established and communicated within the Department.	Financial Management Capacity Model Application Guide. Office of the Auditor General, 1999. (Planning and Budgeting)
We expected that the Department prepares a documented financial plan that includes supporting estimates and assumptions, is approved by senior management, complies with legislated requirements, justifies the resources needed, provides a basis for control, and can be used to hold managers accountable.	Financial Management Capacity Model Application Guide. Office of the Auditor General, 1999. (Planning and Budgeting)
We expected that a realistic corporate budget is prepared, negotiated, and approved for the Department and that the budget provides for enough resources to achieve the intended objectives.	Financial Management Capacity Model Application Guide. Office of the Auditor General, 1999. (Planning and Budgeting)
We expect that financial and non-financial data, including all transactions, are collected and processed completely and accurately on a timely basis.	Financial Management Capacity Model Application Guide. Office of the Auditor General, 1999. (Data Management and Internal Controls Management) Financial Administration Manual (Nunavut), Directive 803-3

Management reviewed and accepted the suitability of the criteria used in the audit.

Audit work completed

Audit work for this Report was substantially completed on 31 July 2008.

Audit team

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Appendix List of recommendations

The following is a list of recommendations found in the report. The number in front of the recommendation indicates the paragraph where it appears in the report. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
Capital plans are incomplete and do not show all of the Department's financial obligations	
<p>25. The Department of Health and Social Services should ensure that its capital plans are complete by including all capital projects and presenting its total financial obligations. (21–24)</p>	<p>The Department of Health and Social Services agrees with this recommendation.</p> <p>The Government's established capital planning process incorporates projects that result in the acquisition of new capital assets as well as expenditures that increase the expected useful life of existing capital assets. Capital projects may be undertaken in a single fiscal year or span several years.</p> <p>The Department recognizes that individual projects may be impacted by changes that affect approved appropriations. Projects may be delayed or revised to meet shifting priorities as more urgent Government priorities are identified, either during the planning process or in the course of the fiscal year.</p> <p>In 2009–10, the Department will realign job responsibilities to ensure that all future and ongoing capital project requirements and financial obligations are identified, included in the planning process, and monitored for progress against the capital plan.</p>
Budget work plans do not exist	
<p>33. The Department of Finance, in conjunction with the Department of Health and Social Services, should ensure that the Department's expenditure target incorporates estimates of major tasks, historical data, and assumptions. The Department of Health and Social Services should develop work plans that are prioritized, negotiated, and approved to support the funds available. (26–32)</p>	<p>The Department of Health and Social Services and the Department of Finance agree with this recommendation.</p> <p>The Department of Health and Social Services will work within the Government of Nunavut financial planning model to realistically forecast its expenditure requirements for health and social services programs and delivery mechanisms, incorporating the recommended elements.</p> <p>The budget and financial managers are responsible for providing realistic, timely, and accurate variance reports to assist in ongoing financial projections related to original work plans.</p>

Recommendation	Response
	<p>Over the next three years, the Department of Health and Social Services' information systems will be developed, expanded, or improved as required. Once fully established, these systems will provide relevant and timely information on developing trends in Nunavut health care that will support the development of proactive work plans. This will support the Department of Health and Social Services in making strong business cases based on more relevant forecasts of the future needs of Nunavummiut.</p>
<p>The budget does not reflect the Department's anticipated expenditures</p>	
<p>39. The Department of Health and Social Services should ensure that it allocates its budget based on work plans that show what it actually intends to do during the year. Anticipated cash disbursements should reflect planned spending patterns. (34–38)</p>	<p>The Department of Health and Social Services agrees with this recommendation.</p> <p>Departmental services include acute care, specialty clinics, routine medical travel, and emergency air medivacs. These services are often difficult to accurately predict in terms of the volume required in a given month. This impacts the ability to accurately forecast the timing of expenditures.</p> <p>The budget and financial managers will be required to identify more realistic planned spending patterns in the detailed work plans for those areas that are predictable in nature. These spending patterns will be incorporated into the allocation of the departmental budget to potentially reduce the number of budget transfers required during the fiscal year.</p>
<p>A memorandum of understanding to guide the responsibilities of the two departments is lacking</p>	
<p>45. The Department of Health and Social Services and the Department of Finance should finalize the service agreement that outlines the roles and responsibilities of each department in the processing of transactions. (44)</p>	<p>The Department of Health and Social Services and the Department of Finance agree with this recommendation.</p> <p>The Department of Health and Social Services has recently fully staffed the Corporate Services division, which is responsible for departmental financial management, planning, reporting, and monitoring. The Department of Health and Social Services will work with the Department of Finance to execute the final service agreement between the two departments before the end of the 2008–09 fiscal year.</p>

Recommendation	Response
<p>The processing of payables is inaccurate, incomplete, and untimely</p> <p>56. The Department of Health and Social Services, in conjunction with the Department of Finance, should develop a process to ensure invoices are processed accurately, completely, and within the time frames outlined in the Financial Administration Manual. The Department of Finance should discontinue the practice of making payments based on photocopies and ensure any duplicate payments are recovered. (46–55)</p>	
<p>The Department is not collecting all monies owed</p> <p>62. Both the Department of Health and Social Services and the Department of Finance should develop and implement an action plan that identifies opportunities to collect monies owed. If sufficient human resources are not available, the departments should consider engaging the services of a third party to collect accounts receivable. (57–61)</p>	

The Department of Health and Social Services and the Department of Finance agree with this recommendation.

The Department of Health and Social Services will continue to work closely with the Department of Finance to define the ongoing roles, responsibilities, and procedures for all aspects of the accounts payable cycle to constantly improve and support the timely and accurate processing and recording of transactions.

The practice of processing transactions based on copies of invoices will be avoided. Where absolutely necessary due to extenuating circumstances, copies will be clearly identified as such by the initiating staff. When departmental staff identify duplicate payments, recovery actions will be promptly pursued by the Department of Finance.

The Department of Health and Social Services and the Department of Finance agree with this recommendation.

The Department of Health and Social Services has collaborated with the Department of Finance on the development and implementation of an action plan that identifies and provides direction on the recovery of monies owed to the Government. In July 2008, the Financial Administration Manual (FAM) was revised to include the use of external collection agencies, and this change was incorporated into the action plan.

In October 2008, training was provided to staff in medical billing procedures to support the recovery of funds owing to the Government of Nunavut. The Department is in the process of staffing the Medical Services Billing Officer position to ensure that accounts owed to the Government of Nunavut for medical services provided are recovered on a timely basis.

Recommendation	Response
The lack of quality information limits the Department's ability to recover costs	
<p>69. To maximize its cost recoveries, the Department of Health and Social Services should</p> <ul style="list-style-type: none"> • establish clear policies and procedures internally for its staff and externally for service providers so that all the information regarding the Non-Insured Health Benefits (NIHB) program and medical services to non-residents is available. • establish clear policies and procedures on the processing of Workers' Safety & Compensation Commission (WSCC) cases and train staff across the region on the need to properly code WSCC cases. (63–68) 	<p>The Department of Health and Social Services agrees with this recommendation.</p> <p>In November 2008, direction and training in the proper processing and coding of all financial transactions was provided to staff to ensure that amounts that are reimbursable from third parties such as the Workers' Safety & Compensation Commission (WSCC) are properly identified and recovered.</p> <p>The Department of Health and Social Services has reviewed the reporting structure and workload of the Health Insurance operations to ensure that capacity and leadership issues are addressed.</p> <p>The Department is developing clear policies and processes to be finalized and implemented in the 2009–10 fiscal year. These will be communicated to staff as well as to external service providers to accurately capture and provide the information required to support cost recovery for the Non-Insured Health Benefits (NIHB) program and the provision of medical services to non-residents.</p>