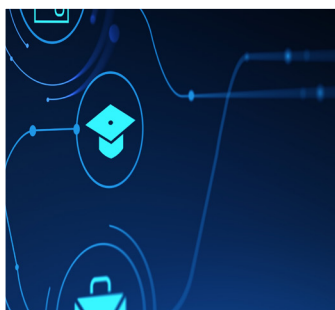


2023

**Report of the Auditor General
to the Nova Scotia
House of Assembly**



**Investigation of Island Employment
Association**



Performance Audit
Independence • Integrity • Impact

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June 20, 2023

Honourable Keith Bain
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 18(2) of the Auditor General Act, to be laid before the House in accordance with Section 18(4) of the Auditor General Act.

Respectfully,



Kim Adair, FCPA, FCA, ICD.D
Auditor General of Nova Scotia

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Investigation of Island Employment Association

Department of Labour, Skills and Immigration

Key Messages

Island Employment Association (IEA) grossly mismanaged at least \$1 million in public funds. Three major points of failure:

1. Executive Director, certain members of management and staff engaged in unethical and unprofessional behaviour.
2. Board of Directors failed in its fiduciary responsibilities due to poor governance practices.
3. Labour, Skills and Immigration (LSI) did not provide effective monitoring and oversight of IEA and did not take appropriate action to protect the public interest.

Given the findings, LSI must complete a comprehensive assessment of the Nova Scotia Works program.

Why We Did This Audit

- This report is in response to a January 2022 Public Accounts Committee request to conduct an audit of operations at IEA, including “a forensic aspect.”
- LSI provided \$9.84 million in Nova Scotia Works funding to IEA between 2016 to 2021.
- LSI terminated the IEA contract effective November 21, 2021.
- We completed a detailed examination at IEA as well as contract management and oversight provided by LSI over IEA.
- There are 16 service providers receiving millions of dollars over multi-year funding agreements under this program. 2021-22 funding totaled \$22.8 million.

Gross Mismanagement of Public Funds at IEA Exceeded \$1 Million

Numerous instances of mismanagement of public funds totaling more than \$1 million. This included:

- Substantial unapproved extra salary payments and bonuses paid to certain members of management – \$162,000
- Significant accumulation and payment of unused and unapproved vacation and overtime hours to certain members of management, violating employment contracts and policies – \$150,000
- Unapproved, unreasonable, and overstated travel expenditures – \$20,000
- Certain employees inappropriately compensated to deliver training to IEA clients – \$133,000
- Alleged kickback arrangement between certain employees and Executive Director
- Numerous financial transactions with conflicts of interest – \$339,000
- IEA lacked proof that client tuition and wage subsidy funding was used as intended
- Purchases of furniture, equipment, and computers exceeded approved budgets and did not appear reasonable – \$74,000
- Mismanagement of leasehold improvement costs – \$131,000

Auditor General cooperating with Cape Breton Regional Police investigation.

IEA’s Board of Directors Failed in its Governance Responsibility

Principles of good governance were lacking at IEA. For example, we noted the following concerns:

1. Lack of oversight and monitoring of Executive Director activities
2. Unclear roles and responsibilities
3. Key decisions made without quorum and/or not documented
4. No committees for audit, finance, or governance
5. Inconsistencies between Board Governance Policy Manual and bylaws
6. Inaccurate or non-existent meeting minutes
7. No assessment of whether board composition and skills were adequate
8. Board Chair held position for almost 20 years, and
9. No succession plan for turnover of directors

LSI Did Not Fulfill its Responsibilities to Protect the Public Interest and Provide Effective Oversight and Monitoring of IEA

- Decision to renew IEA's 2016 and 2019 contracts not supported
- IEA contract renewal completed before conclusion of 2019 compliance process
- Multiple weaknesses noted in IEA contribution agreements
- Limited to no evidence of the review by LSI on IEA financial or activity reports
- LSI did not assess IEA governance practices
- LSI did not appropriately investigate three complaints about IEA

Early Termination Costs Found to be Adequately Calculated and Supported

- LSI reviewed multiple options and documented its analysis prior to making a recommendation to terminate the contribution agreement with IEA
- Early termination payments made in accordance with final agreement
- Early termination costs found to be adequately calculated and supported

Comprehensive Assessment Needed on How the Nova Scotia Works Program is Delivered



Based on the significance of the dollar values involved, the importance of the services provided to Nova Scotians, and the severity of the concerns identified at Island Employment Association, we recommend the Department of Labour, Skills and Immigration complete a comprehensive assessment of how the Nova Scotia Works program is delivered. The assessment and resulting response should include at a minimum:

1. Determining whether program objectives have been established and are being met;
2. Evaluating risks related to outsourcing program delivery, including fraud risks;
3. Identifying the actions needed to mitigate risks to an acceptable level;
4. Improving the process to select and renew agreements with service providers, including:
 - i. Documenting all key decisions and assumptions; and
 - ii. Assessing service provider past performance.
5. Updating terms and conditions of service provider contribution agreements to:
 - i. Strengthen and clarify subjective terms;
 - ii. Require service providers to submit detailed lists of transactions to support their financial reporting;
 - iii. Require service provider Boards of Directors to complete regular governance training; and
 - iv. Require annual declarations of conflicts of interest for all staff and directors.
6. Improving the monitoring and oversight of service provider compliance with contribution agreements through:
 - i. Strengthened departmental monitoring of service provider financial processes and controls, such as increased departmental testing of service provider transactions for compliance, periodic reviews of provider financial practices by internal or external auditors, or other monitoring mechanisms.
 - ii. Regularly assessing service provider governance practices and competencies to make sure they meet department expectations and are functioning as intended.
7. Periodic review to determine whether actions taken from this assessment are working.

Reference Guide – Key Findings and Observations

Paragraph	Key Findings and Observations
<i>Gross Mismanagement of Public Funds at IEA Exceeded \$1 Million</i>	
18	Auditor General cooperating with Cape Breton Regional Police investigation
22	Substantial unapproved extra salary payments and bonuses paid to certain members of management – \$162,000
25	Significant accumulation and payment of unused and unapproved vacation and overtime hours to certain members of management, violating employment contracts and policies – \$150,000
32	Unapproved, unreasonable, and overstated travel expenditures – \$20,000
35	Certain employees inappropriately compensated to deliver training to IEA clients – \$133,000
40	Alleged kickback arrangement between certain employees and Executive Director
41	Numerous financial transactions with conflicts of interest – \$339,000
48	IEA lacked proof that client tuition and wage subsidy funding was used as intended
50	Purchases of furniture, equipment, and computers exceeded approved budgets and did not appear reasonable – \$74,000
51	Mismanagement of leasehold improvement costs – \$131,000
<i>IEA's Board of Directors Failed in its Governance Responsibility</i>	
56	Principles of good governance were lacking at IEA
<i>LSI Did Not Fulfill its Responsibilities to Protect the Public Interest and Provide Effective Oversight and Monitoring of IEA</i>	
60	Decision to renew IEA's 2016 and 2019 contracts not supported
66	IEA contract renewal completed before conclusion of 2019 compliance process
67	Multiple weaknesses noted in IEA contribution agreements
72	Limited to no evidence of the review by LSI on IEA financial or activity reports
78	LSI did not assess IEA governance practices
79	LSI did not appropriately investigate three complaints about IEA
<i>Early Termination Costs Found to be Adequately Calculated and Supported</i>	
80	LSI reviewed multiple options and documented its analysis prior to making a recommendation to terminate the contribution agreement with IEA
84	Early termination payments made in accordance with final agreement
86	Early termination costs found to be adequately calculated and supported

Recommendation and Response

Recommendation	Department Response
<p>Recommendation 1.1</p> <p>Based on the significance of the dollar values involved, the importance of the services provided to Nova Scotians, and the severity of the concerns identified at Island Employment Association, we recommend the Department of Labour, Skills and Immigration complete a comprehensive assessment of how the Nova Scotia Works program is delivered. The assessment and resulting response should include at a minimum:</p> <ol style="list-style-type: none"> 1. Determining whether program objectives have been established and are being met; 2. Evaluating risks related to outsourcing program delivery, including fraud risks; 3. Identifying the actions needed to mitigate risks to an acceptable level; 4. Improving the process to select and renew agreements with service providers, including: <ol style="list-style-type: none"> i. Documenting all key decisions and assumptions; and ii. Assessing service provider past performance. 5. Updating terms and conditions of service provider contribution agreements to: <ol style="list-style-type: none"> i. Strengthen and clarify subjective terms; ii. Require service providers to submit detailed lists of transactions to support their financial reporting; iii. Require service provider Boards of Directors to complete regular governance training; and iv. Require annual declarations of conflicts of interest for all staff and directors. 6. Improving the monitoring and oversight of service provider compliance with contribution agreements through: <ol style="list-style-type: none"> i. Strengthened departmental monitoring of service provider financial processes and controls, such as increased departmental testing of service provider transactions for compliance, periodic reviews of provider financial practices by internal or external auditors, or other monitoring mechanisms. ii. Regularly assessing service provider governance practices and competencies to make sure they meet department expectations and are functioning as intended. 7. Periodic review to determine whether actions taken from this assessment are working. 	<p style="text-align: right;">See paragraph 1.88</p>
<p>LSI is appreciative of the comprehensive review and will take steps to fully comply with the recommendations in the report. LSI will undertake a comprehensive assessment of how the Nova Scotia Works program is delivered and will address the seven specific items recommended. Specifically, LSI will immediately incorporate measures that strengthen its annual review process for the public employment services currently in place. LSI will also increase and strengthen financial monitoring and reviews of supporting documentation. LSI will review and strengthen standards for contracting with third party non-profit service providers, including the consideration of standards for governance practices and service delivery.</p> <p>Immediately, LSI will undertake a comprehensive risk assessment with identified mitigations, while ensuring that current and future actions are effective, particularly in the areas of agreement monitoring and supporting third party good governance. Contractual compliance work will continue, but with the enhancement of any additional measures identified through the audit and by LSI staff.</p>	<div style="display: flex; align-items: flex-start;"> <div style="margin-right: 10px;">   </div> <div> <p>Department Agrees</p> <p>Target Date for Implementation: December 2024</p> </div> </div>

Questions Nova Scotians May Want to Ask

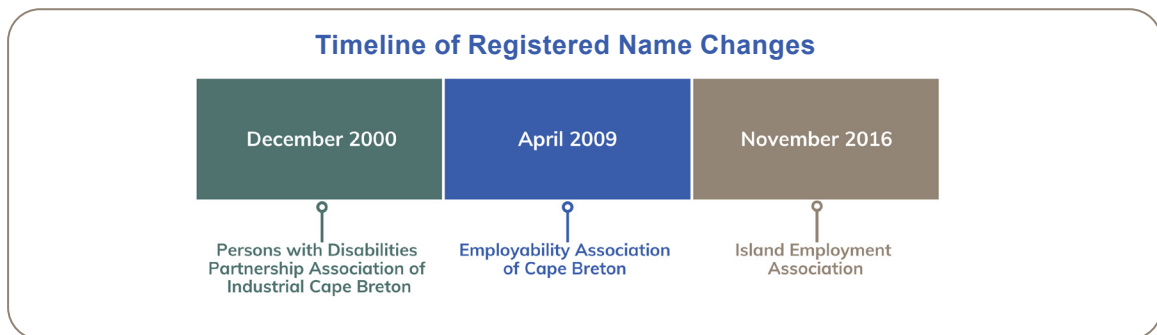
1. How does the province know that similar concerns do not exist at other Nova Scotia Works service providers?
2. Will the province be undertaking any monitoring of existing service providers to confirm similar concerns do not exist?
3. What actions have been taken to improve oversight and accountability at other Nova Scotia Works service providers?

1 Investigation of Island Employment Association

Background

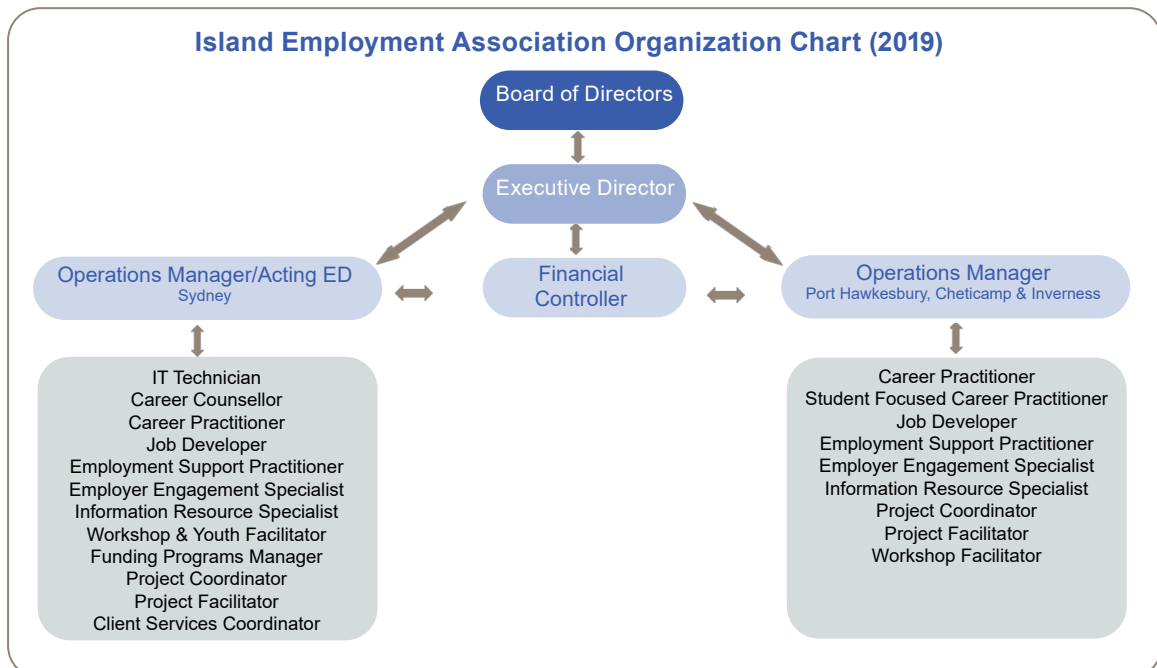
Island Employment Association

- 1.1 Island Employment Association (IEA) is a registered charity under the Income Tax Act and incorporated under the Nova Scotia Companies Act. IEA began operations in December 2000 as the Persons with Disabilities Partnership Association of Industrial Cape Breton. In April 2009, it became the Employability Association of Cape Breton and later, in November 2016, Island Employment Association. Island Employment Association’s mission statement was to enhance the Nova Scotia labour market by supporting employers and job seekers in achieving their respective goals.



Source: Office of the Auditor General of Nova Scotia

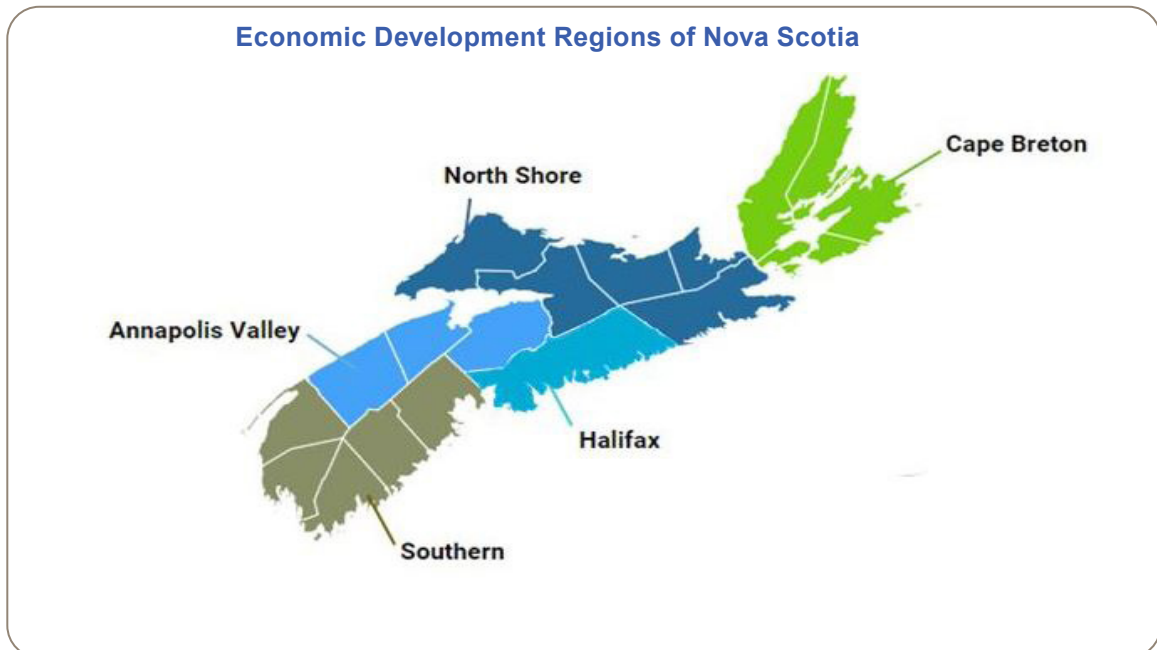
- 1.2 IEA was governed by a Board of Directors and managed by an Executive Director, two Operations Managers and a Financial Controller. By October 2021, the office had 32 staff.



Source: Island Employment Association Organization Chart from 2019

Nova Scotia Works Program

- 1.3 IEA's primary source of funding was the Department of Labour, Skills and Immigration (LSI) for the Nova Scotia Works program, formerly the Nova Scotia Employment Assistance Services program (NSEAS). The Nova Scotia Works program (NS Works) is a province-wide network of employment services providers, helping connect people to jobs, and jobs to people.
- 1.4 There are currently over 50 centres located across the province providing services to help Nova Scotians:
- Find a job, write a resume, or cover letter, and prepare for an interview;
 - Access computers and accessible workstations, career guidance and coaching, workshops, information sessions and funding for skills training; and
 - Connect with potential employers.
- 1.5 In 2015 to 2016, IEA along with other existing service providers, began working with the province to redesign the employment services system to better meet the needs of job seekers and employers. During this transformation process, which resulted in the current NS Works program, the number of providers went from 52 to 18¹ across the province. Service providers are spread out between the five economic development regions across the province:



Source: Office of the Auditor General of Nova Scotia

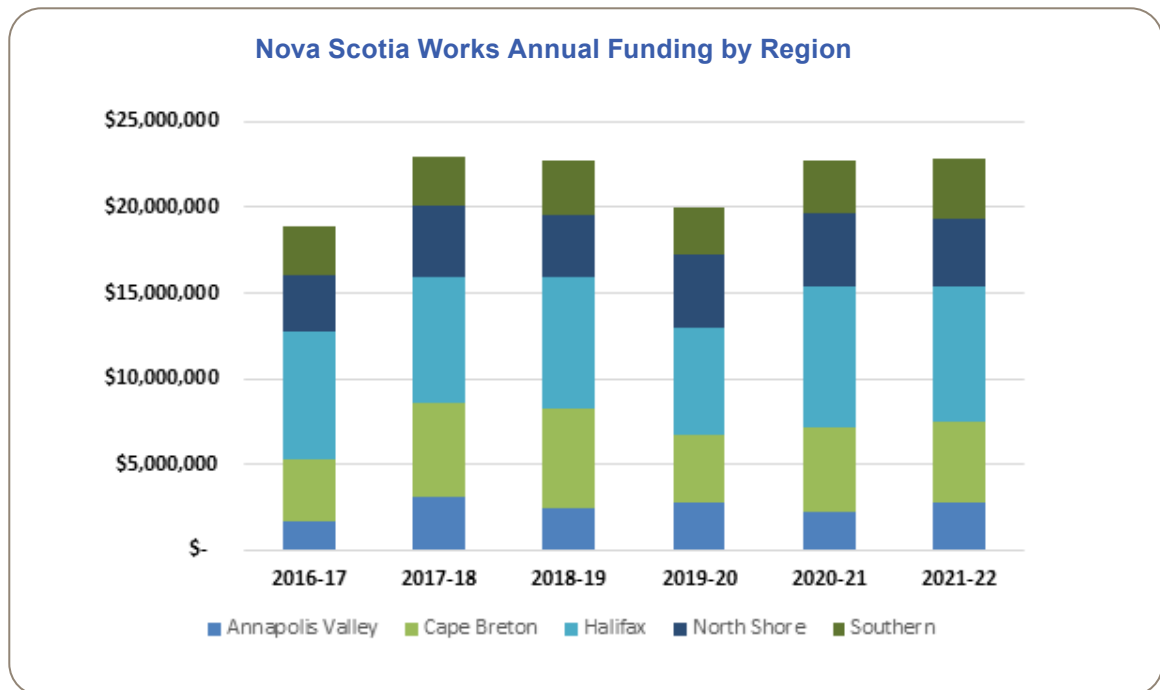
¹ In 2020, LSI terminated an agreement early with a service provider in the Annapolis Valley region due to lack of demand. In 2021, IEA's agreement was terminated, leaving 16 remaining service providers across the province.

- 1.6 The employment service providers of the NS Works program as of March 31, 2023, including the total number of centres operated for each economic region, are as follows:

Nova Scotia Works Service Providers by Economic Region		
Region	Number of Providers	Number of Locations
Annapolis Valley	3	6
North Shore	3	9
Cape Breton Island	3	12
Halifax	4	17
Southern	3 ²	11
Total	16	55

Source: Office of the Auditor General of Nova Scotia

- 1.7 The following chart shows the NS Works program total funding of \$129.95 million by region from 2016 to 2022. IEA received roughly 40% of the funding for the Cape Breton Island region.



Source: Unaudited – Data provided by Labour, Skills and Immigration. Data does not include legacy agreements pre-employment services systems transformation.

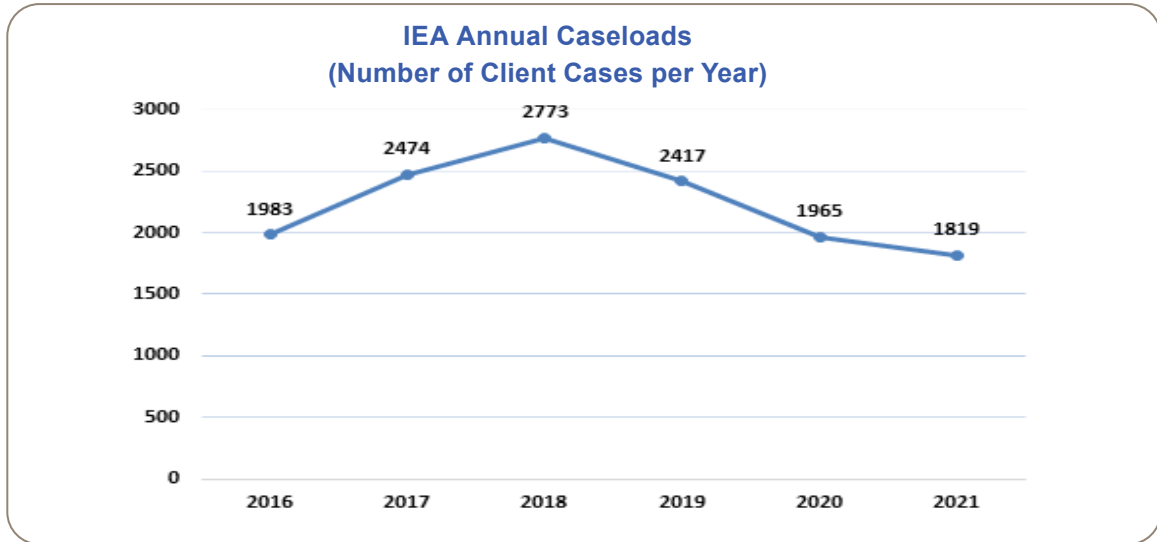
- 1.8 The following table breaks down the annual funding to IEA as part of the NS Works program. The total funding received between 2016 to 2021 was \$9.84 million.

Nova Scotia Works Annual Funding to IEA						
	2016-17	2017-18	2018-19	2019-20	2020-21	Total
IEA	\$1,458,196	\$2,209,095	\$2,563,449	\$1,377,954	\$2,231,120	\$9,839,814
IEA % of CB Region	40%	40%	45%	34%	45%	41%

Source: Unaudited – Data provided by Labour, Skills and Immigration

² One service provider operates in both the Cape Breton Island and Southern regions. They have been excluded from the Southern category to avoid double counting

1.9 Following the 2016 redesign of the program, IEA received a substantial increase in funding and extended employment-related services across Cape Breton Island with their main office located in Sydney. It also had offices in Port Hawkesbury, Cheticamp, Inverness, St. Peters and Arichat. The total number of client cases served by IEA between 2016 and 2021 was 13,431. The number for each fiscal year is represented below:



Source: Unaudited – Data provided by Labour, Skills and Immigration

Additional Funding Sources

1.10 In addition to NS Works program funding, IEA also received funding through agreements with the federal government and other provincial departments for delivery of additional employment-related programming. For example, IEA administered the following programs between 2015 to 2021:

Other Provincial Funding 2015 to 2021		
Program	Funding	Funding Purpose
Other LSI Funding	\$1,143,000	Smaller agreements generally consisting of one-year including: <ul style="list-style-type: none"> • Project to install assistive software and devices across all NS Works centres • Internship programs • Student liaison roles • Short-term, non-student loan eligible training programs with practical learning opportunities
New Opportunities for Work Program	\$936,000	Program to increase the labour force participation of under-represented groups through the development and delivery of a workplace attachment program
Skills Development and Work Experience Program	\$191,000	A multi-year, 16-week program providing participants with skills development and work experience
Diversity and Inclusion Program	\$62,000	Program to hire an African Nova Scotia Person or Person of African Descent for a two-year internship as a Career Development Practitioner with the intention for employment to continue beyond the two-year period
Total	\$2,332,000	

Source: Office of the Auditor General of Nova Scotia

Federal Funding 2015 to 2021		
Program	Funding	Funding Purpose
Youth Skills Link	\$1,113,000	Support for projects to help youth overcome barriers to employment and develop a broad range of skills and knowledge to participate in the current and future labour market
Opportunities Fund	\$953,000	Funding to assist persons with disabilities to prepare for, obtain and maintain employment
Dream Big	\$63,000	Marketing campaign to provide employers with education, information and tools on the benefits and feasibility of employing persons with disabilities, while promoting their valuable contribution to the workplace
Canada Summer Jobs	\$37,000	Funding to hire students to help them in acquiring employment and/or career related skills
Total	\$2,166,000	

Source: Office of the Auditor General of Nova Scotia

- 1.11 Summarized financial statement information from IEA from 2015 to 2021 is presented below. The highest percentage of funding was from provincial sources, with the majority derived from the NS Works agreement with LSI. Most of the “other” category represents government funding received for the purchase of capital assets such as computers, furniture and fixtures, and office equipment.

Highlights of Audited Financial Statements of IEA							
	2016	2017	2018	2019	2020	2021	Total
Revenue							
Provincial ³	\$744,721	\$1,747,419	\$2,753,436	\$2,408,513	\$2,525,646	\$2,049,497	\$12,229,232
Federal	167,801	352,632	497,557	512,751	477,391	158,068	2,166,200
Other ⁴	27,116	63,040	141,388	135,305	150,561	158,704	676,114
Total	\$939,638	\$2,163,091	\$3,392,381	\$3,056,569	\$3,153,598	\$2,366,269	\$15,071,546
Expenditures	\$958,330	\$2,146,051	\$3,398,269	\$3,049,501	\$3,111,592	\$2,281,617	\$14,945,360
Surplus (Loss)	(\$18,692)	\$17,040	(\$5,888)	\$7,068	\$42,006	\$84,652	\$126,186
Percent of Provincial Revenue	79%	81%	81%	79%	80%	87%	81%

Source: Island Employment Association Audited Financial Statements

Ombudsman's Investigation



Nova Scotia Office
of the Ombudsman

- 1.12 The Office of the Ombudsman's 2020 to 2021 Annual report indicates they received a complaint from a group of individuals associated with IEA in September 2018. The complainants alleged inappropriate financial management and insufficient operational oversight practices were occurring at the organization. The Office of the Ombudsman began its investigation in April 2019. In December 2020, an interim report was provided to LSI. The final report was issued in April 2021 and found merit in the complainants' allegations.

³ Actual provincial revenue received from multiple sources, including various government departments.

⁴ Includes government funding for the purchase of capital assets, including amounts received from LSI.

- 1.13 In September 2021, LSI advised IEA they would be terminating its funding agreement early. Final wind-up funding was provided for termination. In November 2021, IEA ceased operations.
- 1.14 In January 2022, representatives from the Ombudsman's office, LSI, and the Nova Scotia Government and General Employees Union appeared at a meeting of the Public Accounts Committee to discuss the operational and department oversight at IEA. Following this meeting, a letter was issued to our office from the Public Accounts Committee requesting an audit of operations at IEA, including "a forensic aspect." This audit was completed in response to this request.
- 1.15 Appendix II represents a timeline with key dates, starting with the initial complaint to the Office of the Ombudsman regarding IEA, through to the closure of IEA, and the completion of this audit.

Audit Approach

- 1.16 This audit is comprised of two components:
- The first component consists of findings from detailed investigative procedures of the operations of IEA relating to:



Source: Google Street View (July 2019) – 500 George St, Sydney Nova Scotia

- Management salary and bonuses
- Management vacation and overtime
- Management travel
- Employee-led training courses
- Conflicts of interest
- Capital asset purchases
- Leasehold improvements
- Governance structure at IEA

- The second component examines LSI's:
 - selection of IEA as a service provider pursuant to a contribution agreement,
 - contract management activities to monitor compliance with this agreement,
 - decision by LSI to terminate the funding agreement early with IEA.
- 1.17 The findings in this report related to the operations and governance at Island Employment Association are based on the records and information we obtained, including both physical and electronic records. Island Employment Association was wound down in late 2021, and as a result some records and information may not have been kept, or may have been removed, prior to our examination. We are unable to determine the impact, if any, those records, or information may have had on the individual findings in this report.

Gross Mismanagement of Public Funds at IEA Exceeded \$1 Million



Auditor General cooperating with Cape Breton Regional Police investigation

- 1.18 The first component of our audit included detailed investigative procedures related to the operations of IEA. We initially conducted many interviews with stakeholders to identify areas of concern and allegations. We designed our detailed audit procedures to respond accordingly to the evidence available.

- 1.19 The period under audit covered January 1, 2016, to April 30, 2022; however, we considered information and transactions outside this date range as required. The scope of our audit did not include evaluating service delivery at IEA. Client files, which would have been required to audit service delivery at IEA, were forwarded to the replacement service providers, provided to clients, or destroyed. Therefore, conducting audit procedures to evaluate service delivery was not possible.
- 1.20 Our audit found evidence of gross mismanagement of public funds including unprofessional and unethical conduct. Findings of concern were referred to the appropriate authorities in compliance with the Auditor General Act, which obligates the Auditor General to report instances of significant mismanagement of public funds and inappropriate behaviour, to the appropriate officials of any auditable entity. In addition, the Chair of the IEA Board of Directors and the former Executive Director were provided the opportunity to discuss the content of this report prior to it being tabled in the Nova Scotia House of Assembly.
- 1.21 The following table represents a high-level summary of the issues we identified. The funding for these expenditures spanned multiple contracts beyond the NS Works funding agreement. Each noted issue of mismanagement in the table below is discussed in detail in the paragraphs that follow. The Office of the Auditor General, in accordance with the Auditor General Act, is cooperating with the Cape Breton Regional Police's Major Crime Unit, who have an active investigation underway.

Auditor General Identified Mismanagement of Public Funds at IEA				
Issue/Dates	Connected to Executive Director	Connected to Specific Individuals	Not Connected to Specific Individuals	Total
Substantial unapproved extra salary payments and bonuses (2016 – 21)	\$61,000	\$101,000	-	\$162,000
Significant accumulation and payment of unused vacation and overtime hours (2022)	139,000	11,000	-	150,000
Unapproved, unreasonable, and overstated travel expenditures (2015 – 21)	20,000	-	-	20,000
Certain employees inappropriately compensated to deliver training to IEA clients (2013 – 18)	-	133,000	-	133,000
Numerous financial transactions with conflicts of interest (2013 – 20)	73,000	266,000	-	339,000
Purchases of furniture, equipment, and computers exceeded approved budgets and did not appear reasonable (2015 – 21)	-	-	74,000	74,000
Mismanagement of leasehold improvement costs (2016 – 17)	-	-	131,000	131,000
Total	\$293,000	\$511,000	\$205,000	\$1,009,000

Source: Office of the Auditor General of Nova Scotia



Substantial unapproved extra salary payments and bonuses paid to certain members of management – \$162,000


- 1.22 Regular bi-weekly payroll payments for IEA employees were based on 37.5 working hours per week or 75 hours bi-weekly. In addition to regular payroll, extra payroll runs were completed during

the audit period between 2016 to 2021 for members of IEA's management team. These payments were for additional hours worked on contracts other than the primary NS Works agreement. This included the Executive Director, two Operations Managers and the Financial Controller. Payments were made via direct deposit. There was no Board approval of these extra payments. Prior to 2019, there was no record retained for time worked on additional contracts and therefore we could not substantiate whether these additional hours were worked.

- 1.23 In June 2019, extra pay reports were generated and suggested management were working these hours on their lunch hours and after-hours. For example, one month showed a member of management working 12 – 1pm and 4:30 – 6:30pm almost every day, which does not appear reasonable and raises further concerns regarding whether these extra hours were worked.



- 1.24 Additionally, in 2020 a management bonus totaling \$17,000 was paid without Board approval. At the December 15, 2020, meeting, the Board discussed bonuses for the Executive Director, Operations Managers and Financial Controller even though a quorum did not exist, and the Executive Director was present at the meeting. Minutes noted formal approval would be given at the January 2021 meeting however, this did not occur. The bonus was paid out in December 2020 out of general funds and could not be tied to a specific funding agreement or an approval of the Board.

 **Significant accumulation and payment of unused and unapproved vacation and overtime hours to certain members of management, violating employment contracts and policies – \$150,000**

- 1.25 In accordance with the early termination agreement, LSI funded the payout of up to 225 hours or 30 days, accrued vacation per person.
- 1.26 IEA made additional payments to the Executive Director and one of the Operations Managers beyond the LSI approved amounts. According to IEA's policy, up to five days' vacation leave could be carried over beyond March 31st of the following year, with the consent of the Operations Manager. Despite this policy, the Executive Director and one of the Operations Managers accumulated substantial vacation hours beyond the limit. Additional payments made by IEA to these staff members were paid out of general funds and could not be tied to a specific funding agreement. The following table represents the number of hours and days of banked vacation attributed to these staff members, and the total amount ultimately paid out after IEA ceased operations. These payments were inappropriately calculated at the individual's final rate of pay even though the applicable hours had been accumulated at various rates of pay.

IEA Final Vacation Payout		
	Executive Director	Operations Manager
Vacation at Termination	2,043.75 hours or 272.5 days	548.75 hours or 73.17 days
Rate of Pay	\$46.46 per hour	\$34.85 per hour
Paid by LSI	\$10,454	\$7,841
Paid by IEA	\$84,499	\$11,283
Gross Payout	\$94,953	\$19,124

Source: Office of the Auditor General of Nova Scotia

- 1.27 There was no evidence of approval of vacation carryover for these individuals. Discrepancies in the total hours owed were identified, including instances where remaining vacation day balances were not reduced for actual days taken. Therefore, the total in the entitlement bank was overstated. For example, we identified a total of 34 days when the Executive Director was out of the office and were not accurately accounted for as used vacation days and taken from their annual vacation entitlements.
- 1.28 According to employment contracts and IEA policies, overtime would not be paid out in cash but could be accumulated and used as allowable time off if pre-approved by the supervisor. Despite this, the Executive Director accumulated significant overtime hours stretching back approximately 20 years without any pre-approval. At termination, the Executive Director's overtime hours totaled 1,174.88 hours or 156.65 days. This was ultimately paid out at termination; however, LSI did not fund any of it as part of its termination funding, it was paid out of general funds and could not be tied to a specific funding agreement. This payment totaled \$54,584.69 before deductions.

IEA Final Overtime Payout	
	Executive Director
Overtime at Termination	1,174.88 hours or 156.65 days
Rate of Pay	\$46.46 per hour
Paid by LSI	\$0
Paid by IEA	\$54,585
Gross Payout	\$54,585

Source: Office of the Auditor General of Nova Scotia

- 1.29 There was no Board review or approval of the unused vacation and overtime entitlements of the Executive Director. Board members indicated they did not track unused vacation or management overtime and had no way of knowing whether the banked figures were accurate. This is very concerning as the total hours of vacation and overtime recorded by management violated and exceeded the organization's policies and annual employment contracts. Despite this, the Board Chair and Vice-Chair authorized these payments by signing off on the cheques issued by IEA when the organization shut down.
- 1.30 Although the Board Chair and Vice-Chair signed the cheques for these payments, we noted neither of these individuals appeared to do so with a full understanding of the nature and extent of these payments. There was also no evidence of approval of these payments in the Board minutes to demonstrate this was discussed amongst the full Board.
- 1.31 Furthermore, paying employees for unused vacation and overtime dating back 20 years at their final rate of pay is highly unusual. Also, it is important to note that IEA policies, signed annual employment contracts, and audited financial statements all indicate these amounts were not owed. No other IEA employees received similar payments when IEA wound down. Alternatively, this money should have been donated by IEA to another registered charitable organization to support its work in the community⁵.

Unapproved, unreasonable, and overstated travel expenditures –\$20,000

- 1.32 IEA did have an established travel policy. The most recent documented policy was submitted as part of the 2019 provincial funding renewal proposal to LSI and took effect July 2019. We reviewed this policy and found there were no significant differences between it and the Employment Nova Scotia travel policy, used by all government departments for their employees.

⁵ Government of Canada – Impact of Terminating Your Charitable Registration – “If your charitable registration is revoked, you must transfer all your remaining assets to an eligible donee or pay revocation tax.”

1.33 IEA's travel policy indicated individuals who are submitting travel expense claims for reimbursement shall obtain prior authorization to travel except where otherwise provided. We reviewed travel claims for members of the management team covering 2015 to 2021 and found no pre-approval documentation was located for any of their claims, including trips out of province. While the travel policy did not come into effect until July 2019, pre-approval of travel is a best practice.

1.34 Additionally, we identified the following concerns related to travel claims submitted by members of the management team:

- Prior to April 1, 2020, \$12,269 in travel-related costs paid by the Executive Director with an IEA credit card, were not reviewed and approved by a member of the Board.
- The Board did not review or approve expense claims, including travel of the Executive Director, which is typically the responsibility of the Board Chair. The Board Chair thought this was the responsibility of the Financial Controller. However, the Financial Controller reported to the Executive Director; therefore, such an approval process would not be appropriate. One of the former Financial Controllers indicated approving expense claims of the Executive Director was not their responsibility.
- In 94 of the 140 travel claims reimbursed to the Executive Director, there was no evidence of review or approval by a member of the Board. In a sample of other management claims, 31 of 36 claims were not appropriately approved by a different member of management. Proper review and approval of expenditure claims is important to validate whether the expenditure is appropriate and should be paid.
- In 74 of the 140 claims of the Executive Director, the Executive Director was one of the two cheque signers for reimbursement. In our view, this is not an acceptable practice. Management should not be signing any reimbursement cheques issued to themselves.
- In 97 of the 140 claims of the Executive Director, per diems were claimed which were not justifiable based on the claim data. A more comprehensive review and approval process should have identified inappropriate charges.
- We also noted four travel claims for hotel accommodation where there were additional amounts claimed for room upgrades and pet fees not in accordance with policy.
- In 77 of the 140 Executive Director travel claims, descriptions did not support mileage claimed. For example, the Executive Director claimed mileage of 1,084 kilometers for a round trip from Sydney, Nova Scotia to Halifax, Nova Scotia, even though the actual distance is 830 kilometers. Based on our calculations, the total overpayment for these mileage claims was \$6,365.



Certain employees inappropriately compensated to deliver training to IEA clients – \$133,000

1.35 Certain employees at IEA were paid a fee to provide training workshops to IEA clients during their regular working hours in addition to receiving their regular salary. We identified five employees

who were paid to provide training courses to clients in addition to their salary. Three individuals received a substantial amount of money:

Payments to Employees Delivering Workshops		
Employee	Timeframe	Total Payments
Employee 1	2013-18	\$67,120
Employee 2	2013-17	49,080
Employee 3	2013-16	12,482
Employee 4	2013-15	2,600
Employee 5	2013-16	1,950
Total		\$133,232

Source: Office of the Auditor General of Nova Scotia

1.36 Based on a review of timesheet records, most of the time, employees claimed eight working hours for the dates training was held and therefore were paid both their regular salary in addition to course fees. Some employees who delivered these courses confirmed to us they did not take vacation, and this was not a requirement.

1.37 Through interviews with members of the Board and management, we were told the expectation was for staff to take vacation on the days training was provided. However, this seldom occurred.

1.38 This arrangement was highly inappropriate as it resulted in program funders, both provincially and federally, being charged twice for the employees' time. Employees should not have been permitted to invoice for fees related to services delivered during regular working hours for which they were already paid a salary.



1.39 Additionally, we identified the following concerns:

- Fees charged by employees were often inflated,
- Fees charged by employees when courses may not have occurred, and
- An employee was paid salary under an IEA funding agreement, while conducting personal business by delivering training courses to non-IEA clients.

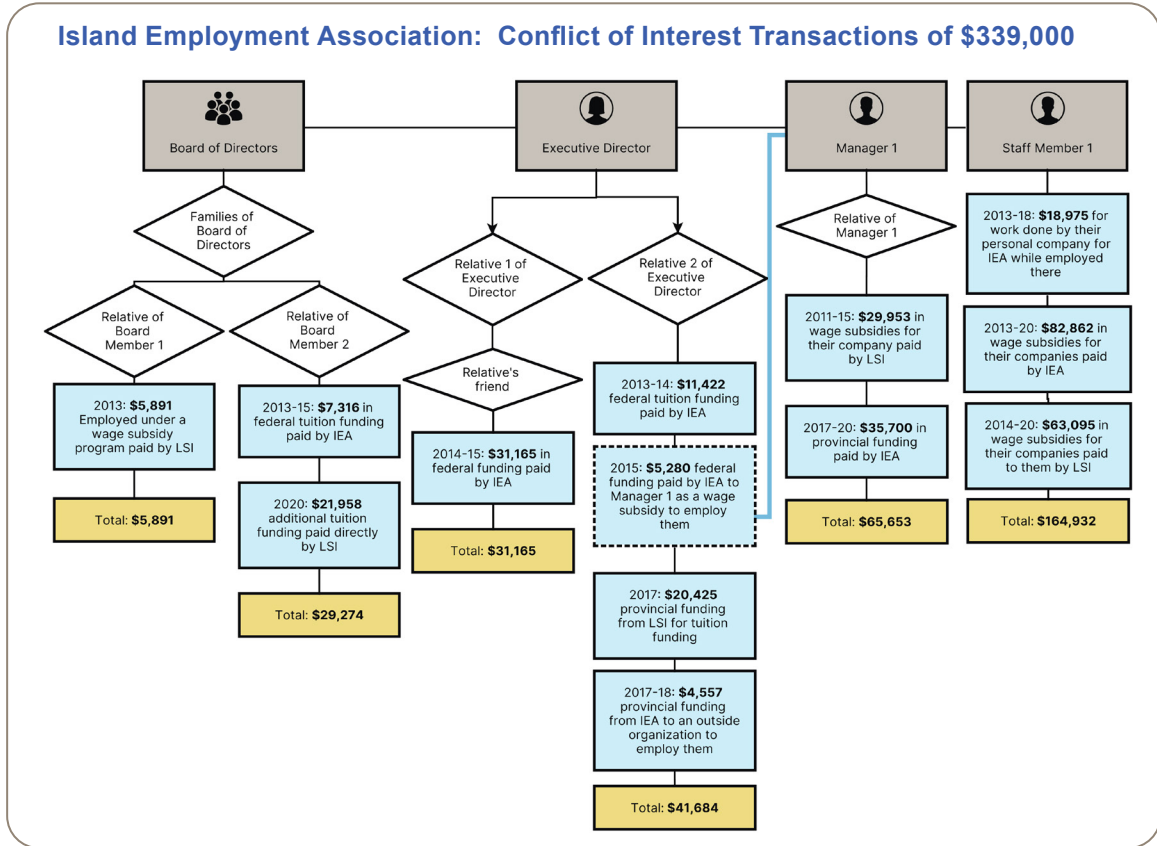


Alleged kickback arrangement between certain employees and Executive Director

1.40 Certain employees were alleged to have participated in a kickback arrangement where a portion of the course fees they charged to IEA would be paid to the Executive Director in the form of a cash contribution to a fund for clients. Employees said the contribution was intended to cover expenditures for clients not covered by existing funding agreements. The Executive Director denied the existence of this cash contribution arrangement; however, the Board Chair said they were aware certain staff members were making donations to IEA. We found no record of these alleged cash donations in IEA's accounting records.

Numerous financial transactions with conflicts of interest – \$339,000

1.41 Throughout our investigation of IEA, we identified several conflicts of interest. There was no evidence of disclosure or evaluation of any of these conflicts to the Board of Directors or to the program funders. We also did not see evidence of actions taken to mitigate the conflicts.



Source: Office of the Auditor General of Nova Scotia

1.42 Families of Board of Directors:

- 2013: Relative of a Board member was employed under a wage subsidy program. Payments to the organization employing them totaled \$5,891. All required financial reporting was submitted to LSI. However, while this funding was authorized and paid outside of IEA by LSI, it is concerning there was no conflict-of-interest assessment.
- 2013 to 2015: Relative of another Board member received \$7,316 for federal tuition funding paid directly by IEA. Only two of the five claim forms could be located and did not contain any receipts or supporting documentation related to why the funding was granted, or whether the individual enrolled in the program. In 2020, the same relative received \$21,958 in additional tuition funding directly from LSI. LSI did receive proof of enrolment. However, while this funding was paid outside of IEA by LSI, it is concerning there was no conflict-of-interest assessment.

1.43 Friend of the Executive Director's relative received program funding for educational programs:

- 2014 to 2015: \$31,165 in federal tuition funding for two programs paid directly to them by IEA. Claim forms did not contain any receipts or supporting documentation to confirm whether the individual enrolled in the program. All cheques included the signature of the Executive Director as one of the signers.

1.44 Relative of the Executive Director received program funding on numerous occasions including:

- 2013 to 2014: \$11,422 through federal tuition funding paid directly to them by IEA. Claim forms did not contain any receipts or supporting documentation to confirm whether the individual enrolled in the program.
- 2015: \$5,280 through federal funding paid directly to an employer by IEA as a wage subsidy to employ them. The company employing them was owned by a Manager of IEA, who also recommended the application for approval. Approval was provided by the Executive Director. Claim forms did not contain payroll support to confirm wages were paid.
- 2017: \$20,425 paid directly to them by LSI for tuition funding. This funding was authorized outside of IEA by LSI. LSI did receive proof of enrolment. However, as with the above examples, there was no conflict-of-interest assessment.
- 2017 to 2018: \$4,557 through provincial funding paid by IEA to an employer to hire this individual under a wage subsidy. Payments were supported with payroll records, however one of the cheque signers for this payment was the Executive Director.



1.45 Relative of a Manager received:

- 2011 to 2015: \$29,953 in wage subsidies paid to their company by LSI. All required financial reporting was submitted to LSI. However, while this funding was paid outside of IEA, there was no conflict-of-interest declaration.
- 2017 to 2020: \$35,700 under the provincial New Opportunities for Work program, paid directly to their company by IEA. Claim forms did contain sufficient supporting payroll information. However, in two of the 11 payments made under this program, the cheque from IEA was signed by their relative, the Manager at IEA.

1.46 An employee of IEA:

- 2013 to 2018 – Individual's personal company received \$18,975 for services paid by IEA while they were employed by IEA.

- 2013 to 2020: Substantial wage subsidies paid to their personal companies while they were working at IEA. Funding totaled \$145,957 and consisted of:
 - \$82,862 in wage subsidies paid directly to their companies by IEA. Claim forms did not always contain sufficient supporting payroll information.
 - \$63,095 paid by LSI. All required financial reporting was submitted to LSI. However, while this funding was paid outside of IEA, it is concerning there was no conflict-of-interest assessment.

1.47 The dollar amounts involved with these conflicts of interest were alarming. IEA did not maintain adequate records for granting funding, especially in instances when they were responsible for assessing eligibility and approving client funding. All conflicts of interest should have been clearly disclosed and documented, including any required mitigating actions taken.

IEA lacked proof that client tuition and wage subsidy funding was used as intended

1.48 Our audit did not examine service delivery by IEA. However, as part of our conflict-of-interest work, we noted the following concerns with information provided through multiple funding sources:

- We noted instances where client application and expense claim forms did not have all required supporting documentation such as proof of enrolment for an educational program or payroll slips to confirm participant was paid by the employer receiving a wage subsidy. Without appropriate supporting documentation, it is difficult to assess whether funding was used by participants for the intended purpose.
- Wage subsidy claim forms included a section for the employer to assess the performance of the program participant. This was often not completed and left blank. Feedback on the participants' performance would be important to the participants' future development and ability to retain employment.



1.49 Additionally, to be discussed later in this report, activity reports submitted by IEA provided little to no information on the effectiveness and efficiency of the actions taken or whether expectations were met.

Purchases of furniture, equipment, and computers exceeded approved budgets and did not appear reasonable - \$74,000

1.50 Through a review of IEA's accounting records, \$74,000 in furniture, equipment, and computer purchases were identified that did not appear reasonable under provincial funding agreements. Purchases:

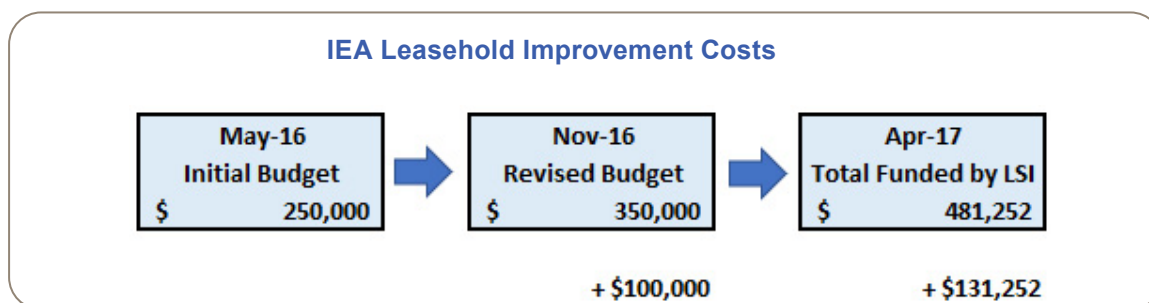
- exceeded approved budgets. For example, in 2019 to 2020, the annual equipment budget for the LSI agreement was \$6,320. However, computers, software, and furniture purchases in the accounting records totaled \$46,659.



- were not eligible under program funding guidelines, or
- were charged to inappropriate expenditure accounts. For example, two laptops at a cost of \$4,764 were purchased and charged to LSI as a travel expense.

Mismanagement of leasehold improvement costs – \$131,000

- 1.51 In 2016, funding contributions for leasehold improvements were granted by LSI due to changes in service delivery requiring new facilities. In May 2016, approval was granted for IEA to incur \$250,000 in leasehold improvements costs. LSI approved this amount based on knowledge of average renovation costs for approximate facility sizes.
- 1.52 In October 2016, IEA notified LSI their construction costs would be more than \$250,000. LSI also became aware IEA had allowed the landlord to begin renovations several months earlier without proper confirmation of costs, no approval from LSI for additional funding required, and without a signed agreement with the landlord. LSI explained despite the cost overruns and mismanagement, it would have been counterproductive to do anything but find a solution to the issue at hand as IEA had become a service provider with expanded service areas under the employment services transformation.



Source: Office of the Auditor General of Nova Scotia

- 1.53 On November 2, 2016, IEA provided LSI with the final version of the agreement. LSI agreed to revise the approved budget to \$350,000 based on:
- The cost of the leasehold expenses totaling no more than \$547,676 plus HST
 - Landlord providing an inducement of \$100,000 plus applicable tax, meaning IEA would be responsible for a maximum of \$447,676 plus HST
 - Any remaining amount owing because of the improvements would be the responsibility of IEA, however, IEA could apply to use other funding within their NSEAS agreement if funds were available
- 1.54 By April 2017, IEA claimed a total of \$481,252, including a portion of HST, against contracts held with LSI:

- \$350,000 through the approved leasehold funding
- \$131,252 redirected from their main program delivery funding agreement

1.55 IEA should not have allowed renovations to begin nor enter into a substantial agreement without proper confirmation of costs from LSI. This mismanagement resulted in funding being redirected away from service delivery with no direct repercussions to IEA. This situation should have triggered further monitoring action by LSI to assess what occurred, including confirmation of whether costs were reasonable. However, this did not occur.








IEA’s Board of Directors Failed in its Governance Responsibility

Principles of good governance were lacking at IEA

1.56 IEA was governed by a volunteer Board of Directors, including a Board Chair, Vice-Chair, Treasurer, Secretary and Directors. The full board composition during the scope of the audit is unclear, as board members noted in meeting minutes were absent from identified Board member listings. For example, one member was not included on the Board member listing but was noted as a Co-Chair in meeting minutes from February 2017 to May 2018. Additionally, no mention was made of any absences or voluntary resignations. We also found instances where members ceased to be included in listings without mention of their resignation in the minutes.



1.57 The roles and responsibilities of the Board were documented through a Board Governance Policy Manual (2019) and bylaws (2018). The governance manual was provided to LSI as part of the agreement renewal process in 2019. However, LSI’s evaluation and assessment of proposals did not include verifying whether the required policies and practices related to governance were in place. We found IEA’s governance standards did not meet many of the requirements outlined in the 2020 to 2022 NSEAS Program Policy including the following requirements:

Principles of Good Governance	Met at IEA?
Documented and Implemented Governance Practices	
Members Understood Roles and Responsibilities	
Committees for Audit, Finance, or Governance	
Members Independent of Management	
Collectively Composed of Required Competencies	
Accurate and Maintained Meeting Minutes	
Quorum at Meetings	

Principles of Good Governance	Met at IEA?
Succession Plan for Turnover of Directors	X
Approve Annual Business Plan and Operations Plan	X
Annual Evaluation of Board Performance	X
Annual Evaluation of Executive Director	X
Review and Approve Executive Director Salary Increases and Bonuses	X
Review and Approve Executive Director Vacation and Overtime	X
Review and Approve Executive Director Expenses	X
Processes for Disclosure/Mitigating Actions for Conflicts of Interest	X

Source: Nova Scotia Employment Assistance Services (NSEAS) Program Policy

1.58 Through a review of governance practices at IEA, we identified the following significant deficiencies:

- There were inconsistencies between the board bylaws and the Board Governance Policy Manual in multiple areas, including the number of members required for a quorum, board committees, and board executive officers. Inconsistencies create various interpretations of approved governance practices amongst members.
- 
- The Board did not have committees to oversee finance, audit, or governance. The establishment of board committees promotes more efficient board operations and allows committee members to conduct a deeper examination of the financial results of the organization.
 - The Board disregarded its own policies with regards to board members receiving services from the organization. Specifically, one board member was a client of IEA during their entire time on the board. This is problematic and brings into question the independence of board members from management and their ability to satisfy their fiduciary duty.
 - There was also no evidence of an assessment of the competencies of board members and whether they collectively possessed the required knowledge, skills, and competencies to be an effective board. Without an understanding of the individual competencies of board members, gaps and weaknesses can go unnoticed and impact the effectiveness of the collective board.
 - The Board did not keep adequate meeting records. There were multiple dates without minutes, despite the existence of agendas. There was no evidence of minutes beyond November 1, 2021, despite indications meetings occurred after this point.

- The accuracy of the meeting minutes was not reliable. For example, times recorded for Call to Order and Adjournment did not make sense (i.e., meetings lasting either 12 hours or five minutes; or ending before they began), but no corrections were made in subsequent meetings, indicating a lack of review of prior meeting minutes. Meeting minutes serve as the primary record of board decisions and without accurate minutes, it is questionable whether actions taken by management are appropriate and approved.
- Meetings were held without quorum on 19 occasions between 2015 to 2021, including meetings where audit results and staff bonuses were discussed. There should be appropriate representation by board members at meetings to make important decisions impacting the organization.
- There was no succession plan for board members.
- There were no mentions of business or operations plans in the board governance manual or in board meeting minutes.
- The governance manual outlines a requirement for the Board to engage in self-evaluation and to develop and adhere to a formal performance assessment process. However, there was no evidence of this occurring. Regular board evaluations are important to promote continuous improvement of the board.

1.59 Significant concerns were also identified related to the roles and responsibilities of board members including:

- The Board Chair held the role throughout the Executive Director's almost 20 years of employment. This is not a governance best practice and does not promote an effective governance function. It was the Chair's responsibility to conduct the performance reviews of the Executive Director. Through the Executive Director's employment from 2001 to 2020, there should have been 19 performance reviews; however, the employee file only contained nine. Additionally, for all appraisals conducted between 2015 to 2020, the Executive Director received a rating of five out of five, representing outstanding performance in every competency area. Annually, there were between 64 to 78 competency areas evaluated; therefore, appraisals do not appear to be objective or reasonable.
- The description of the Vice-Chair position was not included in the governance manual and the most recent Vice-Chair was not aware of any duties for their position beyond signing cheques. They indicated cheque signing did not involve assessing the reasonability of expenditures and instead, simply checked whether the invoice total matched the cheque.
- It was unclear whether the board member holding the Treasurer role had the necessary educational background or experience in finance or accounting to fulfill responsibilities. They were also unaware of their duties beyond signing cheques, and during their time as Treasurer, missed 24 board meetings, including 10 of 11 meetings held in one year. Minutes show the Executive Director was reporting financial information to the board despite this duty defined in the governance manual for the Treasurer. Additionally, neither the former Financial Controller nor the Vice-Chair knew which board member was in the Treasurer role.

- The Secretary was not aware their role included responsibility for keeping records of board actions, recording meeting minutes and assuring society records were maintained.

LSI Did Not Fulfill its Responsibilities to Protect the Public Interest and Provide Effective Oversight and Monitoring of IEA

Decision to renew IEA's 2016 and 2019 contracts not supported

1.60 As previously mentioned, in 2015 to 2016, the employment services transformation occurred. This included the selection process to determine which of the 52 service providers would continue to receive funding and/or amalgamate with others in their common service area. LSI had a documented process directing department employees on how to assess proposals. However, the documentation was broad and did not contain specifics. Therefore, the process was largely subjective as it was made at the discretion of LSI and could be based on knowledge, previous experience, and the submissions on hand. Management explained there were a lot of variables to review, and therefore, decisions were made for optimal service delivery.

1.61 For the selection process of IEA in 2015 to 2016, we could not find any clear assessment supporting awarding an agreement to IEA over other service providers. Specifically, we reviewed the application submitted by IEA, information within LSI's agreement management system, as well as an LSI assessment form and found it did not contain clear conclusions on the decision to award funding. IEA's proposal included a partnership with two other service providers.



1.62 When the agreement ended in 2019, LSI applied a submission renewal approach governed by the NSEAS policy. Service providers also had to make a presentation to LSI outlining the services they offered, and how they operated. Only existing service providers were invited to apply. Renewals were extended to these providers.

1.63 LSI Management indicated the performance of service providers was considered during the renewal process. However, there was no evidence indicating a performance review was completed prior to entering into a new agreement with IEA. It is important to consider the past performance of service providers during any renewal process to determine if renewal should occur and if so, what action needs to be taken to mitigate any concerns.

1.64 In late 2019, a renewal application was submitted by IEA for consideration. We noted the following:

- There was no clearly documented assessment of IEA's submission nor a clear conclusion as to why IEA's agreement should be renewed.
- The assessment criteria did not match the policy directives or the application form. The following are examples of areas not assessed:
 - Governance Standards
 - Privacy Standards
 - Occupational Health and Safety Review
 - Contract Services

Management explained some items were not assessed because their ongoing assessment could be achieved through monitoring. However, as noted later in this report, monitoring of governance did not occur.

- The budget analysis was not completed, making it difficult to follow the decisions or verify the appropriate amounts to allocated to spending categories.

Specifically:

- LSI initially provided a draft budget to IEA as guidance for how much LSI thought it should cost to deliver services; however, there was no process for LSI to follow to develop this budget, and no formula to base estimates and assumptions.
- We did not find satisfactory explanations for how certain expenses were budgeted by IEA or ultimately approved by LSI. For example, IEA requested \$48,000 per year for executive travel without details on how this amount was determined. LSI approved \$25,000; however, this amount was not communicated to IEA, and it is unclear how it was determined.
- The final approved budget included 23% for administrative costs for years one and two of the agreement and 22% for the third year. It was unclear how these percentages were determined.



- IEA policies were provided as part of their proposal. However, LSI did not review them for compliance with the contribution agreement and supporting program policies.
- While viability is an important evaluation tool for renewal in LSI's general assessment guidance, LSI did not review the financial viability of IEA. Management said historical knowledge and prior agreement performance was considered, however, we saw no evidence of this.

1.65 Overall, on two occasions, the assessment to determine if the IEA contract would be renewed was incomplete.

IEA contract renewal completed before conclusion of 2019 compliance process

1.66 LSI hired an auditing and accounting firm to conduct compliance procedures for the 2016 to 2019 NSEAS agreement. However, this was completed after the agreement had ended. The timing for the compliance work did not allow for the final results to be considered prior to the signing of the subsequent NS Works agreement in December 2019.

Multiple weaknesses noted in IEA contribution agreements

1.67 LSI did not terminate the agreement with IEA due to default. Instead, termination was done pursuant to a clause requiring 60 days' written notice, resulting in a corresponding distribution pay-out of \$476,986 for termination costs. We reviewed IEA's contribution agreement with LSI and found it contained multiple weaknesses including unclear and subjective terms. If the default clause had been clearer and measurable, some of these costs may have been avoided.

1.68 Specifically, we noted the following issues:

- *Unclear and subjective terms* – Subjective language was used when listing the activities to be performed by the service provider, which can make it difficult to measure whether an activity was completed. This also made it difficult to legally enforce. Example of subjective wording: “*help*”, “*operate to achieve*”, and “*be responsive*.”
- The termination for default clause contained vague language and deficiencies making it difficult to terminate the agreement early without notice. Specifically:
 - *Vague language* – Clause 25(1)(d) can be applied when the service provider is no longer able to deliver the agreement activities. The vague language “*being able to*” is subject to conflicting interpretations, as they could be able to meet the activities but are not doing it. LSI indicated this clause would never be used by the province, as it was written for the service provider to be able to terminate in case of not being able to provide services. However, both parties could interpret the clause differently.
 - *Deficiency* – Clause 25(1)(e) notes it can be applied if “*the Service provider, in support of its application for the contribution or in connection with this Agreement, has made materially false or misleading declarations, representations or statements, or provided materially false or misleading information to the province.*” This only allows a misrepresentation to be discovered after a problem is reported and investigated. It does not allow the province retroactive power in this type of event. For example, the agreement template could state where there is fraud or misrepresentation, the province’s funding would be discontinued from the time the fraud occurred and fraudulently gained amounts would be recoverable.
 - *Deficiency* – Clause 25(1)(f) is applicable if “*the Service Provider is in breach of the performance of, or compliance with, any term, condition, or obligation on its part to be observed or performed pursuant to this Agreement.*” The wording suggests each breach could be interpreted as fundamental to the contract. However, common law holds breach of contract for “*essential terms.*” Therefore, the wording leaves room for the service provider to argue it was not an essential term breached and then would not lead to default.



1.69 In addition to the above weaknesses, we identified the following omissions:

- There is no clause requiring contributions to be tracked in a separate account, both revenues and expenses, to make it easier to identify under which agreement expenditures were funded. Throughout our work it was difficult to determine what contract specific expenditures were claimed under.
- There is no clause clearly stipulating how interest earned on funding is to be used.
- There is no clause requiring an inventory of capital assets to be maintained from the start of the agreements and updated as items are purchased and disposed.

- The inspection and audit clause does not clearly stipulate that the service provider is an auditable entity on which the Auditor General can perform an audit. We noted the federal agreements we reviewed do include this clause.

1.70 These risks and weaknesses may also exist in agreements signed with the remaining 16 service providers under the NS Works program. This may expose LSI to financial and legal obligations as a result.



1.71 Additionally, LSI's policies require Deputy Minister approval for all contractual agreements exceeding \$1 million. There was no evidence of Deputy Minister approval for either the agreement signed in 2016 or the renewal in 2019, which both exceeded \$1 million. LSI noted approval for these agreements was provided verbally. However, we do not have any evidence to substantiate this.



Limited to no evidence of the review performed by LSI on IEA financial or activity reports

1.72 The roles and responsibilities within LSI for managing the NS Works program have been clearly defined through policy manuals and guidance documents. LSI staff and management have a clear understanding of their roles, and their understanding matched their job descriptions. There were no gaps or duplication in responsibilities identified. The department views its role as one of monitoring. Specifically, monitoring agreements to confirm funding is spent and client services are delivered as intended, rather than governing or managing the organizations holding the agreements.

1.73 IEA submitted all required reports for the agreements tested according to the required templates. However, we noted the following concerns regarding the submitted reports:

- Financial reports were not always submitted on time and revised information was submitted by IEA on multiple occasions due to errors, requiring re-verification by LSI.
- There was no supporting information required to be submitted with the financial reports, such as a breakdown of the costs making up the claimed amounts, or receipts or invoices. Therefore, there was no review of individual transactions making up the total of each budget category and it was difficult to determine what transactions were being claimed under the agreement.
- There was limited or no evidence of the review work performed by LSI before approval, such as reviewing the existence and accuracy of the claimed expenditures.
- There was also limited, or no evidence of LSI's review work on activity reports before approval. For example, training taken by IEA staff was provided as a separate document by IEA; however, there was no evidence of LSI requesting information verifying training had taken place.
- IEA activity reports note action taken on the activities outlined in the agreements; however, reports provide little to no information on the effectiveness and efficiency of the actions taken or whether expectations were met.

1.74 Due to LSI's limited review of IEA's submitted reports, it was difficult for them to determine whether reported claim amounts were accurate, and if expectations were met.

1.75 In addition to reporting requirements, LSI has two types of monitoring strategies – contact monitoring and on-site monitoring:



- **Contact Monitor** – After the agreement reports have been received, a claim period is selected, and the provider is contacted to discuss progress on activities and answer pre-established questions. Results are documented in a form and attached to LSI's contract management program with any notes identifying any follow up or actions required.
- **On-Site Monitor** – LSI obtains an understanding of the provider's administrative processes, examines the quality of the organization's record keeping system and internal control, and reviews information contained in reports submitted by the provider for the period covered by the visit. A sample of expenditures within each of the cost categories in the agreement is selected and tested.

1.76 An assessment was conducted by LSI of IEA to determine the number of contact and on-site monitoring touchpoints required. This assessment did not identify specific risks and mitigating actions to perform.

1.77 For the 2016 to 2019 NS Works agreement, a minimum of two contact monitors and one on-site monitor were required per year over the term of the agreement at IEA. LSI completed the minimum required contact monitors and on-site monitor without any significant concerns identified. Management indicated their existing monitoring practices would not have found some of the concerns identified earlier in this report, indicating monitoring practices were not designed appropriately. This is very problematic and emphasizes the need for improved oversight and monitoring practices by LSI to fulfill its responsibility to protect the public's interest.

LSI did not assess IEA governance practices

1.78 Despite requirements related to governance within the NSEAS policy guidelines, the governance practices of IEA were not evaluated prior to LSI entering into a funding agreement with the organization. LSI did not monitor governance practices as part of their agreement monitoring process. This is very concerning given there are 16 other service providers receiving millions of dollars over multi-year funding agreements under this program. Improved assessment and monitoring of the governance practices of service providers is required to verify providers have strong governance in place operating effectively.

LSI did not appropriately investigate three complaints about IEA

1.79 Two complaints about IEA were received by LSI in May and June 2018 and one in July 2019. These significant complaints were not appropriately investigated. LSI explained concerns identified in the complaints were flagged to be tested as part of the compliance procedures on the 2016 to 2019 NSEAS agreement. However, this compliance work did not begin until October 2019, almost 18 months after LSI received the initial complaint. Final results of the compliance work were only provided to LSI in February 2020 after a new agreement had already been signed. This lapse of

time did not allow for timely action to be taken on these complaints or inform whether renewal of the contract was warranted.

Early Termination Costs Found to be Adequately Calculated and Supported

LSI reviewed multiple options and documented its analysis prior to making a recommendation to terminate the contribution agreement with IEA

- 1.80 We found the decision to terminate the agreement with IEA was sufficiently supported. Multiple options were reviewed and discussed prior to the province making a final decision.
- 1.81 A significant consideration as part of the early contract termination decision was to ensure services would still be provided to the public. LSI indicated the services could be transitioned to another provider with no interruption and focused its efforts on continuity of service.
- 1.82 An interim service provider was selected, and a formal process followed to replace IEA on a permanent basis. Existing service providers were asked to apply for a long-term service agreement for the region. LSI required IEA to inform its clients about the change, a toll-free number was created, and clients were directed to the new service provider to triage the clients appropriately.
- 1.83 Furniture, equipment, and computers were transferred from IEA to the new service provider. However, no inventory records were created from the start of the funding agreements with IEA, nor updated as the agreements continued. Therefore, it was not possible for us to assess the completeness of the items transferred. The new service provider acknowledged receiving furniture, equipment, and computers from IEA as part of the transition of services.

Early termination payments made in accordance with final agreement

- 1.84 The early termination agreement signed between IEA and LSI was consistent with the contribution agreement and included a detailed list of costs to be paid by IEA to its employees or vendors. There were also generic clauses listing the limits of the agreement. For example: once all contributions listed in the agreement were paid, IEA could not claim anything else. Following these payments, the termination agreement deemed the province fulfilled all its duties under the “*Termination with Notice*” clause of the original funding agreement.
- 1.85 LSI used multiple sources of information to help in determining the termination costs they approved as reasonable and attributable to the termination. We also saw evidence of communications between LSI and IEA to approve or refuse costs. Early termination payments were made in accordance with the final agreement.

Early termination costs found to be adequately calculated and supported

- 1.86 We found sufficient evidence for termination costs. The following termination costs were funded:

IEA Termination Funding	
Expense Type	Funding
Employee Severance – Eight Weeks	\$243,513
Fixed Costs – Including Rent	165,505
Accrued Employee Vacation	35,470
Variable Costs – Including Salary of the Executive Director, the Financial Controller, and the Information Technology Technician from November 22 to December 31, 2021, to finalize the termination.	32,498
Total	\$476,986

Source: Office of the Auditor General of Nova Scotia

Comprehensive Assessment Needed on How the Nova Scotia Works Program is Delivered

- 1.87 It is clear from the findings in this report the unethical and unprofessional behaviour by certain members of management and staff at IEA, and poor governance practices by the Board of Directors, contributed to the gross mismanagement of public funds. It is also clear the oversight and management of the funds provided to IEA by LSI was not sufficient to protect the public interest. With 16 third-party service providers engaged to provide services to Nova Scotians, it is critically important for LSI to evaluate and monitor whether these organizations warrant entrusting them with annually over \$22.8 million of taxpayers' dollars.
- 1.88 A comprehensive assessment, including fraud risk, related to the delivery of the NS Works program is necessary. The findings in this report and the report of the Ombudsman should serve as important input into the identification and assessment of the risks associated with this program. Careful consideration needs to be given to the assessment and ongoing monitoring of important areas like board governance practices, which are key tenets of professionally and ethically run organizations.

Recommendation 1.1

Based on the significance of the dollar values involved, the importance of the services provided to Nova Scotians, and the severity of the concerns identified at Island Employment Association, we recommend the Department of Labour, Skills and Immigration complete a comprehensive assessment of how the Nova Scotia Works program is delivered. The assessment and resulting response should include at a minimum:

1. Determining whether program objectives have been established and are being met;
2. Evaluating risks related to outsourcing program delivery, including fraud risks;
3. Identifying the actions needed to mitigate risks to an acceptable level;
4. Improving the process to select and renew agreements with service providers, including:
 - i. Documenting all key decisions and assumptions; and
 - ii. Assessing service provider past performance.
5. Updating terms and conditions of service provider contribution agreements to:
 - i. Strengthen and clarify subjective terms;
 - ii. Require service providers to submit detailed lists of transactions to support their financial reporting;
 - iii. Require service provider Boards of Directors to complete regular governance training; and
 - iv. Require annual declarations of conflicts of interest for all staff and directors.
6. Improving the monitoring and oversight of service provider compliance with contribution agreements through:
 - i. Strengthened departmental monitoring of service provider financial processes and controls, such as increased departmental testing of service provider transactions for compliance, periodic reviews of provider financial practices by internal or external auditors, or other monitoring mechanisms.
 - ii. Regularly assessing service provider governance practices and competencies to make sure they meet department expectations and are functioning as intended.
7. Periodic review to determine whether actions taken from this assessment are working.

Department of Labour, Skills and Immigration Response: LSI is appreciative of the comprehensive review and will take steps to fully comply with the recommendations in the report. LSI will undertake a comprehensive assessment of how the Nova Scotia Works program is delivered and will address the seven specific items recommended. Specifically, LSI will immediately incorporate measures that strengthen its annual review process for the public employment services currently in place. LSI will also increase and strengthen financial monitoring and reviews of supporting documentation. LSI will review and strengthen standards for contracting with third party non-profit service providers, including the consideration of standards for governance practices and service delivery.

Immediately, LSI will undertake a comprehensive risk assessment with identified mitigations, while ensuring that current and future actions are effective, particularly in the areas of agreement monitoring and supporting third party good governance. Contractual compliance work will continue, but with the enhancement of any additional measures identified through the audit and by LSI staff. Target Date: December 2024

Reasonable Assurance Engagement Description and Conclusions

In Spring 2023, we completed an independent assurance report of Island Employment Association and the Department of Labour, Skills and Immigration. The purpose of this performance audit was to determine if the Department of Labour, Skills and Immigration appropriately selected Island Employment for contribution agreements, ensured contract compliance, and funded termination of the agreements. Our audit also investigated whether Island Employment Association mismanaged public funds in the administration and delivery of employment related programs in Cape Breton.

It is our role to independently express a conclusion about whether the Department of Labour, Skills and Immigration complies in all significant respects with the applicable criteria. Management at the Department of Labour, Skills and Immigration have acknowledged its responsibility for contribution agreements held with Island Employment Association. This audit was performed to a reasonable level of assurance in accordance with the Canadian Standard on Assurance Engagements (CSAE) 3001 — Direct Engagements set out by the Chartered Professional Accountants of Canada; and sections 18 and 21 of the Auditor General Act.

We apply the Canadian Standard on Quality Management 1, which requires the Office to design, implement and operate a system of quality management, including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

In conducting the audit work, we have complied with the independence and other ethical requirements of the Code of Professional Conduct of Chartered Professional Accountants of Nova Scotia as well as those outlined in Nova Scotia's Code of Conduct for public servants.

The objectives and criteria used in the audit are below:

Objective:

To determine whether the Department of Labour, Skills and Immigration followed an appropriate process to enter into contribution agreements with Island Employment Association.

Criteria:

1. The Department of Labour, Skills and Immigration should have clear eligibility criteria and application requirements to evaluate and select Island Employment Association for a contribution agreement.
2. The Department of Labour, Skills and Immigration should have included clear and appropriate contribution agreement terms including ensuring the public funds and the public interest is protected.
3. The Department of Labour, Skills and Immigration should have reviewed the reasonability of budgets and other information submitted by Island Employment Association.

Objective:

To determine whether the Department of Labour, Skills and Immigration had effective contract management policies and processes in place to assess whether Island Employment Association was in compliance with the terms of agreements and appropriate use of public funds.

Criteria:

1. The Department of Labour, Skills and Immigration should have clearly defined and communicated roles and responsibilities for managing agreements with Island Employment Association.
2. The Department of Labour, Skills and Immigration should have monitored Island Employment Association to assess whether they complied with the terms of contracts, including taking timely corrective actions if issues were identified.

Objective:

1. To determine whether the Department of Labour, Skills and Immigration assessed the alternatives to and the impacts of terminating the agreement with Island Employment Association.
2. To determine whether the Department of Labour, Skills and Immigration developed a reasonable early termination agreement consistent with the contribution agreement and designed to protect the public interest.
3. To determine whether the Department of Labour, Skills and Immigration ensured Island Employment Association complied with the relevant terms of the contribution agreement and the early termination agreement and took timely corrective actions where required.

Criteria:

1. The Department of Labour, Skills and Immigration should have evaluated the impact and alternatives of early termination of contribution agreements with Island Employment Association.
2. The Department of Labour, Skills and Immigration should have ensured all approved funding under the early termination cost agreement was reasonable and supported.
3. The Department of Labour, Skills and Immigration should have ensured Island Employment Association completed the required contract deliverables prior to issuing payments.
4. The Department of Labour, Skills and Immigration should have taken appropriate action to ensure continuity of services from Island Employment Association to the new service provider following the termination of the agreement, including the transfer of provincially funded assets.

Generally accepted criteria consistent with the objectives of the audit did not exist. Audit criteria were developed specifically for this engagement. Criteria were accepted as appropriate by senior management at the Department of Labour, Skills and Immigration for the component of the engagement examining their selection of IEA as a service provider, contract management and the decision to terminate the funding agreement with IEA early.

During the planning of this engagement, we were made aware of allegations related to aspects of operations and oversight of Island Employment Association including the payment and claiming of certain expenses, alleged conflicts of interest, and governance of IEA. We developed and performed specific audit procedures related to these areas, with the objective of determining whether there was validity to the allegations. Objectives and criteria related to these allegations were not provided to management or the Board of Directors of IEA. Significant findings in this report were discussed with management and Board members of IEA.

Our audit approach consisted of interviews with management and staff of the Department of Labour, Skills and Immigration, reviewing policy, examining processes and detailed file review. We examined relevant processes, plans, reports, and other supporting documentation. We also interviewed management, staff, and Board members at Island Employment Association, as well as examined physical and electronic records obtained from IEA. Our audit period covered January 1, 2016, to April 30, 2022. We examined documentation outside of the period as necessary.

The findings in this report related to the operations and governance at Island Employment Association are based on the records and information we obtained, including both physical and electronic records. Island Employment Association was wound down in late 2021, and as a result some records and information may not have been kept, or may have been removed, prior to our examination. We are unable to determine the impact, if any, those records, or information may have had on the findings in this report.

We obtained sufficient and appropriate audit evidence on which to base our conclusions on June 1, 2023, in Halifax, Nova Scotia.

Based on the reasonable assurance procedures performed and evidence obtained we have formed the following conclusions:

- Executive Director and certain management and staff at Island Employment Association grossly mismanaged public funds in the administration and delivery of employment related programs in Cape Breton.
- The Department of Labour, Skills and Immigration did not follow an appropriate process to enter into contribution agreements with Island Employment Association and weaknesses were identified in the terms and conditions of contribution agreements signed.
- The Department of Labour, Skills and Immigration did not have effective contract management policies and processes in place to assess whether Island Employment Association complied with the terms of agreements and appropriately used public funds.



- The Department of Labour, Skills and Immigration assessed the alternatives to and the impacts of terminating the agreement with Island Employment Association.
- The Department of Labour, Skills and Immigration developed a reasonable early termination agreement consistent with the contribution agreement. Early termination payments were made in accordance with the final termination agreement.

Closure of Island Employment Association



Source: Office of the Auditor General of Nova Scotia

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