



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

November 2015

Independence • Integrity • Impact



November 6, 2015

Honourable Kevin Murphy  
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,

**MICHAEL A. PICKUP, CPA, CA**

Auditor General of Nova Scotia

5161 George Street  
Royal Centre, Suite 400  
Halifax, NS B3J 1M7  
Telephone: (902) 424-5907  
Fax: (902) 424-4350  
Website: <http://www.oag-ns.ca>  
: @OAG\_NS



# Office of the Auditor General

## Our Vision

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

## Our Mission

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

## Our Priorities

Conduct and report audits that provide information to the House of Assembly to assist it in holding government accountable.

Focus our audit efforts on areas of higher risk that impact on the lives of Nova Scotians.

Contribute to a better performing public service with practical recommendations for significant improvements.

Encourage continual improvement in financial reporting by government.

Promote excellence and a professional and supportive workplace at the Office of the Auditor General.



## Who We Are and What We Do

The Auditor General is an independent nonpartisan officer of the Legislature, appointed by the House of Assembly for a ten-year term. He or she is responsible to the House for providing independent and objective assessments of the operations of government, the use of public funds, and the integrity of financial reports. The Auditor General helps the House to hold the government to account for its use and stewardship of public funds.

The Auditor General Act establishes the Auditor General's mandate, responsibilities and powers. The Act provides his or her Office with a modern performance audit mandate to examine entities, processes and programs for economy, efficiency and effectiveness and for appropriate use of public funds. It also clarifies which entities are subject to audit by the Office.

The Act stipulates that the Auditor General shall provide an opinion on government's annual consolidated financial statements; provide an opinion on the revenue estimates in the government's annual budget address; and report to the House at least annually on the results of the Office's work under the Act.

The Act provides the Office a mandate to audit all parts of the provincial public sector, including government departments and all agencies, boards, commissions or other bodies responsible to the crown, such as school boards and the provincial health authority, as well as funding recipients external to the provincial public sector. It provides the Auditor General with the authority to require the provision of any documents needed in the performance of his or her duties.

In its work, the Office of the Auditor General is guided by, and complies with, the professional standards established by CPA Canada. We also seek guidance from other professional bodies and audit-related best practices in other jurisdictions.





# Table of Contents

## Introduction

1	<b>Message from the Auditor General</b> .....	3
---	---	---

## Performance Audits

2	<b>Education and Early Childhood Development: Regional School Board Governance and Oversight</b> .....	7
---	--	---

### **Department Oversight**

	Department has not established performance standards for school boards .....	11
--	--	----

	Department has not clearly defined school board responsibilities and accountabilities .....	12
--	---	----

### **Board Management Oversight**

	School board management is doing a good job implementing the continuous school improvement process.....	14
--	---	----

	Management at Chignecto-Central and Strait do not obtain sufficient data in annual reports to assess progress towards goals .....	15
--	---	----

	Insufficient board-wide data on student performance .....	16
--	---	----

	All three boards have teacher and principal evaluation policies, but Chignecto-Central's principal evaluation policy is draft .....	17
--	---	----

### **Board Governance**

	Chignecto-Central and Halifax provide adequate oversight of provincial assessment results, Strait needs improvement.....	19
--	--	----

	Governing boards need more information to understand how students on individual program plans are performing.....	20
--	---	----

	Governing boards do not know whether all schools are meeting their continuous school improvement goals.....	22
--	---	----

	Governing boards do not provide adequate oversight of principal and teacher evaluations.....	23
--	--	----



	Governing boards do not sufficiently evaluate themselves: Chignecto-Central and Halifax require improvement in evaluating their superintendents.....	25
<b>3</b>	<b>Government-wide: Business Continuity Management.....</b>	<b>29</b>
	<b>Government-wide Business Continuity Management Program</b>	
	Government-wide continuity priorities have not been established .....	34
	Formal responsibility for a government-wide continuity program is not assigned.....	35
	Continuity program for department and entity use has not been finalized.....	35
	Existing business continuity environment does not promote economy and efficiency.....	36
	<b>Department and Entity Business Continuity Management Programs</b>	
	Departments and entities cannot be sure they would be able to maintain critical services .....	38
	Correctional facilities use standard operating procedures to address continuity .....	40
	Correctional facility lacked a continuity program prior to opening .....	41
	Housing offices' continuity programs address emergencies, but lack other components .....	44
	School boards lack some necessary continuity program documents .....	45
	Schools are not conducting all emergency drills as required by policy .....	46
<b>4</b>	<b>Labour and Advanced Education: Funding to Universities.....</b>	<b>51</b>
	<b>Sustainability of the University System</b>	
	No overall direction to achieve accountability and sustainability for the university system.....	54
	Measures to track improvements in efficiency and sustainability inadequate .....	56
	No accountability for funding or monitoring of university financial health and performance .....	56



Emergency funding framework existed .....	58
<b>Distribution of University Funding</b>	
Funding allocation method is historical and has not been updated.....	58
<b>Implementation of Agreements with Universities</b>	
Limited success in implementing memorandum of understanding objectives.....	60
Agreements with universities lack specific objectives.....	62
<b>5 Municipal Affairs: Monitoring and Funding Municipalities .....</b>	<b>65</b>
<b>Monitoring of Municipal Financial Performance</b>	
Monitoring and reporting on financial information not timely .....	69
No process to follow up on negative financial indicators .....	71
Process of dissolution of town followed required regulations.....	74
<b>Meeting Legislated Capital Borrowing Requirements</b>	
Short-term borrowing properly approved.....	75
Insufficient analysis of borrowing requests prior to approval .....	75
Borrowing terms not appropriately assessed against useful life of assets.....	76
Temporary borrowing approvals not monitored for renewal or other disposition.....	76
<b>Distribution of Grant and Program Funding</b>	
Formula-based funding to municipalities met legislative requirements .....	78
Guidelines for application-based grants not always followed.....	78
<b>6 Natural Resources: Forest Management and Protection .....</b>	<b>81</b>
<b>Strategic Planning</b>	
Citizens were provided the opportunity to give input during development of the strategy .....	85
Qualified panel of experts was assembled and consulted.....	85



Strategy includes action items that consider significant risks facing forests and the forest industry ..... 86

Improvement is needed in measuring and reporting on implementation of strategy action items ..... 86

**Licensing and Harvesting**

Department is not adequately monitoring timber harvest reporting ..... 88

Department has not established consistent inspection requirements ... 90



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# Introduction

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# 1 Message from the Auditor General

## Introduction

- 1.1 I am pleased to present my November 2015 Report to the House of Assembly on work completed in 2015. This report focuses on the results of five performance audits.
- 1.2 I wish to recognize the hard work and results produced by my dedicated team of independent audit professionals. We strive to provide valuable recommendations and actions so that government can better serve Nova Scotians. I believe that the observations and recommendations identified in these five chapters, when acted upon by government, can help provide more effective services to Nova Scotians in a manner that is also increasingly more economical and efficient.
- 1.3 I also wish to acknowledge the cooperation and courtesy we received from staff in departments and agencies during the course of our work.
- 1.4 The team members who led these audits were:
  - Terry Spicer, CPA, CMA – Deputy Auditor General
  - Evangeline Colman-Sadd, CPA, CA – Assistant Auditor General
  - Andrew Atherton, CPA, CA – Audit Principal
  - Dianne Chiasson, CPA, CGA, PMI – Audit Principal
  - Robert Jewer, CPA, CGA – Audit Principal
  - Janet White, CPA, CA, CISA – Audit Principal

## Overview and Chapter Highlights

- 1.5 The report has five performance audit chapters covering:
  - Regional School Board Governance and Oversight
  - Business Continuity Management
  - Funding to Universities
  - Monitoring and Funding Municipalities
  - Forest Management and Protection



1.6 These areas were chosen for audit given their significance.

- There are more than 120,000 students in public schools; school board budgets for 2014-15 totalled over \$1.2 billion.
- Nova Scotians rely on critical government programs and services. It is important that the province has business continuity plans in place to deal with possible service interruptions.
- Universities contribute \$1.4 billion to Nova Scotia's gross domestic product. The provincial operating grant to ten universities in 2014-15 was \$317 million.
- Strong municipal finances are important to Nova Scotia's economy. In recent years, four towns have dissolved and six are in the process of dissolution or amalgamation. In 2014-15, the province provided \$130 million in grants and funding to municipalities.
- Nova Scotia's forest industry has a significant impact on the provincial economy. Management and protection of this significant natural resource is important.



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# Performance Audits

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# Chapter 2: Regional School Board Governance and Oversight



## Why we did this audit:

- Previous audit of a regional school board found problems with monitoring and oversight of student performance
- Education of our youth is a priority for Nova Scotians
- More than 120,000 students in public schools
- Over \$1.2 billion in school board budgets

## Overall conclusions:

- While all three boards have some good practices by both board management and governing boards, there are also some shortcomings
- Department is not clearly defining the role of school boards or meeting its responsibilities under the Education Act
- Department and boards agreed with all ten recommendations

## What we found in our audit:

- Good job on continuous school improvement process by all three boards
- Governing boards generally get good information from management
- Governing boards need to ask for more information in some areas, such as school progress towards goals
- Department has not clearly defined its roles, as well as those of regional school boards
- Superintendent evaluations
  - Strait does this well
  - Chignecto-Central and Halifax are doing evaluations but need improvements
- Self-evaluations of governing boards
  - Chignecto-Central and Halifax are doing these but have weaknesses
  - Strait had not completed a self-evaluation at the time of our audit
- Assessing student performance on provincial assessments
  - Chignecto-Central and Halifax governing boards receive the needed information
  - Strait receives some information but requires more
- All three governing boards need more information on how students with individual program plans are progressing
- The Department has not set clear expectations for school board performance
- Chignecto-Central and Strait management do not get enough information to fully evaluate progress towards school goals
- Additional student progress data would help give a more complete picture



## 2 Education and Early Childhood Development: Regional School Board Governance and Oversight

### Background

2.1 The Chignecto-Central, Halifax and Strait Regional School Boards are three of eight school boards in the province. In the 2014-15 school year, they combined to serve approximately 74,878 students across 231 schools. Each school board varies in size and budget. The following table includes summary information for all eight boards.

School Board	Approximate # Students Enrolled	# Schools	Budget (in \$000's)	Governing Board Members
Annapolis Valley	13,340	43	\$136,883	15
Cape Breton Victoria	13,673	52	150,754	16
Chignecto-Central*	20,000	73	201,381	17
Conseil scolaire acadien provincial	5,137	22	67,862	17
Halifax*	48,500	137	433,596	10
South Shore	6,681	27	78,597	8
Strait*	6,378	21	80,571	12
Tri-County	6,400	27	72,844	11
<b>Total</b>	<b>120,109</b>	<b>402</b>	<b>\$1,222,488</b>	<b>106</b>

All figures relate to the 2014-15 school year  
\* Included in this audit

2.2 The superintendent in each regional school board is accountable to the governing board. Responsibilities include supervising the overall operation of the board including head office, schools and employees. In each board, functions are divided into departments, each with a director who reports to the superintendent. Typical departments cover areas such as education, operational and financial services, and human resources. Operational and management decisions at the school level are the responsibility of principals and vice-principals.

2.3 Each regional school board has a governing board consisting primarily of elected members, along with some appointed individuals. Board members are responsible to both the Minister of Education and Early Childhood Development and the voters in their area. Governing boards function in an oversight role, part of which includes approving the strategic plan and supporting business plans.



- 2.4 In addition to oversight related to each board’s strategic plan, each governing board is responsible to fulfill its duties as outlined in the Education Act and Regulations. This includes focusing on the achievement of all students enrolled in their region’s schools and programs, and completing the annual evaluation of the superintendent.
- 2.5 Annually, students across the province write provincial assessments at various grade levels. The results from these assessments play a part in overall performance assessment of school boards. The following table shows results from the 2014-15 school year for elementary level assessments from all boards in the province:

School Board	Grade 3 Literacy	Grade 4 Math	Grade 6 Literacy	Grade 6 Math
Provincial Average	66%	74%	70%	69%
Annapolis Valley	65%	74%	70%	66%
Cape Breton Victoria	64%	71%	66%	64%
Chignecto-Central*	68%	75%	70%	69%
Conseil scolaire acadien provincial	N/A – not written	N/A – not written	57%	N/A – not written
Halifax*	66%	76%	73%	72%
South Shore	68%	70%	60%	59%
Strait*	66%	76%	74%	72%
Tri-County	54%	63%	64%	65%
* Included in this audit				

- 2.6 The Department of Education and Early Childhood Development has a broad mandate that includes responsibility for early childhood development, and the education of children and youth through the public school system.

## Audit Objectives and Scope

- 2.7 In spring 2015, following the release of our audit of Tri-County Regional School Board, the Minister of Education and Early Childhood Development asked us to consider auditing additional regional school boards. After reviewing this request, we chose to conduct a performance audit at Chignecto-Central, Halifax, and Strait Regional School Boards, along with the Department of Education and Early Childhood Development. We examined activities related to certain responsibilities of the management teams and governing board members, as well as the Department’s oversight. The audit was conducted in accordance with sections 18 and 21 of the Auditor General Act and auditing standards of the Chartered Professional Accountants of Canada. As with all of our audits, we report directly to the Legislative Assembly.



- 2.8 The purpose of this audit was to determine whether the Department and governing boards of selected regional school boards are providing adequate oversight, and whether the management teams are providing appropriate oversight and monitoring of educational services in schools.
- 2.9 The objectives of the audit were to determine whether:
- the Department is providing adequate oversight and monitoring of educational services delivered by regional school boards;
  - management teams are monitoring the educational performance of schools and appropriately following up when performance is not satisfactory; and
  - governing school board members are providing adequate oversight of the delivery of educational services in their schools.
- 2.10 Audit criteria were developed specifically for this engagement. Criteria were discussed with, and accepted as appropriate by, management and governance representatives of the regional school boards, as well as the Department.
- 2.11 Our audit approach included interviews with management teams and school staff, governing board members, and personnel at Education and Early Childhood Development; examination of legislation, policies and other documentation; and testing compliance with legislation, policy and other processes. Our audit period covered September 1, 2013 to March 31, 2015, focusing on literacy and numeracy in grades primary through six.

## Significant Audit Observations

### Department Oversight

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#### Conclusions and summary of observations

The Department of Education and Early Childhood Development is not providing adequate oversight and monitoring of educational services delivered by school boards. The Department has not established education performance standards for school boards or performance targets for provincial assessments. The Education Act does not clearly define the accountability relationship between school boards and the Minister. Department staff who act as liaisons between the Minister and school boards could be better utilized. The role of the liaisons is not clear and the Department has not defined updates or reporting they are required to provide. In some instances, the Department embargoes information which means board management cannot share this with their governing boards. Education and Early



Childhood Development management need to review this practice and establish more reasonable timeframes to share information with governing boards.

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► Department has not established performance standards for school boards

2.12 *Performance standards* – The Education Act requires school boards to comply with education program, service and performance standards established by the Minister of Education. However, the Department has not developed any performance expectations for school boards. The only evaluation of student educational achievement on a province-wide basis is the provincial assessment process.

2.13 The Department is responsible for developing the education curriculum and the provincial assessment tool, as well as compiling the results. The Department has not established targets to evaluate school board performance on these assessments. Assessment targets could be used to identify areas of concern, such as school boards performing below expectations; good practices which are helping boards do well; and to encourage coordination between school boards to improve student performance. The Department is ultimately responsible for the education results of all students in the province, but it is not actively monitoring, or acting on, those results.

**Recommendation 2.1**

The Department of Education and Early Childhood Development should establish performance standards for school boards to monitor and evaluate student educational achievement.

**Department of Education and Early Childhood Development Response:** The department agrees that student achievement is a priority for Nova Scotia's public education system and is working with school boards to increase its effectiveness. Nova Scotia's Action Plan for Education outlines a commitment to an improved education system with a focus on student achievement and includes specific actions to improve curriculum, expand programming, and increase support for teaching and learning.

The Action Plan includes a commitment to accountability, ensuring student achievement is monitored and evaluated. Beginning last year, school boards with the assistance of the department developed a common business planning goal to improve student achievement. Provincial assessments were identified as performance measures for this goal with targets to increase the percentage of students meeting expectations on these assessments.

The department will monitor the implementation of the Action Plan, making adjustments as necessary in the best interests of students, and reporting on progress through an annual report.



Department has not clearly defined school board responsibilities and accountabilities

- 2.14 *Education Act* – The Education Act defines the roles, responsibilities and accountabilities of the Minister, the Department of Education and Early Childhood Development, and school boards, but does not clearly define the accountability relationship between school boards and the Minister. The Education Act defines school boards as accountable to both the Minister of Education and Early Childhood Development and the voters in that area. This dual accountability creates conflict if the expectations of the Minister differ from those of the public who elected the school board member. Department management agree that the Education Act does not adequately reflect the roles and responsibilities of the school boards or the Department, but management has not taken steps to clarify the relationship to ensure roles and responsibilities are clearly communicated.
- 2.15 *Regional education officers* – The Department employs five regional education officers to act as liaisons between the Minister and the school boards. They are intended to act as educational advisors to the school boards, and aid the Minister in keeping in touch with educational conditions throughout the province.
- 2.16 The Department has not established how often regional education officers are to report to the Department, or what information they should report. The regional education officer’s liaison role with the school boards provides an opportunity for clear, regular reporting on school board activities. This includes addressing educational priorities, clarifying and strengthening accountability between the Department and school boards, as well as identifying and communicating possible practices which could be shared between school boards to support student educational achievement. This is not happening and the Department should take steps to clarify its expectations and ensure regional education officers are used to the position’s full potential.
- 2.17 *Communicating roles and accountabilities* – Only one of the regional education officers has presented information to governing board members on their role, the Department’s role, and clarifying the accountability relationship between school boards and the Minister. We found the Department does not provide information on roles and accountabilities to newly-elected school board members. Department management told us they have worked with the Nova Scotia School Boards Association to provide this information. School boards have fixed election dates so the Department knows when there are new members. Failing to provide an orientation means new board members may not understand their role and how it fits with the role of the Department and that of the Minister.



**Recommendation 2.2**

The Department of Education and Early Childhood Development should clearly define and communicate responsibilities of board management, governing boards, and the Department (including regional education officers).

**Department of Education and Early Childhood Development Response:** The department agrees with this recommendation and is committed to clarifying the roles and responsibilities of school boards and the department.

The Education Act outlines the legislated roles and responsibilities for bodies and/or individuals responsible for the Nova Scotia school system. Policies and by-laws developed by the department and/or the board can further describe these roles and responsibilities.

The department works with Nova Scotia School Board Association (NSSBA) to provide information to potential candidates on the roles and responsibilities of school boards and their members. Once formed, orientation presentations and seminars are provided to governing school board members.

The department will continue to work with the NSSBA on these initiatives and is committed to clarifying roles and responsibilities of school board management, governing school boards, and the Department including the role of regional education officers. If necessary, amendments to the Education Act will be considered to provide further clarification.

2.18 *Restrictions on information shared with board* – Board management told us the Department sometimes requests that information is embargoed and not shared with governing boards right away. For example, provincial assessment results are generally shared with board management before the results are given to governing boards. While timeframes vary, board management told us, and Department management confirmed, that information is sometimes embargoed from release to governing boards for several months.

2.19 Department management told us they, along with board management, may need time to fully understand information before it becomes public. They also said they realize the embargo period has been too long at times and they are working to address this.

**Recommendation 2.3**

The Department of Education and Early Childhood Development should establish clear direction on when school board management cannot provide information to governing boards. This should include defining the time period when information will be embargoed, ensuring that period is as short as possible, and considering whether it would be appropriate to share the information in-camera with governing boards when it is released to management.



**Department of Education and Early Childhood Development Response:** The Department accepts this recommendation and has commenced action. On October 8, 2015, the EECD advised school board Superintendents that embargoed provincial assessment results may be shared with governing boards during in-camera sessions. On October 9, 2015, Superintendents were also provided with the following written clarification regarding embargoed assessment results:

The approved practice for handling embargoed provincial assessment results is as follows: *Any embargoed provincial assessment results provided to school board assessment leads must be treated as strictly confidential and may only be shared with: a) Senior School Board Administration; and b) elected school board members during an in-camera presentation.*

Further to this approved practice, the EECD is currently examining the option of a standard embargoed period for provincial assessment results in order to provide senior EECD officials, senior school board administration, and/or governing boards with adequate time to analyze the results prior to their publication.

## Board Management Oversight

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### Conclusions and summary of observations

Management at each board did a good job of implementing the continuous school improvement process, but more board-wide student progress data is needed to evaluate how students are doing. All three boards have literacy assessment data, but we found very little data collected on numeracy. The three boards have recently started collecting report card data. In regard to school staff performance, Halifax and Strait have policies and evaluate teachers and principals. Chignecto-Central has a policy for teacher evaluations, and most were completed, but its policy for principal evaluations is draft and no principals have been evaluated.

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► School board management is doing a good job implementing the continuous school improvement process

2.20 *Continuous school improvement process* – The continuous school improvement process is a framework developed by the Department of Education and Early Childhood Development as the primary approach to monitoring student progress. Every school in the province is required to develop goals based on available assessment data and select strategies to help achieve those goals. We examined this process as part of our audit work and found that all three boards did a good job of implementing it.

2.21 We selected a sample of schools in each of the three boards and reviewed their continuous school improvement plans. All of the schools followed



the process outlined by their respective board, including setting goals and identifying strategies to help achieve them at the school level. We did not note significant issues with the processes at any board.

- ▶ Management at Chignecto-Central and Strait do not obtain sufficient data in annual reports to assess progress towards goals

2.22 *Annual reports* – Annual reporting on continuous school improvement varies between boards. We found board management at Halifax receives adequate annual reporting. Although management at Chignecto-Central and Strait received reporting, it did not include sufficient data to adequately assess results. Reporting should help management to determine if a school is progressing towards accomplishing its goals, or struggling, and in need of additional support. Without adequate reporting, including supporting data to demonstrate progress, board management may not be aware of successes or problems at schools. Data should cover multiple years of results and relate to various forms of evaluation, such as provincial assessments, report card results, and other classroom-based tools.

#### **Recommendation 2.4**

Management at Chignecto-Central and Strait Regional School Boards should require annual reporting to include data sufficient to identify how schools are progressing against goals.

**Chignecto-Central Regional School Board Response:** The Chignecto-Central Regional School Board (CCRSB) agrees to implement this recommendation. CCRSB will update our template for schools to follow when reporting on the progress of their school improvement goals. School goals will be aligned with the goals in CCRSB's strategic and business plans. Schools will collect, analyze and report on a variety of data sources at the school, board and provincial level, throughout the school improvement cycle. Each school's annual report will include a description of the progress made in achieving their goals, as well as multiple data sources over time. Management will provide the elected board with a yearly report summarizing the progress schools are making related to their goals, as well as those schools not yet demonstrating improvement and in need of additional support.

**Strait Regional School Board Response:** The Strait Regional School Board agrees with, and intends to implement, this recommendation.

Management has been requested to establish a process to ensure annual reporting includes sufficient data to identify how schools are progressing against goals and that the goals align with the Board's Educational Business Plan and Strategic Plan. Annual reports are being redesigned to include data which covers multiple years of results and will be based on various sources of data such as provincial assessments,



report card results and other classroom-based assessments. This change in reporting is expected to be implemented by the end of the current school year.

► Insufficient board-wide data on student performance

- 2.23 *Performance data* – Schools use available data to develop continuous school improvement goals. In general, boards indicated this includes annual provincial assessments in certain grades, a limited number of board-wide assessments, and recently, some report card data. We found that additional data would be helpful to provide more complete information on student progress. For literacy, data is available at the school or classroom level in the form of running records or early literacy support assessments. Collecting and analyzing this data and similar numeracy data at a board-wide level would give management more information on how students are progressing.
- 2.24 *Provincial assessments* – In grades primary through six, there are provincial literacy assessments in grades three and six; numeracy is assessed in grades four and six. All three boards are administering these assessments and performing thorough and adequate analysis of this data to identify trends in results.
- 2.25 Many staff we spoke to have concerns with putting too much focus on provincial assessment results. They indicated these are only one assessment, providing a snapshot which may not reflect the student's full abilities. While the provincial assessments are a key piece of data, other information, including report cards, other classroom-based data, or common board-wide tools, should also be used to give an accurate and complete picture of student progress.
- 2.26 All three boards are just starting to review report card data at a board-wide level, and other data is collected which could be used. Much of the literacy data appears to exist at the school or classroom level. Management at each board noted that data is collected related to literacy programs for early grades. Halifax management told us that they use data collected through annual continuous school improvement reports to provide part of the picture of overall student performance. Strait schools complete a board-wide literacy assessment three times each year and management at both Chignecto-Central and Halifax told us schools in their boards conduct similar assessments, but the data is not rolled up to the board-wide level.
- 2.27 We did not find as much numeracy data currently available.

**Recommendation 2.5**

Management at Chignecto-Central, Halifax and Strait Regional School Boards should ensure sufficient data is collected to assess student progress in both numeracy and literacy.



**Chignecto-Central Regional School Board Response:** The Chignecto-Central Regional School Board agrees to implement this recommendation. Work is already underway to implement an annual board-wide Literacy and Mathematics Assessment Schedule spanning Primary to Grade 12. Literacy data currently housed at the school level will be collated and reviewed by management, and summarized for the elected board. Additional system-wide Literacy and Mathematics assessments will be implemented. When combined, this should ensure sufficient data is collected by management to assess student performance in both numeracy and literacy.

**Halifax Regional School Board Response:** Management agrees to implement this recommendation. Management will work with elementary schools to collect and consolidate assessment data in both numeracy and literacy that schools are currently using to track student achievement.

In addition, Management has expanded the Early Literacy Support model to grade 3 and will track additional literacy data. To address the concern regarding the collection of numeracy data, HRSB schools will be participating in a planned, province-wide grade 2 common math assessment when available from the Department of Education and Early Childhood Development.

**Strait Regional School Board Response:** The Strait Regional School Board agrees with, and intends to implement, this recommendation.

In addition to provincial assessments and the Board-wide literacy assessments currently being administered, the Strait Regional School Board will develop a board-wide common numeracy assessment to be implemented at the elementary level. This common assessment is scheduled to be implemented during the 2016-2017 school year and will be conducted on an annual basis.

2.28 *Interventions and programs* – In all three boards, we found there were fewer support programs for numeracy than for literacy. These programs are important as they identify students who struggle with the subject and provide additional support to help improve progress. Management at all three boards acknowledged more numeracy programs are needed and told us they hope to implement additional programming in the future.

► All three boards have teacher and principal evaluation policies, but Chignecto-Central's principal evaluation policy is draft

2.29 *Teacher and principal evaluations* – It is important that regional school boards have processes to determine whether performance expectations are met in the delivery of educational services in schools. All three boards have appropriate policies to guide teacher evaluations. Halifax and Strait have appropriate principal evaluation policies, but Chignecto-Central's principal evaluation policy is draft. We found board management knew that



evaluations had occurred in all boards, except for principals in Chignecto-Central. Management at that board told us there is a plan to begin evaluating principals.

- 2.30 Chignecto-Central and Strait are in the process of implementing online tools for performance management. Both focus on developing teachers to help improve student achievement results. These tools will allow tracking and reporting of results to help identify staff professional development needs. Similar programs would be a favourable practice for any school board.

## Board Governance

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### Conclusions and summary of observations

All three governing boards receive regular reporting from management which focuses on each board's strategic plan and progress towards achieving its goals. However, we noted the governing boards are not identifying areas in which they require additional information from management, particularly around student progress. We found that Chignecto-Central and Halifax governing boards receive adequate information regarding how continuous school improvement plan goals link to the board strategic plans, while Strait does not. None of the boards get enough information to monitor each school's progress towards achieving its goals. We also found that Chignecto-Central and Halifax receive adequate information to understand how students are performing on provincial assessments, but Strait needs details on how individual schools are performing. Additionally, none of the boards receive enough information on staff evaluations to know whether teachers and principals are meeting expectations. All three governing boards require improvement in completing their own self-assessment processes. Strait does a good job evaluating their superintendent, while both Chignecto-Central and Halifax need to make improvements in that area.

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- 2.31 *Strategic plans and supporting business plans* – Regional school boards have strategic plans and supporting business plans. These documents set board direction. Actions and initiatives at each board should contribute to achievement of goals documented in the planning documents. Information governing boards receive on progress toward strategic planning initiatives help them to hold management accountable.
- 2.32 In all three boards we visited, governing board members receive information from management on progress towards achieving strategic plan goals. The boards meet regularly and each has committees which also receive this information. Both Halifax and Strait use templates which clearly identify how the topics discussed relate to strategic goals. This practice helps to inform governing members of why the information is relevant. While Chignecto-



Central doesn't have a template, their approach is very similar and results in good information sharing with the governing board.

- 2.33 Despite exhibiting overall good approaches, each board has instances in which it does not have appropriate processes to adequately fulfill its governance role. For example, board members rely on management to report on the strategic plan. However, governing boards should recognize and identify to management areas in which their information needs are not met.

► Chignecto-Central and Halifax provide adequate oversight of provincial assessment results, Strait needs improvement

- 2.34 Each regional school board has a goal related to student achievement in its strategic plan. Performance measures help determine whether the goal has been met. We expected governing boards to ensure they receive sufficient information to understand progress towards achieving strategic goals. This is important as it allows board members to make informed decisions and inquire of management if expectations are not met.
- 2.35 *Information on provincial assessments* – Provincial assessments are administered in various school grades throughout the year. The Department compiles assessment results and releases them to regional school boards and the general public. At the grade levels included in our audit (primary to six), these assessments are specific to numeracy and literacy and were discussed in the Management Oversight section earlier in this chapter.
- 2.36 The Chignecto-Central and Halifax governing boards receive adequate information regarding provincial assessment results. Comprehensive presentations on numeracy and literacy assessment results are provided. These include information on trends in performance within the region, progress towards targets, comparison to provincial results, areas of concern, and other information sufficient to understand student achievement.
- 2.37 The Strait governing board receives a report comparing Strait with other boards in the province, but it does not receive the same level of information on trends at the school level within the board. Management informs the governing board that individual school data is shared and discussed with school principals. However, the governing board does not ensure it receives information to show individual school results or how schools perform relative to each other. This type of information could help identify which schools require attention. The governing board could then hold management accountable to address the needs of the students in those schools.
- 2.38 Although there are areas for improvement, each governing board reviews and discusses initiatives relating to numeracy and literacy. The frequency of information reviewed varies across the boards. However, each receives



information on programs and resources available to students (i.e., early literacy programs, math mentors for teachers). This information is valuable as it allows governing boards to understand the mechanisms in place to assist students in their performance.

► Governing boards need more information to understand how students on individual program plans are progressing

2.39 *Individual program plans* – Some students have individual program plans. These are developed specific to that student’s needs, which may be academic or general life skills. Regional school board resources are used to support these students. Data released by the Department in 2014 provides the following information regarding the numbers of students with individual program plans for the 2013-14 school year at the boards we visited.

	Chignecto-Central	Halifax	Strait
Number of individual program plans	1,095	2,521	452
Percentage of students on individual program plans	5.3%	5.2%	6.8%

2.40 Students on individual program plans generally do not write provincial assessments and therefore these assessments do not provide information on progress toward individual program plan outcomes. We expected governing board members to have information regarding the number of students on individual program plans, existing trends, issues of concern, and how these students are progressing against their individual goals. This information would allow governing boards to make informed decisions with respect to student achievement; it would also allow board members to hold management accountable.

2.41 Chignecto-Central governing board members requested additional information on student performance which included data on the number of individual program plan participants, performance by gender and minority group, supports available to these students, and actions required going forward. We also reviewed reports prepared by management at Halifax and Strait, which focused primarily on African Nova Scotian and aboriginal students with individual program plans. These reports were not finalized when we completed our audit work.

2.42 While this level of reporting provides the governing board with some information on individual program plans, it does not address student progress towards meeting plan goals. We expected governing boards to request summary information on progress towards individual plan goals so board members can better understand whether individual program plans are successful. The lack of detailed information shows none of the boards are



adequately holding management accountable to report on individual program plan students.

- 2.43 Earlier in this chapter, we noted additional student performance data was required at the management level in all three boards we visited. Understanding overall student performance, as well as how students on individual program plans are progressing, would be useful to governing boards, as well as management, in providing a full picture of student progress.

### **Recommendation 2.6**

The governing boards of the Chignecto-Central, Halifax and Strait Regional School Boards should ensure they receive and review reports on student progress including reports on provincial, board or school-based assessment results, and students on individual program plans.

**Chignecto-Central Regional School Board Response:** The Chignecto-Central Regional School Board agrees to implement this recommendation. Summarized assessment data, including provincial, board, or school-based results, and student progress on individual program plans will be presented to the elected board on a regular basis. Summary data reported to the elected board will incorporate multiple sources of student achievement data over time. Management will continue to support the elected board's understanding of the purpose and context of assessments. This will allow members to determine what additional information they need to support their governance responsibilities.

**Halifax Regional School Board Response:** The Governing Board agrees to implement this recommendation. In the board's 2015-2016 General Fund Business Plan, monitoring student progress on Individual Program Plans (IPPs) is included as a priority under Goal 2: To strengthen safe and inclusive school environments. Progress on this priority will be requested and reviewed by the Governing Board during regular business plan updates.

The Governing Board will continue to ensure student assessment results are provided by Management and reviewed on a regular basis.

**Strait Regional School Board Response:** The Strait Regional School Board agrees with, and intends to implement, this recommendation.

In addition to the information already reviewed by the Strait Regional School Board, management has been requested to provide achievement data on all student performance based on provincial, board and school-based assessment results to the governing Board for review.



Subsequent to the visit by the Auditor General's staff, a report based on an audit of a random sample of all students with an individual program plan has been completed by management and presented to the Strait Regional School Board.

Both the achievement data report and the individual program plan report will be presented on an annual basis, and additionally, as requested by the Board.

► Governing boards do not know whether all schools are meeting their continuous school improvement goals

2.44 *Continuous school improvement plans* – Schools are required to develop goals and strategies for improvement and document these in a continuous school improvement plan. We discussed management's involvement with these plans earlier in this chapter. It is important that governing boards are aware of the status of improvement plans. They should understand whether goals align with the board's strategic plan, and if schools are making progress towards goals. This allows board members to hold management accountable.

2.45 Governing boards at Chignecto-Central and Halifax receive sufficient information to understand that continuous school improvement plans exist and school goals appropriately align with the boards' strategic plans. The Halifax governing board receives this information via regular business plan updates, while Chignecto-Central includes this information in their strategic planning document.

2.46 Strait governing board members told us they know all schools have a literacy and numeracy goal, and that those goals are generally aligned with overall board strategic plan goals. However, we found the board has not requested specific reporting on school goals to ensure they are consistent with board goals.

2.47 *Annual reports* – As discussed in the Management Oversight section of this chapter, management at Chignecto-Central and Strait do not ensure annual reports from schools include sufficient data. In Halifax, we found the governing board does not receive sufficient information regarding annual school reports to provide adequate oversight of school performance. It is the governing boards' responsibility to hold management accountable in such matters and this has not occurred. Governing boards have not requested summary information, such as the overall percentage of schools that met goals, or are on track to meet goals. Consequently, they are not aware how schools are performing relative to their continuous school improvement plan goals.



**Recommendation 2.7**

The governing boards of Chignecto-Central, Halifax and Strait Regional School Boards should require management to provide appropriate information to allow the boards to understand whether goals outlined in the continuous school improvement process have been achieved.

**Chignecto-Central Regional School Board Response:** The Chignecto-Central Regional School Board agrees to implement this recommendation. Management will provide the elected board with an annual report summarizing the progress schools are making related to their goals within the school improvement process. The report will reference summarized data from multiple data sources over time. This report will include a summary of additional supports directed to those schools that have either not yet demonstrated improvement, or have not achieved their goals within their identified improvement cycle.

**Halifax Regional School Board Response:** The Governing Board agrees to implement this recommendation. All HRSB schools prepare an Annual Report to the Community. These reports include the schools' improvement goals, progress toward meeting those goals and provincial assessment data where applicable. Starting in 2016, the Governing Board will require Management to provide a summary report each November outlining the progress schools are making toward their annual improvement goals.

**Strait Regional School Board Response:** The Strait Regional School Board agrees with, and intends to implement, this recommendation. The Strait Regional School Board had already recognized the need for additional focus in this area and created the new position of Coordinator of Continuous School Improvement.

Management has been requested to establish a process to inform the governing Board, annually, on how schools are progressing on their continuous school improvement goals. Management has also been requested to provide, on an annual basis, the governing Board with data to ensure that the continuous school improvement goals align with the Board's Educational Business Plan and Strategic Plan.

As their schedules permit, School Board members attend School Advisory Council meetings for schools in their local area. In addition to the information already reviewed by the School Board, these meetings enable Board Members to gain valuable information on the school's improvement goals and the work ongoing to achieve them.

► Governing boards do not provide adequate oversight of principal and teacher evaluations

2.48 *Teacher and principal evaluations* – We expected governing boards to receive summary information to understand whether teacher and principal



evaluations were complete, and whether expectations were met. We found Strait received summary information on the number of teachers subject to evaluation, but did not receive the same for principals. Chignecto-Central and Halifax did not receive this information for teachers or principals. None of the governing boards received information sufficient to understand how teachers and principals are performing. Board members have not requested this information from management. Without this, it is difficult for governing boards to ensure management is evaluating teachers and principals and providing them with necessary resources to address development needs.

**Recommendation 2.8**

The governing boards of Chignecto-Central, Halifax and Strait Regional School Boards should obtain and review information on whether teacher and principal evaluations are completed according to board policy, including summary results; and whether staff development needs are met.

**Chignecto-Central Regional School Board Response:** The Chignecto-Central Regional School Board agrees to implement this recommendation. Management have initiated full implementation of a performance, growth and appraisal process for all teachers and principals. Management will ensure that the board receives summary data annually which will include:

- Status on the completion of performance growth and appraisals for teachers and principals;
- Summary information on how teachers and principals are performing in relation to established expectations;
- Identified trends; and
- How information is used for planning and/or response.

**Halifax Regional School Board Response:** The Governing Board agrees to implement this recommendation. Starting in September 2016, the Governing Board will require Management to provide a summary report on the previous year's teacher and principal evaluations.

**Strait Regional School Board Response:** The Strait Regional School Board agrees with, and intends to implement, this recommendation.

Management will be requested to provide information on whether principal evaluations are completed according to Board policy. This information is currently being provided for teaching staff. In addition, this request for information will include a summary of results for both teachers and principals, and staff development needs required based on the results.

Management will be required to present this information on an annual basis.



► Governing boards do not sufficiently evaluate themselves; Chignecto-Central and Halifax require improvement in evaluating their superintendents

2.49 *Governing boards' self-assessment processes* – Governing boards are tasked with providing oversight in their respective regional school boards. It is important that they establish a culture of improvement and fulfill the responsibilities associated with their role, including compliance with legislation. A self-assessment process to evaluate performance could assist governing boards to be more effective in their oversight roles, and to help ensure the education needs of students are met. Infrequent, incomplete, or a lack of self-evaluations may limit a governing board's ability to be effective in its duties.

2.50 We looked at whether the governing boards we visited completed self-assessments in 2014 and 2015.

- Chignecto-Central completed an evaluation in 2015, but not in 2014.
- Halifax completed an evaluation in both years.
- Chignecto-Central's evaluation specifically considered compliance with the Education Act. Halifax's evaluation did not include this.
- Neither Chignecto-Central nor Halifax have written policies to guide the self-evaluation process.
- Strait had not completed an evaluation for either year at the time of our audit. Subsequently, management and governing board members told us that they completed a self-assessment in June 2015.

**Recommendation 2.9**

The governing boards of Chignecto-Central, Halifax and Strait Regional School Boards should complete annual self-assessments to measure performance against all key areas of responsibility, including those identified in the Education Act.

**Chignecto-Central Regional School Board Response:** The Chignecto-Central Regional School Board agrees to implement this recommendation. Work has been completed on a review of the CCRSB By-Laws, including clearer expectations regarding self-assessment and a yearly process. The board will continue to ensure that an annual self-evaluation process is conducted that includes measures of performance against all key areas of responsibility, including those identified in the Education Act.

**Halifax Regional School Board Response:** The Governing Board agrees to implement this recommendation. The Governing Board currently conducts an annual self-assessment and it is an ongoing, continuous process that expands



on previous learnings. This process will be reviewed and revised to measure performance against all key areas of responsibility, including those identified in the Education Act.

The Governing Board will strengthen their current self-evaluation process. In addition, the Governing Board is working with other school boards in Nova Scotia, through the Nova Scotia School Boards Association (NSSBA), to develop a tool aligned with Board's responsibilities, including those identified in the Education Act

**Strait Regional School Board Response:** The Strait Regional School Board agrees with, and intends to implement, this recommendation.

Subsequent to the visit by the Auditor General's staff, the Board has conducted their first ever self-assessment and will continue to do so on an annual basis. This self-assessment will measure performance against all keys areas of responsibility, including those identified in the Education Act.

2.51 *Assessment of superintendent performance* – Governing boards are responsible to ensure the superintendent's annual evaluation is completed. The superintendent, in addition to supervising the implementation of the strategic and business plans, has specific responsibilities under the Education Act.

2.52 Strait has the most complete superintendent evaluation process. It clearly considers responsibilities related to the strategic plan and the Education Act, and involves Department staff in the process. Chignecto-Central and Halifax superintendent evaluations consider each board's strategic plan. However, neither clearly considers the superintendent's responsibilities under the Education Act. It is important governing boards provide a complete evaluation so the superintendent receives feedback on each area of responsibility.

**Recommendation 2.10**

The governing boards of Chignecto-Central and Halifax Regional School Boards should ensure the superintendent evaluation process includes all key areas of responsibility, including those identified in the Education Act.

**Chignecto-Central Regional School Board Response:** The Chignecto-Central Regional School Board agrees to implement this recommendation. The elected board will review their evaluation process for the superintendent. Necessary changes will be made to ensure that all key areas of responsibility, including those identified in the Education Act, are made part of the process beginning with the 2015-2016 evaluation.



**Halifax Regional School Board Response:** The Governing Board agrees to implement this recommendation. The Governing Board will incorporate this recommendation into the superintendent's evaluation starting in 2016.



## Halifax Regional School Board: Additional Comments

The Halifax Regional School Board (HRSB) would like to thank the Office of the Auditor General for conducting an audit of our operations. The last audit of the HRSB took place in 2004. The board was pleased to participate in this review to help identify what is working, as well as identifying potential gaps in our current policies and practices.

The Governing Board is pleased that the recommendations outlined in the audit support our mission of, *“Providing a high quality education for every student every day.”* The Governing Board and Management are committed to working towards implementation of these recommendations in a timely manner.

Our school systems are focused on improvement. We will use this audit and its recommendations to learn how we can improve. We look forward to a fuller relationship with the Department of Education and Early Childhood Development to strengthen governance, leadership and student achievement in Nova Scotia.

# Chapter 3: Business Continuity Management



## Why we did this audit:

- Nova Scotians rely on critical government programs and services
- Plans needed so critical services can continue
- Effective management helps government respond to and recover from business interruptions
- Previous audit by this Office identified a need to look at this area

## Overall conclusions:

- Not clear who is responsible for government-wide management
- No oversight to ensure departmental continuity plans will work together
- Government cannot be sure they could maintain critical services
- Plans needed in emergency situations generally well-documented
- Departments and/or entities agreed with all nine recommendations

## What we found in our audit:

### Government-wide business continuity management program

- Department of Internal Services has created templates and guidance for provincial entities
- Government-wide programs and services have not been prioritized to know what is most important
- Business continuity program has not been finalized and leaves risk
- Current government-wide practices do not promote economy and efficiency

### Department and entity business continuity management programs

- Department of Finance and Treasury Board has awareness training for staff
- Some correctional facilities have documents needed to manage disruptions
- Entities can't be sure they could maintain critical services
- Northeast Correctional Facility didn't have a continuity management program before opening
- Housing offices' programs do not include communications with clients
- School boards have weaknesses in their business continuity management programs
- Schools are not conducting all emergency drills required by policy



## 3 Government-wide: Business Continuity Management

### Background

- 3.1 The purpose of business continuity management is to identify risks, threats and vulnerabilities that could impact an organization’s continued operations. An effective business continuity management program makes the organization more resilient to potential threats when the program is combined with an appropriate response to business interruptions. As noted on the Nova Scotia Emergency Management Office’s website: *“Business Continuity Management is about protecting your organization from the impacts of natural and human induced events, and the development of plans to resume urgently required services if interrupted for any reason. A Business Continuity Management program identifies impacts to an organization, mitigation strategies, and the action plans, resources, key personnel, information, equipment and infrastructure to continue or resume operations.”*
- 3.2 A business continuity management program includes a collection of plans and documents that provides an organization with the information needed to recover from business disruptions that vary in length and severity. These disruptions range from emergencies (for example: a fire) to prolonged absence from a work site (for example: flood damage requiring rebuild of office space). Best practices indicate the need for the following components:

Purpose	Component	Details
To ensure staff safety	Emergency Response Plan	Deals with the immediate aftermath of an incident. When an incident occurs, every step should be taken to ensure the safety of staff.
To continue providing critical programs and services	Incident Management Plan	Outlines how the organization will assess the incident, manage its impact, define resource requirements, and make necessary movements of staff and critical processes.
	Business Continuity Plan	Based on a risk assessment and business impact analysis in order for management to understand what services are considered most critical to the goals of the organization; what resources are required to provide those services; and how long those services can be unavailable before negatively impacting those goals.
	Recovery Support Plan	Aimed at the teams who have very specific roles to play during an incident. This would include contact lists available to management.
	Communications and Media Plan	Outlines how information related to the incident will be distributed and inquiries responded to (both internal and external).
	Business Resumption Plan	Focuses on how to restore the organization to the level that existed prior to the incident. This can include returning to the original site or a new location.
To ensure continued stability	Plan Maintenance and Testing	Should be maintained on a periodic basis to match the current business environment. Management should test continuity plans to ensure plan reliability and increase awareness.



- 3.3 In 2004, our Office conducted an audit of the Emergency Measures Organization (now the Emergency Management Office) and reported there was no government organization assigned to ensure the existence and effectiveness of departmental business continuity management plans. At that time we recommended the responsibility for business continuity should be clearly and formally assigned.
- 3.4 A project supported by the Emergency Management Office was undertaken to address our recommendation in 2005. During our November 2011 audit on Disaster Preparedness, we observed that the 2005 continuity project failed to properly prioritize government computer systems to ensure the most critical systems could be maintained or restored in the event of a disruption. We made recommendations to the former Chief Information Office (now Information, Communications and Technology Services, a division of the Department of Internal Services) to work with government departments to complete the prioritization of their computer systems for use in the province's Information Technology Disaster Recovery Plan. We evaluated this recommendation as incomplete when we reported on our follow-up of 2011 recommendations in June 2015.
- 3.5 Nova Scotians rely on critical programs and services (corrections, health services, social and housing services, and emergency management services) delivered by the Province of Nova Scotia. Business continuity management helps government continue delivering these critical programs and services in the event of disruption in the operations of the government department or entity delivering the program.

### Audit Objectives and Scope

- 3.6 In summer 2015, we completed a government-wide performance audit of business continuity management. We interviewed staff and examined documentation and processes at the Department of Internal Services and the Emergency Management Office based on their respective roles in the government-wide business continuity program. We also examined the individual continuity programs of the following government departments or agencies, and certain related entities.
- Department of Education and Early Childhood Development
  - Conseil scolaire acadien provincial
  - Halifax Regional School Board
  - Department of Finance and Treasury Board
  - Department of Justice



- Central Nova Scotia Correctional Facility
  - Northeast Nova Scotia Correctional Facility
  - Nova Scotia Youth Facility
  - Southwest Nova Scotia Correctional Facility
  - Housing Services – Central Region (Halifax)
  - Housing Services – Eastern Region (Sydney)
  - Western Regional Housing Authority (New Minas)
  - Emergency Management Office
- 3.7 Each of the above was selected for testing because of the significant services it delivers. While we recognize the significant services provided by the Nova Scotia Health Authority, we decided to wait until this new organization is fully established before examining its business continuity management program.
- 3.8 The purpose of the audit was to determine whether government as a whole, and individual departments and related entities, have developed a business continuity program that includes coordinated plans to respond, recover and resume from incidents so that critical services can continue to be delivered.
- 3.9 The audit was conducted in accordance with sections 18 and 21 of the Auditor General Act and auditing standards of the Chartered Professional Accountants of Canada.
- 3.10 The objectives of the audit were to determine:
- if there is an effective governance framework in place to support government-wide business continuity management; and,
  - to determine if government has plans in place to reduce the impact of an incident to ensure the safety of staff, and the subsequent continuity of critical services.
- 3.11 The criteria were developed internally by this Office and are based on various sources including the European Union Agency for Network and Information Security, ISO22301, COBIT, SANS, the Province of Nova Scotia Emergency Management Office's *Business Continuity Management Guide 2011 v1.0*, and through our assessment of various acts and regulations.
- 3.12 The audit approach included interviewing management and those staff responsible for the development and management of business continuity, and reviewing applicable acts and regulations, policies, continuity programs,



emergency response plans, incident response plans, continuity plans, communication plans, recovery team plans and restoration plans.

- 3.13 We reviewed documents that were the most current at the start of our audit in spring 2015. During our period of fieldwork, the Clerk of and Secretary to Executive Council requested that all deputy ministers update their business continuity plans by the end of August 2015. We did not assess these updates.

## Significant Audit Observations

### Government-wide Business Continuity Management Program

#### Conclusions and summary of observations

There is no clear oversight of the province's business continuity management program which is needed to ensure overall prioritization of government programs and services in the most efficient manner during a business disruption. No individual, department, or agency has formally been assigned responsibility for a continuity program. The Department of Internal Services informally led a process to update business continuity processes and staff developed business continuity management planning templates that reflect best practices for use by departments and entities. Further work on the templates is required. Government departments and entities are not required to use the templates and some are independently spending time and resources to develop continuity programs and plans.

- 3.14 *Background* – The size and complexity of the provincial government requires continuity programs and plans at various levels: overall departmental plans, and, where applicable, offices, divisions and regional locations. A government-wide continuity program should ensure departmental and agency continuity programs are effectively designed, documented and tested to support the overall goals of the province.
- 3.15 The Civil Emergency Planning Regulations under the Nova Scotia Emergency Measures Act assigns deputy ministers the responsibility of ensuring that necessary planning is carried out to enable their department to continue its proper functions under emergency conditions. The regulations do not specify the need for government entities to have business continuity plans to address disruption to programs and services in other-than-emergency events. We recommended in a 2004 audit that responsibility for business continuity be clearly and formally assigned in legislation. The recommendation has not yet been addressed. Also, the scope of the regulations and act only extend to departments and agencies and does not specifically include boards, commissions or Crown corporations.



- 3.16 In response to recommendations from our 2011 audit on disaster recovery plans, the Chief Information Office started building templates to gather information needed from entities in order to prioritize government information technology systems for its disaster recovery plan. This initiative expanded into continuing the work started in 2005 by the Emergency Management Office in establishing a government-wide business continuity program. When the Department of Internal Services was established, it assumed the responsibilities of the Chief Information Office, and has informally continued to provide business continuity planning support through an updated business continuity program.
- 3.17 We understand that deputy ministers have been given responsibility for business continuity programs for their respective departments. There is no legislation or regulation that assigns this responsibility, but a June 2015 directive from the Clerk of and Secretary to Executive Council instructed deputy ministers to update their business continuity management programs and ensure they are tested annually.
- 3.18 Prior to the updated program from the Department of Internal Services, the Emergency Management Office supported a provincial continuity program. Resources from several departments were seconded in 2005 to develop a training package to assist government departments and entities in the development of their continuity programs. We understand most developed plans to varying levels of completeness. Once the secondments ended, the initiative was considered complete and no further resources were assigned to business continuity management support. We were told by current Emergency Management Office management that the office was no longer supporting government departments or entities in business continuity management. Despite this, the Emergency Management Office website continued to include various templates and continuity planning supporting documents should entities need them. The documents had not been revised by the Emergency Management Office, nor removed from their website, when the Department of Internal Services began providing updated documents.

► Government-wide continuity priorities have not been established

- 3.19 We believe there is need for an individual, department, or agency to be assigned responsibility for business continuity on a province-wide basis. This would ensure the following:
- Government programs and services are prioritized on a province-wide basis as a result of an enterprise risk assessment. In the process of updating their departmental plans, we would expect deputy ministers to have completed a departmental risk assessment and established the prioritization of programs and services. However, this does not establish priority in the event of a government-wide disruption. For



example, we would presume that health and safety matters would take precedence over all others, but priorities are less clear when deciding between students returning to the classroom or ensuring salaries are paid.

- Resources to resume operations are used most efficiently and reflect the province-wide priorities. In individual departmental continuity plans, alternate locations may be identified to continue operations in the event of disruption. However, several departments may have regional offices in the same location and have identified the same alternate location. A province-wide plan would ensure required space is available for prioritized programs and services. We include additional comments on economy and efficiency later in this chapter.
- Defined roles for business continuity management programs are established which would identify who is in charge and who has the authority to make decisions.

► Formal responsibility for a government-wide business continuity program is not assigned

3.20 Even though it has taken the lead on business continuity planning, the Department of Internal Services has not been given the mandate to develop a program for the province, nor does it have the authority to ensure government departments and agencies have implemented effective continuity programs that include the preparation and testing of continuity planning components.

### **Recommendation 3.1**

The government should assign responsibility for government-wide business continuity management to a single entity. This entity should prioritize government programs and services and efficiently allocate resources.

**Executive Council Office Response:** The Executive Council Office will request government to assign responsibility for government-wide business continuity management to a single entity.

► Continuity program for department and entity use has not been finalized

3.21 As noted earlier, the Department of Internal Services is informally supporting an updated program for departments. We examined the templates and other features of the program and identified several positive features.

- Templates are available to support departments and entities developing or updating their continuity programs and plans and include best practices.



- Training for department and entity business continuity coordinators is provided.
- A centralized crisis management team has been established to support incident management processes at the departments.

3.22 We also identified some areas for improvement. The templates were not designed to be scaled for different-sized departments nor did they fully address all the procedures that would be required during the recovery phase of a disruption.

3.23 It is important to note these templates are not required to be used. We believe the most efficient approach is that departments use the same templates, especially to promote a government-wide business continuity plan. Regardless of whether responsibility for government-wide continuity planning is assigned to the Department of Internal Services, the department should revise and complete the program it has currently developed.

### **Recommendation 3.2**

The Department of Internal Services should complete its business continuity management program templates for use by departments and entities of the provincial government.

**Department of Internal Services Response:** Internal Services agrees with the recommendation and is prepared to finalize its BCP templates and share them within government for use by other departments. Implementation of the program would be each department's own responsibility, supported by the individual, department, or agency assigned overall responsibility for business continuity on a province-wide basis.

### ***Economy and Efficiency***

3.24 *Background* – The purpose of business continuity is to ensure government departments and entities are able to maintain critical services in the event of a disruption. This requires the development of continuity programs, strategies, and documents, and obtaining the resources required to support the program. It can take an organization considerable time and resources to develop a mature business continuity program.

► Existing business continuity environment does not promote economy and efficiency

3.25 The existing business continuity environment within the province does not promote economy or efficiency. Each government department and entity is treated as a separate organization requiring each to manage its own independent continuity program. Our testing of available documentation



showed that some departments and entities had created their own continuity program or customized the original forms distributed by the Emergency Management Office even though the documents have not been maintained to reflect best practices. In addition, the Department of Internal Services has invested resources into research and development of templates and forms for departments and entities to utilize.

- 3.26 We would not expect departments to redo their continuity planning documents to use the newer templates. However, those departments that are making significant updates to their plan, or creating their first plan, should use the templates and forms developed by the Department of Internal Services. We found the documents to be acceptable and ready for use and note that they were being used by some departments, with modifications, in summer 2015.
- 3.27 We observed a common continuity strategy for departments and entities is to work from home or move to another government building. This strategy may not be viable as staff members may not have access to laptops or other information technology that would be necessary to work outside of their permanent office.
- 3.28 To support moving to another government building, some departments and entities note that they will rely on another department or entity to find them space when looking for available alternate work arrangements for their staff. However, this independent approach fails to prioritize and assign government resources to the most critical programs and services. This deficiency would be addressed by assigning government-wide responsibility to a single entity.

## Department and Entity Business Continuity Management Programs

### Conclusions and summary of observations

The business continuity management programs we tested were in various stages of development. The Department of Education and Early Childhood Development had not implemented a business continuity management program to ensure it could maintain operations in the event of a disruption. The Department of Finance and Treasury Board had most of the requirements of a business continuity management program. The Department of Justice did not have a coordinated departmental business continuity program and its Legal Services Division could not readily provide complete continuity documents. The programs at three of the four correctional facilities examined had documented plans to address incidents that could impact the safety of offenders and ensure they were not unintentionally released into the community, but improvements are needed to the documentation. The fourth facility did not have a program in place for its first six months of operations. We also found Housing offices' continuity programs addressed several key areas but need to be more complete, particularly with respect to client communications;



and the two school boards we tested did not have documented business continuity plans to support the operations of the board or individual schools in the event of an unplanned prolonged disruption. In addition, some schools tested within these boards were not conducting emergency drills as required to ensure student safety. Finally, the Emergency Management Office had a continuity program, but the documents included in the plan were not current.

3.29 *Background* – Business continuity management focuses on attempting to ensure the safety of staff and maintaining critical programs and services as a result of any type of disruption. These disruptions could be caused by and are not limited to: storms, fire, pandemic, information technology failures, employee strikes, and floods. To reduce the impact of these disruptions, an organization will develop a continuity program that trains staff, identifies risks, identifies critical services, and develops and tests plans designed to reduce those risks. Senior management and staff within departments or entities are best qualified to prioritize their activities in the event of disruption. In addition to establishing operational priorities, departments’ business continuity programs should include key elements such as incident management plans and communication plans.

► Departments and entities cannot be sure they would be able to maintain critical services

3.30 We assessed the business continuity programs of a sample of government departments and entities and found them to be in various stages of development. We concluded that none could be sure they would be able to maintain critical services in the event of a disruption.

Business Continuity Management Program for Departments	Education and Early Childhood Development	Finance and Treasury Board	Justice	Justice Legal Services Division
Governance structure in place to provide oversight over departmental program	X	✓	X	
An emergency response plan is documented	✓	✓	X	X
A business impact analysis has been completed	✓	✓*	X out of date	✓
A risk assessment has been completed	X	X	X out of date	X
Business resumption services for after the incident have been addressed	✓	X	X	X
Recovery support plans are in place and include alternate location strategies for staff	X	✓	X	X
Communication protocols have been addressed	✓	✓	✓ internal	✓ internal
Business continuity management program documents have been tested	X	✓	X	
Program documents have been updated	X current version is draft; no previous version	✓	✓ 2013	✓ 2010
✓ Grey Shading = positive result X Red Shading = negative result				
* Needs to be updated for recent organizational changes				



- 3.31 *Department of Education and Early Childhood Development* – Governance over the program lacked important aspects such as defined processes to ensure departmental-level program documents are updated and reviewed periodically, and staff members are provided necessary training. Also, documents available for our review were still being developed. The continuity program itself was found to have weaknesses: lack of a risk assessment, lack of identification of an alternate work location, and no testing of the planned continuity approach.
- 3.32 The department does not require the eight school boards to have continuity plans. Our observations on testing performed at two school boards are noted later in this chapter.
- 3.33 Departmental staff informed us that they expected to meet the end of August 2015 deadline set by the Clerk of and Secretary to the Executive Council, to have their program documents completed. As noted previously, we have not assessed the updated documents.
- 3.34 *Department of Finance and Treasury Board* – The department has a governance framework for business continuity management. Critical services needing protection include the cash management and debt repayment areas of business. These areas regularly move millions of dollars in and out of the province’s bank accounts.
- 3.35 Departmental management provides oversight of the continuity program through the following positive initiatives:
- published policies;
  - a week-long program to raise awareness of emergency response procedures and business continuity;
  - an annual strategy to support the program;
  - documented continuity plans that have been tested; and
  - training.
- 3.36 The department could improve its program by finalizing its documents to reflect departmental restructuring, conducting a risk assessment, and documenting plans to restore services after a disruption. Management informed us at the end of August 2015 that this had been done as part of the update required by the Clerk of and Secretary to the Executive Council. We have not assessed the updated documents.
- 3.37 *Department of Justice* – The department did not have a coordinated departmental business continuity management program. Divisions and related entities (correctional facilities) are to prepare individual continuity



plans but there has not been an oversight function at the department level. We examined the continuity programs and documents of the province's correctional facilities and the Legal Services Division of the department. Our comments on correctional facilities follow.

- 3.38 The Legal Services Division is responsible for legal services to the Government of Nova Scotia. Those services include representation and legal advice to child and adult protection agencies, as well as to other government departments and entities. The division consists of more than 70 lawyers and 40 legal and administrative support staff. When requested for audit purposes, Legal Services Division staff could not locate specific documents of their business continuity management program, including those which prioritized services, a risk assessment, and the actions to take in the event of a disruption. In addition, continuity plans had not been tested to ensure the division could effectively maintain services in the event of a disruption.
- 3.39 In summary, in addition to recommendation 3.1 above, formal responsibility needs to be assigned to assess the reasonableness of departmental plans. They should be assessed to ensure they provide adequate guidance and that resources, including alternate locations and other logistics, are coordinated.

### **Recommendation 3.3**

The government should assign responsibility for evaluating departmental business continuity management program documents to a single entity.

**Executive Council Office Response:** Senior management and staff within departments are best positioned to evaluate the effectiveness of their business continuity management programs, with the support and guidance of a lead central entity. The Executive Council Office will request government to assign responsibility to a single entity for coordinating and working with departments to evaluate their departmental business continuity management program documents.

- 3.40 *Correctional facilities*—The Correctional Services Division of the Department of Justice is responsible for the administration and operation of community and custody-based programs and services for adult offenders and young persons. Correctional Facilities is one of two key business areas within the division. There are four provincial adult correctional facilities and one provincial youth facility. A separate youth facility is annexed to the Cape Breton Correctional Facility but is used to hold youth for short periods of time (72 hours).

► Correctional facilities use standard operating procedures to address continuity

- 3.41 The Correctional Services Division of the Department of Justice issued policies and procedures regarding contingency plans. These are used by



the correctional facilities to assist in documenting their standard operating procedures. The department, working together with each facility, tested the facility’s plan to determine its ability to address incidents that could impact its operations. They documented the results using a common format as this would facilitate comparing the results at each facility. The same scenario was used at three facilities; only some of the details and interjects were changed.

► Correctional facility lacked a continuity program prior to opening

3.42 We tested the business continuity management programs of three adult correctional facilities, and the one youth facility.

- Central Nova Scotia Correctional Facility (bed capacity of 370)
- Northeast Nova Scotia Correctional Facility (bed capacity of 196)
- Nova Scotia Youth Facility (bed capacity of 120)
- Southwest Nova Scotia Correctional Facility (bed capacity of 38)

3.43 Given the risk associated with correctional facilities, we expected each facility to have a business continuity management program to ensure the safety of staff, offenders and the general public. As can be seen in the table below, this risk was significantly mitigated at three of the four facilities. We have comments below with respect to the fourth and newest facility, the Northeast Nova Scotia Correctional Facility.

Business Continuity Management Program for Correctional Facilities	Central Nova Scotia Correctional Facility	Northeast Nova Scotia Correctional Facility	Nova Scotia Youth Facility	Southwest Nova Scotia Correctional Facility
Incident management and emergency plan documents ready	✓	X	✓	✓
Plan to relocate in place	✓	X	✓	✓
Documented business impact analysis carried out	X	X	✓	✓
Completed risk assessment done	X	X	✓	X
Plans tested	✓	X	✓	✓
✓ Grey Shading = positive result X Red Shading = negative result				

3.44 Specific comments with respect to each facility are as follows.

3.45 *Central Nova Scotia Correctional Facility* – The facility had a documented plan to assist in the management of an incident at the facility from initiation to resolution. The role and responsibilities of the crisis commander have been defined, locations for the command center have been identified, and



other team members necessary during an incident have been listed. The facility had documentation and agreements to support the ability to move offenders to safe and secure locations in the event the facility was no longer habitable.

- 3.46 At the time we requested the documentation, a business impact assessment had not been completed and the risk assessment document was incomplete.
- 3.47 The facility was tested in both 2012 and in 2015 by the Department of Justice. We were told that the recommendations from the testing were being addressed by the facility.
- 3.48 *Northeast Nova Scotia Correctional Facility* – This facility opened in February 2015 and staff were in the process of documenting their business continuity management program documents. We believe a formal business continuity management program should have been in place when the facility opened. At the time of our fieldwork in summer 2015, the facility had been operating without formal plans for a period of approximately six months. We were informed by management that until the plans were completed, in the event of a disruption, offenders would be transferred to other correctional facilities located throughout the province.
- 3.49 *Nova Scotia Youth Facility* – The facility had documentation to support an incident management process to address events that could impact the facility. Staff had been trained but not all documentation had been finalized. There was no schedule to review and update the plan. A checklist provides the Officer-in-Charge and staff with the steps and contact information they need to manage an incident that results in an evacuation. The facility had documentation and agreements to support the ability to move offenders to safe and secure locations in the event the facility was no longer habitable.
- 3.50 We noted that a business impact analysis and a program service prioritization had been performed. Roles and responsibilities for supporting the continuity process had been defined. These include the responsibilities of the crisis manager, staff (to collect information), and maintenance staff.
- 3.51 In 2013 the Department of Justice tested the facility's process by simulating an emergency situation. Testing such as this allows for discussion and analysis to assess whether the process would function as intended in an actual emergency situation.
- 3.52 *Southwest Nova Scotia Correctional Facility* – The facility had documentation to support the ability to move offenders to safe and secure locations in the event the facility was no longer habitable. Signed contracts were in place between the facility and transport companies to ensure offenders could be transferred to specific alternate facilities in the event of a disruption. Contracts were



also in place for continued water supply, and for staff accommodations. In addition, we noted the facility had reasonable communication and recovery support plans. Components of the business continuity management program had been tested in 2012 and 2013. One improvement needed is to complete the risk assessment and ensure the information is up to date. It had not been revised since May 2008.

**Recommendation 3.4**

The Correctional Services Division of the Department of Justice should ensure correctional facilities have current, completed business continuity management program documents.

**Department of Justice Response:** Department of Justice agrees with Recommendation 4 that the Correctional Services Division should ensure correctional facilities have current completed business continuity plans (BCP). Subsequent to the opening of the new Northeast Nova Scotia Correctional Facility and after the period covered by this audit, our BCP was submitted to the Office of the Auditor General. All other noted deficiencies identified in the audit directed towards Correctional Services have been corrected and current completed plans are in place at all facilities across the Province.

Department of Justice also acknowledges that we need to have a coordinated departmental business continuity management program and that the Legal Services Division has to complete its business continuity plan. Department of Justice is actively working on developing a coordinated departmental plan as well as one for Legal Services. We expect current completed plans to be in place by March 31, 2016.

3.53 *Housing offices* – Housing Nova Scotia is a provincial government corporation that supports housing programs and rental housing. The housing programs are facilitated by Housing Services through offices around the province. There are also five regional housing authorities that provide property management duties for 12,000 rental properties owned by the province and 800 rental supplement units. Regional housing offices support one or both of these programs. The lack of continuous services in the event of a disruption could cause additional stress in the lives of vulnerable individuals using these services.

3.54 We examined the business continuity management programs of two Housing Services and one Housing Authority offices:

- Housing Services – Central Region (Halifax)
- Housing Services – Eastern Region (Sydney)
- Western Regional Housing Authority (New Minas)



Housing offices' continuity programs address emergencies, but lack other components

3.55 All offices had emergency plans which included procedures for a number of scenarios we would expect to see in a plan. All offices also had components of a business continuity management program. The following table shows the results of the components we tested.

Business Continuity Management Program for Housing Offices	Housing Services – Central Region (Halifax)	Housing Services – Eastern Region (Sydney)	Western Regional Housing Authority (New Minas)
Business impact analysis	✓	✓	X
Risk assessment completed	X	X	X
Business resumption services addressed	X	X	X
Recovery support plans in place including alternate location strategies	✓	✓	✓
Internal communication protocols addressed	✓	✓	✓
External communication protocols addressed	X	X	X
Business continuity management program tested	X	X	X
Program documents kept updated	✓	✓	✓
✓ Grey Shading = positive result X Red Shading = negative result			

3.56 Only the Housing Services offices had completed business impact analyses. None of the three locations had risk assessments and none fully addressed business resumption. However, each office noted it can continue its operations by accessing resources at other offices. All offices had recovery support plans and those who have a role in business continuity management (office business continuity plan contact and the regional coordinators) have their role defined in the plan.

3.57 Offices' communications plans focused on internal communications; external communication protocols need to be developed and communicated, particularly communications to clients using housing services.

3.58 None of the business continuity management program documents we examined had been tested to ensure the plans would work as expected, but there are processes in place and evidence to indicate that the entities update their program documents regularly.

**Recommendation 3.5**

Housing Nova Scotia should ensure housing offices have complete business continuity management programs.

**Housing Nova Scotia Response:** Housing Nova Scotia accepts this recommendation. In 2015-16, Housing Nova Scotia will address the OAG's recommendation to ensure all housing offices have complete business continuity management programs.

3.59 *School boards* – Safety of students is an area of importance for the education system. Schools are required to conduct a minimum number of fire, lockdown, and relocation drills during the school year to ensure both staff and students can effectively execute the procedures. Once student and staff safety has been assured, school boards must then ensure educational needs can be met in the event of prolonged disruption to schools. Each school board is responsible for its own continuity planning and for supporting the continuity of delivering the education program within its schools. Guidance is provided by the Department of Education and Early Childhood Development. Our audit examined the continuity programs of the Conseil scolaire acadien provincial and the Halifax Regional School Board.

► School boards lack some necessary continuity program documents

3.60 *Conseil scolaire acadien provincial* – The business continuity documents provided to us by the Conseil scolaire acadien provincial focused mainly on the continuation of board activities and the communication guidelines for all members of the board and its schools. There was no discussion on resumption of school operations should the disruption be prolonged and/or the school buildings could not be used.

3.61 *Halifax Regional School Board* – The Halifax Regional School Board did not have an assembled and complete business continuity management program document. There were elements of emergency management, continuity, communications, and resumption, but they were documented in various plans, protocols, and guidelines. There were no plans to address disruptions in the event staff could no longer maintain operations at head office or schools as a result of a temporary or permanent disruption. The board did have a documented contingency plan for strike action that covers both board-level and school-based support staff. The Finance Division had a continuity plan specific to its role in operations. The continuation of operations at the board's head office in anticipation of strike action had been tested during the time leading up to a potential strike; but, the Finance Division continuation plan had not been tested. There were no established procedures that covered other potential scenarios; the board assesses each event and location as issues arise. This can cause delays and further prolong disruption.



**Recommendation 3.6**

Conseil scolaire acadien provincial and the Halifax Regional School Board should develop comprehensive business continuity management programs. These programs, and documented plans within them, should be evaluated and tested on a periodic basis.

**Conseil scolaire acadien provincial Response:** Conseil scolaire acadien provincial agrees with the recommendation and will undertake the development, implementation and monitoring of a comprehensive continuity management plan.

**Halifax Regional School Board Response:** Management agrees to implement this recommendation. The development of a comprehensive business continuity management program will begin during the 2015-16 school year.

► Schools are not conducting all emergency drills as required by policy

3.62 The province's Fire Safety Act requires all schools and school boards to comply with the requirements of the National Fire Code of Canada which states "*in schools attended by children, total evacuation drills shall be held at least 3 times in each of the fall and spring school terms.*" Halifax Regional School Board's fire safety policy further requires that "*the first fire drill shall be held within the first week of the fall term, followed by two more drills evenly distributed between this time and the end of the fall term. The same sequence shall occur following the start of the winter (spring) term.*" The Department of Education and Early Childhood Development also requires that schools practice one relocation drill and two lockdown drills each school year. We noted that the fire safety policy does not contain definitions for "*first week*", "*fall term*", or "*spring term*" so for testing purposes we defined the first week to be within the first 10 calendar days of the school start, the fall term to be September to January and the spring term to be February to June.

3.63 Schools are required to record their drills in logs. We examined the drill logs for a random sample of 10 schools in the Halifax Regional School Board and 5 in the Conseil scolaire acadien provincial. The following table shows the results of our examination.



Examination of Drill Logs	Conseil scolaire acadien provincial (5 schools tested)	Halifax Regional School Board (10 schools tested)
Number of schools that did not have the required six fire drills in the 2014-15 school year	0	0
Number of schools that did not conduct fire drills in the first week of the 2014-15 school year	2	4
Number of schools that had all three first term fire drills in the first eight weeks of the school year	2	7
Number of schools that did not have the required two lockdown drills	1 did not have any	2 had one drill each
Number of schools that did not have the required relocation drill	4	0
✓ Grey shading = positive result X Red shading = negative result		

3.64 Currently, the policies don't address possible exemptions or exceptional circumstances that would excuse a school from adhering to the policy as written (e.g., weather issues, safety concerns). Therefore, we tested against the fire code criteria as required by legislation and found the process of ensuring schools were conducting their drills was not sufficient. Our testing found there were schools that had not completed all the required lockdown and relocation drills. Also, some schools completed many fire drills near the end of the school year; they had not tested throughout the fall and spring terms as required. The concentration of fire drills late in the school year does not benefit the safety of students. There is also a requirement for schools to document the success or shortcomings of each drill. This was not done consistently by schools. This assessment is a valuable tool that enables school management to know where to focus efforts when teaching students to stay safe.

### Recommendation 3.7

Conseil scolaire acadien provincial and the Halifax Regional School Board should ensure that schools are conducting all required emergency drills.

**Conseil scolaire acadien provincial Response:** Conseil scolaire acadien provincial agrees with the recommendation. An improved tool for emergency management is approaching completion and will be shared with principals in the fall of 2015. The document has an accompanying logbook with a section for comments on the results of each practice and any recommended improvements and a section on the roles and responsibilities of each stakeholder in the school systems in order to clarify the accountability framework especially around documentation and reporting.

**Halifax Regional School Board Response:** Management agrees to implement this recommendation. Systems to support the monitoring and reporting of emergency



drills will be strengthened during the 2015-2016 school year and will include processes to ensure all schools are in compliance with legislation and board policy.

Management will also develop strategies to support safe and effective emergency drills, in consideration of severe weather as we experienced during the winter of 2015.

**Recommendation 3.8**

The Department of Education and Early Childhood Development should ensure that school boards are ensuring schools conduct all required emergency drills.

**Department of Education and Early Childhood Development Response:** The department agrees that all required emergency drills must be conducted in schools.

The Education Act places responsibility for keeping schools safe with school boards, and boards deal directly with the Fire Marshall's Office on fire safety matters.

However, Nova Scotians expect every reasonable step be taken to keep our schools safe. The department will continue to work with school boards in their efforts to meet national fire code standards.

The Auditor General's Office notified the department on September 10 that some schools are not completing all drills, including a required drill in the first week of school. This information was shared with all superintendents that same day. Superintendents notified their staff to direct schools to complete and record a fire drill within the first week.

Superintendents have also been directed to report on actions they are taking to consistently meet national standards. The department is now collecting and reviewing this information, and will share it with the Office of the Fire Marshall for any required follow up.

3.65 With respect to the actions noted in the department's response, we have not assessed if schools held fire drills in the first week of the 2015-16 school year or if results were recorded.

3.66 *Emergency Management Office* – The Emergency Management Office, a division of the Department of Municipal Affairs, aims to ensure the safety and security of Nova Scotians, their property, and the environment by providing a prompt and coordinated response to an emergency. The office is also responsible for the operation of the Emergency 911 system and the administration of disaster financial assistance programs. The office therefore plays a critical role in the province's response to a disaster and should have a business continuity management program to ensure its own operations can continue.



3.67 Senior management and staff of the Emergency Management Office told us they were in the process of updating their business continuity management program. As a result, we assessed the existing continuity documents from 2012. We found that roles and responsibilities were identified to manage continuity within the office, but the documentation was missing pieces of necessary information. It lacked:

- a work-from-home or alternate location strategy that considered necessary technology and equipment;
- predefined alternate locations; and
- documentation of the results of any testing and awareness training.

3.68 We were informed by Emergency Management Office management that they were able to successfully continue operations during the storms of the 2015 winter season. However, it is not their practice to document the results of the activations or to prepare lessons-learned documents. Therefore, we were unable to verify their reported results.

**Recommendation 3.9**

The Emergency Management Office should update its business continuity program and documents to reflect best practices.

**Emergency Management Office Response:** EMO agrees with this recommendation. EMO began updating the business continuity plan in January 2015. The business continuity plan will be updated, exercised, and tested based on the Nova Scotia government best practice.



### Department of Education and Early Childhood Development: Additional Comments

With regard to the conclusions and summary of observations, the Department of Education and Early Childhood Development welcomes the Auditor General's focus on business continuity planning. The department has had business continuity plans in the past, and now has a 2015 business continuity plan in place. Testing of the plan will be completed before the end of the year.

The plan includes a business impact analysis, risk assessment, critical business functions, identification of an alternate work location, and an integrated response strategy.

The department appreciates that the Auditor General did not have opportunity to review the plan prior to completing this audit. The information has since been filed with his office.

### Housing Nova Scotia: Additional Comments

Housing Nova Scotia appreciates the time taken by the OAG to review our business continuity management plans and processes. The safety of our staff and continuity of critical business functions under disruptive conditions are essential operating criteria for us. Business continuity plans are in place and are updated regularly; however, we will expand our processes to address the areas identified in the report.



### Why we did this audit:

- \$317 million operating grant to ten universities in 2014-15
- \$50 million operating deficit predicted for universities by 2018-19
- Some universities with financial issues required emergency funding
- Financially healthy universities important to provincial economy
- Universities contribute \$1.4 billion to provincial gross domestic product

### Overall conclusions:

- Department not regularly monitoring financial health of universities
- Funding allocation is historical and has not been updated
- Agreement with universities not meeting all objectives
- Department agreed with all seven recommendations

### What we found in our audit:

- Province had a process to provide emergency funding
- Some objectives of agreement between universities and Department met
- No overall direction for universities to achieve accountability and long-term sustainability
- Funding allocation last updated in 2010-11
- Department not regularly monitoring financial health of universities
- Measures to assess improvements in university efficiency not adequate
- Funding aimed at reducing university costs has not met its goal



## 4 Labour and Advanced Education: Funding to Universities

### Background

- 4.1 The Department of Labour and Advanced Education provides operating grant funding to Nova Scotia's ten universities through the Universities Assistance Act. In 2014-15, the total operating grant provided was \$317 million, spread across the ten universities in the province. After reductions to the grants in recent years, funding increased in 2014-15 (see chart below).

Total Provincial Operating Grant (\$ millions)				
University	2011-12	2012-13	2013-14	2014-15
Acadia University	\$28	\$27	\$27	\$27
Atlantic School of Theology	1	1	1	1
Cape Breton University	19	19	18	18
Dalhousie University	169	164	158	166
Mount Saint Vincent University	21	20	20	20
Nova Scotia Agricultural College	7	7	6	Note 1
Nova Scotia College of Art and Design (Note 1)	9	8	8	8
Saint Mary's University	36	35	34	34
St. Francis Xavier University	30	29	28	28
Université Sainte-Anne	8	8	8	8
University of King's College	6	6	6	6
<b>Total</b>	<b>\$335</b>	<b>\$324</b>	<b>\$314</b>	<b>\$317</b>

Note 1: Nova Scotia College of Art and Design operating grant paid as part of Dalhousie University operating grant

Source: Department of Labour and Advanced Education – totals do not add due to rounding

- 4.2 Nova Scotia's universities are important for the economy of the province. A report on the export value of Nova Scotia's universities was prepared in 2011. It estimated that in 2009-10, universities' activity added \$1.4 billion to provincial gross domestic product, 19,000 jobs, \$265 million in tax revenue, and \$750 million in annual export value. The report also identified universities as very important to growing our economy. For example, given Nova Scotia's declining population, the quality of our universities was noted as important in continuing to attract international students.
- 4.3 The sustainability of funding to universities is expected to become an increasing challenge for the province. During 2014-15, \$4.2 million in emergency funding was given to some universities with financial issues. The Department of Labour and Advanced Education predicts that without structural change, there will be a \$50 million operating deficit for the



university system by 2018-19. In spring 2015, the University Assistance Act was replaced by the Universities Accountability and Sustainability Act, which is intended to promote greater university accountability for government funding.

- 4.4 The province and universities (represented by the Council of Nova Scotia University Presidents) have had memorandums of understanding since 2004. The most recent agreement covered April 1, 2012 to March 31, 2015. One of the core objectives of the 2012-15 memorandum of understanding was to achieve a system-wide cost that is sustainable to the province. Specific objectives in the memorandum of understanding included: determining a new way to allocate the provincial operating grant; working together to reduce costs; and a review of tuition-related policies.

### Audit Objectives and Scope

- 4.5 In summer 2015, we completed a performance audit of the Higher Education Branch of the Department of Labour and Advanced Education. The audit was conducted in accordance with sections 18 and 21 of the Auditor General Act and auditing standards of the Chartered Professional Accountants of Canada.
- 4.6 The purpose of the audit was to determine whether the Department of Labour and Advanced Education holds universities appropriately accountable for funding received and has processes to distribute and manage provincial funding to universities in a manner that helps achieve fiscal sustainability.
- 4.7 The objectives of the audit were to determine whether the Department of Labour and Advanced Education:
- has effective processes to monitor and evaluate financial performance of universities receiving grant funding to assess sustainability risks in the system and to promote accountability and efficient university operations;
  - has a clear framework to determine whether to provide additional assistance to universities with financial health issues;
  - is allocating funding in a logical and systematic manner;
  - is distributing funding to universities in accordance with agreements and policies; and
  - has effectively implemented its agreements with universities.



- 4.8 Generally accepted criteria consistent with the objectives of the audit did not exist. Audit criteria were developed specifically for this engagement by our Office based on similar audits by other legislative audit offices and information collected during planning. Criteria were accepted as appropriate by senior management of the Department.
- 4.9 Our audit approach included interviews with Department of Labour and Advanced Education management and staff; review of relevant policies, guidelines and processes; examination of agreements, minutes, reports and other documentation; and testing grant calculations. Our audit period was April 1, 2012 to March 31, 2015, corresponding to the last signed memorandum of understanding with universities.
- 4.10 The audit focused on operating grants to universities, emergency funding, and the 2012-15 memorandum of understanding. Bursaries and funding provided to universities through other provincial government departments were not included in the scope of this engagement. Contributions to the Nova Scotia Community College were also not examined.

## Significant Audit Observations

### Sustainability of the University System

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#### Conclusions and summary of observations

While the province and universities have stated a vision for the university system in Nova Scotia, there is no common strategic direction to address concerns about the sustainability of the system. The Department of Labour and Advanced Education has no regular processes to monitor and evaluate university financial performance and health. There are no standard university financial reporting requirements. In addition to the lack of financial monitoring, most funding to universities is provided without any accountability back to the province. Department management said emergency funding will not be provided in the future. New legislation provides a framework for universities experiencing financial problems, but this framework has not yet been needed.

► No overall direction to achieve accountability and sustainability for the university system

- 4.11 *Accountability and long-term sustainability* – The 2012-15 memorandum of understanding committed the province and universities to engage in “... collaborative effort to ensure that the university system operates as a high quality, sustainable and accessible system, able to meet the changing needs of Nova Scotians over the coming 5 to 10 years.” The parties saw



the need for a vision for the university system. A vision statement was finalized in 2013. In 2014, a discussion paper on the need for change in the post-secondary education system was written. However, in late 2014, the province and universities began a public consultation process to get views from stakeholders on the future of the university system in Nova Scotia.

- 4.12 Although this work has not provided an overall direction for achieving accountability and long-term sustainability, initiatives to support the 2012-15 memorandum of understanding have been undertaken. Agreements with each university outline commitments to work together to reduce costs, streamline programming, and align the university with the province's economic goals. Specific memorandum of understanding objectives and agreements with universities are addressed later in this chapter.
- 4.13 Department management told us the province's decision to no longer provide emergency funding to universities and the new Accountability and Sustainability Act are components of the university system's strategic direction going forward. However, this does not necessarily address the sustainability of the university system.
- 4.14 The strategic direction should include guidance on how funding is allocated among universities. As discussed later in this chapter, the current funding allocation is historically based, and despite management's concerns, changes have not been made.

#### **Recommendation 4.1**

The Department of Labour and Advanced Education, in consultation with stakeholders, should put in place a strategic direction for Nova Scotia's university system which addresses its sustainability concerns.

**Department of Labour and Advanced Education Response:** The Department agrees with and intends to implement this recommendation. A strategic direction statement will be developed by March 31, 2016. The Higher Education Branch internal vision paper, as well as a report from the stakeholder consultations in 2014, will inform the core direction for universities – financial sustainability and linkage to the economic development priorities of the province. Through the new Universities Accountability and Sustainability Act and a standardized public financial reporting process, a new level of financial accountability is being put in place to allow government to monitor the financial health of the universities. Through the work of the Innovation Team and its five subcommittees, the universities are making significant progress in supporting provincial economic development priorities and the goals of the oneNS report. The 2015-2019 MOU and the 2016 bilateral agreements with each university will further set direction for the universities.



Measures to track improvements in efficiency and sustainability inadequate

- 4.15 *Measuring efficiency and financial sustainability* – The 2012-15 memorandum of understanding called for the province and universities to work together to achieve improvements in efficiency and financial sustainability across the system. Four measures were established and reported on annually. These were very high level, such as changes in total system expenditures and tuition revenue. There were no performance targets, and no supporting analysis comparing results to expectations. Without appropriate performance measures, or a clear understanding of how efficiency and financial sustainability should be assessed, the effectiveness of specific activities undertaken may not be known and improvement not achieved.

**Recommendation 4.2**

The Department of Labour and Advanced Education should put in place specific, measurable, achievable, relevant, and time-bound goals for improvements in efficiency and financial sustainability of the university system.

**Department of Labour and Advanced Education Response:** The Department agrees with and intends to implement this recommendation. SMART goals will be included in the 2015-2019 MOU and in the new bilateral agreements to be developed for 2016. With the statement that there will be no new emergency funding for universities as of April 1, 2015, a very clearly defined goal has been set for the universities to become sustainable. The new Universities Accountability and Sustainability Act calls for the universities to be held accountable to specific outcome measures supporting key policy directions of the province. These will be incorporated into the 2016-2019 bilateral agreements. By achieving these outcomes, universities will be in balanced budget positions and will be promoting the economic development of the province.

► No accountability for funding or monitoring of university financial health and performance

- 4.16 *University financial monitoring* – The annual operating grant to universities is a large portion of total university revenues. However, the province has not established any accountability for this funding. Universities are not required to report financial performance to the Department. Labour and Advanced Education management does not regularly review and consider university financial health and performance. The Department asked for basic financial information from each university in 2013, but did not clearly define its information needs. We identified issues with the completeness and accuracy of the information provided. For example, one university did not provide any balance sheet data and other universities reported information which could not be linked to their audited financial statements. Once the information was submitted, Labour and Advanced Education did not perform a detailed analysis.



- 4.17 In 2014, an external consultant was hired to complete a financial review of two universities in response to requests for extra funding.
- 4.18 The Department has generally relied on universities to identify financial issues. Regular financial analysis and looking at trends would help the Department assess potential problems and promote accountability and efficient university operations. During the audit, Department management worked with universities to develop standardized public financial reporting. This was part of the 2012-15 memorandum of understanding but was not completed and implemented.
- 4.19 Universities must operate in a sustainable manner to ensure funding is spent with due regard for economy and efficiency. The Universities Accountability and Sustainability Act, proclaimed in 2015, indicates the province may require evidence of a university's financial sustainability before providing the full amount of operating funding. However, this process has not yet been defined.

#### **Recommendation 4.3**

The Department of Labour and Advanced Education should, in consultation with partners, develop financial health and performance measures for universities. Results and trends should be analyzed in an effective and timely manner, with appropriate action taken when necessary.

**Department of Labour and Advanced Education Response:** The Department agrees with and intends to implement this recommendation. This will be implemented through the standardized public financial reporting initiative under the 2012-15 MOU. Universities are currently inputting information in to this template. A five year history of data will be collected to begin the process, then annual data on a go forward basis. Additionally, multi-year projections of expenditures, revenues and enrolments will be collected. The process is underway to establish a financial analyst position within the Universities and Colleges Division to help evaluate and analyze the data to enable the Department to react to any concerns identified.

- 4.20 *Special-purpose funding* – In addition to the operating grant, some universities receive funding for specific reasons and most of these agreements have no funding conditions. Department management told us there is no mechanism to verify that funding is used for intended purposes.

#### **Recommendation 4.4**

The Department of Labour and Advanced Education should include reporting requirements in special-purpose funding agreements. Monitoring should be completed to ensure the objectives of these agreements are met.



**Department of Labour and Advanced Education Response:** The Department agrees with and intends to implement this recommendation. In 2014-15, accountability requirements were set for special nursing education funding. In 2015-16, accountability requirements will be tied to any other special funding that is released.

► Emergency funding framework existed

4.21 *Emergency funding* – A framework for dealing with emergency funding should clearly state the province’s expectations and ensure future sustainability planning. In the past, when universities asked for additional funding, the Department reviewed the requests and made a recommendation to the Minister. This has generally been a consistent practice; however, the process is not documented. More recently, the province’s policy was updated to state that emergency operating funding would not be given if other funding sources have not been exhausted. This may include selling investments, obtaining loans, or using university funds set aside for other purposes. When emergency funding was provided, the Department received information on steps the university would take to improve its financial situation.

4.22 The new Universities Accountability and Sustainability Act includes a process to be followed by universities experiencing financial problems, but this has not yet been used by a university. Management told us that emergency funding requests will no longer be accepted; the Department will follow the new Act’s framework.

### Distribution of University Funding

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#### Conclusions and summary of observations

The process to calculate and allocate provincial operating funding to universities is based on a historical approach. Originally developed as a funding formula to calculate the appropriate level of provincial funding for universities, the formula has been used to allocate available provincial funding. It is based primarily on student enrolment. This can vary from year to year; however, the enrolment numbers were not regularly updated. Although the 2012-15 memorandum of understanding identified the need for an updated allocation method, no changes were made.

► Funding allocation method is historical and has not been updated

4.23 *Allocation and payment of funding* – The Department of Labour and Advanced Education has a documented process to determine and allocate the provincial operating grants to universities. University funding distributed in 2013-14 and 2014-15 was calculated and paid in accordance with this process.



- 4.24 While the process was followed, the method used to allocate the provincial operating grant is based on a historical approach. The allocation formula was developed in 1997-98 to determine the appropriate level of government funding for universities. It is based mainly on the number of students and the cost of providing university courses. However, the funding calculated based on this formula exceeded what the province was able to pay. The formula was instead used as the basis to allocate the available provincial funding.
- 4.25 Although the formula is based on student enrolment, which changes over time, the formula was not regularly updated with this information. In 2007-08, the Department planned to update enrolment numbers. This would have resulted in a significant funding decrease for some universities. To lessen the impact, changes were made over a three-year period; however, the allocation never fully reflected the updated enrolment numbers.
- 4.26 Department management told us they have concerns with the current allocation formula because it is based mainly on factors that change, such as enrolment. They said changes to the number of students may not result in operating cost increases or decreases for universities. Since total funding is fixed, universities with smaller enrolment increases than others may see funding fall due to the changed allocation.
- 4.27 *Memorandum of understanding* – The 2012-15 memorandum of understanding committed to developing a new formula to allocate provincial funding. Department and university representatives formed a working group to review and recommend changes to the provincial operating grant allocation formula. However, no changes were made. The 2010-11 funding allocations were carried forward through the 2012-15 memorandum of understanding. A new allocation method is currently under development.

#### **Recommendation 4.5**

The Department of Labour and Advanced Education should develop and implement a new funding allocation method without further delay.

**Department of Labour and Advanced Education Response:** The Department agrees with this recommendation. Changes to the allocation mechanism will result in some universities receiving more funding and others receiving less. The implications for those universities receiving less funding are very serious. The universities have asked for the new allocation formula to be implemented in 2017-18 to allow time to deal with structural issues before the added complication of dealing with a forced change in operating grant. Implementation of the recommendation is underway.



## Implementation of Agreements with Universities

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### Conclusions and summary of observations

While some objectives of the 2012-15 memorandum of understanding were met, significant change in key areas was not achieved. Working groups created to address issues did not meet their objectives. The Department has agreements with each university to support the memorandum of understanding, but many objectives identified are not specific and there are no reporting requirements outlined in these agreements. Since 2012, the province has provided \$25 million in funding to universities outside of the annual operating grant to obtain ongoing cost savings, but these investments have not produced the desired savings.

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4.28 *Background* – The 2012-15 memorandum of understanding established a partnership between the province and universities, with a goal of obtaining a sustainable cost structure based on what the province can afford, while also achieving excellence in teaching and research, and a fair and competitive tuition system. The province and universities agreed to work together to achieve significant change in areas such as tuition policies, access and affordability of education, and quality assurance.

► Limited success in implementing memorandum of understanding objectives

4.29 *Partnership committee and working groups* – To guide the implementation of the memorandum of understanding, a partnership committee of university presidents and provincial deputy ministers was formed. A work plan was approved and working groups, made up of university officials, Labour and Advanced Education staff, and student representatives, were created. Under the memorandum of understanding, these committees and working groups provide a venue for university stakeholders to meet to discuss challenges facing the system and work towards improvements. The partnership committee outlines work completed during the year in reports to the province.

4.30 *Areas implemented* – Areas of the memorandum of understanding that were successfully implemented include: the establishment of a tuition policy for 2015-16 to 2018-19, and an agreement to increase the operating grant to universities by one percent each year for the next four years to provide a level of stability and predictability to university funding.

4.31 The memorandum of understanding also called for parties to work towards enhancing research and development and contributions to economic development. Work to date included: initiatives at Nova Scotia universities which bring together students and advisors to take business concepts from the idea phase to execution; and the establishment of graduate scholarships



to support research in areas identified as key to Nova Scotia's social and economic development.

- 4.32 Despite achieving some of the objectives of the memorandum of understanding, our work also identified areas in which objectives were not met.
- 4.33 *Memorandum of understanding governance* – There was limited success in achieving the objectives assigned to the various working groups during the 2012 to 2015 memorandum. Deliverables were completed late or not at all.
- 4.34 Established in late 2013, the access and affordability working group was to develop a policy to increase the number of Nova Scotians attending university from under-represented population groups. A final report was due March 2014 but was not submitted until March 2015. Department management told us they believe the working group's plans were too ambitious. In addition, the lack of quality data on under-represented groups and indecision about which groups to include was evident in the group's work. The final report provided definitions for access and affordability, and a list of under-represented groups to consider. It recommended continuing the work in the next memorandum of understanding. While the definitions and a list of potential under-represented groups was fundamental work, we expected it to be completed sooner.
- 4.35 A quality working group was formed in July 2012 to identify key quality performance indicators for implementation by the end of 2012. A final report was not completed until August 2014. While it did identify seven quality measures, it did not include a reporting format, data to be collected, or how to ensure university compliance with the process. These were all identified working group objectives. Management also told us the measures would likely not be implemented until April 2016.
- 4.36 A third working group was created to develop a new formula to allocate provincial funding to universities. As noted earlier in the chapter, this was not achieved and management said a new allocation method is currently under development.
- 4.37 While we recognize the value of the work completed to date under the 2012-15 memorandum of understanding, the Department and universities agreed to work together to make significant changes. They have not met their goals in certain areas. In some aspects, such as the development of a new funding allocation formula, addressing the issue has been delayed, despite knowing there are issues that need attention.



**Recommendation 4.6**

The Department Labour and Advanced Education should establish reasonable expectations for future memorandum of understanding working groups and ensure goals are specific, measurable, attainable, realistic, and time-bound.

**Department of Labour and Advanced Education Response:** The Department agrees with and intends to implement this recommendation. The 2015-2019 MOU, the 2016 bilateral agreements, deliverables for the Innovation Committees and any other agreements and MOUs will contain SMART goals to ensure absolute clarity around the deliverables.

- 4.38 *Excellence and Innovation Fund* – The memorandum of understanding established an Excellence and Innovation Fund of \$25 million to provide funding to universities for projects intended to save an equal amount in costs of the university system on an ongoing basis. There were four rounds of funding involving 50 projects. Project criteria included the project’s innovation, collaborative nature, and payback period. In the fourth round of funding, the criteria changed to consider projects which supported innovation and collaboration, and also linked to the province’s economic and social goals.
- 4.39 We reviewed ten projects and found all ten projects met the funding criteria. Of the eight projects with completed status reports, two did not generate the expected level of cost savings or revenue, while three did not estimate expected cost savings or revenue. Since the reported results did not meet expectations, it appears the goal of saving \$25 million on a sustainable basis was not achieved. Also, it is not clear whether this goal was ever attainable.

► Agreements with universities lack specific objectives

- 4.40 The province has agreements with individual universities outlining key activities the university agrees to undertake between October 1, 2014 and March 31, 2016. These agreements are meant to support the work done through the 2012-15 memorandum of understanding, and contribute to a sustainable university system. For example, universities and the province agreed to work together on improving programs such as engineering, education, and nursing. However, there is no identified reporting process for these agreements and many activities do not include concrete actions. For example, one agreement requires the university to explore the potential to create a science and innovation space, with no further details on how to determine success. In addition, no timeframes are attached to the activities so it is unclear whether they are to be completed during the agreement period or in future periods. While promoting collaboration is important, without clear objectives, it is difficult to assess effort and progress of these agreements.



**Recommendation 4.7**

The Department of Labour and Advanced Education should identify specific outcomes, including timeframes and reporting processes, in future agreements with universities.

**Department of Labour and Advanced Education Response:** The Department agrees with and intends to implement this recommendation. Currently, staff monitors progress on bilateral initiatives through frequent interaction with the universities, including meetings between the Presidents and the Minister, Deputy Minister and the Senior Executive Director of Higher Education. The next version of bilateral agreements, due in April 2016, will contain specific outcome measures that link to the university's academic goals, the commitment to sustainability, and that support the social and economic priorities of the province. The Department will ensure these measures have specific timeframes and reporting outcomes.



## Department of Labour and Advanced Education: Additional Comments

The Department values this performance audit of funding to universities. The Department agrees with, and will implement, all recommendations contained in the report. Well before this audit got underway in the summer of 2015, the Department had already taken steps to implement many of the recommendations that appear in the report, including the development of a vision for the university sector and the modelling of alternative funding allocation formulas. Following a public consultation process in the fall of 2014, clear direction regarding a vision of financially sustainable universities was delivered to the Presidents by the Premier during a strategic planning session in December 2014. An Innovation Team was established in June 2014 with the presidents of the universities and NSCC, students, and key federal and provincial government staff to develop strategies to align the sector in advancing the economic development priorities of the province and the oneNS report. New legislation was drafted in the winter of 2015 to help ensure the accountability and sustainability of the universities. This became law in May, 2015.

# Chapter 5: Monitoring and Funding Municipalities



## Why we did this audit:

- Strong municipal financial position is important for Nova Scotia's economy
- Four towns have dissolved in the past five years
- Six of 27 remaining towns are currently in the process of dissolution or amalgamation
- \$130 million provincial funding and grants in 2014-15 is a significant source of municipal revenue

## Overall conclusions:

- Department not effectively evaluating and monitoring municipal financial risk
- Department not fully assessing municipal borrowing risk
- Department distributed formula-based funding appropriately, did not always follow guidelines for application-based grants
- Department agreed with all eight recommendations

## What we found in our audit:

- Department cleared up backlog of outstanding financial reviews and indicator reports
- Dissolution of town was carried out in accordance with legislative requirements
- Minister appropriately approved municipal borrowing requests
- Five formula-based grants were correctly calculated and issued to municipalities
- Department not reviewing municipal financial information quickly enough
- Negative municipal financial indicators not followed up
- Analysis of borrowing requests from municipalities was not completed consistently or with up-to-date information
- Borrowing terms not assessed over life of the assets
- Temporary borrowing approvals not monitored for renewal or transfer to long-term financing



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## 5 Municipal Affairs: Monitoring and Funding Municipalities

### Background

- 5.1 There are currently 51 municipal governments in the province, including 3 regional municipalities, 27 towns, and 21 rural municipalities.
- 5.2 The Department of Municipal Affairs works with municipalities to support communities throughout Nova Scotia by providing advice and assistance in many areas including: budget planning and finance; land use planning; infrastructure development; and policy and program development. It also monitors the financial performance of municipalities and administers a number of programs and grants which provide funding to municipalities. Municipal Affairs employs 14 staff, including municipal finance officers, municipal advisors and managers to carry out this work.
- 5.3 Key provincial legislation which relates directly to municipalities includes the Municipal Government Act and the Municipal Grants Act. The Municipal Government Act gives broad authority to municipal councils to govern their municipal jurisdictions, including the provision of facilities, services and other activities to develop and maintain strong and viable communities. The Act provides municipalities with the power to borrow money, subject to the Minister of Municipal Affairs' approval. It also enables the Minister to prescribe the information municipalities must provide and the reporting deadlines. Under the Act, the Minister may also do anything necessary toward improving municipal government in the province.
- 5.4 The Municipal Grants Act outlines several grants available to municipalities. It also allows the Minister of Municipal Affairs to provide financial assistance to municipalities facing extraordinary financial difficulties.
- 5.5 Significant grants and funding to municipalities are noted in the following table.



Significant Grants and Funding	(\$ millions)		
	2013-14	2014-15	2015-16 (budget)
Federal Gas Tax Fund	\$85.3	\$52.5	\$53.2
Equalization and Town Foundation Grant	32.1	32.1	32.1
Grant-in-lieu of taxes (provincial property)	17.8	18.4	19.7
Grant-in-lieu of taxes (Nova Scotia Power Inc.)	11.6	11.6	12.4
HST Offset	6.1	6.1	6.1
Building Canada Fund	5.2	3.6	4.6
New Building Canada Fund	–	–	9.1
Provincial Capital Assistance Program	4.4	3.4	3.1
<b>Total</b>	<b>\$162.5</b>	<b>\$127.7</b> Note 1	<b>\$140.3</b>

Note 1: The total shown above does not agree to the \$130.0 million spent by the Department in 2014-15 as only the more significant grants and funding are shown above

- 5.6 Federal gas tax funding is fully recoverable by the province from the federal government. This program is designed to provide predictable, long-term, stable funding for municipalities to help them build and revitalize their local public infrastructure. Nova Scotia Power Inc. pays the province for the full amount of the grant-in-lieu of taxes, which also covers the HST offset grants and a portion of the equalization grant.
- 5.7 In the last five years, four towns have dissolved into the surrounding municipalities; another six municipalities are in the process of dissolution or amalgamation, as outlined in the table below.

Town	Status	Year
Canso	Dissolved	2012
Bridgetown	Dissolved	2015
Hantsport	Dissolved	2015
Springhill	Dissolved	2015
Mulgrave	In process	Initiated 2015
New Glasgow	In process	Initiated 2015
Parrsboro	In process	Initiated 2015
Pictou County	In process	Initiated 2015
Stellarton	In process	Initiated 2015
Town of Pictou	In process	Initiated 2015

- 5.8 Over the last three years, two policy reviews were completed in collaboration with the Union of Nova Scotia Municipalities and municipal representatives. Both reviews addressed issues related to the financial viability of municipalities. The Towns Task Force report was completed and presented to the Department in September 2012. The Municipal Fiscal Review was completed in September 2014. Together, these reports put forward 77 recommendations for consideration.



- 5.9 While the Department has acted to address some of the recommendations, the majority were not fully accepted. The Department and the Union of Nova Scotia Municipalities are pursuing a collaborative partnership agreement to consider the remaining recommendations. Department management told us that completion of the agreement is targeted for March 31, 2016.

### Audit Objectives and Scope

- 5.10 In summer 2015, we completed a performance audit of the Department of Municipal Affairs. The audit was conducted in accordance with sections 18 and 21 of the Auditor General Act and auditing standards of the Chartered Professional Accountants of Canada.
- 5.11 The purpose of the audit was to determine if the Department of Municipal Affairs has effective processes to distribute and manage funding to municipalities in a manner that helps achieve fiscal sustainability.
- 5.12 The objectives of the audit were to determine whether the Department of Municipal Affairs:
- has effective processes to monitor and evaluate municipal financial performance to assess sustainability risks;
  - has a clear framework for providing additional assistance to municipalities undergoing dissolution;
  - has effectively implemented the financial requirements of the Municipal Government Act and the Municipal Grants Act;
  - is distributing funding to municipalities in accordance with legislation, agreements, policies and procedures; and
  - has effective processes to monitor funding distributed to municipalities.
- 5.13 Generally accepted criteria consistent with the objectives of the audit did not exist. Audit criteria were developed specifically for this engagement based on similar audits performed by our Office and other legislative audit offices. Criteria were accepted as appropriate by senior management of the Department.
- 5.14 Our audit approach included interviews with Department management and staff; and examination, documentation and testing of legislation, policies and procedures. Our audit period included activities conducted between April 1, 2013 and March 31, 2015. We did not examine, nor provide an opinion on, the financial information submitted by the municipalities, except to the extent necessary to determine whether the Department's reporting requirements were met.



## Significant Audit Observations

### Monitoring of Municipal Financial Performance

#### Conclusions and summary of observations

The Department of Municipal Affairs does not have effective processes to monitor and evaluate municipal financial performance and assess sustainability risk. The Department is not reviewing and publicly reporting on the financial information submitted by municipalities in a timely manner. Over the past year, the Department addressed the backlog of outstanding financial reviews and related reporting. However, some procedures, such as reviews by municipal advisors, have still not been completed. Timely review and reporting on financial information is an issue that was identified at the Department in our 2004 audit. The Department developed an indicator tool to analyze municipal financial information, but does not have a process to follow up with municipalities on negative results identified with this financial indicator tool.

5.15 *Financial reporting* – Municipalities must submit audited financial statements, provide additional information through a financial information return, and a statement of estimates (budget) by September 30th of each year. This information is to be reviewed and used by the Department to monitor the financial health of the municipalities and publish an annual report.

#### ► Monitoring and reporting on financial information not timely

5.16 *Review of financial information* – Department finance officers review and analyze the submitted financial documents to identify significant changes or issues which could affect financial sustainability. They follow up with the municipalities on any items that need additional information or clarification to finalize the financial information for the annual report and financial condition index. We examined the Department's financial monitoring processes for the 2012-13 and 2013-14 municipal submissions carried out in 2014 and 2015 respectively. We selected the financial information submitted by five municipalities for each year.

5.17 In 2014, the Department took an average of 337 days to complete its review and finalization of the 2012-13 financial reports we examined. Two files took over a year to finalize. The Department was aware it was significantly behind in reviewing the financial reports and allocated additional resources to address the backlog. Management implemented a new turnaround timeframe of three weeks for initial review of the reports.

5.18 For our five samples in 2015, the Department reduced the average time to review and finalize the financial information to 48 days. While the initial



review for the five sample items we tested was completed within three weeks, the Department has not established guidance or a timeframe for completion of the review process.

- 5.19 Department finance officers spend significant time reviewing the financial information, in consultation with the municipalities, to ensure accuracy in the Department's reporting of municipal financial performance. The officers are required to complete a checklist to support their review procedures. In 4 of the 10 files we examined, the checklist was not on file. The Department does not have a quality assurance process to ensure that staff review is completed consistently and as required. Incomplete or inconsistent review procedures could result in the Department reporting inaccurate financial performance information.
- 5.20 *Reporting of financial condition* – For financial information for 2009-10 and earlier, the Department was using a comprehensive forty-indicator tool to assess the financial stability of municipalities. In May 2014, the Department launched a revised tool to report the results of financial reviews in a more concise manner, focusing attention on 15 key indicators of financial viability. The 15 indicators are defined, and include a rationale for the indicator, formulas, and thresholds for evaluating performance. Municipalities are evaluated against thresholds in their class (regional municipality, rural municipality or town).
- 5.21 When the revised tool was introduced in 2014, indicators were published for 2011-12. In February 2015, the Department released the indicators for both 2012-13 and 2013-14. In June 2015, the Department published a comprehensive report of municipal statistics for the years 2011-12 through to 2013-14. Although now up to date, the Department's preparation and public reporting of the financial information was not timely over the previous years. This impacted the Department's ability to appropriately monitor the municipalities.
- 5.22 *Monitoring by municipal advisors* – The Department's municipal advisors review the finalized financial documents to ensure they are aware of the financial condition of the municipalities they monitor. They document their review using a checklist. For the 10 municipalities we examined, only three had a completed checklist showing evidence of an appropriate review. All three reviews related to the 2012-13 submissions. For 2013-14 financial information, there were no checklists and no evidence of review by the municipal advisors.
- 5.23 The municipal advisor checklist is completed after the financial officers complete their review. The Department has not established guidance or a deadline for the timely completion of municipal advisor reviews. At the time of our examination, approximately nine months had passed since the



financial officer reviews without municipal advisor reviews being completed. If the municipal advisor reviews are not completed or timely, the ongoing guidance and advice provided to the municipalities could be less effective if not based on the most up-to-date analysis.

- 5.24 In our 2004 audit of the Municipal Services Division of the then Department of Service Nova Scotia and Municipal Relations, we identified timely reporting of municipal financial indicators as a concern. While the Department has made improvements since then, such as the development of the financial indicators tool, the timeliness of reporting is still a concern. If information is not reviewed and reported within a reasonable time, it may no longer be relevant. The Department may fail to act or take less effective measures if it does not have the most relevant information upon which to make its assessments.

#### **Recommendation 5.1**

The Department of Municipal Affairs should monitor municipalities' financial information in a timely manner and publish relevant municipal financial reports and indicators promptly.

**Department of Municipal Affairs Response:** Agree. DMA will develop a risk-based review process to ensure resources are allocated to those municipalities that should be monitored. Municipal statistics are up-to-date and we will continue to publish the Financial Condition Index ("FCI") annually which is located on our website at <http://novascotia.ca/dma/finance/indicators.asp>

#### ► No process to follow up on negative financial indicators

- 5.25 *Addressing negative indicators* – The Department identifies and makes public the financial viability of municipalities through its reporting on financial indicators. While this process can assist the municipalities in tracking identifying issues, mitigating risks, and long-term planning, further analysis of the negative indicators, and identification of potential underlying causes, could provide a more focused direction for the municipalities to address financial viability issues.
- 5.26 To help achieve financially stable municipalities, the Department's 2015-16 Statement of Mandate identified a performance measure to track municipalities with six or more negative indicators over a three-year period (Department refers to these as red indicators). The Department expects these municipalities to have an action plan to address the situation. However, the Department does not have a process to follow up on negative indicators to assist municipalities in determining underlying causes and developing action plans.



**Recommendation 5.2**

The Department of Municipal Affairs should develop processes to monitor negative financial indicators and follow up with municipalities to determine underlying causes and verify that action plans are developed.

**Department of Municipal Affairs Response:** Agree. Indicators are tools for municipal councillors and community members to better understand a municipality's characteristics and performance. The department will work with municipalities through the Association of Municipal Administrators (AMA) and the Union of Nova Scotia Municipalities (UNSM) to develop an agreed upon process to monitor negative financial indicators and follow up with municipalities as required.

5.27 While Department staff interact with municipalities on a regular basis, they generally do not track their meetings or document the discussions and outcomes of the meetings. For example, the Department's initiative for financial officers to meet with municipalities annually to review financial information is not tracked or documented. Additionally, municipal advisors maintain their documentation in various locations, such as in their email or paper notebooks, rather than in a specific municipal file or database. Without appropriate documentation, items may not be followed up, and relevant knowledge may be lost if staff leave or retire from the Department.

**Recommendation 5.3**

The Department of Municipal Affairs should document meetings, discussions and issues in the municipal files to support advice provided and actions taken and for future decision making.

**Department of Municipal Affairs Response:** Agree. Department of Municipal Affairs will ensure staff document meetings, discussions and issues to support advice provided.

5.28 *Uncollected taxes* – In 2013-14, property taxes, on average, accounted for 77% of municipal revenues. Uncollected taxes are one of the key indicators that was consistently identified as a negative indicator. A high percentage may indicate the municipality is experiencing difficulty monitoring and collecting overdue tax accounts. In 2012-13 and 2013-14, the rate of uncollected taxes was above the 10% benchmark for seven of the ten municipalities we examined (see table). In two of these instances, uncollected taxes were above 20%.



Municipality – Percentage of Uncollected Taxes
Municipality of Inverness (2012-13) – 21.3%
Town of Lockeport (2012-13) – 11.8%
Municipality of Barrington (2013-14) – 20.9%
Cape Breton Regional Municipality (2013-14) – 15.2%
Municipality of Cumberland (2013-14) – 11.3%
Town of Digby (2013-14) – 15.5%
Town of Westville (2013-14) – 15.4%

5.29 The Municipal Government Act requires that municipalities attempt, through sale of the property, to recover amounts owed after three years of unpaid taxes. Municipalities recover these amounts but are not required to report these tax sales to the Department. When municipalities exceed the benchmark, the Department may not know if reasonable efforts were made to collect unpaid taxes in compliance with legislation.

#### **Recommendation 5.4**

The Department of Municipal Affairs should follow up with municipalities that exceed their thresholds for uncollected taxes and monitor that the municipalities are taking reasonable measures to collect unpaid amounts in compliance with legislation.

**Department of Municipal Affairs Response:** Agree. Municipalities are an order of government with democratically elected Councils accountable to the electorate in the communities they represent.

The Municipal Government Act and associated regulations provides the statutory framework related to the operations of municipal government including the requirement for tax collection procedures. Municipal councils are responsible to ensure that statutory requirements are being met and that reasonable measures are being taken to collect unpaid amounts.

The Department will notify registered municipal auditors of the requirement to examine performance with respect to tax collection statutory requirements. When municipal auditors notify the Department that tax collection procedures are inadequate, the Department will follow up.

5.30 *Municipal deficits* – When municipalities incur a deficit at year end, the Department ensures that deficits are recovered in the following year. We examined five municipalities that reported a deficit during our audit period. They are listed in the following table. Four of the five municipalities had operating reserves or an accumulated surplus from previous years. Although still classified as an operating deficit in the financial indicators report, these cases do not trigger any further follow-up by the Department as the municipality has the funds to cover the expenses.



Municipalities with Reported Deficits Examined
Municipality of the County of Antigonish (accumulated surplus)
Halifax Regional Municipality (operating reserves)
Town of Pictou (accumulated surplus)
Municipality of the District of St. Mary's (accumulated surplus)
Town of Truro

5.31 Only one municipality (Town of Truro) we examined had an accumulated deficit position and no operating reserves. The deficit was not repaid fully in the subsequent year, as required. However, appropriate approval was received from the Minister to repay the deficit over several years. The deficit resulted from an unusual situation and would have caused undue hardship to the municipality had it been required to be repaid in one year.

► Process of dissolution of town followed required regulations

5.32 *Municipal dissolutions* – Four towns (Canso, Bridgetown, Springhill and Hantsport) have dissolved in the last five years due to financial hardship; others are in process of dissolution or amalgamation. When a town seeks to dissolve, it must follow a legislative process which involves the province and the Nova Scotia Utility and Review Board.

5.33 We examined the dissolution process for the Town of Springhill. We found legislative requirements were followed and the dissolution was appropriately carried out.

## Meeting Legislated Capital Borrowing Requirements

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### Conclusions and summary of observations

The Department's processes to ensure legislated municipal capital borrowing requirements are met need improvement. While all temporary borrowing resolutions we examined were reviewed by the Department and approved by the Minister as required, the Department's assessment of municipal borrowing risk did not include sufficient and consistent review of the financial indicators. When financial indicators were reviewed, the data used was not timely. Additionally, the Department did not complete sufficient risk analysis to determine a municipality's ability to finance a project over the useful life of the asset. The Department does not perform sufficient monitoring to ensure that approved short-term borrowing is renewed annually or converted to long-term financing subsequent to the initial approval.

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5.34 *Municipal borrowing* – Under the Municipal Government Act, municipal borrowing, financial guarantees, and lease commitments require approval



by the Minister of Municipal Affairs. Municipalities cannot borrow money without the Minister's approval and borrowing is only for the purposes specified in the Act. This is required as the province is ultimately responsible for the debt, through its guarantee, should a municipality default on a loan.

- 5.35 Municipalities secure long-term financing for capital projects through the Nova Scotia Municipal Finance Corporation and a provincial guarantee. Long-term financing through Nova Scotia Municipal Finance Corporation occurs twice a year and only for completed projects. Municipalities must pass a temporary borrowing resolution and obtain ministerial approval for the borrowing, including short-term borrowing from a local institution, until funding can be obtained from the long-term financing process or grant programs.

► Short-term borrowing properly approved

- 5.36 To obtain ministerial approval to borrow for capital purchases, municipalities submit temporary borrowing resolutions to the Department. Staff review the requests and complete a checklist which includes ensuring the projects are on the municipality's capital plan, municipal debt ratios are within defined limits, and the project meets the requirements defined in legislation.
- 5.37 Staff completed the checklist and recommended approval to the Deputy Minister for all 15 temporary borrowing resolutions we examined; all were subsequently approved by the Minister. While the Department's borrowing process was followed and appropriate approvals obtained, we observed several weaknesses which are discussed further below.

► Insufficient analysis of borrowing requests prior to approval

- 5.38 *Review of financial condition* – The Department's review of financial condition information in analyzing temporary borrowing resolutions is not consistent. Review of this information was documented in only five of 15 files examined. In the five files with evidence of review, the documentation varied and was sometimes difficult to interpret. Additionally, for four of the five files, the financial condition indicators used were based on 2009-10 financial information. These indicators were two to four years out-of-date when they were used and therefore not the most relevant for decision-making. We do not know whether the Department would have recommended borrowing approval had it used up-to-date information.

**Recommendation 5.5**

The Department of Municipal Affairs should use relevant and timely financial information to make decisions about municipal borrowing approvals.



**Department of Municipal Affairs Response:** Agree. DMA will ensure the review for borrowing approvals includes the following: the three year FCI; legislative review – authorized municipal purpose; consistency with debt to service ratio; and the Financial Reporting Accounting Manual (FRAM). It should be noted that there have been no defaults for more than twenty five (25) years.

► Borrowing terms not appropriately assessed against useful life of assets.

5.39 *Useful life of capital assets* – The Department does not document and compare the useful life of the proposed capital asset to the expected borrowing term when municipalities seek borrowing approval. Although the useful life is included as a requirement on the staff checklist, for nine of 15 files examined, it was not clearly documented or was deemed not applicable. The borrowing term documented was only for the temporary borrowing approval, which is 12 months. There was no documentation of the expected long-term borrowing in order to determine if the term exceeded the useful life of the asset. Nova Scotia Municipal Finance Corporation only issues long-term financing once a project is complete. If a municipality's ability to finance a project within the useful life is not considered prior to project completion, it would be too late by the time permanent financing is requested. This could increase the risk of placing a municipality in hardship to continue financing a project after the asset's useful life has expired and it needs replacement.

**Recommendation 5.6**

The Department of Municipal Affairs should determine a municipality's ability to finance a project within the useful life of the asset prior to borrowing approval.

**Department of Municipal Affairs Response:** Agree. DMA has now included this as part of the checklist and as a result, staff are verifying the useful life of the asset as part of the process for borrowing approval.

► Temporary borrowing approvals not monitored for renewal or other disposition

5.40 *Monitoring of temporary borrowing approvals* – Once a municipality receives ministerial approval to obtain short-term funding, the Department does not monitor to ensure that, once the project is complete, the short-term debt is either converted to long-term financing with the Nova Scotia Municipal Finance Corporation, funded in an alternative manner, or renewed annually if the project exceeds the twelve-month term. Department staff serve on the Nova Scotia Municipal Finance Corporation board and would have knowledge of which borrowings have been converted to long-term financing. However, without active monitoring to determine that all existing temporary borrowing approvals have been properly renewed or transferred, there is a risk that municipalities may be holding short-term debt without appropriate ministerial approval.



**Recommendation 5.7**

The Department of Municipal Affairs should review the status of temporary borrowing approvals annually to ensure they have been renewed or transferred to long-term borrowing, as required.

**Department of Municipal Affairs Response:** Agree. DMA has existing processes in place for temporary borrowing approvals and we will explore the possibility of expanding the checklist to include annual reviews as they relate to renewals or transfers to long-term borrowing to enhance our current practice.

**Distribution of Grant and Program Funding**

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Conclusions and summary of observations

The Department of Municipal Affairs calculated and distributed formula-based funding in accordance with legislative and policy requirements. The Department did not always follow its guidelines for the application-based Provincial Capital Assistance Program. In one instance, a grant was awarded without an application. For two instances, funding was disbursed without appropriate claims documentation; although letters of agreement with funding terms were signed. We had no concerns with the Building Canada Fund claims examined.

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- 5.41 *Grant and funding programs* – The Department tracks grant funding through an information management system used by several departments across government. This system allows the Department to track the approval and disbursement of funding, ensure that municipalities are not receiving grants from multiple departments for the same project without prior approval, and facilitates reporting.
- 5.42 The Department administers 23 programs which provide funding to municipalities for capital infrastructure, municipal operating grants, and community grants and programs. We performed testing on seven of the funding programs. These programs accounted for \$127.7 million (98%) of the \$130 million disbursed during 2014-15.
- 5.43 The programs examined were:
- equalization
  - grants-in-lieu of taxes on provincial property
  - grants-in-lieu of taxes on Nova Scotia Power Inc. property
  - HST offset
  - Federal Gas Tax Fund



- Provincial Capital Assistance Program
- Building Canada Fund

► Formula-based funding to municipalities met legislative requirements

5.44 *Formula-based funding* – Five funding programs are calculated and disbursed to municipalities based on formulas.

- equalization
- grants-in-lieu of taxes on provincial property
- grants-in-lieu of taxes on Nova Scotia Power Inc. property
- HST offset
- Federal Gas Tax Fund

5.45 The funding formulas use various sources of financial information provided by the municipalities, such as audited financial information returns, statements of estimates, and property valuation reports.

5.46 In the 25 samples tested from among the five programs, staff reviewed and verified the financial information. Funding was calculated appropriately based on the formulas outlined in legislation and policies.

5.47 *Funds disbursement* – The Municipal Grants Act states no grant shall be paid until the municipality has provided all information requested by the Minister. This includes the audited financial statements, financial information return, statement of estimates, and capital investment plan. The grants covered by the Act include equalization and provincial grant-in-lieu of property tax. The HST offset, Nova Scotia Power Inc. grant-in-lieu of property tax, and Federal Gas Tax Fund also have this requirement through their respective acts or agreements. In all 25 samples tested, the financial reporting requirements were met prior to funding disbursement and the amount disbursed to the municipality agreed to the amount calculated.

► Guidelines for application-based grants not always followed

5.48 *Application processes* – Both the Provincial Capital Assistance Program and Building Canada Fund require municipalities to submit applications for funding. Department staff evaluate and rank Provincial Capital Assistance Program applications to allocate budgeted funds to the municipalities for specific capital projects. There were no Building Canada Fund applications approved during our audit period, as the program was ending. We examined expense claims for previously-approved projects only.



- 5.49 We examined five Provincial Capital Assistance Program applications. In one instance, the guidelines were not followed as the Department approved funding to the municipality for a project without completing the application process. The approved project was eventually funded through another program. The municipality was allowed to use the approved Provincial Capital Assistance Program funding for a replacement project.
- 5.50 If the application process is not fully completed, it is possible funding could be awarded to a project that does not qualify or ranks lower than other projects. Following established guidelines helps ensure consistency and fairness in the funding process.
- 5.51 *Claims process* – The Department is not following the guidelines for the Provincial Capital Assistance Program claims process. The guidelines require a claim form be submitted for completed work prior to funding disbursement. Two of the five Provincial Capital Assistance Program files examined were paid prior to claims being filed. The Department stated the funding was disbursed because the projects were not completed within the same year in which the funding was budgeted. The two municipalities signed letters agreeing to funding terms. We had no concerns with the five Building Canada Fund claims we examined.

**Recommendation 5.8**

The Department of Municipal Affairs should follow program guidelines for the funding application and claims processes. The guidelines should be updated to address project funding for work not completed within the funding year.

**Department of Municipal Affairs Response:** Agree. As part of the new Grants Management System, DMA will update the program guidelines including project funding for work not completed within the funding year.



# Chapter 6: Forest Management and Protection



## Why we did this audit:

- Forests are a big part of life in Nova Scotia and have a big impact on our economy
- The Department manages and protects forests

## Overall conclusions:

- Good development of long-term strategic plan, better monitoring of implementation and progress reporting needed
- Not monitoring licensed operators effectively
- Decision of where and when to monitor should be based on risks
- Department agreed with all four recommendations

## What we found in our audit:

- Nova Scotians and industry experts consulted when developing long-term strategy
- An action plan is in place if there is a spruce budworm infestation
- Research done on emerging markets in forestry
- Province working with other governments to advance innovation in forestry
- No measures to assess progress toward completion of strategic plan
- Public strategy updates did not address all 21 actions (focused on actions completed or those with significant progress)
- No monitoring of actual versus estimated harvest quantities
- Operators paid for silviculture work without verifying work done
- Inconsistent inspection practices across the province require a risk assessment to determine best approach



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## 6 Natural Resources: Forest Management and Protection

### Background

- 6.1 The Department of Natural Resources has broad responsibilities relative to the province's forests, minerals, parks, wildlife and administration of Crown land. Forest-related responsibilities include:
- forest management planning and research;
  - developing and implementing strategies that support and contribute to sustainable forests;
  - maintaining the provincial forest inventory;
  - producing data on the province's forest resources;
  - monitoring primary forest production;
  - coordinating extension programs and support for forestry sector development; and,
  - delivering programs to protect our forests from fires, pests and diseases.
- 6.2 Crown lands include any land under the administration and control of the Minister of Natural Resources, including but not limited to forests. The province owns other land across Nova Scotia, including wilderness areas, protected areas, highways, roads, and land on which provincially-owned buildings sit. These parcels are managed and administered by other departments and are not considered Crown land.
- 6.3 The Department's budgeted expenditures were approximately \$89 million in 2014-15. The Regional Services and Renewable Resources Branches combined account for approximately \$71 million (80%) of this budget. These two branches play substantial roles in the development, management and protection of Crown forests.
- 6.4 In the 2015 fiscal year 15 companies had agreements with the province to harvest timber from allocated Crown land. These companies were required to comply with the terms and conditions outlined in the agreements. This included compliance with such legislation as the Forests Act and the Crown Lands Act.
- 6.5 In August 2011, the Department released *The Path We Share – A Natural Resources Strategy for Nova Scotia 2011-2020* (the strategy). It was developed over three years in the following phases.



Phase 1 – Citizen engagement

Phase 2 – Stakeholder engagement/technical expertise

Phase 3 – Government's response: a 10-year plan for collaborative stewardship

6.6 The strategy set specific goals and actions in four areas: forests, biodiversity, geological (mineral) resources and provincial parks. Our audit focused on the forests area of the strategy which outlined five goals with 21 actions that need to be taken to achieve them. The goals were:

- Ecosystem approach: Work together to maintain healthy forests.
- Research and knowledge sharing: Increase knowledge to help governments and other interested groups make better decisions about forest management.
- Shared stewardship: Involve many in the shared stewardship of Nova Scotia's forests.
- Sustainable resource development: Support the sustainable development of the province's forest resources in order to attract investment, create high-value jobs, and grow the economy.
- Good governance: Provide clear and effective laws and policies to ensure that forestry is economically, environmentally, and socially sustainable.

## Audit Objectives and Scope

6.7 In winter 2015, we completed a performance audit at the Department of Natural Resources. We examined activities relating to harvesting agreements for Crown forests, as well as long-term strategic planning. The audit was conducted in accordance with sections 18 and 21 of the Auditor General Act and auditing standards of the Chartered Professional Accountants of Canada.

6.8 The purpose of this audit was to determine whether the Department of Natural Resources is adequately:

- managing and protecting its forests for sustainability;
- ensuring those who utilize Crown forests are in compliance with key terms and conditions of use; and
- reporting to the public on these matters.



- 6.9 The objectives of the audit were to determine if the Department of Natural Resources had:
- the necessary procedures in place to monitor and accurately report on timber harvests;
  - monitored conditions of license agreements for compliance and addressed issues promptly;
  - taken necessary steps to create a long-term plan to ensure sustainable use and protection of Crown forests; and
  - processes in place to implement, monitor and report on progress towards meeting the goals of the long term strategic plan.
- 6.10 Audit criteria were developed specifically for this engagement and accepted as appropriate by senior management at the Department of Natural Resources.
- 6.11 Our audit focused on provincially-owned forests and covered all three regions of the province. Our approach included interviews with management and staff, documentation of processes, examination of legislation, agreements, strategies, reports, and policies. Our audit period for testing harvest agreements was April 1, 2013 to September 30, 2014. Long-term strategic planning documentation from March 2009 to March 2015 was examined. We examined activities and documentation outside of these periods as necessary.

## Significant Audit Observations

### Strategic Planning

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#### Conclusions and summary of observations

The Department followed a comprehensive process to prepare its strategic plan which included allowing citizens the opportunity to provide input, consulting with a panel of experts, then considering the resulting opinions and suggestions when creating the final strategy. Throughout the process, the Department considered opinions from both industry and environmental parties. However, the Department needs to improve its monitoring and reporting on implementation progress of the strategy. There are currently no performance measures to clearly identify whether action items have been implemented, and none of the three actions noted as complete had sufficient evidence to support that assertion. Action item wording had been modified in progress reporting, and those updates excluded items on which no progress had been made. We recommended the Department establish appropriate measures to assess the status of implementation, as well as report on all action items in a consistent and clear manner.

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► Citizens were provided the opportunity to give input during development of the strategy

6.12 *Strategy development – The Path We Share – A Natural Resources Strategy for Nova Scotia 2011-2020* was developed following a lengthy and in-depth process. In the first phase of strategy development all citizens were invited to participate in a series of community meetings to share their thoughts and feelings on the best use of our forests.

6.13 This process was led by the Voluntary Planning group which was an arm's length agency of the provincial government (ceased operations in 2010). Its mandate was to determine Nova Scotians' values with respect to the future of natural resources. Some key steps in engaging citizens were:

- holding 27 community meetings across the province, including meetings in every county;
- providing opportunity for written submissions of opinion; and,
- organizing workshops to discuss comments.

6.14 Over 2,000 persons participated at the community meetings and more than 600 provided written submissions. From this, the Voluntary Planning group created a list of values which were then considered in the subsequent phases of strategy development.

► Qualified panel of experts was assembled and consulted

6.15 *Expert consultation* – In the second phase, the Department used panels of subject experts to consider the list of values identified in phase one. For the forests area, the panel consisted of three individuals (with nearly 90 years of combined experience) representing both environmental and industry views. We found that each member had professional credentials and an appropriate educational background for their task.

6.16 The panel generated two separate reports which were used in later phases of the strategy development. We found that each of the forests-related action items in the strategy could be linked to one or more of the recommendations made by the panel. Not all recommendations from the panel could be implemented due to the often conflicting nature of their suggestions, but we found the final strategy adequately considered the opinions provided. We cannot state that the strategy is the right plan for the future, but we are confident that the process used to prepare it was sound as it considered the many varied opinions and attempted to use all in developing the final strategy.



► Strategy includes action items that consider significant risks facing forests and the forest industry

6.17 *Identification of risks and challenges* – There are various risks that could negatively impact forests and the various uses of it. These include natural threats such as hurricanes and fire, but management noted the biggest potential impact is from pests like the spruce budworm. In addition, the province faces the ongoing threat of changing markets potentially reducing the demand for forest products and impacting the significant economic activity that our forests provide. The Department also noted the many varied opinions that exist within the industry and the public pose an ongoing challenge for them to manage.

6.18 The Department has a role to play in mitigating risks to Nova Scotia's forests and should consider each risk in the long-term strategy. The Department included action items in the strategy that consider the risks they have identified.

- monitoring population changes for the spruce budworm and various other pests, and developing an action plan to address potential infestation as numbers increase
- conducting research into various new or emerging markets for sale of forest resources
- efforts to develop agreements with other governments to advance innovation in the forest sector
- knowledge sharing with the public via the release of discussion papers and bulletins

► Improvement is needed in measuring and reporting on implementation of strategy action items

6.19 *Performance measures* – Two key components of strategy implementation are having a plan and measuring progress. These allow entities to assess the status of a strategy, prioritize next steps and accurately report progress to stakeholders.

6.20 We expected the Department to have a documented plan with clearly-defined performance measures to assess progress towards completion of the strategy. We found that while the Department did have a plan and was reporting progress, the plan did not include performance measures that would clearly define progress of the individual action items.

6.21 For example, one of the action items (clarify the use of forest biomass for energy) was reported as complete in August 2013. As of February 2015, draft



amendments for regulations had been documented and a discussion paper released to the public. However, approval of regulatory amendments had not occurred, and relevant legislation was not updated; it isn't clear to our Office that all necessary steps have been completed for this action item. If the Department had defined performance measures in the early stages, it would facilitate assessing progress of implementation for both management and the public.

### **Recommendation 6.1**

The Department of Natural Resources should establish performance measures to accurately conclude on the status of action item implementation.

**Department of Natural Resources Response:** The Department agrees that clear performance measures will accurately support conclusions and ensure better understanding. Work is under way to develop these measures.

- 6.22 *Progress updates* – Information should be presented in a consistent and complete manner when updating the public on progress of strategy implementation. While there were 21 action items noted in the forest area of the original strategy, the Department's August 2013 24-month progress report addressed only 11 action items.
- 6.23 The 11 items reported were those the Department's original action plan indicated would be addressed within the first two years. At the end of the initial two years each of these 11 actions was considered to be complete or to have made significant progress with work ongoing. The Department did not include the other ten action items in their action plan or status reporting. Management indicated they expect these action items will be addressed in a more focused manner in the future. We believe not reporting on action items for which no progress has been made is inappropriate as it does not provide a complete picture of the overall implementation of the strategy.
- 6.24 In addition, the wording of all 11 action items reported had changed slightly from the wording in the original strategy. Changing the wording on the action items may change its meaning and present the status more favourably than actual progress would suggest. In the absence of clear performance measures that defined completion, we tested the three action items reported as complete to determine if the Department had sufficient evidence to show the original action item was in fact complete.
- 6.25 We found none of the three actions reported as complete were clearly complete when we considered the original wording in the strategy. For example, one action item reported as complete was: "*Establish rules for whole-tree harvesting*", but in the original strategy was: "*Establish the rules for whole-tree harvesting, and incorporate this into the Code of Forest*



*Practice.*” The Department reported the action item status as complete in the 24-month progress report because the rules for whole-tree harvesting were established, but no such rules were incorporated into the most recent Code of Forest Practice.

**Recommendation 6.2**

The Department of Natural Resources should report the status of all 21 action items including the original wording for each.

**Department of Natural Resources Response:** The Department agrees that transparency and clarity are critical to understanding. In August of 2011, in addition to the Strategy, the Department released a companion document called *From Strategy to Action: An Action Plan for The Path We Share*. This plan committed the Department to 11 forestry-related actions that would get the work started in the initial two years of the 10-year Strategy. The 24-Month Progress Report included content that corresponded with that Action Plan.

To better ensure clarity in future, the Department commits to the following changes:

- Progress reports will review all 21 forest-related Strategy actions and will outline work to date, and/or when work is expected to begin, for each action;
- The Department will account for any change in wording by stating the original action and the revised wording, along with an explanation for the change.

## Licensing and Harvesting

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### Conclusions and summary of observations

The Department does not have the necessary procedures in place to ensure timber harvest reporting is complete and accurate, relying instead on values reported from licensed operators. The Department does not assess the reasonability of operator reporting, and does not perform regular monitoring of annual harvest limits. Department inspection practices vary between regions; inspection forms are not consistent across the province, nor are they tailored to meet the requirements of the agreements in place in the regions. Inspection targets are based on staff workloads, rather than assessed risks, which could result in high-risk sites not being inspected, or low-risk sites being inspected unnecessarily.

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► Department is not adequately monitoring timber harvest reporting

6.26 *Timber harvest reporting* – Licensed operators are required to submit quarterly stumpage returns to the Department, indicating quantities and types



of timber harvested. These quarterly returns are used to calculate stumpage fees (payment owed to the Department) in exchange for the operators' right to harvest timber from Crown land. Total stumpage fees received by the Department were approximately \$5 million in each of the two fiscal years in our audit period. The reported harvest totals are also used to monitor annual allowable harvest totals established in the agreements between the operators and the Department.

- 6.27 The Department relies on the harvest quantities reported from operators, without adequately ensuring the reported values are complete and accurate. Field staff may review quarterly stumpage returns to identify obvious omissions, such as excluded harvest sites; however, the Department does not verify the accuracy of reported harvest quantities. Field staff informed us they were unable to verify the accuracy of harvest quantities due to the large number of truckloads of timber which are removed from the harvest sites, noting they rely on monitoring at Department head office to identify concerns.
- 6.28 In the absence of field staff verifying reported harvest quantities, we expected the Department to be completing regular comparisons between the planned harvest quantities and actual amounts reported, to assess the reported values for reasonability. This would allow the Department to identify significant differences and to identify and follow up on potential inaccurate reporting of harvest quantities. We found the Department does not complete any monitoring of estimated harvest quantities against actuals reported, which could result in underpayment of stumpage fees to the Department.
- 6.29 The Department does not regularly monitor totals harvested against the annual allowable allocations. Monitoring is completed on an ad-hoc basis only. Reports on the quantities harvested are based on the quarterly stumpage returns, reducing the ability of the Department to monitor harvest activity in the province in a timely manner. The Department should regularly monitor annual harvest allocations to ensure operators are harvesting within their approved allocations.
- 6.30 Staff do not adequately track quarterly stumpage returns to ensure they are received on a timely basis. They informed us they rely on operators to submit returns as required. We reviewed a total of 11 stumpage returns and found one instance in which the return was submitted 24 days late. While this return was not overly late, our concern is that the Department was not aware it was late, and therefore made no attempt to follow up with the operator. Without a process to monitor submission of the quarterly stumpage returns, the Department is completely reliant on operators to submit the returns on a timely basis without having identified and assessed the risks of doing so.



- 6.31 The Department has not prepared an analysis or assessed the risks of using this approach for monitoring operators' harvest practices. We address the lack of a risk-based approach later in this chapter and have recommended that the Department complete a comprehensive risk assessment which would help the Department determine where its resources should be used.
- 6.32 *Monitoring of agreements* – Licensed operators are subject to the provisions in their agreement with the province to harvest timber from Crown land. The agreement specifies annual harvest allocation limits, stumpage payment requirements, annual operating plan submissions, and harvest operations monitoring. We reviewed a sample of five agreements from the three regions and found the terms of the agreements were reasonable and addressed all significant areas we expected to be addressed such as stumpage fees and regulatory and silviculture requirements. We did however note issues with the monitoring of specific agreement terms, as outlined in the following paragraphs.
- 6.33 *Operating plans* – Operators are required to receive approval for their harvest and silviculture work on Crown land. However, we were told that the Department may provide verbal approval on a site-by-site basis. We found no evidence of an approved plan in 10 of the 13 silviculture site files we examined. Failure to document the approval of the harvest or silviculture work may result in a lack of clarity around the work expected from the operator and in disagreements between the Department and the licensed operator over expectations and requirements.
- 6.34 Field staff are responsible to monitor the work completed on harvest and silviculture sites. Monitoring practices range from formally documenting site inspections to not documenting less formal site visits and on-site monitoring. We did not identify any analysis detailing when each level of monitoring would be appropriate nor were we provided with an explanation for the appropriateness of each level of monitoring. We expected a risk-based approach be used for monitoring as it would ensure that staff efforts are focused on higher risk areas.



Department has not established consistent inspection requirements

- 6.35 *Inspections* – Inspections of harvest sites allow the Department to ensure Crown land operators are complying with the requirements of their agreements, legislation and regulations, and other Department requirements. The Department does not have policies that address selection or completion of harvest or silviculture inspections; they rely on inspection forms to guide the process. Inspection forms vary from region to region and generally address issues at a topical level, but lack details around requirements. This could result in inadequate and inconsistent enforcement and is another area where a risk-based approach should be implemented to ensure the resources available for inspection are used to the best effect.



- 6.36 We identified a number of variations among the inspection forms being used, including failure to address whether the site is free of excessive damage to soft soil, whether proper permits were onsite, or whether road construction on Crown land was appropriate. Although it is reasonable for inspection forms to vary in order to account for the specific requirements in the agreements in place in each region, we found the forms were not tailored to the specific agreements. The lack of consistent, detailed inspection forms, as well as the lack of inspections incorporating agreement requirements, increases the likelihood that requirements will not be monitored and enforced consistently across the province.
- 6.37 Inspection staff can order immediate fixing of issues identified during harvest and silviculture site inspections and monitoring; issue stop work orders to cease all operations until problems are corrected; and in the case of serious violations, refer the matter to Department enforcement staff for further enforcement action, such as laying charges.
- 6.38 *Inspection targets* – The Department has established general inspection targets related to the number of documented inspections field staff are to complete of harvest and silviculture sites. However, inspection targets are not based on specific risks; they are based on staff workloads. Inspections are not based on an assessment of the risk the activity on the site poses to Crown land. Failure to consider and assess risks relative to environmental concerns, wildlife protection requirements, or concerns with specific contractors or licensed operators can result in high-risk sites failing to be adequately inspected. Equally possible, staff could be spending unnecessary time inspecting low-risk sites to meet inspection targets, when a less formal level of monitoring, such as a site visit, may be more appropriate.

### **Recommendation 6.3**

The Department of Natural Resources should complete a comprehensive assessment of the risks associated with harvesting and licensing operations and design monitoring processes to adequately address identified risks.

**Department of Natural Resources Response:** The Department agrees with this recommendation. A harvest management group was formed in late 2014 and is developing a standardized approach for the monitoring of operations on Crown lands that will be developed by March 31, 2016 and implemented across all regions by July 31, 2016. In 2015 DNR has adopted a corporate risk assessment framework. An assessment using this frame work will be an essential component of this process. The new Crown Lands Production and Sales Report, scheduled to be operational by the end of October 2015, will provide improved tracking of forest products from Crown lands.



- 6.39 *Silviculture* – Silviculture, such as planting seedlings or selective harvesting to maximize the growth of a specific desired species, is completed on Crown land to aid in the regrowth of forests. A designated percentage of stumpage payments is held on deposit in the Crown Land Silviculture Fund, and is returned to licensed operators at specified rates upon successful completion of silviculture activities. Operators who do not complete silviculture work forfeit their deposit. The Department completes the silviculture work with the funds held; other work is funded through the Department budget allocation which supports objectives such as regrowth of damaged forests. Management indicated that total spending from the department-allocated funds and from the Silviculture Fund was around \$5.5 million in 2013-14.
- 6.40 The Department does not verify that silviculture work has been completed to Department standards before it reimburses operators. Although verification was indicated as being a Departmental requirement, 11 of 20 silviculture transactions we examined included no sign-off stating the work was completed to Department requirements. Failure to ensure silviculture work has been completed to Department requirements may result in forest harvest activities becoming unsustainable causing lower future harvest levels; reduced economic benefit to the province; or a need to expand harvest operations to a larger area of Crown land to meet annual allowable harvest allocations.

**Recommendation 6.4**

The Department of Natural Resources should implement a process to ensure Crown land silviculture has been completed to Departmental requirements.

**Department of Natural Resources Response:** The Department agrees with this recommendation. A standardized approach for the monitoring of Crown land silviculture will be developed to ensure Departments standards are being met and will be developed by March 31, 2016 and implemented across all regions by July 31, 2016. Using the recently adopted corporate risk assessment framework, a risk management assessment was completed in August of 2015 and the results will inform and shape the standardized process currently under development.