

Investigation of Island Employment Association

Department of Labour, Skills and Immigration

Key Messages

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

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

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

Why We Did This Audit

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

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

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

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

Auditor General cooperating with Cape Breton Regional Police investigation.

IEA’s Board of Directors Failed in its Governance Responsibility

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

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

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

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

Early Termination Costs Found to be Adequately Calculated and Supported

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

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

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

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