



June 4, 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 submitted

A handwritten signature in black ink, which appears to read 'Michael A. Pickup'. The signature is written in a cursive, flowing style.

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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 regional school boards and district health authorities, 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 the Canadian Institute of Chartered Accountants, otherwise known as generally accepted auditing standards. We also seek guidance from other professional bodies and audit-related best practices in other jurisdictions.



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Introduction

1 Message from the Auditor General

Introduction

- 1.1 I am pleased to present my June 2015 Report to the House of Assembly on work completed in late 2014 and early 2015. This report focuses on the results of three performance audits and our review of the implementation of our 2011 and 2012 recommendations.
- 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 three 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, CMA – Deputy Auditor General
 - Evangeline Colman-Sadd, CA – Assistant Auditor General
 - Dianne Chiasson, CGA, PMI – Audit Principal
 - Angela Cook, CMA – Audit Principal
 - Robert Jewer, CGA – Audit Principal

Overview and Chapter Highlights

- 1.5 The report has three performance audit chapters covering:
 - Aquaculture monitoring
 - Procurement and management of professional services contracts
 - Responsible gaming and prevention and treatment of problem gambling



- 1.6 We also have a chapter on the results of our work to determine whether government acted upon the recommendations we made in audits in 2011 and 2012.
- 1.7 The following provides an overview of each of the remaining four chapters in this report.

Follow-up of 2011 and 2012 Performance Audit Recommendations

- 1.8 Each spring we review the results of how government has addressed the recommendations we made and the actions senior leaders in government promised to carry out. Implementing these recommendations is about promoting better government by recommending changes to improve the effectiveness of services to Nova Scotians and to help government staff and management deliver those services in a more economical and efficient manner.
- 1.9 This year our follow-up results show that 57% of the 2011 and 2012 recommendations have been implemented by government. This is an improvement over our 2014 review which showed that only 50% of recommendations had been implemented. While it is not as high as Nova Scotians should expect, it is a sign that government is moving in the right direction. As well, I am pleased to note that six departments or agencies implemented over 70% of their recommendations, which is a significant improvement.
- 1.10 To further improve implementation, we need:
 - ministers and deputy ministers to provide oversight and be accountable for better results;
 - boards of directors and CEOs to focus on improvements and be accountable for delivering results; and
 - continued attention by the Public Accounts Committee to monitor and hold entities accountable for actual improvement.
- 1.11 While this year is a positive step, government will need to make this a priority as it manages its risks, keeping in mind that these audits cover higher risk topics and management overwhelmingly agreed that changes are needed.

Fisheries and Aquaculture: Aquaculture Monitoring

- 1.12 The Department of Fisheries and Aquaculture issued aquaculture licenses, leases and renewals in compliance with applicable legislation, regulations and policies. However, weaknesses in its processes and information systems



impact its ability to identify risks and efficiently and effectively manage and monitor the industry. The relocation of most of the Aquaculture Division and resulting loss of staff likely contributed to a backlog and delay in processing aquaculture site renewal applications.

- 1.13 The Department's ability to enforce operator compliance with meeting environmental monitoring program requirements is limited to issuing Ministerial Orders or revoking a license. The Department also completes environmental monitoring audits. However, there are no written procedures or guidance for staff in conducting the audits and the Department does not effectively communicate the results to operators.
- 1.14 The Department provides optional fish health monitoring but there is no regulatory requirement for operators to report to the Department on fish diseases. A disease outbreak could occur without the Department being aware of it.

Government-wide: Procurement and Management of Professional Services Contracts

- 1.15 Overall, the six departments examined complied with many aspects of provincial legislation, policy, and guidelines. However, 10% of our sample items lacked proper approval to enter into a contract.
- 1.16 We also found Procurement Services carries out limited monitoring to ensure compliance with the Public Procurement Act and policy and has not taken appropriate action to address instances of noncompliance.
- 1.17 We found contracts were monitored to ensure services were received, and payments made, in accordance with contract terms. However, we identified issues with contracts signed after the work start date and professional services with no contracts. Most of the contracts we examined were missing two key contract terms: a dispute resolution clause and a payment penalty clause.
- 1.18 For the second time in the past year, we identified potential noncompliance with Canada Revenue Agency rules related to employees versus independent contractors. We recommended that Procurement Services assess the risk of this issue across government and determine if further work is needed to identify whether government may have possible liabilities related to this.

Responsible Gambling and the Prevention and Treatment of Problem Gambling

- 1.19 The Department of Health and Wellness does not monitor gambling treatment within health authorities for compliance with treatment standards. The Department does not know whether prevention and treatment services result



in reduced gambling-related harms. We recommended Health and Wellness monitor compliance with standards and treatment services to see if they are helping Nova Scotians experiencing gambling problems. Information on gambling treatment services is communicated to the public but few people are accessing services. Health and Wellness and the Nova Scotia Health Authority need to focus on increasing the number of people seeking problem gambling treatment services to help Nova Scotians in trouble.

- 1.20 Nova Scotia Provincial Lotteries and Casino Corporation programs are consistent with a framework established by an external responsible gaming group. The Corporation does evaluate the effectiveness of its responsible gambling programming annually; however, there is a lack of support for the targets used in the evaluation.
- 1.21 The province has not clearly defined roles and responsibilities in First Nations gaming agreements; as a result, there are no processes to ensure gambling on First Nations reserves is in compliance with relevant provincial laws. The majority of First Nations gaming agreements do not include responsible gambling requirements.



Follow-up



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2 Follow-up of 2011 and 2012 Performance Audit Recommendations

Summary

A number of government organizations have significantly improved their implementation rate of our recommendations. Although the 57% overall implementation rate is a slight improvement from last year's 50% rate, six organizations had implementation rates above 70% this year. These are better results than last year when the top three rates were under 68%.

The overall implementation rate of 57% is, in large part, due to very low rates at five entities.

- IWK Health Centre – 20%
- Capital Health – 27%
- Department of Internal Services – 30%
- Department of Education and Early Childhood Development – 33%
- Department of Municipal Affairs – 44%

This lack of action has practical consequences in the management of programs and systems security. It means, for instance, that fire safety in municipalities may continue to be at risk and personal health information in two health authorities may not be fully protected.

Six entities with implementation rates above 70% showed significant progress in implementing our recommendations.

- Department of Justice – 83%
- Trade Centre Limited – 79%
- Department of Transportation and Infrastructure Renewal – 76%
- Department of Agriculture – 75%
- Department of Health and Wellness – 73%
- Department of Community Services – 71%

We asked government organizations that showed significant progress how they achieved it. They indicated key reasons for their high implementation rates were due to senior management communicating implementation as a priority, establishing accountability for completion at an appropriate level within the organization, developing action plans, and tracking and reporting on progress. We encourage government organizations that are not doing as well to consider implementing similar processes.

Details on the status of all performance audit recommendations from 2011 and 2012 can be found on our website at oag-ns.ca.

2 Follow-up of 2011 and 2012 Performance Audit Recommendations

Background

- 2.1 Our Office's strategic priorities include serving the House of Assembly, considering the public interest, and improving government performance. We work toward these priorities by providing legislators with the information they need to hold government accountable. We obtain this information primarily by conducting audits which, over time, will cover major activities of government. The results of our audits are detailed in our Reports to the House of Assembly. Each report contains recommendations which provide practical, constructive advice to address issues raised by these audits and improve operational effectiveness and efficiency.
- 2.2 Once recommendations have been accepted, it is government's responsibility to regularly monitor to ensure that appropriate action has been taken to implement the recommendations. We initially follow up the implementation status of recommendations two years after they are made. We believe two years is sufficient time for auditees to substantially address our recommendations.

Review Objective and Scope

- 2.3 In February 2015, we completed a review of the status of performance audit recommendations included in the 2011 and 2012 Reports of the Auditor General. Our objective was to provide moderate assurance on the implementation status of those recommendations.
- 2.4 We obtained government's assessment of their progress in implementing the 2011 and 2012 recommendations. We asked government to provide supporting information for recommendations assessed as complete. We also performed additional procedures on recommendations which government assessed as do not intend to implement or action no longer applicable. We focused on the reasons why government chose not to implement these recommendations. If the rationale appeared reasonable, we removed the recommendation from our statistics and will not conduct further follow-up work on it.
- 2.5 Our review focused on whether assessments and information provided by department and agency management were accurate, reliable and complete.



For those recommendations assessed as complete, we substantiated the assessment through interviews and examination of documentation. We performed sufficient work to satisfy us that the implementation status of complete, as described by management, is plausible in the circumstances. This provides moderate, not high level, assurance. Further information on the difference between high and moderate assurance is available in the CPA Canada Handbook – Assurance, Section 5025 – Standards for Assurance Engagements other than Audits of Financial Statements and Other Historical Financial Information.

- 2.6 Our criteria were based on qualitative characteristics of information as described in the CPA Canada Handbook. We did not perform any procedures, and provide no assurance on recommendations noted in this report other than those we have reported as complete.

Significant Observations

Review Results

- 2.7 Recommendations in 2011 and 2012 – There were 344 recommendations made in our 2011 and 2012 reports. Eight recommendations were reported to us as do not intend to implement. We reviewed the information provided by government with respect to these recommendations and determined the rationale provided for four recommendations is reasonable. These recommendations have been removed from further analysis and statistics, leaving 340 recommendations for the two years.

► Overall implementation rate of 57% shows slight improvement from prior year

- 2.8 Implementation status – The following exhibits summarize the implementation status of the 340 recommendations made in our 2011 and 2012 reports.

Table with 4 columns: Implementation Status, 2011 Reports, 2012 Reports, Overall. Rows include Complete (61%, 54%, 57%), Not Complete (38%, 45%, 42%), Do Not Intend to Implement (1%, 1%, 1%), and a total row (100%, 100%, 100%).



Overall Results from 2011 and 2012 Reports

May 2011	Complete	Not Complete	Do Not Intend to Implement	Total
Chapter 3 – Financial Assistance to Business through NSBI and IEF	12	6	0	18
Chapter 4 – Colchester Regional Hospital Replacement	10	4	0	14
Chapter 5 – Long Term Care – New and Replacement Facilities	3	3	1	7
Chapter 6 – Office of the Fire Marshal	11	14	0	25
Chapter 7 – Registry of Motor Vehicles	16	5	0	21
Chapter 8 – Registry of Motor Vehicles Information and Technology	8	5	0	13
Total	60 61%	37 38%	1 1%	98 100%

November 2011	Complete	Not Complete	Do Not Intend to Implement	Total
Chapter 2 – Disaster Preparedness – Major Government Information Systems	4	10	0	14
Chapter 3 – Meat Inspection Program	12	4	0	16
Chapter 4 – Protection of Persons in Care	12	4	0	16
Chapter 5 – Canada-Nova Scotia Offshore Petroleum Board	0	1	0	1
Chapter 6 – Implementation of Nunn Commission of Inquiry Recommendations	1	0	1	2
Total	29 59%	19 39%	1 2%	49 100%

May 2012	Complete	Not Complete	Do Not Intend to Implement	Total
Chapter 2 – Follow-up of 2005 to 2009 Performance Audit Recommendations	1	0	0	1
Chapter 3 – Addiction Services at Annapolis Valley Health	7	5	1	13
Chapter 4 – Infection Prevention and Control at Cape Breton District Health Authority and Capital Health	31	3	0	34
Chapter 5 – Nova Scotia Prescription Monitoring Program	13	4	0	17
Chapter 6 – Office of Public Trustee	14	2	0	16
Total	66 82%	14 17%	1 1%	81 100%



November 2012	Complete	Not Complete	Do Not Intend to Implement	Total
Chapter 2 – Home Schooling	4	8	0	12
Chapter 3 – Capital Health and IWK Health Centre Personal Health Information Systems	8	50	0	58
Chapter 4 – Hospital System Capital Planning	11	11	0	22
Chapter 5 – Trade Centre Limited	15	4	1	20
Total	38 34%	73 65%	1 1%	112 100%

2.9 The overall implementation rate this year is 57%, a slight increase from the 50% implementation rate reported in May 2014. The response from government in implementing recommendations is improving, although certain organizations need to do better. Sixty-one percent of recommendations from our 2011 reports and 54% from our 2012 reports have been completed.

► Six government entities had positive results with implementation rates over 70%

2.10 *Government entity analysis* – The results by government entity provide an indication of which organizations have made it a priority to address our recommendations. We analysed the implementation rates for the 13 organizations to which we made a significant number of recommendations. Eight entities had rates over 50%; six of those were above 70%. This is an improvement from last year when only three entities had rates over 50%, with the highest at 67%.

- Department of Justice – 83%
- Trade Centre Limited – 79%
- Department of Transportation and Infrastructure Renewal – 76%
- Department of Agriculture – 75%
- Department of Health and Wellness – 73%
- Department of Community Services – 71%
- Department of Economic and Rural Development and Tourism – 64%
- Service Nova Scotia – 58%

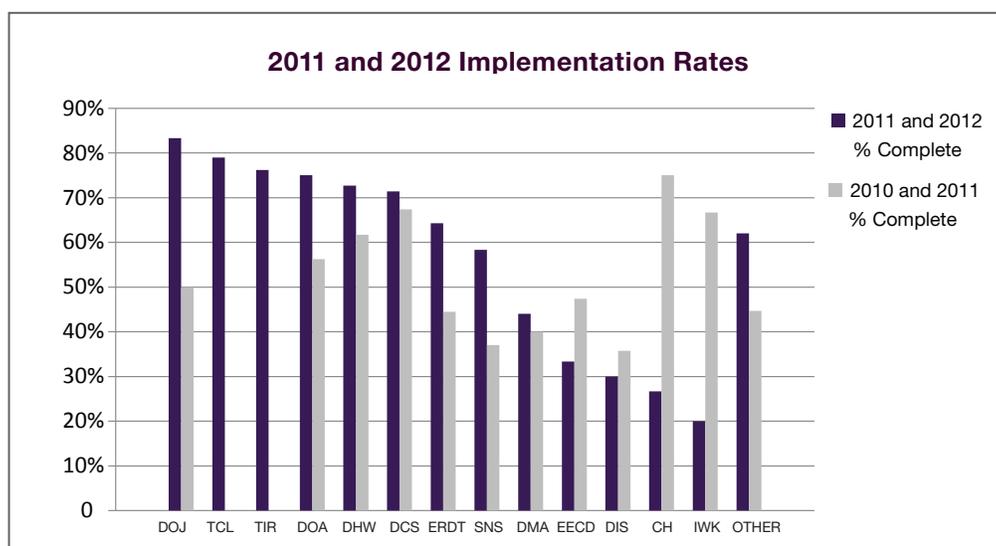
2.11 The remaining five organizations had implementation rates of less than 50%.

2.12 We asked government entities that showed significant progress how they achieved it. Many of the key reasons for their success in achieving high implementation rates were similar, including:



- communication by senior management that implementing the recommendations was a priority;
- clear objectives and accountability established at an appropriate level within the organization;
- developing action plans and tracking progress; and
- periodic reporting on progress to senior management.

2.13 The following graph compares this year's 2011 and 2012 implementation rates with last year's rates for the 2010 and 2011 reports.



DOJ = Department of Justice
 TCL = Trade Centre Limited
 TIR = Department of Transportation and Infrastructure Renewal
 DOA = Department of Agriculture
 DHW = Department of Health and Wellness
 DCS = Department of Community Services
 ERDT = Department of Economic and Rural Development and Tourism
 SNS = Service Nova Scotia
 DMA = Department of Municipal Affairs
 EECD = Department of Education and Early Childhood Development
 DIS = Department of Internal Services
 CH = Capital Health
 IWK = IWK Health Centre

► Five government entities had disappointing results with rates under 45%

2.14 The following paragraphs outline our concerns with the five government entities with the lowest implementation rates and to which a significant number of recommendations were made.

2.15 *Personal health information systems audit* – Low implementation rates of 20% (five of 25) for the IWK Health Centre and 9% (three of 33) for Capital Health (now part of the Nova Scotia Health Authority) relate to recommendations from our November 2012 audit of personal health information systems. Important systems security recommendations to the IWK and Capital Health, such as upgrading and restricting access to protect databases; and strengthening, reviewing and disabling passwords, have not

been completed. Management at both entities told us some of the delay in implementing the recommendations was due to the expected merger of the nine health authorities (excluding the IWK) and the need to consider system implementation on a province-wide level. As well, since the April 1, 2015 merger, several recommendations are expected to become the responsibility of the Department of Internal Services. Other recommendations will require coordinated action between the new Nova Scotia Health Authority, the IWK, and Internal Services, with responsibility for a smaller number solely within the Health Authority or the IWK. Management at both entities indicated they are continuing work on implementing the recommendations for which they have either sole or joint responsibility.

- 2.16 *Capital Health* – The overall implementation rate for Capital Health (now part of the Nova Scotia Health Authority) was 27% (12 of 45) for 2012 recommendations. Thirty-three of the recommendations were from our audit of personal health information systems, with only three implemented, as discussed in the previous paragraph. The implementation rate for the recommendations from two other audits in 2012 was 75% (nine of 12), which is a positive result.
- 2.17 *Department of Internal Services* – The Department of Internal Services implemented 30% (three of 10) of the recommendations from our 2011 reports (formerly addressed to the Chief Information Office). Nine of the recommendations relate to our audit of disaster preparedness. Among those still not complete, is the establishment of a secondary processing site that can handle all critical systems in the event of a disaster to the provincial data centre. Management told us the Department has made progress on this recommendation through identifying key systems and developing a strategy for handling key system processing during a disaster. The strategy considers the changing nature of systems and technology and is a long-term plan. The Department also established a process for tracking and reporting progress in implementing the recommendations which are not complete.
- 2.18 *Department of Education and Early Childhood Development* – The Department of Education and Early Childhood Development implemented 33% (four of 12) of the recommendations from our 2012 home schooling audit. The Department has not established expected learning outcomes for home schooled children or required periodic, independent assessment of their progress. The Department told us full implementation of certain of the recommendations would require significant resources. Establishing expected learning outcomes and monitoring progress of home schooled students is a complex undertaking given the range of grades and learning philosophies to be considered. It could require mirroring, to some extent, the systems in place for the public school system. Department management told us they intend to continue to make improvements in the home schooling program and work towards full implementation.



2.19 *Department of Municipal Affairs* – The Department of Municipal Affairs implemented 44% (11 of 25) of the recommendations from our 2011 audit of the Office of the Fire Marshal (formerly part of the Department of Labour and Advanced Education). Important recommendations related to the monitoring of municipalities have not been completed. Management informed us the transfer of the Office of the Fire Marshal to the new Department of Municipal Affairs in early 2014, the necessity to coordinate with municipalities of various sizes, and some resourcing issues, slowed the Department's progress in implementing the recommendations. The Department has taken steps to refocus its efforts toward completing implementation of the recommendations.

2.20 Although we are disappointed with the rates of implementation for the five government entities noted in the paragraphs above, management in those organizations provided plausible reasons why significant progress was not made and indicated they will continue to work towards complete implementation of the recommendations. We encourage the entities to consider the practices of the organizations with high implementation rates and implement similar processes.

► Ninety-nine percent of recommendations continue to be accepted for implementation

2.21 *Do not intend to implement or action no longer required* – While 99% of our recommendations continue to be accepted for implementation, we disagree with government's rationale for not accepting four of our 340 recommendations (1%) from the 2011 and 2012 reports. The issues which the recommendations addressed still exist, as noted below.

- The Department of Health and Wellness does not intend to include wait list information concerning long term care placement on its website. This could help Nova Scotians make more informed decisions concerning placement in long term care facilities.
- The Department of Justice does not intend to take action to address the gap between unsupervised bail and pretrial detention for youth facing criminal charges. Compliance with bail conditions is more likely when there is some mechanism to monitor compliance.
- The Department of Health and Wellness does not intend to implement a single, province-wide intake and wait list for withdrawal management programs. This could help improve efficiency in delivering addiction services.
- The government does not intend to obtain an independent second opinion on market projections for the new convention centre. This would provide it with the best information for planning purposes.



Performance Audits



At a Glance



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3 Fisheries and Aquaculture: Aquaculture Monitoring

Summary

Improvements are needed in how the Department of Fisheries and Aquaculture identifies, monitors and manages environmental and other aquaculture-related risks. The Department issued aquaculture licenses, leases and renewals in compliance with applicable legislation, regulations and policies. However, weaknesses in its processes and information systems impact its ability to identify risks and efficiently and effectively manage and monitor the industry. The Department's ability to enforce environmental monitoring compliance is limited and detailed guidance in carrying out environmental monitoring audit procedures is needed. The Department provides fish health veterinary services and responds to emergencies in a timely manner. However, with no provincial regulatory requirement, the Department may not always be aware when a site has a disease outbreak or if it is being appropriately managed.

We examined new aquaculture applications and renewals and found technical review forms and network consultations were completed. However, detailed written guidelines for completing technical reviews are lacking and documentation supporting a recommendation to approve or reject an application was not always complete. Information on Department activities, such as all visits to aquaculture sites, is not readily available to management for monitoring and managing its responsibilities. The relocation of most of the Aquaculture Division and resulting loss of staff likely contributed to a backlog and delay in processing aquaculture site renewal applications.

The Department requires operators to monitor the environmental impact of marine finfish aquaculture sites. However, the Department's ability to enforce operator compliance with meeting environmental monitoring program requirements is limited to issuing Ministerial Orders or revoking a license. Such a response may be unwarranted for minor offenses; more options are needed. The Department is completing environmental monitoring audits. However, there are no written procedures or guidance for staff in conducting the audits and the Department does not effectively communicate the results to operators. The Department does not have appropriate processes for recording and responding to complaints related to aquaculture.

The Department is providing fish health veterinary services and timely response to emergencies. Fish health monitoring is an optional service with no regulatory requirement for operators to report to the Department on fish diseases. A disease outbreak could occur without the Department being aware of it. Fish health records include details about site visits and the results of examinations and lab tests, although communication with operators is not always well documented.

3 Fisheries and Aquaculture: Aquaculture Monitoring

Background

- 3.1 Aquaculture has been identified as one of the key industries with significant growth potential in contributing to the Nova Scotia economy, rural jobs, and revitalization. The Department of Fisheries and Aquaculture has the lead role in developing and regulating aquaculture activity in the province. The Fisheries and Coastal Resources Act provides regulatory authority for aquaculture operations in the Province. The Act defines aquaculture as farming of aquatic plants and animals for commercial purposes. Aquaculture operators are required to obtain a license, and lease if on Crown land, to conduct aquaculture operations in the province.
- 3.2 The Federal Government is the primary regulator of fish health and food safety in Canada. The Canadian Food Inspection Agency is Canada's lead federal agency for aquatic animal health. It has a list of federally reportable diseases that, if suspected, must be reported to the Agency. It is responsible for management of these diseases once reported. Currently, Fisheries and Oceans Canada regulates the movement of aquaculture products within and between provinces. The Canadian Food Inspection Agency monitors food safety for aquaculture products and regulates their international movement. A 2002 Memorandum of Understanding between Nova Scotia and Fisheries and Oceans Canada outlines how their respective and shared responsibilities for aquaculture management are coordinated.
- 3.3 Within the Nova Scotia Department of Fisheries and Aquaculture, the Aquaculture Division is responsible for leasing and licensing, environmental monitoring, and clinical fish health services. The Division is organized into three operational units to carry out these functions: aquaculture development, leasing and licensing, and fish health. Marine and Coastal Advisory Services Division inspectors are responsible for conducting inspections of aquaculture sites and enforcement.
- 3.4 The Aquaculture Division is responsible for the Environmental Monitoring Program. Program responsibilities are defined in the terms and conditions of license and lease agreements between aquaculture operators and the province. Staff review sampling information submitted by operators and conduct environmental audits on aquaculture sites.
- 3.5 Licensing and leasing staff process and administer aquaculture applications in consultation with a number of provincial and federal departments and agencies. The fish health unit provides veterinary and laboratory services to the industry to help maintain and monitor aquatic animal health.



- 3.6 As of March 2014, there were 274 approved aquaculture sites in Nova Scotia, including 243 shellfish, 29 finfish, and two mixed operations. There were also 27 land-based sites at that time. However, not all of the aquaculture sites are actively engaged in producing aquaculture products. The industry contributes over \$50 million to the provincial economy and supports over 600 direct jobs.
- 3.7 In May 2012, the Department released its aquaculture strategy. The strategy included an objective to undertake a legislation, regulation and policy review. In May 2013, the Department appointed an independent two-person panel to perform a review of the Province's aquaculture regulatory framework. The panel released its final report in December 2014, concluding that a fundamental overhaul of the regulation of aquaculture in Nova Scotia is needed, such as embedding environmental monitoring standards in legislation rather than operator documents.

Audit Objectives and Scope

- 3.8 In early 2015, we completed a performance audit of the Aquaculture Division of the Department of Fisheries and Aquaculture. The audit was conducted in accordance with Sections 18 and 21 of the Auditor General Act and auditing standards of CPA Canada.
- 3.9 The purpose of the audit was to determine if environmental and other risks related to aquaculture were identified, monitored and managed appropriately by the Department of Fisheries and Aquaculture.
- 3.10 The objectives of the audit were to determine whether the Department of Fisheries and Aquaculture:
- issues aquaculture licenses, leases and renewals in compliance with the Fisheries and Coastal Resources Act, regulations and Department policies;
 - is adequately monitoring and enforcing compliance with legislation, guidelines and policies related to its responsibilities for aquaculture; and
 - has adequate processes to prevent, detect and respond to outbreaks of disease in farmed animals.
- 3.11 Generally accepted criteria consistent with the objective 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.



- 3.12 Our audit approach included interviews with Department management and staff; documentation and testing of systems and processes; and examination of legislation and policies. Our audit period included activities conducted between April 1, 2012 and November 1, 2014.
- 3.13 The Department expects to make significant changes to its governing legislation as a result of the independent regulatory review panel report. Our audit was based on the legislation in place at the time; although we also considered the scope and work done by the regulatory review panel during our examination.

Significant Audit Observations

Licensing and Leasing

Conclusions and summary of observations

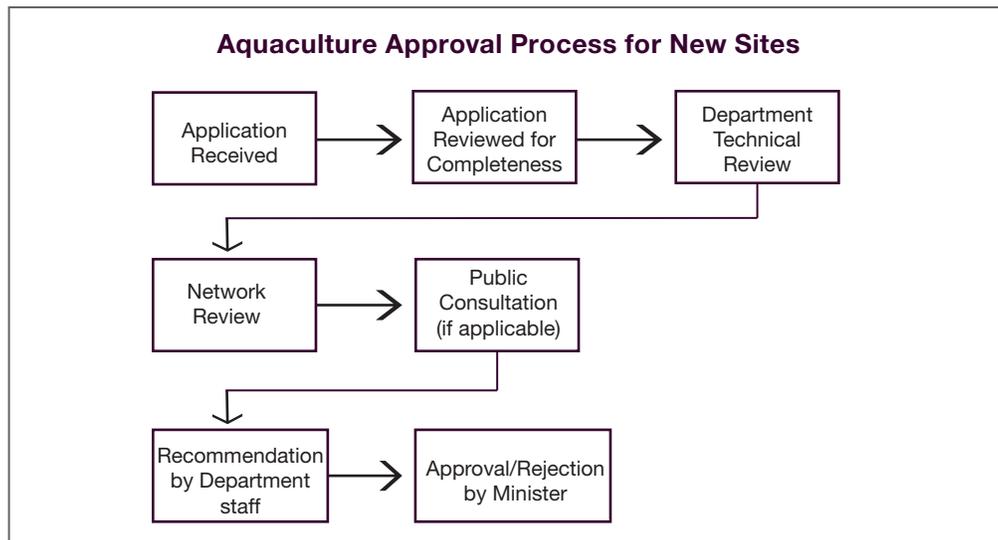
In general, the Department of Fisheries and Aquaculture issued aquaculture licenses, leases and renewals in compliance with the Act, regulations and policies. However, we found several weaknesses which could impact the efficiency and effectiveness of the Department's operations. The Department does not have detailed written guidelines for completing technical reviews. Files do not always contain complete documentation supporting a recommendation to approve or reject an application. Information on aquaculture sites and Department activities is not integrated and readily available to management for monitoring purposes. The Department had difficulty producing accurate reports on the number of approvals and renewals issued during our audit period. The relocation of most of the Aquaculture Division and resulting loss of staff likely contributed to the backlog and delay in processing aquaculture site renewal applications.

- 3.14 *Changes at the Aquaculture Division* – In April 2012, the government announced changes at the Department of Fisheries and Aquaculture, including the relocation of most of the Aquaculture Division from Halifax to Shelburne. The move to Shelburne was completed by the end of September 2013. From the time of the announcement to the final move, the Division went through significant staff changes as the majority of its management and staff retired or left the Division for other employment. The Department could not confirm that plans were developed to guide staff and ensure the relocation was done in an orderly fashion to minimize disruption and impact on the Division's normal work activities.

► Licenses, leases, and renewals issued in compliance with legislation and policy

3.15 *Issuing licenses and leases* – We examined 10 new and 25 renewal license and lease applications to determine if they were issued in compliance with legislation and the Department’s policies. We found the applications were, in general, processed and approved in accordance with legislation and policies. However, we noted several weaknesses, discussed in the following paragraphs, which could impact the Department’s efficiency and effectiveness in identifying risks and monitoring and managing the industry.

3.16 *Processing new applications* – The Department’s approval process for new aquaculture applications involves a number of steps and input from a number of other parties, as outlined in the chart below. The Department’s website noted approval for new applications could take from 140 days for shellfish or land-based activities, to 3.5 years for marine finfish sites. During our audit period of April 2012 to November 2014, the Department approved 11 new license applications. With the work of the independent regulatory review panel underway in 2013, the Department stopped approving new applications until the review was complete and new regulations in place. We examined 10 of the 11 new applications to determine how long it took the Department to process them. One of the applications was processed and received approval in approximately four months. Three were approved within 12 to 18 months, and the final six were approved between two and three and one half years after the application was received.



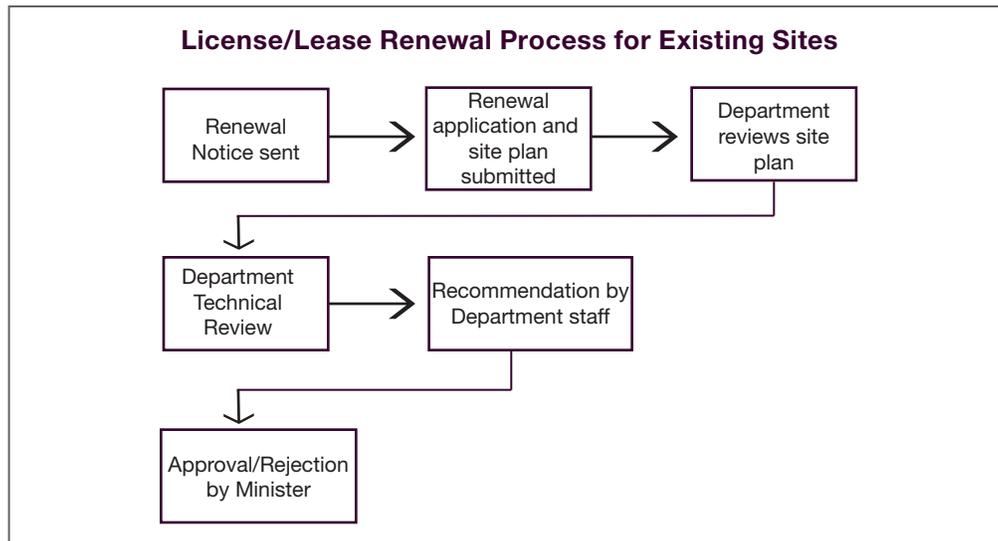
3.17 Management indicated part of the lengthy time period for processing new applications relates to the separate consultations required with other departments and agencies, discussed later in the chapter. We asked whether organizing a meeting with all key parties was a possible way to facilitate obtaining their timely input. Management and staff said this approach had



been used previously and they are considering reinstating this practice once the new regulations are in place.

► Significant application processing delays

3.18 *Processing renewal applications* – The Department’s approval process for renewal applications takes fewer steps and generally does not involve outside consultation, as outlined in the chart below. We analyzed the 127 renewal approvals from April 2012 to November 2014 for timeliness. The Department’s website indicated it typically takes 90 days to process a renewal. This was not an established Department policy standard. We found it took an average of 372 days, or approximately one year, to process a renewal. The shortest processing time was 57 days and the longest was over three years. We were not able to determine whether the extended time periods were due to delays by the Department or the applicant.



3.19 We analyzed the applications to determine if the processing time was significantly different during the period the Department was relocating to Shelburne (April 2012 to September 2013) and after the relocation (October 2013 to November 2014). The Department approved 28 of 94 applications received during the relocation period, taking an average of 412 days. After the relocation, the Department processed the remaining 66 applications, plus an additional 33, taking an average of 361 days to approve them. These numbers suggest the relocation and resulting loss of staff likely had an impact on the efficient functioning of the Department, contributing to a backlog of renewal applications after the move.

3.20 The significant time to process renewals also meant many sites were operating with an expired approval. Out of the 127 renewals, 112 (88%) were not renewed until after the operator’s previous approval expired. The average number of days sites operated with expired approvals was 317 days, or approximately 11 months.

- 3.21 Management indicated the terms and conditions of the previous lease and license agreements remain in effect until they are renewed. However, there is still a risk that other parties, such as a bank or federal department, may not accept that an operator has the appropriate authority to continue operating. Such situations, and any negative consequences, could impact the Department's goal, as outlined in its 2012 strategy and subsequent business plans, to promote and expand the industry.

Recommendation 3.1

The Department of Fisheries and Aquaculture should determine why application process delays are occurring and correct them. The Department should establish and monitor processing target time frames.

Department of Fisheries and Aquaculture Response: The Department is currently implementing significant reforms as part of its modernization of the aquaculture management framework. Part of the overhaul will include new Licensing and Leasing Regulations that specify timeframes around public consultation and the implementation of decisions around applications. This will address delays the audit found. This will be implemented in the next 18 months. The Department has already developed policy around follow-up letters and telephone calls to encourage timely responses from industry.

- 3.22 *Regulatory changes* – The December 2014 independent review panel report commissioned by the Department outlines a broad regulatory framework for aquaculture, with a number of specific recommendations. The Department has generally accepted the report and is in the process of determining how it will be implemented. As it implements the new framework, it is important that the Department have sufficient planning to ensure that key functions continue, such as processing applications and monitoring aquaculture sites, and unnecessary delays are avoided.

► Information systems do not meet management's needs

- 3.23 *Licensing and leasing information* – Staff use a central database to record lease and license applications and site information. The system captures information such as name of applicant, date of application, date of approval, and site details. When we requested a list of all new and renewed site approvals within our audit period, staff were only able to retrieve this information through a special IT request to produce this report. Once the report was produced, staff had to do additional work to remove files included in error.
- 3.24 We also asked for a report listing all sites whose operators were late submitting required annual reports for 2013. After this report was generated, staff noted that over half of the sites listed had actually submitted reports. Staff indicated they also track receipt of this information separately in a spreadsheet to ensure they have an accurate outstanding list. This is another example of



the information system not providing useful summary information to meet management's needs.

- 3.25 Since staff enter a significant amount of information on site files into the database, we expected it to be one of the tools management uses to monitor activities. However, management told us the system can only generate a limited number of reports, such as outstanding fees and upcoming or past-due renewals. Management told us they monitor licensing and leasing activities by maintaining lists of active files and through regular meetings. Licensing meetings are generally held several times per month to discuss applications currently in process and other site and operator issues; minutes are kept. While regular meetings and discussions on individual files are appropriate and serve useful purposes, the information the Department collects is not readily available at a summary level for use by management.
- 3.26 *Environmental monitoring information* – In addition to licensing and leasing activities, the Department oversees environmental monitoring of aquaculture sites, discussed in greater detail later in this chapter. Staff record information on environmental monitoring activities in spreadsheets which do not easily allow tracking of due dates and outstanding requirements. The database for recording licensing and leasing activities could potentially be used to record environmental monitoring information. If the information gathered was more readily available, management and staff could access and use it more effectively to ensure operators are carrying out required environmental monitoring.
- 3.27 *Fish health information* – The Department provides veterinarian services to aquaculture operators to assist with monitoring fish health (discussed in greater detail later in this chapter). The Department does not have a suitable system to track information about site visits related to fish health. Staff track visits in a spreadsheet, using a case number. The spreadsheet does not differentiate the type of visit, such as emergency, routine or other. When we requested a list for each type of visit, staff had to do this manually and were not confident that the visits were accurately categorized. This method of tracking site visits limits the Department's ability to monitor the frequency and types of fish health site visits. Additionally, it does not allow for integration of this information with other activities to provide management a full picture of the extent of aquaculture site monitoring.

Recommendation 3.2

The Department of Fisheries and Aquaculture should examine its information systems to ensure information collected is readily available to management and staff and integrated with other activities.

Department of Fisheries and Aquaculture Response: The Department has initiated a review of all information management databases that are currently used across the aquaculture division's work units to identify specific needs and the opportunities for a shared system that would allow for convenient data entry, consolidated files, flexible data analysis and reporting and data access for all sections.

► Limited guidance for conducting technical reviews of applications

3.28 *Technical review* – A key part of the approval process for new aquaculture sites and renewal applications is the Department's technical review, typically performed by a finfish or shellfish biologist. Application information is reviewed, including qualifications and experience of the site owner, previous production and utilization of the site, species potential, site exposure, financial viability and community or social concerns. After reviewing the application documents, the reviewer notes any comments and indicates a recommendation for approval or rejection.

3.29 The Department does not have written criteria or detailed guidance for staff when completing a technical review. The technical review form includes sections for financial information, qualifications and experience. It also considers finances, management experience and previous site ownership. The Department does not have specific, written guidance on how staff determine whether an applicant meets the qualifications for each of these categories. Detailed written guidance would help to ensure staff perform technical reviews in a fair, efficient and consistent manner so that the interests of industry and the public are appropriately considered.

3.30 We tested 10 new site applications and 25 renewal applications and found technical review forms were completed for all applications. However, we could not determine how the applicants were assessed or whether the assessment was appropriately completed in a consistent manner. We also found for three of the new site applications and two renewals, the recommendation for approval of the application was not fully supported by the file documentation. Industry and public confidence that the Department is appropriately considering the interests of all stakeholders could be eroded without full and complete documentation to support the Department's decisions.

Recommendation 3.3

The Department of Fisheries and Aquaculture should develop and implement detailed written guidelines for assessing aquaculture applications, including the requirement for staff to fully document their decisions.

Department of Fisheries and Aquaculture Response: As part of the Department's modernization of the aquaculture management framework, policies and procedures



are being written and implemented. The Department will modify the template form used in evaluating aquaculture applications and create supporting information to ensure staff consistently apply criteria when evaluating applications. This work will be implemented in the next 18 months.

► Supporting documentation for approved application was not always complete

- 3.31 *Network review* – Part of the process for approving new site applications involves the Department consulting with other provincial and federal departments and agencies whose areas of responsibility may be affected by an aquaculture operation. Under the Fisheries and Coastal Resources Act, only four provincial departments are required to be consulted: Agriculture, Natural Resources, Environment and Municipal Affairs. A Memorandum of Understanding between the Province and the Government of Canada also specifies that Fisheries and Oceans Canada be consulted for all new applications in regard to potential impact on the fisheries or fisheries habitat. Aside from the departments named in the Act or Memorandum, others may be consulted, such as Transport Canada, Environment Canada, and the Office of Aboriginal Affairs. Currently, the Division may consult with over 10 departments or agencies as part of this process.
- 3.32 From our testing of 10 new applications we found required and other consultations occurred, with the following exceptions noted.
- In one instance, there was no evidence a department received the application information sent for consultation and no follow up was conducted by the Division.
 - In one instance, comments were received from a department and there was no evidence these comments were passed on to the applicant.
- 3.33 It is important the Department ensures all necessary parties have received application information, through follow up if necessary, as there is potential that key issues may not be appropriately addressed. It is also important that the Department communicates any applicable comments to the site applicant to ensure all risks and concerns are mitigated to the extent necessary.
- 3.34 *Renewal plans* – The Department requires site owners to submit a renewal plan when applying to renew their aquaculture license or lease. This plan includes information on operational details, methods of growing product, stocking density, proposed harvesting methods, future lease utilization and markings of the physical site. All 25 renewals we examined included a renewal plan. However, there was one plan that was not complete and there was no evidence the Department obtained the missing information before it issued the site renewal.



Recommendation 3.4

The Department of Fisheries and Aquaculture should follow up as necessary and document that all network partner consultations have occurred, all necessary comments to applicants have been communicated, and all renewal plan information received, to fully support its aquaculture application decisions.

Department of Fisheries and Aquaculture Response: The Department is developing internal tracking tools to ensure network partners' feedback is received when required. In January 2014, the Department initiated discussions with their Network partners to ensure that each partner is receiving the types of applications that they deem necessary. The Department will also develop procedures for informing applicants of necessary comments, and that all information required in support of an application from the applicant is received. This work is expected to be completed in the next 18 months.

3.35 *Annual reports* – All site operators must submit annual statistics to the Department which include information on the value of fish and seafood harvested and employment related to aquaculture for the year. The Department publicly reports this information on its website. The Department sends a reminder notice and report template to all site operators in January and typically requires a report be submitted in March. Operators who do not submit the report on time are sent a follow-up letter. For 2013, reports were not submitted for nine of the 302 sites for which they were required. No follow-up letter was sent for three of those sites. Missing annual reports could impact the completeness of the global statistics publicly reported by the Department.

3.36 *Policies and procedures* – The Department had very few written licensing and leasing policies and procedures during our audit. The Department provided flow charts that documented the steps for new and renewal approvals, as well as verbal confirmation on how the processes operate. The Department was preparing a process manual which was finalized subsequent to our completion of audit fieldwork.

Monitoring and Enforcement

Conclusions and summary of observations

Improvements are needed in how the Department is monitoring and enforcing compliance related to its aquaculture responsibilities. The Department requires operators to monitor the environmental impact of marine finfish sites. However, its ability to ensure operators meet all environmental monitoring program requirements is limited to issuing Ministerial orders or revoking a license. More options are needed. The Department is completing audits of aquaculture sites as required



by its policy. However, there are no written procedures or guidance for staff in conducting those audits and the Department does not effectively communicate the results to operators. The Department does not have adequate processes for responding to aquaculture-related complaints.

► Operators required to monitor but Department has limited ability to enforce environmental monitoring requirements

3.37 *Environmental Monitoring* – Environmental monitoring requirements to detect and address adverse impacts on the marine environment from aquaculture are outlined in an operator’s lease and licensing documents. The Department’s environmental monitoring program applies to all marine finfish and some shellfish operations. It does not include land-based sites. Environmental monitoring involves sample collection and analysis and is typically performed by a consultant hired by the site owner. Samples must be collected and results sent to the Department within specified parameters and time frames. The program included 25 marine sites in 2013 and 22 sites in 2014.

3.38 We examined sampling information submitted by sites for 2013 and 2014. Twenty-eight sampling results were submitted in 2013 and 25 in 2014 at the time of our audit. While all required sampling was performed, we noted several instances in which certain requirements and important reporting deadlines were not met.

- In 2013 and 2014, 17 sampling results in the two year period were not submitted to the Department within the required deadline from when the samples were taken. Four of the 17 samples were 113 days late.
- Three of the four sites that required additional sampling were sampled eight days after the required sampling deadline. These three sites also submitted their mitigation plans between five and 17 days late.
- There were two sampling events for which the required video footage was not submitted.

3.39 If environmental monitoring procedures are not properly followed, it increases the risk that environmental damage will go undetected or unmitigated. Although environmental monitoring by operators is a requirement of lease and licensing agreements, the Department has limited ability to enforce the requirements. At the time of our audit, the only recourse available was for the Minister to write a Ministerial Order or to revoke the license of a site owner, which would often be unwarranted for more minor offences. The Department had no written guidance on actions staff could take to ensure compliance. Subsequently, Fisheries and Aquaculture announced that fisheries inspection and enforcement responsibilities, including aquaculture, would become part of the mandate of the Department of Environment.



Recommendation 3.5

The Department of Fisheries and Aquaculture should develop guidance and methods for ensuring operator compliance with environmental monitoring program requirements and determining when files should be transferred to the Department of Environment for enforcement action.

Department of Fisheries and Aquaculture Response: A significant part of the Department’s new aquaculture management framework is the implementation of new Environmental Management Regulations to strengthen operator compliance with environmental monitoring. We will have a new system that is transparent and accountable to the communities where aquaculture occurs. Stronger policies are being developed to clearly define new environmental monitoring procedures and the actions that are required when monitoring standards are not met. We are already working with our colleagues at Nova Scotia Environment to determine the delineation of responsibilities. This work will be completed in 18 months.

► Environmental monitoring audit procedures lack clarity and sufficient detail

- 3.40 *Environmental monitoring audits* – The Department’s policy is to annually audit a minimum of 20% of sites under its environmental monitoring program. Audits can involve the Department analyzing site samples collected by the operator, visual observation of the operator’s sampling or verification of lab analysis procedures. There are no written procedures or guidelines for staff on how to complete audits and communicate the results to operators. While the Department has developed a checklist for each audit, there is no guidance on how it should be completed. This could lead to inefficiencies or inconsistency in carrying out an audit.
- 3.41 In 2013 and 2014, Department policy required a minimum of five audits be completed. The Department conducted 11 audits in 2013, and nine in 2014. While the checklists were used in both years for all audits, they were not completed consistently. Some sections were left blank with no explanation as to why the section was not completed. Minor deficiencies were written in the comments section of the checklists but were not communicated to the operators. A major deficiency noted in a 2013 audit required the site be resampled. This deficiency was communicated to the operator and resolved.
- 3.42 For eight of the 11 audits in 2013, staff sent an audit results letter to the owner. In 2014, audit result letters were not sent to the operators for any of the nine sites audited. The letters sent in 2013 only stated whether sites complied with the environmental monitoring program. They did not communicate to the operators any deficiencies found which, although not serious enough to consider them noncompliant, should still be communicated to help improve monitoring processes.

**Recommendation 3.6**

The Department of Fisheries and Aquaculture should establish specific procedures and guidelines for conducting audits under the environmental monitoring program, including time frames, documentation, and communication of results.

Department of Fisheries and Aquaculture Response: Through the Nova Scotia Aquaculture Environmental Coordinating Committee, the Department has established the formalization of audits on the Environmental Monitoring Program as the priority outcome for 2015. Standards for timelines of audits, documentation of results, and communication to both industry and the public will form elements of the renewed audit program.

3.43 *Other monitoring and enforcement* – Aquaculture site inspections and monitoring other than environmental and fish health are the responsibility of fisheries inspectors in another division within the Department. These inspections include proper use and placement of gear. The inspectors do not report directly to management in the Aquaculture Division. Rather, management of both divisions discuss any issues, concerns or required actions by the inspectors related to aquaculture. As discussed previously, responsibility for the fisheries inspectors is being transferred to the Department of Environment.

► Lack of appropriate complaint recording and investigation processes

3.44 *Complaints* – Complaints can come from a variety of sources and through several channels to the Department. The Department had not established a comprehensive process or time frames for responding to, or documenting investigation of, complaints. Staff recorded complaints and follow-up information in separate information systems, depending on the source and nature of the complaint. For our audit period, the Department was unable to provide us a complete list of aquaculture-related complaints and resulting follow up. The Department cannot be sure that aquaculture complaints are appropriately investigated and any risks identified are addressed in a timely manner.

Recommendation 3.7

The Department of Fisheries and Aquaculture should establish appropriate processes to record and investigate complaints, including response time frames.

Department of Fisheries and Aquaculture Response: We agree a better complaint system is required. Government is committed to acting on complaints for which there is sufficient information to initiate an investigation and within the provincial mandate. Complaints need to be recorded, investigated and responded to in a timely manner. Currently, the Department is working collaboratively with the Nova Scotia Department of Environment to establish procedures and policy to ensure the effective coordination of complaint responses.

Fish Health Monitoring

Conclusions and summary of observations

The Department is providing fish health veterinary services and responding to emergencies in a timely manner through its fish health program. Since the veterinary services offered by the Department are optional, and there is no provincial requirement for operators to report to the Department concerning disease outbreaks, the Department may not always be aware when there is a disease outbreak or if it is being appropriately managed. The Fish Health program does not have documented policies and procedures regarding the level of service to be provided, such as the number of routine visits for health monitoring. Fish health records include details about site visits and the results of examinations and lab tests, although recording communication with operators could be improved. We found that staff are not meeting their intended target for routine marine site visits.

► Veterinary services are provided and response to emergencies is timely

3.45 *Fish health program* – Management of aquatic animal health and disease prevention is an essential part of maintaining healthy fish stocks and minimizing risks, such as economic loss to industry and transmission of disease to wild stocks in the event of an escape. The Department provides aquatic animal health services through the Fish Health program. Among other services, the program provides routine and emergency veterinary services to aquaculture site owners. Site visits are completed by one of three staff veterinarians. The service is primarily provided to finfish sites with emergency calls made to shellfish sites. Currently, all active finfish operations use the service. With limited resources, the Department prioritizes health monitoring for the finfish sector. During a routine site visit, the veterinarian conducts a variety of tests and examinations, depending on the nature of the site. Information about the visits is recorded in the health record for each site. The veterinarian may also provide advice or direction to the site owner on prevention, treatment or operational improvements.

3.46 We examined the health records for 35 site visits. These included 15 routine visits, 15 emergency visits and 5 visits when a prescription was written. We found the Department is monitoring fish health during visits, and responding to emergencies in a timely manner.

► No provincial regulatory requirement for disease surveillance

3.47 *Disease surveillance* – Through federal regulations, the Department is required to report to the federal government when certain fish diseases are detected. Although finfish sites use the provincial veterinary services, operators are not obligated to accept the services offered under the Fish Health program and can hire their own veterinarians. While operators are



required to maintain records on the health of their stock, disease outbreaks, and any treatments applied, they are not required to report this information to the Department. Under the Aquaculture License and Lease Regulations, if the Department becomes aware of a health problem, it may examine the operator's records and order any necessary treatment.

- 3.48 While there is significant surveillance of finfish farms in the province through the veterinary program, this surveillance is not required by regulation. As well, the Department may not be able to maintain this level of service to an expanding industry. There is no provincial regulatory mechanism for disease surveillance or required reporting of diseases that may be important to the province, apart from those federally regulated. The Department's reliance on its voluntary veterinary services and federal reporting requirements leaves it at risk of not obtaining complete disease surveillance information that it may need. A robust surveillance system would include required reporting or other appropriate means for the Department to know, in a timely way, when disease outbreaks have occurred.
- 3.49 Although the current system does not mean diseased fish could end up in the food system undetected, as this is monitored federally, it could impact the Department's ability to effectively monitor marine animal health and protect the environment and wild stocks with a timely response.

Recommendation 3.8

The Department of Fisheries and Aquaculture should determine which fish diseases it needs to monitor and establish an appropriate reporting process to obtain the information from aquaculture operators.

Department of Fisheries and Aquaculture Response: A significant part of the Department's new aquaculture management framework will include procedures and regulation covering the health of fish. New Aquatic Animal Health Regulations will require operators to identify and make mandatory, the reporting of provincial reportable fish diseases. The Aquatic Animal Health Regulations will be phased in with full implementation expected in 18 months.

► Fish health program lacks written policies and procedures

- 3.50 *Policies and procedures* – The fish health program provides clinical veterinary services but does not have any written policies and procedures regarding the level of service, such as number of routine visits. Documented policies and procedures would provide guidance to staff on the expected frequency of routine site visits and communication requirements in cases of disease outbreaks. Documented procedures could assist with the training of new fish health staff and help maintain consistency of services provided. Staff told us policies and procedures are currently being developed in response to the recently completed regulatory review.



- 3.51 The 35 fish health records we examined included information about site visits and the results of examinations and lab tests. However, evidence of communication with the site operator subsequent to the visit was not always recorded in the file. Staff told us that communication with the operator is often done verbally. Better practice would be to have all such communication appropriately documented in the file.
- 3.52 Although there is no legislative requirement for the frequency of routine visits, staff told us they attempt to visit marine finfish sites once per month during April to December, depending on available resources. Our analysis of the list of routine visits staff provided to us showed this frequency was not achieved. None of the sites had a routine visit each month between April and December for 2013 or 2014. The Department expects upcoming regulatory changes to provide a framework for the fish health program which will provide better guidance on the frequency and types of visits required.

Recommendation 3.9

The Department of Fisheries and Aquaculture should develop and implement policies and procedures respecting the various aspects of the fish health program, including any regulatory requirements.

Department of Fisheries and Aquaculture Response: Policies and procedures are being created around various aspects of fish health to support new Aquatic Animal Health Regulations. Those will be phased in with full implementation expected in 18 months.



Department of Fisheries and Aquaculture: Additional Comments

The Department agrees with the recommendations and received value from the audit. We know that change is required to monitor and manage risks related to aquaculture and that during the time of this audit, those changes were not yet in place. We agree with the issues identified by the audit around process improvements and while some progress has been made, more will occur this year as we roll out our new aquaculture management and monitoring framework. Since the audit, government has amended and strengthened the Fisheries and Coastal Resources Act to allow for a more transparent and rigorous approach to regulating the industry. Furthermore, the Department is committed to continuous improvement and strengthening the way we identify, monitor and manage risks so that Nova Scotians can be confident that this industry is operating in an environmentally sustainable and accountable way.



At a Glance



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4 Government-wide: Procurement and Management of Professional Services Contracts

Summary

Overall, the departments we audited followed procurement requirements related to issuing public tenders and obtaining quotes; however, improvements are needed to ensure proper approvals. We found significant weaknesses in monitoring procurement to ensure compliance with legislation and policy. We also identified significant weaknesses related to professional services contracts, including important clauses missing from many contracts which increase the province's risk should disagreements arise. Once signed, we found professional services contracts were monitored to ensure services were received.

Overall, the six departments examined (Health and Wellness, Transportation and Infrastructure Renewal, Economic and Rural Development and Tourism, Internal Services, Natural Resources, and Energy) complied with many aspects of provincial legislation, policy, and guidelines and procured professional services in a manner which considered economy and efficiency. However, 10% of our sample items lacked proper approval to enter into a contract. This is a significant control which needs attention.

We found Procurement Services carries out limited monitoring to ensure compliance with the Public Procurement Act and government's Sustainable Procurement Policy. Additionally, Procurement Services has not taken appropriate action to address instances of noncompliance.

We found contracts were monitored to ensure services were received, and payments made, in accordance with contract terms. However, we identified issues with contracts signed after the work start date and ten percent of the professional services we tested had no contracts. We also found project-specific contracts are not signed with standing offer service providers. This means both parties may not fully understand each other's expectations which increases the risk of disputes. Most of the contracts we examined were missing two key contract terms: a dispute resolution clause and a payment penalty clause. We recommended standard contract terms be established for large and small projects, along with guidance for when each should be used.

For the second time in the past year (see Chapter three of our May 2014 Report on Communications Nova Scotia), we identified potential noncompliance with Canada Revenue Agency rules related to employees versus independent contractors. We recommended that Procurement Services assess the risk of this issue across government and determine if further work is needed to identify whether government may have possible liabilities related to this.

4 Government-wide: Procurement and Management of Professional Services Contracts

Background

4.1 Professional services represent a significant annual expense for the province, totaling \$255 million in 2013-14.

Province of Nova Scotia – Professional Services Expenses (fiscal year ended March 31, 2014 – \$ millions)	
Health and Wellness	\$45
Transportation and Infrastructure Renewal	16
Economic and Rural Development and Tourism	5
Internal Services (Note 2)	4
Natural Resources	3
Energy	1
Other government departments (Note 1)	181
Total	\$255

Note 1 Includes \$110.5 million policing contract which was not part of our audit.

Note 2 Information, Communications and Technology Services (formerly Chief Information Office)

4.2 Previous audits by our Office (Bluenose II Restoration Project – 2015 and Colchester Hospital Replacement – 2011) noted significant weaknesses in procurement, contract terms and contract management. We decided to examine smaller projects to see if there were similar issues.

4.3 Procurement of contracted professional services by the Nova Scotia public sector is subject to the Public Procurement Act. The purpose of the Act includes to:

- *“Provide for the procurement of services by public sector entities in a fair, open, consistent and transparent manner resulting in best value;*
- *Encourage competition, innovative ideas and solutions while respecting trade agreement obligations; and*
- *Promote sustainable procurement in procurement decisions including identifying and exploring opportunities to work with and support social enterprises and businesses that are owned by and who employ under-represented populations.”*



- 4.4 Procurement Services, a branch of the Department of Internal Services, is responsible for the Act. There are a number of policies and other supporting processes to achieve compliance with the Act, including the Sustainable Procurement Policy. This policy must be followed by all government departments, offices, agencies, boards or commissions that are subject to the Auditor General Act or any other public sector entity for whom compliance with the policy has been directed by the responsible Minister.
- 4.5 Professional services include varied items, such as contracts for engineering, marketing, advertising, consulting, and project management. Individual professional services contract engagements are managed by staff in each department.
- 4.6 In 2012, Treasury Board hired a consultant to analyze department expenses for fiscal 2012 to identify potential cost efficiencies in public sector procurement, including professional services. As a result, in September 2013, the province entered into a contract with an external vendor to manage IT temporary contract workers, the largest area of potential savings identified. There has been no analysis of savings resulting from the contract to date. Information available does not provide a break down by type of service which is needed to quantify cost savings. The province has purchased software which should provide more detailed information. This software was not part of the scope of this audit.
- 4.7 Other potential savings in professional services from the consultant's analysis focused on legal and consulting services. These areas have not yet been addressed. Consultants have been hired to further assess these opportunities and develop an implementation plan, if appropriate.

Audit Objectives and Scope

- 4.8 In winter 2015, we completed a performance audit of professional services at six selected departments.
 - Economic and Rural Development and Tourism
 - Energy
 - Health and Wellness
 - Internal Services
 - Natural Resources
 - Transportation and Infrastructure Renewal



- 4.9 The purpose of the audit was to determine whether government effectively procures and manages professional services to achieve value-for-money in its purchases.
- 4.10 The audit was conducted in accordance with sections 18 and 21 of the Auditor General Act and standards of CPA Canada.
- 4.11 The objectives of the audit were to determine:
- whether selected departments procure professional services with due regard for economy and efficiency;
 - how the province assesses the effectiveness of the procurement process in meeting its objectives;
 - if contract terms are established so that value-for-money is received; and
 - whether selected departments are monitoring contracts to help ensure services are received, and payments are made, in accordance with contract terms.
- 4.12 Criteria for this engagement were developed by our Office and were discussed with, and accepted as appropriate by, senior management at the Department of Internal Services. The departments and sample items were selected based on the professional services expenses recorded in the province's consolidated financial statements for the fiscal year-ended March 31, 2014.
- 4.13 The audit approach included reviewing the Public Procurement Act, along with relevant policies, guidelines, and processes; interviewing management and staff at the Procurement Services division of the Department of Internal Services and selected departments; examining contract terms and contract management processes; testing compliance with the Public Procurement Act, policies, guidelines and processes; and testing compliance with contract terms.
- 4.14 Policing services, a significant professional services contract, was excluded from the audit. This is a large and unique contract. This audit was intended to examine smaller professional services contracts.



Significant Audit Observations

Procurement

Conclusions and summary of observations

Overall, the six government departments we audited followed many aspects of relevant procurement legislation, policies, guidelines and process requirements to ensure economy and efficiency were considered in purchasing professional services. However, we identified instances in which procurements were not approved. Approval is a key management control in monitoring expenses. From an overall government perspective, the province does not do a good job of assessing the effectiveness of the procurement process in meeting the objectives of the Public Procurement Act. There is a need to develop, monitor and report on relevant performance measures and targets so that government knows its processes are effective. As well, we found poor monitoring for compliance with the Act and related policy. Procurement Services has not taken appropriate action to address issues of noncompliance with the Act. There is a lack of data available for trend analysis to identify possible cost savings if several departments procure similar services.

4.15 *Background* – Government departments must comply with the sustainable procurement policy. This policy provides for various types of procurement, including:

- Public tender: applies to services of \$10,000 or greater
- Complementary procurement processes:
 - Alternative procurement: uses include to meet technical requirements, only one vendor, or tendering may compromise government confidentiality
 - Standing offers: established by government through a public tender process to create a list of vendors for specific services, applies to procurements of \$100,000 or less

► Expenditures comply with legislation and policies but approvals need attention

4.16 *Testing results* – We examined 31 procurement transactions valued at approximately \$19 million from 2012-13 and 2013-14. Overall, we found the transactions were in compliance with many of the legislative, policy, guideline and process requirements. We found vendor proposals were evaluated by considering a number of criteria, including price, to ensure best value. Evaluation criteria defined in tender documents were followed when evaluating vendor proposals. Alternative procurements were properly



documented and approved. For standing offer procurements in excess of \$25,000, quotes were requested from three vendors.

- 4.17 We examined whether the use of external professional services was appropriate. Overall, we found the use of external professional services was adequately supported for all 31 sample items. In most instances, there were no other options due to technical expertise requirements, project duration, or other factors.
- 4.18 *Posting periods* – Government has two guides which discuss the recommended posting period for public tenders. One guide refers to posting for a minimum of 15 business days, while the other refers to 15 calendar days. We made management aware of this inconsistency and the need to ensure all guidance documents are consistent. They indicated that 15 calendar days is the appropriate time period.
- 4.19 *Approval to purchase* – Three of the 31 procurements we tested were not properly approved. Two missing approvals related to initiating the procurement process; one related to authorizing the vendor selected as discussed below.
- Under a Treasury Board directive, Ministerial approval is required for all spending on services over \$5,000. If actual expenses exceed the amount the Minister approved, additional approval is required. We identified one procurement at the Department of Transportation and Infrastructure Renewal for which actual expenses exceeded the initial approval by approximately \$370,000 but there was no approval for the increase. Department management involved with the purchase were not aware of the requirement.
 - One sample item at Health and Wellness was approved by the Tangible Capital Asset Committee, but not as a professional services procurement. Later, when the Department decided professional services were required, the request for proposal, valued at \$400,000, should have gone to Treasury Board for approval.
 - At Transportation and Infrastructure Renewal, once a vendor is selected, an award letter is completed to authorize the purchase. We found one procurement for \$258,615 in which the award letter was authorized by someone without the proper authority.



Recommendation 4.1

Departments should establish processes to ensure appropriate approvals for expenses are functioning properly. To verify this, Procurement Services (division of the Department of Internal Services) should address appropriate approvals through its procurement monitoring.

Department of Health and Wellness Response: The Department of Health and Wellness (DHW) agrees with this recommendation. To ensure that approvals for expenses are functioning properly, educational sessions will be provided across the DHW on procurement and professional services processes which includes the approval process for expenses. DHW anticipates that the education sessions will be completed by end of this fiscal year (2015-16).

Department of Internal Services Response: Procurement Services agrees with this recommendation. During 2015/16, the Department will establish a new procurement audit function within the Internal Audit Centre. Following its establishment, this team will work with Procurement Services to conduct a risk assessment of procurement processes, develop a risk-based approach to compliance testing and create a schedule that will enable appropriate monitoring to be completed.

Department of Transportation and Infrastructure Renewal Response: The Department of Transportation and Infrastructure Renewal agrees with the recommendation. During 2015-16, the department will review its internal signing authority matrix. Senior management will meet to discuss and develop a protocol for staff to follow.

- 4.20 We also noted that some of the Ministerial approval forms used at the Department of Natural Resources and the former Department of Economic and Rural Development and Tourism did not include a date field so it was not possible to determine if the Minister approved an item before the services were procured.
- 4.21 At Transportation and Infrastructure Renewal, an award letter is created to authorize standing offer purchases. The letter identifies the approved purchase amount but it is not provided to staff creating the purchase order. Instead, staff base purchase orders on invoices received. Those invoices could exceed the maximum approval and staff would not know. Controls would be improved if purchase orders were created based on award letters.
- 4.22 *Threshold for Ministerial approval* – Ministerial approval is required for all procurements in excess of \$5,000. This approval threshold is relatively



low compared to departmental budgets and tendering limits. Procurement Services may wish to consider whether increasing this threshold would improve the efficiency of the procurement process while still respecting the need for higher-level approvals for more significant transactions.

- 4.23 *Trend analysis* – We found there is no regular review and analysis of professional services expenses on a government-wide level to identify trends in the types of services procured, why the services were needed, or costs in relation to other strategies, such as hiring employees. This type of analysis may help to identify cost savings. For example, if departments often hire project managers, it might be cheaper for government to have employees with project management expertise on staff. Alternatively, several departments may wish to tender common expertise requirements together. Larger procurements tend to offer more opportunities for cost savings. At the time of our audit, government did not have sufficient information available from its IT systems to complete trend analysis.

Recommendation 4.2

Procurement Services (division of the Department of Internal Services) should obtain detailed information on the types of professional services procured and use that information to identify possible cost savings.

Department of Internal Services Response: Procurement Services agrees with this recommendation. During 2015/16, Procurement Services will work towards the implementation of a spend analytics tool that will help track categories of spend and identify opportunities for possible cost savings.

► Internal Services not adequately monitoring procurement, lack of action on noncompliance

- 4.24 *Compliance testing* – Compliance testing is the process of checking a sample of transactions to determine if they follow policy or other requirements. If implemented effectively, compliance testing can be a valuable tool to provide information on possible improvements to ensure policy and legislation are followed. It can also help ensure that procurement processes adequately consider economy and efficiency.
- 4.25 Since the late 1990s, public sector entities that use SAP's procurement module (government's financial reporting system) are subject to testing for compliance with the procurement policy. Although Procurement Services has a manual which details procurement policy compliance testing, we found the testing is not completed as required. Additionally, testing is not completed and reported in a timely manner.



- 4.26 Procurement Services had a compliance officer to carry out testing. This position has been vacant since September 2014. Other staff is now responsible to test alternative procurement and noncompliant transactions over \$10,000 but this does not cover required testing below \$10,000. As well, as of September 2014, testing had only been completed to June 2013. Departments receive an annual report detailing the results of compliance testing. However, the 2012-13 report was not sent until May 2014 – 14 months after year-end – and the results of compliance testing for the first quarter of 2013-14 were not reported.
- 4.27 Procurement Services was not able to provide us with a complete list of the public sector entities using SAP’s procurement module. In light of this, its compliance testing may not cover all entities which are required to follow the Sustainable Procurement Policy. As well, testing does not cover the following key procedures to ensure policy requirements are met.
- Ensuring quotes were obtained for procurements under \$10,000
 - Verifying that purchases were not split to avoid obtaining quotes or public tenders
 - Ensuring that applicable transactions were not processed through accounts payable without a purchase order
- 4.28 The Public Procurement Act was phased in over a year, from June 2011 to June 2012. The Act establishes a Chief Procurement Officer with the authority to enforce compliance. It applies to 238 public sector entities, including municipalities, universities, health authorities and school boards. Some of the entities are also subject to compliance testing related to the government procurement policy.
- 4.29 In order to determine if entities are complying with the requirements of the Act and thus whether enforcement action may be necessary, Procurement Services began monitoring compliance with the Public Procurement Act in fall 2013. We identified a number of concerns with this monitoring.
- Testing did not begin until 16 months after the Act came into effect.
 - There are no policies and procedures describing testing to be completed, for which entities under the Act, and the frequency.
 - Other than verifying that tender awards were posted for public tenders, only 38 entities were tested for compliance with the Act.
 - Certain key aspects of the Act have not been tested including:
 - whether services were publicly tendered in accordance with applicable trade agreements; and
 - whether value-for-money was considered when evaluating bids received.



- 4.30 If a public sector entity fails to comply with a directive or recommendation, the Chief Procurement Officer may notify the Minister or public sector entity head, and may publish the information on the procurement web portal.
- 4.31 Procurement Services has not taken sufficient action when public sector entities have not complied with the Act. This does not apply to entities which use the government procurement module as Procurement Services is involved with their procurement processes. For other entities, details of the testing completed, results and action taken include the following.
- For 21 of 38 entities tested by Procurement Services, the entity's procurement policy was not posted on its website. Procurement Services did not notify the entities of this issue.
 - For 26 of 38 entities tested by Procurement Services, the entity's procurement policy did not address all aspects of the Act and there was no follow-up with the entity.
 - For the last quarter of 2013-14, Procurement Services notified 13 entities that they did not post their public tender awards as required. There was no follow up to determine if the information was posted later.
 - There was no trend analysis to identify whether the same entities were repeatedly noncompliant or whether some entities had improved.
- 4.32 When the Public Procurement Act came into effect in June 2012, the number of entities which are subject to compliance testing increased significantly. However, there is only one person responsible for this testing. Procurement Services management indicated that there are plans for government's Internal Audit Centre to complete procurement compliance testing but details have not been decided yet. There is no requirement to test all public sector entities. Some entities are smaller and the effects of noncompliance with the Act would have less impact on achieving the Act's goals. Once the shared services initiative is implemented in May 2015, health authorities will have to comply with the government procurement policy. Thirteen other entities, including eight school boards, will have this requirement in 2016-17 when they join the shared services initiative. Procurement Services management told us there have been no decisions regarding any compliance testing to be completed for these entities.
- 4.33 In September 2014, the Minister of Internal Services announced that a procurement internal audit program would be established. Internal Services needs to complete a comprehensive risk assessment of government procurement processes and develop a risk-based approach to compliance testing. This will help to address areas of concern, as well as determine the resources necessary to adequately address the risks identified



Recommendation 4.3

The Department of Internal Services should complete a comprehensive risk assessment of government procurement processes and implement a risk-based approach to compliance testing, follow up deficiencies, and take action when issues are identified.

Department of Internal Services Response: Procurement Services agrees with this recommendation. As noted in the response to Recommendation 1 above, the Department will establish a new procurement audit function within the Internal Audit Centre and will work with Procurement Services to conduct a risk assessment of procurement processes, and to develop a risk-based approach to compliance testing. A part of this assessment will be to determine the appropriate resource load to effectively conduct compliance testing and appropriate follow-up.

4.34 *Measuring effectiveness* – We found the province is not adequately monitoring procurement processes to ensure they are effective in achieving the objectives of the Public Procurement Act. Procurement Services completes an annual report on procurement activities but it does not cover all public sector entities which must comply with the Public Procurement Act. There is one performance target included in the annual report – 90 percent of procurement should be performed through a competitive process. However, this measure does not provide a lot of insight into the effectiveness of procurement processes. Generally speaking, procurements which do not involve a competitive process are allowed under alternative procurement. An example of a measure which could be used is the percentage of noncompliant transactions identified during compliance testing.

Recommendation 4.4

Procurement Services (division of the Department of Internal Services) should establish and report on performance targets related to the effectiveness of its procurement processes.

Department of Internal Services Response: Procurement Services agrees with this recommendation. Over the next 12-24 months, through the establishment of a shared services model for government procurement across multiple sectors, Procurement Services will develop and begin to report on a series of performance measures to monitor the effectiveness of the procurement process.

Contract Management

Conclusions and summary of observations

Overall, the government departments we audited effectively manage professional services to achieve value-for-money once contracts are signed. However, we



did identify weaknesses which should be addressed. For example, some of the professional services we tested did not have contracts. Additionally standing offer procurements do not have signed contracts which detail project-specific terms. We found instances in which contracts were signed after the service start date, or the service start date was before the effective date of the contract. We also found two key contract terms were missing from most of the contracts we examined: a dispute resolution clause and a payment penalty clause. The need for these clauses varies, depending on the size of a project. Standard contract terms are needed for both small and large projects to deal with this issue. Once contracts were signed, we found contract monitoring and control in the selected departments audited was adequate to ensure professional services were received and paid for as contracted. However, there is no requirement to evaluate vendor performance at the end of a contract and we recommended this be established so the results can be considered for future procurements. We also identified a possible liability to the province based on individuals being hired and treated as self-employed contractors when the terms of their arrangements make it difficult to distinguish them from provincial employees. Based on management's comments, these individuals appear to meet many of the requirements to be considered an employee by Canada Revenue Agency. We recommended that the Department of Internal Services seek advice on how to address this situation. Since this is the second time in the past year we have identified a similar issue, we also recommended that the province consider the risk of this situation in other public sector entities.

4.35 *Background* – Processes establishing appropriate contract terms and monitoring the execution of the contracts are necessary to ensure economy, efficiency and effectiveness in purchasing arrangements. Signed contracts help to protect both parties, and good contracts serve to establish roles and responsibilities in writing. Once contracts are signed, contract monitoring is necessary to ensure services defined in the contracts are received and payments are made in accordance with contract terms.

► Overall, government departments are effectively monitoring professional services contracts

4.36 *Contract monitoring* – We tested professional services contracts to determine whether they were appropriately monitored and managed. We found no systemic or significant issues with monitoring of 31 professional services engagements at the six departments selected. We examined compliance with procurement guidelines in relation to contract management, and general monitoring and control activities to ensure services defined in the contract were received. This included: documented status reporting; ongoing communication between the parties; review and achievement of milestones; and providing deliverables, such as reports. In 14 engagements with contract amendments, we found the amendments were adequately supported, approved and consistent with the initial procurement requirements.

- 4.37 As discussed later, three of the professional services engagements we tested did not have contracts. We examined related documents and used professional judgment in evaluating the reasonableness of management monitoring and control activities for these engagements.
- 4.38 We also tested 62 invoices related to the 31 professional services engagements. We checked whether the invoices contained sufficient detail to enable review and approval; and whether payments were properly authorized and made in compliance with contract terms. We found three projects for which payments were issued prior to receipt of services.
- Department of Natural Resources: Two invoices (\$15,708, \$4,560) were processed to be included in fiscal year end March 31, 2014, even though the services were not yet received. While these were not significant from a dollar perspective, payments should only be issued for services received.
 - Department of Economic and Rural Development and Tourism: One invoice for \$15,130 and a portion of another invoice which totalled \$24,917 were paid but the services were not provided.

► Departments are not evaluating vendor performance

- 4.39 *Lack of vendor evaluations* – There is no requirement to evaluate vendor performance after contract completion, with the exception of IT service contracts valued at less than \$100,000. Since September 2013, these IT service contracts have been managed by a third party management company. This includes an evaluation process. We tested 20 completed contracts and found two at the Department of Internal Services (Information, Communications and Technology Services division) had vendor evaluations; one was required as it was for IT services valued at less than \$100,000. The remaining 18 were not evaluated.
- 4.40 Vendor evaluations can assist with future procurements. For example, if the information is available centrally, it can be used in assessing vendor proposals to reduce the risk of departments contracting with vendors who have previously failed to deliver quality service.

Recommendation 4.5

Procurement Services (division of Department of Internal Services) should require vendor evaluations be completed at the end of contracts and this information should be available as a resource for future procurement decisions.

Department of Internal Services Response: Procurement Services agrees with this recommendation. Procurement Services will introduce detailed language in a new Procurement Policy that evaluates supplier performance, and introduces interim and final performance evaluations. This policy is expected to be introduced during 2015/16.



► Some departments did not have signed contracts.

4.41 *Engagement contracts* – A contract is a legal document which helps to establish the expectations of both parties and reduce the risk of disputes arising during the engagement. We tested 31 professional services engagements across six government departments to ensure the contracts included adequate terms to protect the public interest. There were no contracts with the service provider in three instances (one at each of Health and Wellness, Transportation and Infrastructure Renewal, and the former Economic and Rural Development and Tourism). There were other related documents such as a statement of work, or vendor proposal which could be referenced to a contract, but in these cases there was no legal document signed by both parties, including key terms to protect the public interest such as a termination clause and dispute resolution clause. This increases the risk of costly disputes arising during the engagement.

4.42 Professional services can be purchased from government standing offers, provided the procurement is under \$100,000. In order to be added to the standing offer list, vendors are required to sign a contract with government which includes types of services they will provide, individual contractor names and their qualifications, and rates for each individual. When a department requires services from the standing offer, it prepares a statement of work, describing the project-specific services required. Vendors generally provide proposals detailing how they can satisfy the service requirements. When a vendor is selected, there is no project-specific contract signed which clearly outlines what is required and how the vendor will meet the requirement.

4.43 We tested 22 professional services contracts in our 31 sample items. Three sample items did not have contracts. Prior to our audit, Department management realized one of these contracts was missing and a contract was signed at that time. This excludes the seven standing offer contracts with vendors which we tested. We found the following.

- Eight instances in which the vendor signed the contract after the start date.

Department	# of Contracts	Dollars	Days Late
Health and Wellness	2	\$231,000 \$39,000	28 days 23 days
Natural Resources	1	26,000	5 days
Transportation and Infrastructure Renewal	2	\$2,200,000 \$669,965	4 days 1 day
Economic and Rural Development and Tourism	1	\$772,500	4 days
Internal Services	1	\$400,000	3 days
Energy	1	\$85,565	2 days
Total	8		



- Five instances in which the vendor did not date the contract. We cannot conclude whether the vendor signed the contract before the service start date (two contracts at Energy; and one at each of Health and Wellness; Internal Services and Natural Resources). The value of the contracts ranged from \$44,310 to \$154,000.
- Three instances in which the service start date was before the effective date of the contract, ranging from five to 16 days (two – Natural Resources; one – Health and Wellness). The value of the contracts ranged from \$26,000 to \$231,000.

4.44 These situations place unnecessary risk on the province should a dispute arise regarding work carried out before a contract is signed or is effective.

Recommendation 4.6

Procurement Services (division of Department of Internal Services) should establish processes, such as educating departments, to reduce the risk that professional services contracts are signed and dated prior to the service start date and test to verify compliance.

Department of Internal Services Response: Procurement Services agrees with this recommendation. During 2015/16, Procurement Services will work towards the implementation of a contract management tool, and will continue to reinforce the importance of proper contract signing and project engagement through outreach with our clients.

Recommendation 4.7

Procurement Services (division of Department of Internal Services) should require government departments to sign project-specific contracts with standing offer service providers.

Department of Internal Services Response: Procurement Services agrees with this recommendation. Procurement Services has started project-specific contract signing with standing offer service providers for IT-related consulting. During 2015/16, we will expand this practice to other types of services such as our management business consulting standing offer.

► Government enters contracts without dispute resolution and payment penalty clauses

4.45 *Contract terms* – Appropriate contract terms help ensure that government is obtaining value-for-money. Procurement Services provides standard contract templates for various types of professional services procurements. These templates may be used for all contracts, regardless of the size. Departments are not required to use the templates but must have legal services review



contracts before signing if the templates are not followed. Twenty-four of the 29 contracts we examined used a standard template.

- 4.46 We found the contracts we examined included clauses which protect the public interest. For example, contracts clearly defined responsibilities of all parties, contained clear payment terms, required completion dates, and included a cancellation or termination clause. We also noted contract terms are consistent with request for proposal submissions or standing offer details. However, we noted two deficiencies in the standard contract templates: lack of a dispute resolution clause and lack of a payment penalty clause for nonperformance.
- 4.47 A dispute resolution clause helps to manage disagreements with service providers and associated costs. As well, a payment penalty clause should be included in the event contract provisions are not met. Without this clause, there is limited incentive for the vendor to comply with the contract terms, including completion dates. The risks involved with not having these two clauses depend on the size of the project. Our audit of the Bluenose II restoration project (reported in January 2015) demonstrates the possible consequences of not having a payment penalty clause in larger contracts.
- 4.48 Standard contract terms may differ between larger and smaller projects. Certain clauses may not be necessary for smaller engagements.
- 4.49 *Testing results* – We tested 29 contracts and found the following.
- The contract template for standing offer services did not include a dispute resolution or payment penalty clause, as discussed above.
 - The contract template for request for proposals and alternative procurements did not have a dispute resolution clause until November 2013. The template does not have a penalty payment clause.
 - We tested five contracts which did not use a standard contract template. None of the contracts had a penalty payment clause. One had a dispute resolution clause (Internal Services) and four did not (2 – Energy, 2 – Transportation and Infrastructure Renewal).

Recommendation 4.8

Procurement Services (division of Department of Internal Services) should implement standard contract terms covering key clauses for larger and smaller projects. The Division should also guide departments in selecting the appropriate template.

Department of Internal Services Response: Procurement Services agrees with this recommendation. Over the next 12-24 months, Procurement Services will work with Legal Services to develop a clause library, including criteria for use.



Additionally, Procurement Services will introduce detailed language in the new Procurement Policy that will guide the appropriate procurement format selection. This policy is expected to be introduced during 2015/16.

► Government needs to assess risks of possible employee-employer relationships with contractors.

4.50 When contracting for professional services, there is a risk to the province if the relationship is similar to an employee versus that of an independent contractor. Canada Revenue Agency provides a list of indicators to help assess whether an individual is an employee or self-employed as a contractor. One of the key indicators is the level of control in the relationship. The more control the employer has over the day-to-day work completed, the more likely the relationship is employee-employer. In these situations, the province is responsible for remitting deductions it should withhold from the employee for Canada pension plan contributions and employment insurance premiums, as well as its own matching amounts, along with any interest or fines accruing if these amounts are not remitted.

4.51 As part of our audit, we asked management of the departments audited whether they had professional services contracts with sole proprietors for greater than six months in which the contractor completed day-to-day work similar to employees. Management at the Department of Transportation and Infrastructure Renewal, including a division which is now part of Internal Services, provided a list of nine contracts which met this criteria. We reviewed one contract which met many of the requirements to be considered an employee-employer relationship but no deductions were withheld or remitted by the province. Management told us there were two additional contracts related to the same project with similar situations. These contractors were hired between 2001 and 2010. One became a Department employee in 2013. The remaining two are still under contract with plans for them to become employees during 2015-16. Management indicated the amount paid to these contractors between January 1, 2008 and December 31, 2014 was approximately \$2 million. If the Canada Revenue Agency considers these individuals employees, the province is liable for Canada pension plan and employment insurance deductions it should have withheld from these contractors, as well as the employer's matching amounts and interest or fines accruing.

4.52 This is the second time in the past year that we have identified an issue with contractors who may be considered employees. In chapter three of our May 2014 Report on Communications Nova Scotia, we found some contractors met many of the requirements to be considered an employee-employer relationship by Canada Revenue Agency.



Recommendation 4.9

The Department of Internal Services should determine whether certain contractors may be considered employees by Canada Revenue Agency and obtain legal advice. Additionally, Procurement Services should work with the Public Service Commission, Finance, Treasury Board, and Justice to review the risk of employee-employer relationships across government and take action if needed.

Department of Internal Services Response: The Department of Internal Services will seek advice on whether certain contractors may be considered employees by Canada Revenue Agency. The Department of Internal Services will initiate discussions with the Public Service Commission, Finance and Treasury Board and, if required, Legal Services to explore the risk of employee-employer relationships in an effort to limit any potential liability to the Province. Procurement Services will continue to provide guidance to client departments to better assess the identification of potential employee-employer relationships.



At a Glance



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5 Responsible Gambling and the Prevention and Treatment of Problem Gambling

Summary

Regulated gambling in Nova Scotia generated more than \$500 million in revenue in 2013-14. While many Nova Scotians gamble without significant problems, approximately 7,000 Nova Scotians experience adverse consequences related to their gambling. We found Nova Scotia is not adequately managing its problem gambling prevention and treatment programs. Additionally, improvements are needed in the evaluation of responsible gambling programs.

The Department of Health and Wellness does not monitor gambling treatment within health authorities for compliance with treatment standards. Updated prevention standards have been under development since 2008 but have not been approved and implemented. In addition, the Department does not know whether prevention and treatment services result in reduced gambling-related harms. We recommended Health and Wellness monitor compliance with standards and the outcomes of gambling prevention and treatment services to see if they are helping Nova Scotians experiencing gambling problems.

The Nova Scotia Provincial Lotteries and Casino Corporation has a variety of programs to promote responsible gambling. We found these are consistent with a framework established by an external responsible gaming group. The Corporation does evaluate the effectiveness of its responsible gambling programming annually; however, there was a lack of support for the targets used in the evaluation. We recommended the Nova Scotia Provincial Lotteries and Casino Corporation determine whether the targets used are appropriate.

Information on gambling treatment services is communicated to the public but few people are accessing services. A project to improve awareness of the problem gambling help line, was initiated in 2011, but not completed until March 2015. Health and Wellness and the Nova Scotia Health Authority need to focus on increasing the number of people seeking problem gambling treatment services to help Nova Scotians in trouble.

The province has not clearly defined roles and responsibilities in First Nations gaming agreements; as a result, there are no processes to ensure gambling on First Nations reserves is in compliance with relevant provincial laws, including related to advertising and age limits. The majority of First Nations gaming agreements do not include responsible gambling requirements, such as training and responsible gambling signage. We recommended responsible gambling be addressed in the current renegotiation of First Nations gaming agreements.

5 Responsible Gambling and the Prevention and Treatment of Problem Gambling

Background

- 5.1 Regulated gambling in Nova Scotia generated more than \$500 million in revenue in 2013-14. Revenue comes from many sources, including ticket and video lotteries, casinos, and bingos. While it is a significant source of provincial revenue, gambling can potentially lead to adverse consequences for some participants, such as job loss, financial struggles and domestic violence.
- 5.2 The most recent provincial gambling surveillance study, which provides information on the prevalence of gambling and problem gambling among Nova Scotians 19 years of age and older, was completed in 2007. This study indicated approximately 87 percent of Nova Scotians had gambled at least once in the previous year and approximately one per cent (7,000) of these individuals were identified as having experienced adverse consequences from their gambling. Another 1.6 per cent of gamblers (12,000) were scored at a moderate risk level for problem gambling; individuals in this category may or may not have experienced adverse consequences from gambling.
- 5.3 While gambling problems can happen to anyone, certain Nova Scotians have been identified as being at higher risk, including those who have disabilities, students, unemployed, or separated from a spouse or partner. A small percentage of gamblers are accounting for a high percentage of gambling revenue. In 2007, approximately 14 percent of the population regularly took part in gambling outside of lottery tickets, but this group accounted for approximately 62 percent of gross gambling revenues generated for the province.
- 5.4 The regulated gambling industry in Nova Scotia includes many government stakeholders, including the Nova Scotia Provincial Lotteries and Casino Corporation, the Department of Health and Wellness, health authorities, the Alcohol and Gaming Division of Service Nova Scotia, and the Office of Aboriginal Affairs. Each of these plays a role in the management of gambling. Stakeholders can have competing mandates. For example; generating revenue through regulated gambling can lead to gambling-related harms from some people. The roles and responsibilities of each have been outlined in the following table.



Stakeholder	Role
Nova Scotia Provincial Lotteries and Casino Corporation	Management of the regulated gambling industry within the province in a socially responsible manner
Department of Health and Wellness	Setting provincial direction for addiction prevention and treatment, including gambling
Health authorities	Delivery of addiction prevention and treatment programming, including gambling
Alcohol and Gaming Division (Service Nova Scotia)	Responsible for licensing and regulation of all gambling activity conducted by the provincial government
Office of Aboriginal Affairs	Responsible for the negotiation and administration of First Nations gaming agreements

- 5.5 The Nova Scotia Provincial Lotteries and Casino Corporation is a crown corporation responsible for the management of regulated gambling in Nova Scotia. Through its operators, Atlantic Lottery Corporation and the Great Canadian Gaming Corporation (operates the casinos in the province), the Provincial Lotteries and Casino Corporation manages ticket and video lottery schemes within the province, along with the operation of casinos in Halifax and Sydney. During 2013-14, the Corporation spent approximately \$1 million on responsible gambling programs and initiatives to provide gamblers with the information they need to make informed decisions about their gambling. The Corporation also contributed approximately \$4.5 million annually to the Department of Health and Wellness to support gambling prevention and treatment.
- 5.6 The Department of Health and Wellness is responsible for setting provincial direction in addiction prevention and treatment, including gambling, and managing the problem gambling help line. For 2013-14, approximately \$3.2 million was spent on gambling prevention and treatment. Health authorities are responsible for the delivery of problem gambling prevention and treatment services. Treatment services may include community-based services, such as group therapy or one-on-one counselling; or inpatient treatment services. Treatment services are usually not gambling-specific but intended to treat addictions in general. The treatment focus will be based on the client's addictions.
- 5.7 The province, through the Office of Aboriginal Affairs, signed agreements with 13 First Nations Bands allowing each Band to manage gambling on its reserve. This is mostly through video lottery terminals. Each Band is entitled to keep all of the revenues generated to be used for community and economic development.



Why Did We Do This Audit

5.8 In 2007, almost 25 per cent of Nova Scotia adults reported being personally aware of at least one person they believed to be experiencing problems controlling their gambling. Approximately 7,000 Nova Scotians experienced adverse consequences related to gambling while another 12,000 were at a moderate risk level for problem gambling, although negative consequences may or may not have been experienced. These numbers do not consider the negative impacts of problem gamblers on friends, families and communities. It is important for government to be effective in the delivery of services focused on results in the prevention and treatment of problem gambling.

Audit Objectives and Scope

5.9 During 2014-15, we conducted a performance audit to determine whether the province is effectively managing its responsible gambling and problem gambling strategies. The audit was conducted in accordance with sections 18 and 21 of the Auditor General Act, and auditing standards of CPA Canada.

5.10 The objectives of the audit were to determine whether:

- the Nova Scotia Provincial Lotteries and Casino Corporation is effectively managing responsible gambling in a manner that reduces the risks of gambling-related harm, including adequate oversight of Atlantic Lottery Corporation and the Great Canadian Gaming Corporation, and evaluating the results of responsible gambling programs;
- the Department of Health and Wellness is providing adequate oversight of problem gambling prevention and treatment services delivered by health authorities and third party service providers;
- the Department of Health and Wellness, health authorities and the Nova Scotia Provincial Lotteries and Casino Corporation are communicating to the public information on responsible gambling and services available for the prevention and treatment of problem gambling;
- First Nations gambling is monitored to ensure it is conducted in a socially responsible manner and in compliance with the terms and conditions of First Nations gaming agreements; and
- there is a coordinated approach among all parties involved in the promotion of responsible gambling and the prevention and treatment of problem gambling.

- 5.11 Audit criteria were developed specifically for this engagement and were discussed with, and accepted as appropriate by, management of the Nova Scotia Provincial Lotteries and Casino Corporation; the Department of Health and Wellness; the Office of Aboriginal Affairs; Capital Health; South West Health; and Cape Breton District Health Authority.
- 5.12 Our audit approach included reviewing relevant programs, standards and agreements, and testing compliance with applicable processes. We also conducted interviews with management and staff at the Nova Scotia Provincial Lotteries and Casino Corporation, various government departments, health authorities, and select First Nations Bands. Our audit period was April 1, 2012 to August 31, 2014. Our audit did not include the delivery of problem gambling prevention and treatment programs at health authorities but focussed on the Department of Health and Wellness' oversight of this work. Our work related to First Nations gaming agreements was limited to an examination of how government ensures compliance with agreements and whether gambling on First Nations reserves is monitored to ensure it is conducted in a socially responsible manner. Our work did not include testing at First Nations gambling operators or their records. In addition, the audit did not address the moral or ethical considerations surrounding public policy decisions to have legalized gambling within Nova Scotia.

Significant Audit Observations

Monitoring and Oversight of Problem Gambling Prevention and Treatment Services

Conclusions and summary of observations

The Department of Health and Wellness is not adequately monitoring gambling prevention and treatment in health authorities. In 2008, the Department began drafting revised addiction prevention standards but these have not been approved and implemented. These standards would guide the work within health authorities in such areas as reducing the demand for gambling or minimizing the harms. In addition, the Department does limited monitoring of health authorities' prevention work. Treatment standards for those experiencing gambling problems have been established, but Health and Wellness does not monitor health authorities to ensure the treatment provided meets the requirements outlined in the standards. There is also a lack of current provincial data on the number of people experiencing gambling problems, with the most recent information dating to 2007.

- 5.13 *Background* – The Department of Health and Wellness is responsible for setting provincial direction in addiction prevention and treatment, while district health authorities are responsible for delivering prevention and



treatment services. Under section 60 (c) of the former Health Authorities Act, the Department is responsible for monitoring, measuring and evaluating the quality, accessibility and comprehensiveness of services delivered within the health authorities.

► Health and Wellness monitoring of gambling prevention and treatment services not adequate

5.14 *Prevention standards* – Prevention standards exist, but the Department of Health and Wellness does limited monitoring of gambling prevention work at health authorities. In 2008, the Department began developing updated addiction standards for prevention, health promotion and population health. The goal of these standards was to reduce and prevent the harms associated with substance abuse and gambling. As of March 2015, these have not been approved and implemented. Prevention standards focus on the following areas.

- Supply reduction strategies – such as policy changes limiting access to gambling venues
- Demand reduction strategies – such as school-based programs focusing on the risks related to gambling
- Harm reduction strategies – such as providing information in casinos on how an individual experiencing gambling problems can receive help

5.15 *Treatment standards* – Treatment for people experiencing gambling problems may include community-based services, such as group therapy and one-on-one counselling, or inpatient treatment services. Standards have been established for both treatment options. While the standards for community-based services include some gambling specific standards, generally, treatment standards are focused on overall addictions rather than a particular area. The majority of individuals undergoing treatment for gambling problems do so through community-based programming; accordingly we focused our audit efforts in this area rather than inpatient services.

5.16 Updated treatment standards for community-based services were implemented in April 2013 and include standards related to accessibility of services, retention of clients, and treatment outcomes. Specific examples of standards include the following:

- 90 percent of general priority clients will be offered services that begin within 15 business days
- 60 percent of clients attending community-based services will have at least three clinical sessions and 75 percent of clients will report a reduction in gambling-related harms at program completion

- 5.17 Department management told us that district health authorities are not expected to report on compliance with the updated standards until June 2015; however, not all standards will be monitored. For example, of the five standards specific to problem gambling, only one will be monitored by the Department. Health and Wellness staff told us the current addiction services information system does not have the ability to report on all standards; only those that can be reported will be monitored. The Department is developing a new information system which may allow reporting of additional standards. Certain standards can only be monitored through compliance reviews of patient files and currently, Health and Wellness does not complete compliance reviews. Unless a process is developed and implemented to monitor all community-based treatment standards, the Department will not be able to determine whether people experiencing gambling problems are receiving the help they need.
- 5.18 *Concurrent disorder treatment standards* – Concurrent disorders refers to the existence of mental health disorders along with addiction problems. In 2012, the Department of Health and Wellness developed standards for the treatment of concurrent disorders. Gambling was identified as an important issue that required additional work, with the possibility of the development of gambling-specific standards. Work to date has focused on improving staff knowledge and competencies around concurrent disorders. This includes specific information on gambling and predictors for concurrent disorders associated with gambling. A screening tool is used to assist in identifying clients with gambling problems. While some work has been completed, the Department has not yet determined if gambling-specific standards are required.
- 5.19 The province’s 2011 Responsible Gaming Strategy included a goal to enhance the prevention and treatment of problem gambling. The Department of Health and Wellness has identified implementation of the new prevention standards as a step towards achieving this goal. However, the updated standards have not been implemented and there is inadequate monitoring of health authorities’ work. Current standards and adequate monitoring are necessary to ensure individuals experiencing gambling problems are receiving the assistance they require.

Recommendation 5.1

The Department of Health and Wellness should approve and implement its addictions standards and determine whether gambling-specific standards should be included in the concurrent disorders standards. Processes should also be developed and implemented to monitor gambling prevention and treatment work at health authorities, including measuring compliance with all standards.



Department of Health and Wellness Response: DHW agrees with the recommendation and intends to implement. In particular, the Standards for Prevention, Health Promotion, and Population Health will be approved and implemented in 2015-2016.

DHW will continue to support the implementation of the Concurrent Disorder Treatment Standards (2012) which includes training staff to undertake screening and provide clinical intervention for gambling. The decision regarding the need for the development of gambling specific sub-section within the Concurrent Disorders Treatment Standards will be made in Fiscal 2015/16.

DHW will continue its work, initiated in 2012, on the development and launching of the Mental Health and Addiction Services Information System which will support the monitoring of health promotion, prevention and treatment work through the Nova Scotia Health Authority and IWK, including the measuring of compliance with selected standards. Target launch for the new system is Fiscal 2016/17.

► Health and Wellness does not have current gambling frequency data

5.20 *Gambling data* – Health authorities we met with indicated concerns with the lack of current data on gambling in the province. The most recent gambling surveillance data is from 2007. A draft study was completed for 2013. The draft report was submitted to Health and Wellness in July 2014, but an external peer review identified issues with how the study measured instances of gambling-related harm. Additional work was required, but as of December 31, 2014, this had not been completed.

5.21 In addition, a youth gambling prevalence study was completed in 2011 but the Department of Health and Wellness did not publicize the results due to concerns around the sample sizes used and the accuracy of specific conclusions. The Department does complete surveys of Nova Scotia junior and senior high school students about their experiences with substance use and gambling. The most recent study was completed in 2012 but does not provide the same level of detail as provided in the 2011 prevalence study. Up-to-date gambling research and surveillance data are necessary to identify specific risk groups, formulate gambling policy, develop standards and best practices, and assess the effectiveness of prevention and treatment efforts.

Recommendation 5.2

The Department of Health and Wellness should obtain accurate and current gambling prevalence rates for both youths and adults and use this information to guide and evaluate gambling prevention and treatment work.

Department of Health and Wellness Response: DHW agrees with this recommendation and intends to implement. DHW is preparing the 2011 Nova



Scotia Adolescent Gambling Surveillance Technical Report and the 2013 Nova Scotia Adult Gambling Information Collection Project for release in 2015/16.

The Department is in step with other jurisdictions as far as the application of methodological practices in measuring gambling harms and is confident in the accuracy of published data. DHW applies rigor to its surveillance; involving the Nova Scotia Health Research Foundation to facilitate peer review of methodology and reporting. This practice will continue.

5.22 *Cross-departmental committees* – The regulated gambling industry impacts numerous stakeholders in the provincial government, each with its own mandate. The 2011 Responsible Gambling Strategy established a Deputy Minister’s Advisory Committee on Gambling which includes the deputy ministers from the Departments of Health and Wellness; Communities, Culture and Heritage; Finance; Agriculture; Aboriginal Affairs; and Service Nova Scotia. A senior officials committee was also established, including management from these departments, as well as the Nova Scotia Provincial Lotteries and Casino Corporation. These committees provide an opportunity for members to discuss gambling from a cross-departmental perspective. Staff interviewed indicated these committees have improved communication and collaboration among departments.

Problem Gambling Help Line

Conclusions and summary of observations

The Department of Health and Wellness is not adequately managing the problem gambling help line. Instances were identified in which calls to the help line were not answered in a timely manner and Health and Wellness did not take timely action to address the issues with the service provider. As well, the Department does not assess the level and quality of service provided to callers. Although it has the authority under the service provider agreement, the Department has not audited the help line or monitored calls to ensure an appropriate level of service is provided and the Department is receiving the services it is paying for.

5.23 *Background* – The problem gambling help line is a toll-free number (1-888-347-8888) available 24 hours a day, seven days a week to provide telephone counselling to people experiencing gambling problems. It is managed by the Department of Health and Wellness, through a third-party service provider, at a cost of approximately \$400,000 per year. During 2013-14, there were approximately 445 calls (2012-13: 524 calls) to the help line. In March 2015, the help line was renamed the Gambling Support Network.

► Health and Wellness monitoring of the problem gambling help line not adequate

- 5.24 *Service standards* – A help line operator is to answer 80 percent of all calls within 20 seconds. We reviewed six monthly reports and noted one month for which this standard was not met. Of 50 calls during that month, 12 (24 per cent) were not answered within the 20-second standard. Five of these calls took over three minutes to answer, including one which was not answered for almost 12 minutes. There is no documentation to confirm whether this was addressed with the operator. When service standards are not met, there is a risk that callers to the problem gambling help line are not receiving the assistance they require. Callers experiencing long waits may hang up without reaching a therapist and may not call the help line again. Issues need to be identified and discussed in a timely manner to implement the necessary changes and ensure the Department is receiving the services it is paying for.
- 5.25 *Service interruptions* – Two of the six monthly reports we reviewed identified service interruptions to the problem gambling help line. In one instance, there was a service interruption from July 19 to July 26, 2012 during which 34 callers were not able to reach the help line. While the issues were addressed, and processes established to identify service interruptions in the future, it is important that the Department of Health and Wellness continue to monitor the help line to ensure reliable service to assist callers.
- 5.26 *Audits and call monitoring* – The Department of Health and Wellness has the authority to audit the service provider's records and listen to calls to the problem gambling help line. However, during the audit period, no audits were conducted. Department management told us that Health and Wellness staff listened to help line calls on one occasion but there is no documentation of the results. Audits and call monitoring are important for the Department to ensure the service provider is meeting its requirements, especially given known instances when standards were not met and service interruptions were experienced.

Recommendation 5.3

The Department of Health and Wellness should ensure the gambling support network is meeting the needs of Nova Scotians. This should include monitoring the service provider to ensure callers are getting the help they need and the Department is receiving the services it is paying for.

Department of Health and Wellness Response: DHW agrees with the recommendation and intends to implement. In 2014, DHW entered into a new Telecare contract which includes a number of measures that will strengthen the services provided to Nova Scotians harmed by gambling. In 2015/16, the department will commence a process to evaluate service impact on clients as well as develop and implement a schedule of regular auditing.

Responsible Gambling

Conclusions and summary of observations

The Nova Scotia Provincial Lotteries and Casino Corporation's responsible gambling programs and initiatives are consistent with a responsible gambling framework established by an external responsible gaming group. These programs and initiatives communicate information so gamblers can make informed choices about their play. However, the decision to cancel the My-Play system and rely on the existing responsible gambling programming was not included in a list of options assessed by an independent panel of responsible gambling experts. We also found that proposals under the Responsible Gambling Assessment Program are not always reviewed by the appropriate staff or assessed against the required criteria.

5.27 *Background* – The Nova Scotia Provincial Lotteries and Casino Corporation is responsible for leading an economically sustainable and socially responsible, regulated gambling industry in Nova Scotia. The Corporation generates revenues through ticket and video lottery schemes delivered by Atlantic Lottery Corporation and casinos in Halifax and Sydney operated by the Great Canadian Gaming Corporation.

5.28 *Responsible gambling programs* – The Nova Scotia Provincial Lotteries and Casino Corporation administers various programs and initiatives to communicate responsible gambling messages, with the intention of ensuring those that choose to gamble have sufficient information to make informed decisions. These include Responsible Gambling Awareness Week, a responsible gambling website, and responsible gambling resource centres at both casinos.

► Responsible gambling programming consistent with externally-established framework

5.29 *Responsible gambling framework* – The Nova Scotia Provincial Lotteries and Casino Corporation's responsible gambling programming is consistent with a framework established by the Responsible Gambling Council, an independent, non-profit organization dedicated to reducing the incidence of problem gambling. The framework outlines the information to communicate to gamblers to encourage responsible play, along with methods for disseminating this information.

5.30 Responsible gambling programs are focused on gamblers in general and not specific groups at risk for gambling problems. In the past, the Corporation offered specific programming targeted at high school and university students under age 19. However, the province's 2011 Responsible Gambling Strategy clarified that responsibility for youth gambling prevention rests with the Department of Health and Wellness; the programs offered by the Corporation



were discontinued. As previously noted, our audit found that the Department of Health and Wellness does not adequately monitor the prevention work at health authorities. During our fieldwork, a new initiative began which focusses on youth gambling prevention; however it was ongoing when this chapter was written and we have not audited this project.

- 5.31 Nova Scotia Provincial Lotteries and Casino Corporation did not subject all options for the replacement of My-Play to the same responsible gambling review
- 5.32 *Termination of My-Play* – My-Play was a mandatory system installed on all video lottery terminals or VLTs in the province. It was intended to provide players with tools to promote responsible gambling. However, after implementation, the Nova Scotia Provincial Lotteries and Casino Corporation found that it was not used as intended by VLT users. An independent panel of experts examined five options to replace My-Play from a responsible gambling perspective. All of these options included a replacement for My-Play. Ultimately, in September 2014, the system was cancelled. Although the Corporation considered responsible gambling considerations, the impact on problem gamblers, and the costs of the My-Play system before it was cancelled, the expert panel did not consider the impact of cancelling the system without implementing another alternative. While the decision to remove My-Play may have been a valid one, a consistent process was not used to assess all options for the removal or replacement of the system.
- 5.33 *Responsible gambling assessment program* – The responsible gambling assessment program is intended to consider responsible gambling in decisions regarding gambling products and promotions. New games and promotions or changes to existing games and promotions are grouped into one of three categories, based on the impact to the Nova Scotia gambling industry.
- Level 1 (low risk) assessments may include changes to online or point of sale promotions, or changes in scratch'n win ticket themes.
 - Level 2 (moderate risk) assessments may include new video lottery terminal games, or slot machine games or promotions that have a mass media element.
 - Level 3 (high risk) assessments may include new products, initiatives or innovations in the Nova Scotia gambling industry.
- 5.34 We selected a sample of 30 assessments to test compliance with program policies. For two of 30 samples, the checklist assessing the initiative against program criteria was not completed. It includes considerations such as compliance with age of majority guidelines and advertising standards.

Without this documentation, there is no evidence to support that responsible gambling was appropriately considered. Each of these sample items related to low risk assessments and the required checklists were subsequently completed by the Corporation. For an additional ten sample items, the assessment was not reviewed by all required Nova Scotia Provincial Lotteries and Casino Corporation staff prior to approval. For one of these samples, the assessment was missing two of three required reviewers. While the approval process for each of these assessments was not followed, each was still reviewed by at least one of the required managers. Complete assessments and key personnel approvals are important to ensuring that responsible gaming is appropriately considered.

- 5.35 *Oversight of operators* – Atlantic Lottery Corporation and Great Canadian Gaming Corporation operate video and ticket lotteries and casinos within the province on behalf of the Nova Scotia Provincial Lotteries and Casino Corporation. The Corporation provides oversight of each operator, including monitoring of responsible gambling training delivered by the operators to ticket and video lottery retailers and casino employees on behalf of the Corporation. The Nova Scotia Provincial Lotteries and Casino Corporation reviews and approves annual training and receives regular updates from the operators confirming the required retailers and casino staff have taken the training.

Evaluation of Responsible Gambling Programs and Prevention and Treatment Services

Conclusions and summary of observations

The Nova Scotia Provincial Lotteries and Casino Corporation does not have support for the targets used to evaluate the effectiveness of its responsible gambling programs. Targets are based on past results, and in one instance, when a target was not met, it was adjusted downwards for subsequent years. In addition, the Department of Health and Wellness is not adequately evaluating gambling prevention and treatment work, including the impact of the problem gambling help line on clients. Health and Wellness set goals for gambling prevention and treatment but these do not represent significant improvements from status quo. Progress towards goals was not assessed due to a lack of current gambling prevalence information. In addition, the Department does not know if treatment services delivered at health authorities are reducing gambling-related harms for clients.

- ▶ Nova Scotia Provincial Lotteries and Casino Corporation does not have support for targets

- 5.36 *Evaluation of responsible gambling initiatives* – One of the goals of the Nova Scotia Provincial Lotteries and Casino Corporation is to continue to deliver



effective responsible gambling programs so that players can continue to make informed decisions. This is partially assessed by the percentage of people surveyed who can name two responsible gambling behaviours. The Corporation also surveys the public to determine how many people recall seeing or hearing something about responsible gambling. Both measures are assessed during the annual Responsible Gambling Awareness Week.

- 5.37 The Corporation's target for the percentage of people surveyed who can name two responsible gambling behaviours is not clear. For the 2012-13 fiscal year, some documents stated a target of 35 percent, another stated a target of 20 percent. Actual results for the year were 22 percent. Management was not aware of these inconsistencies and told us they considered 20 percent as the target. In 2013-14, the target was 20 percent and actual results were 25 percent. Corporation management told us that a target of 20 percent is used because actual results in previous years have been around this level and a similar level of education and awareness campaign were used during this period. In 2012-13 and 2013-14, a target of 60 percent was established for the percentage of people who recalled hearing or seeing something about responsible gambling. Actual results were 45 percent and 39 percent respectively. The target was lowered to 45 percent for 2014-15.
- 5.38 The Nova Scotia Provincial Lotteries and Casino Corporation indicated these results can be partially attributed to the lack of sustained public awareness campaigns, other than Responsible Gambling Awareness Week, and the discontinuation of their youth prevention programming after clarification from government that the Department of Health and Wellness has this responsibility. When these initiatives were discontinued Corporation management decided not to undertake new awareness campaigns.
- 5.39 Responsible gambling messaging is reaching less than 50 percent of the Nova Scotians surveyed. We are unable to comment on the appropriateness of the target used as it was set based on the results of previous evaluations. Management were not able to provide support for the initial target or for subsequently lowering the target for the number of people who recalled seeing or hearing something about responsible gambling.

Recommendation 5.4

The Nova Scotia Provincial Lotteries and Casino Corporation should determine appropriate targets for its responsible gambling programming and establish strategies to achieve these targets.

Nova Scotia Provincial Lotteries and Casino Corporation Response: NSPLCC believes it does have a process in place to determine appropriate performance metrics and targets. NSPLCC does agree that a review of the process is warranted and will engage a third party expert specializing in program evaluations and the

identification of processes for setting performance metrics and targets that are based on standards of professional practices and principles. In 2015-16, it is expected the expert will assist NSPLCC in the following areas:

- Complete a review of NSPLCC's responsible gambling program evaluation processes;
- Assist in identifying improvements to the process for setting performance metrics and targets specific to NSPLCC's responsible gambling programs; and,
- Assist in identifying updated performance metrics and targets for NSPLCC's responsible gambling programs.

► Health and Wellness is not monitoring the outcomes of gambling prevention and treatment services

5.40 *Evaluation of problem gambling prevention and treatment services* – For 2012-13 and 2013-14, the Department of Health and Wellness set the following goals.

- Increase the number of adults experiencing gambling problems that seek professional treatment services from 7 percent (determined in 2007) to 10 percent by 2015
- Decrease the number of adolescents between the ages of 13 and 18 years old who are engaged in organized forms of gambling from 54 percent (determined in 2011) to 50 percent by 2015

5.41 The baseline established for adults seeking treatment services is not consistent with most up-to-date information available to the Department of Health and Wellness. The 2007 provincial gambling surveillance report noted approximately 10 percent of people experiencing gambling problems seek assistance. This should have been used as the baseline. Achieving the goal of 10 percent would mean there has been no change in the percentage of people accessing treatment services. Health and Wellness indicated they were aware of this error since 2012-13 but it was not corrected in subsequent years. To be effective goals need to be based on accurate information.

5.42 Neither of the goals established by the Department of Health and Wellness represent significant improvements. In addition, the Department was unable to assess progress towards these goals due to a lack of updated gambling surveillance data. These issues call into question the value of the goals and whether the Department is serious about addressing the issues. Without meaningful goals and accurate gambling surveillance data generated on a regular basis, the Department will be unable to appropriately assess the effectiveness of gambling prevention and treatment work.

5.43 Health and Wellness management told us that these goals will no longer be used. They indicated the Department plans to focus on strategic and system-level issues, while the establishment of disease-specific and condition-



specific goals, such as for gambling prevention and treatment, would be left to each program area within the Department. Management responsible for gambling prevention and treatment indicated there are plans to develop gambling-specific goals in the future.

- 5.44 Additionally, the Department of Health and Wellness is not monitoring the treatment outcomes at health authorities. Treatment standards require health authorities to measure client satisfaction with the services and measure the reduction in gambling-related harms. This would provide valuable information on treatment outcomes, but health authorities are not required to report these results to the Department. Furthermore, Health and Wellness management does not know if health authorities are monitoring their results. Without outcome monitoring, it is impossible to know the effectiveness of gambling treatment services.
- 5.45 *Evaluation of the problem gambling help line* – The operator of the problem gambling help line reports changes in the level of harm being experienced by gamblers between their first and last treatment session. While the results indicated clients are experiencing improvement, the average scores still fall within the problem gambling category. While we recognize treatment may not result in problem gamblers no longer gambling, the Department of Health and Wellness has not identified the possible causes of these results or determined ways to improve the service.
- 5.46 The service provider is also required to survey those using the help line three months after treatment is complete but these surveys have not been conducted. Health and Wellness has not contacted clients to assess their level of satisfaction with the service or the impact of the treatment on their gambling problems.

Recommendation 5.5

The Department of Health and Wellness should establish goals to determine if gambling prevention and treatment efforts are effectively reducing the number of Nova Scotians experiencing gambling harms, including those receiving treatment through the Gambling Support Network. The Department should evaluate progress against goals on an annual basis.

Department of Health and Wellness Response: DHW agrees with this recommendation and intends to implement. As part of the Accountability Framework for the health system, DHW will develop mental health and addiction specific prevention and treatment indicators. The indicators will contribute to meeting Government's strategic goals. DHW will evaluate progress on achieving the indicators annually, appreciating that there may be limited significant annual change in progress on the strategic goals given the complexity of the underlying structural contributors to poor health.

Current initiatives to assist in evaluating progress:

- Development and implementation of the Mental Health and Addictions Services Information System;
- Development and implementation of treatment outcome monitoring initiatives;
- Completion and public release of the gambling surveillance results undertaken in 2010 and 2013; and,
- Development and implementation of a comprehensive monitoring and surveillance system which will provide the department with a more accurate and up-to-date understanding of the incidence of at-risk and problem gambling and associated harms.

Communications

Conclusions and summary of observations

The Department of Health and Wellness and health authorities did not have strategies to communicate gambling prevention and treatment services during the audit period. Health authorities' communication efforts are focused on the promotion of overall addiction services and do not always include gambling-specific messaging. Despite knowing that very few people experiencing gambling-related harms reach out to treatment services, health authorities do not evaluate their communications with the public, nor have they determined the reasons for the low number of people accessing services. The Department of Health and Wellness implemented a strategy to improve the marketing of the problem gambling help line but this took the Department over three years to complete.

5.47 *Communication strategies* – The former district health authorities of Capital Health and Southwest Health did not have communication strategies for the promotion of gambling prevention and treatment services during our audit period. After we completed our audit fieldwork, the former Cape Breton District Health Authority developed a communication strategy for addiction services, which includes gambling. The strategy outlined how information on addictions services would be communicated using tools such as social media, radio, television and newspaper advertising, along with marketing materials, such as brochures and community presentations. This also included the development of an addiction services website with a gambling-specific section.

► Over three years to complete and implement improvements in marketing problem gambling help line

5.48 *Communication of the problem gambling help line* – During 2013-14, there were 445 calls to the help line (2012-13: 524 calls). This is very low relative to the number of people in the province believed to be experiencing



gambling-related harms. During our audit period, the Department of Health and Wellness did not have a communication strategy to promote the problem gambling help line. In 2011, the Department began working to improve help line marketing but this initiative was not completed until March 2015, at which time the help line was renamed the gambling support network.

- 5.49 As part of this initiative, the Department of Health and Wellness held focus groups to determine why people were not utilizing the problem gambling help line. The reasons ranged from shame and denial, to not understanding the services provided. Updated marketing includes television and online ads, and the development of a new website that provides information on the service, as well as resources for users. While this is a positive step in the promotion of the service, it took over three years to complete.
- 5.50 *District health authority communications* – Health authorities use a variety of methods to communicate addiction services information to the public, including websites, brochures and social media such as Facebook, Twitter and blogs. However, gambling-specific messaging is not always included.
- 5.51 Statistics from health authorities indicate very few people experiencing gambling-related harms are accessing treatment services. While each district health authority we audited suggested reasons for this, none had completed an evaluation of communications or a formal assessment of why people did not access treatment services during our audit period. Without this information, it is difficult to know how to increase the number of people utilizing treatment services. The Cape Breton District Health Authority's new communication strategy included tools for evaluating how many people are reached but since this was only implemented in the fall of 2014, all work has not been fully completed.

Recommendation 5.6

The Department of Health and Wellness should work with the health authorities to determine why so few people experiencing gambling harms are accessing treatment services. The results of this work should be used to develop strategies for improvement.

Department of Health and Wellness Response: DHW agrees with this recommendation and intends to implement. The Department will invite the Nova Scotia Provincial Lotteries and Casino Corporation, the Nova Scotia Health Authority, IWK, interested non-governmental organizations, and First Nations communities to co-create and implement a comprehensive plan to address gaps within the system in an effort to better support Nova Scotians at any level of risk for gambling related harm. This plan will recognize that not all Nova Scotians at-risk for gambling related harm will desire, or require, formal treatment.

First Nations Gaming Agreements

Conclusions and summary observations

The province did not include responsible gambling requirements in the majority of First Nations gaming agreements we examined. Additionally, the agreements have poorly-defined roles and responsibilities. This is likely due to the province not including all relevant stakeholders in negotiations. As a result, gambling on First Nations reserves are not monitored to ensure compliance with provincial laws. Additionally, there are no processes to ensure compliance with the terms and conditions of First Nations gaming agreements.

- 5.52 *Background* – The province has signed agreements with 13 First Nation Bands across Nova Scotia granting authority to each Band to operate gambling on reserve land and retain 100 percent of the net revenues. Total First Nations gross revenues from video lottery terminals in 2013-14 were approximately \$41 million. The province is currently renegotiating First Nations gaming agreements as the majority of agreements expire in 2015 or 2016.
- 5.53 *Development of First Nations gaming agreements* – We reviewed four First Nations gaming agreements and determined roles and responsibilities for monitoring compliance with the agreements and provincial gambling laws are poorly defined. This has contributed to a lack of enforcement of the terms and conditions of the agreements. Furthermore, Service Nova Scotia’s Alcohol and Gaming division and the Nova Scotia Provincial Lotteries and Casino Corporation indicated limited involvement in developing the agreements.
- 5.54 Each of the four agreements we reviewed stated that the Alcohol and Gaming Division would be responsible for enforcing provincial gambling laws and regulations on reserves. For example, Nova Scotia’s VLT Regulations stipulate age and advertising restrictions, along with consequences when regulations are not followed. That division was also to assist each band with the development of a protocol for monitoring compliance with provincial laws and regulations, along with the terms and conditions of the agreement. However, management at the Alcohol and Gaming Division indicated they were not involved in the development of the agreements. Management believes they have no legislative authority on First Nations reserves under the current agreements. As a result, gambling on First Nations reserves is not monitored. For non-First Nations establishments, Alcohol and Gaming issue registration certificates to bar owners. The Division can revoke the registration certificate if gambling is not conducted in accordance with provincial laws. First Nations VLT operators do not need registration certificates and thus Alcohol and Gaming do not have a mechanism to enforce compliance.



- 5.55 We also noted the First Nations gaming agreements fail to identify which provincial government department is responsible for monitoring compliance with the agreements.

► First Nations Bands not required to participate in responsible gambling programming

- 5.56 *Responsible gambling* – Three of four First Nations gaming agreements reviewed did not include requirements around the promotion of responsible gambling on First Nations reserves. Each of these agreements were developed in 2003. The remaining agreement was signed in 2011 and stated the Band is to participate in any responsible gambling programs and initiatives administered by the Nova Scotia Provincial Lotteries and Casino Corporation; the Corporation is to include the Band in any such programs or initiatives. This would include initiatives such as retailer training and responsible gambling signage at gambling venues. However, due to ongoing legal issues with other aspects of the agreement, this has not been done.
- 5.57 Video lottery terminals on First Nations reserve land are the same as terminals located at non-First Nations sites across the province, and have the same built-in responsible gambling features, such pop-up reminders and mandatory cash-in and cash-out features. However, Bands are not required to implement the same responsible gambling programming required at non-First Nations sites.
- 5.58 It is important for gamblers to have access to information to make informed decisions about their play, along with information on where they can seek assistance for gambling problems. Since First Nations Bands are not required to follow the same responsible gambling programming in place at non-First Nations gambling venues, there is a risk players may not have access to this information.

Recommendation 5.7

The province should work with First Nations Bands to see the objectives of responsible gambling are reflected in the operation of First Nations gambling venues. In addition, the negotiation of the new First Nations gaming agreements should include all relevant provincial government stakeholders and clearly outline a process to monitor compliance with agreement terms and conditions. This should include clarifying the role of Service Nova Scotia's Alcohol and Gambling Division in monitoring compliance with provincial gambling laws on First Nations reserves.

Aboriginal Affairs Response: The Province accepts this recommendation and will work with First Nations on responsible gaming programs on reserve. As work continues on the negotiation of new First Nations gaming agreements, the Province will work on governance of the file and clarity of roles and responsibilities to ensure oversight and compliance with provincial gaming laws.



Department of Health and Wellness: Additional Comments

At risk and problem gambling is a complex issue and reducing gambling-related harms requires a comprehensive approach. DHW, in consultation/collaboration with its partners, will consider a variety of options such as: legislative and regulatory possibilities; consumer awareness/education; services and supports for individuals experiencing harm; monitoring and surveillance; and, modifications to the gambling environment to protect the consumer.

Nova Scotia Provincial Lotteries & Casino Corporation: Additional Comments

NSPLCC is responsible for the conduct and management of the regulated gambling industry in the province, with the exception of First Nations and charitable gaming. NSPLCC is a Crown corporation governed by Part I of the Gaming Control Act and charged with leading an economically sustainable and socially responsible gaming industry for the benefit of Nova Scotians and their communities.

For NSPLCC, responsible gambling is about fostering an environment that promotes safer play and informed decisions. This means upholding high standards and providing a safe and entertaining player experience, delivering effective responsible gambling programs, assessing products and promotions and making information available to people so they can make informed decisions about their play.

NSPLCC would like to note that responsible gambling was a key consideration throughout the My-Play decision-making process. Several mandatory responsible gambling features are still available on VLTs in the province to assist players in managing their play.

In 2015-16, NSPLCC will address the OAG's recommendation as noted, and will conduct a bi-annual review of the Responsible Gambling Assessment Program. NSPLCC's priority is to ensure a responsible, accountable and sustainable approach to gambling.