

**2021**

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



**Value for Money of Early COVID-19  
Relief Programs for Individuals and Small  
Businesses: Education and Early  
Childhood Development; Finance and Treasury  
Board**



**Performance Report**  
**Independence • Integrity • Impact**

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November 23, 2021

Honourable Keith Bain  
Speaker  
House of Assembly  
Province of Nova Scotia

Dear Sir:

I have the honour to submit herewith my Report to the House of Assembly under Section 18(2) of the Auditor General Act, to be laid before the House in accordance with Section 18(4) of the Auditor General Act.

Respectfully,

A handwritten signature in black ink that reads "Kim Adair".

**Kim Adair, FCPA, FCA, ICD.D**

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# Value for Money of Early COVID-19 Relief Programs for Individuals and Small Businesses: Education and Early Childhood Development; Finance and Treasury Board



## Key Messages

- Quick response was commendable, but Province spent \$100 million before knowing the cost of relief
- Millions in potentially unspent COVID-19 relief funds will not return to Province
- Audited COVID-19 programs administered by Dalhousie University well managed
- Numerous concerns with emergency childcare provider grants

## Why We Did This Audit

- During fiscal 2020/21, Province spent \$698 million in response to the COVID-19 pandemic
- Provincial COVID-19 relief programs were established very quickly, need to ensure appropriate oversight and accountability for taxpayer funds
- Lessons can be learned for future emergency funding programs

## What we did in this audit

- Focus was on first wave (March to September 2020) COVID-19 relief programs for small businesses and individuals
- Provincial funds examined include:
  - \$100 million contract with Dalhousie University; and
  - \$30 million to support childcare providers delivered by the Department of Education and Early Childhood Development
- Specific programs audited include Worker Emergency Bridge Fund, Small Business Impact Grant, Small Business Reopening Grant, Family Home Operating Grant, Staff Support Grant, and Operational Cost Grant

## Quick response commendable, but concerns with overall approach

- \$100 million given to Dalhousie University meant the Province gave up control over how the money was spent without knowing how much was needed
- Potentially more than half of the \$100 million may not be needed for COVID-19 relief programs but will not return to the Province, instead going to Research Nova Scotia
- Providing the full funding early led to the unusual approach of using \$35 million from the Dalhousie University contract for loan guarantees, rather than funding directly from the Province
- Weaknesses with missing Contribution Agreement contract clauses and missing risk assessments

## COVID-19 relief programs delivered by Dalhousie University well run

- Roles and responsibilities were understood
- Programs were well run, only minor errors found

## Numerous process and control weaknesses with emergency childcare provider grants

- No clear guidance of qualifying expenses, no requirement to provide support for amounts claimed, no audits, no quality review, no risk assessments; multiple calculation errors, funding approval letters not always sent to applicants, attestations missing or not required, and performance measures not evident



## Recommendations at a Glance

### **Recommendation 1.1**

We recommend the Department of Finance and Treasury Board, in consultation with the Executive Council Office, develop guidance on providing grants in emergency situations which considers any lessons learned during COVID-19 and includes specific direction on:

- the appropriate timing and use of funding,
- the return of residuals when using external parties,
- the inclusion of mandatory provisions in all contracts with external parties,
- the use of goals, objectives, and key performance indicators, and
- the required monitoring, oversight, risk assessments and reporting.

### **Recommendation 1.2**

We recommend the Department of Education and Early Childhood Development perform audits to ensure the emergency childcare grants accurately went to entitled recipients. The Department should take appropriate corrective action if errors are found.

## Questions Nova Scotians May Want to Ask

1. What is the Province's plan if there are millions remaining at the end of the Tourism Sector Financing Assistance Program?
2. Will the Province conduct a "lessons learned" exercise to improve response to future emergencies?
3. When will the Province create guidance for future emergency relief programs?
4. Is there a plan to spend the remaining unallocated COVID-19 funds?
5. When will the Department of Education and Early Childhood Development complete audits of the emergency childcare grant applications?

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# 1 Value for Money for Early COVID-19 Relief Programs for Individuals and Small Businesses: Education and Early Childhood Development; Finance and Treasury Board

## Background

- 1.1 The World Health Organization declared the COVID-19 outbreak a global pandemic on March 11, 2020. Four days later, Public Health, a division within the Department of Health and Wellness, began to implement restrictions to reduce the spread of COVID-19, such as mandating a two-metre distance between people, limiting capacity indoors, and ordering the closure of businesses. On March 22, 2020, the Province issued a state of emergency, providing government with the authority to do what was necessary for the safety of Nova Scotians.
- 1.2 The COVID-19 pandemic has had a significant impact on Nova Scotians. As a result, the Province responded quickly with numerous relief measures, putting in place many different emergency programs and services to support those impacted. In fiscal 2020/2021, the Province spent nearly \$698 million related to COVID-19 expenses with \$392 million related to health care. This chapter focuses on first wave spending; specifically, a \$100 million contract with Dalhousie University and the \$30 million spent at the Department of Education and Childhood Development to support childcare providers across the province.
- 1.3 As the pandemic progressed, the Province announced various additional COVID-19 relief programs. Our primary audit focus was provincially funded programs providing support to small businesses and individuals up to September 2020. Some of the programs we audited continued, and various new programs were added as restrictions were reintroduced in the second and third waves. We did not audit programs that included approximately \$462 million in federal funding, or health care initiatives such as personal protective equipment purchases.
- 1.4 As the early stages of the COVID-19 pandemic were unfolding in Nova Scotia, each provincial government department was tasked with developing programs within its mandate to address the Public Health emergency. The departments relied on other provincial governments, business associations, think tanks, and contacts from the private sector. Additionally, the Province met with stakeholders, primarily through a province-wide business coalition.

### Key 2020 Dates for COVID-19 Programs

	<p><b>March 11</b></p> <ul style="list-style-type: none"> <li>World Health Organization declares COVID-19 outbreak a global pandemic</li> </ul>
	<p><b>March 15</b></p> <ul style="list-style-type: none"> <li>First presumptive cases in Nova Scotia; organizations and businesses required to practice two-metre social distancing</li> </ul>
	<p><b>March 17</b></p> <ul style="list-style-type: none"> <li>Bars ordered closed, restaurants limited to take-out and delivery</li> <li>Regulated childcare sector ordered closed</li> </ul>
	<p><b>March 19</b></p> <ul style="list-style-type: none"> <li>First payment of emergency grants to licensed childcare centres and family home childcare agencies</li> </ul>
	<p><b>March 22</b></p> <ul style="list-style-type: none"> <li>Provincial State of Emergency declared</li> </ul>
	<p><b>March 31</b></p> <ul style="list-style-type: none"> <li>Province enters into \$100M Contribution Agreement with Dalhousie University to administer COVID-19 relief programs</li> </ul>
	<p><b>April 10</b></p> <ul style="list-style-type: none"> <li>Applications open for the Worker Emergency Bridge Fund and the Small Business Impact Grant</li> </ul>
	<p><b>May 29</b></p> <ul style="list-style-type: none"> <li>First day with no new cases of COVID-19 reported</li> </ul>
	<p><b>June 5</b></p> <ul style="list-style-type: none"> <li>Bars, restaurants, gyms, barber shops reopen under public health restrictions</li> </ul>
	<p><b>June 15</b></p> <ul style="list-style-type: none"> <li>Applications open for the Small Business Reopening Grant</li> <li>Reopening of licensed childcare centres and home providers at reduced capacity</li> </ul>
	<p><b>October 16</b></p> <ul style="list-style-type: none"> <li>Province announces the Tourism Sector Financing Assistance Program</li> </ul>

Source: Office of the Auditor General, Nova Scotia



## Accountability and Oversight



### **The Province acted quickly but committed \$100 million to Dalhousie University to administer COVID-19 relief programs before knowing how much would be required**

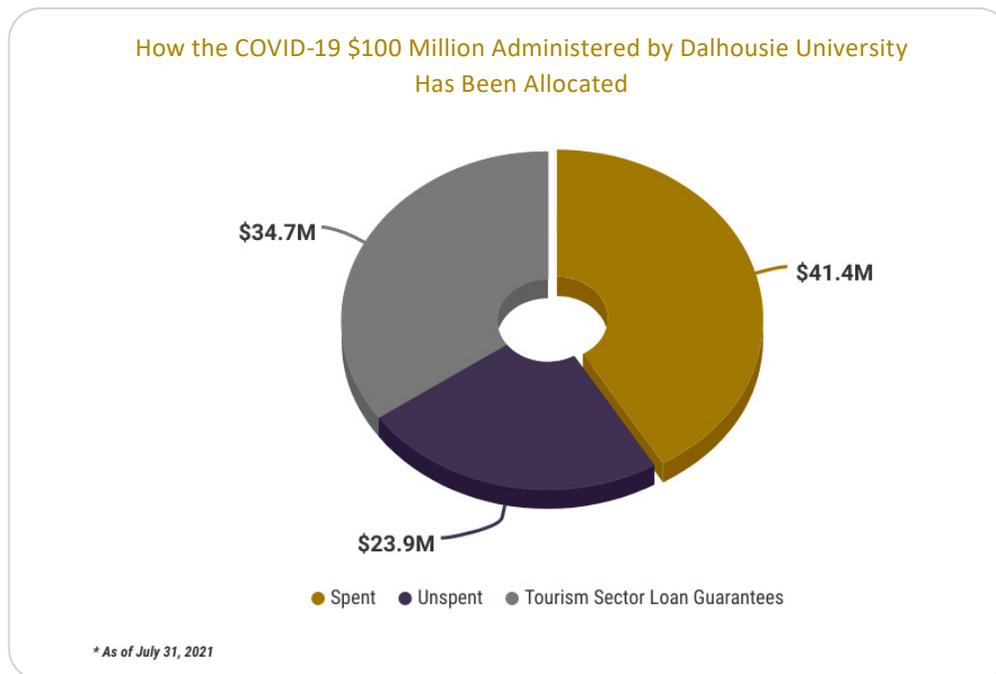
- 1.5 The Province did well to move quickly to provide support to Nova Scotians through the first wave of the COVID-19 pandemic, however, control of \$100 million was given up by the Province in the process. The Province identified the need to provide COVID-19 financial support to individuals and businesses due to Public Health orders and the effect of COVID-19 on the provincial economy. In all cases, the selection and approval of programs followed a process consistent with provincial policies and procedures. Although the Province delivered on its plan to provide limited oversight, guidance, and monitoring of the Dalhousie University administered programs, we have concerns with the overall approach.
- 1.6 The Province entered into a Contribution Agreement with Dalhousie University on March 31, 2020 for \$100 million to administer programs to assist individuals and businesses adversely affected by COVID-19. Initially, \$50 million was allocated to program funding, while the remaining \$50 million was intended to support future COVID-19 relief programs.
- 1.7 Through the terms of the Contribution Agreement, the Province handed control of \$100 million to Dalhousie University to administer the programs. Management at both the Province and Dalhousie University informed us that any interest earned on the unspent balance would be also become part of what was available for relief funding, meaning government also gave away control of any interest earned on the contribution. The agreement gave Dalhousie University the option to seek advice from the Province but did not require them to do so.
- 1.8 The quick response of government to the public health emergency is commendable; however, spending \$100 million before relief programs were developed and costed is concerning. By spending and committing \$100 million to Dalhousie University before relief programs were fully developed and costs were known, the Province was no longer able to redirect any potential savings if the funding earmarked for relief programs was not needed.



### **More than half of the \$100 million may never go to COVID-19 relief programs**

- 1.9 The original Agreement contained a clause which created uncertainty regarding the outcome of any remaining funds. This left the Province open to risk that potential unspent funds would not be used as intended. Since our audit began, the Agreement has been amended and any remaining funds are now to be given to Research Nova Scotia for the purpose of public health research.

We are concerned that this money, spent before the government knew how much it would need, will never return to the Province. It is important for the Province to consider its options regarding potential significant residual funds. As noted in the chart below, more than half of the \$100 million spent by the Province is either unallocated at this time or relates to loan guarantees which may also remain unused at the end of the Agreement.



Source: Dalhousie University (unaudited)

**➡ Providing the full funding early led to unusual approach for \$35 million loan guarantee program**

1.10 During the course of our audit, \$35 million of the \$100 million was used to create the Tourism Sector Financing Assistance Program, a loan guarantee for large tourism operators. While this program was not part of our original audit plan, we felt it appropriate to consider the implications of the approach used.

**What is a Loan Guarantee?**

**A loan guarantee is a promise to pay all or part of the principal and interest on a debt obligation in the event of default by the borrower.**

1.11 It is notable that the full \$35 million has been expensed and is sitting at Dalhousie University as security for these loans until the program ends in 2027, or one of the operators defaults. Had this program been run through a provincial department, a more traditional approach, the money would have remained with the Province and not expensed until needed in the event of a default.



- 1.12 This shows one impact of contracting Dalhousie University for the full \$100 million up front. Doing so locked in the amount to be spent and may have led to the decision to run the loan guarantees through Dalhousie University. Had the money not been provided to Dalhousie University, then a loan guarantee program would likely have been run in a traditional manner through a provincial department.

 **Approach to emergency relief programs needs to be pre-planned to ensure proper provincial oversight and accountability**

- 1.13 We note these relief programs had to be established quickly and while we did not find any indication of fraud or significant errors, the absence of a documented program framework leaves the Province open to risk.
- 1.14 During our review of COVID-19 relief programs at Dalhousie University and the Department of Education and Early Childhood Development, we found that:
- risk assessments were not consistently done
  - the Contribution Agreement with Dalhousie University was missing some contract clauses
  - goals and objectives appeared to be understood but not all included performance measures, and
  - monitoring was not documented at the Department of Education and Early Childhood Development
- 1.15 The Province needs to develop guidance for emergency relief programs including expectations for emergency funding situations and the required documentation to ensure departments are aware of what is needed before funding is administered. Lessons learned from the COVID-19 relief programs will provide useful information in developing this framework.

 **Risk assessments necessary for COVID-19 relief programs not completed**

- 1.16 Risk assessments detect potential risks and identify the relevant controls and processes needed to manage these risks.
- 1.17 Examples of risks that could affect the COVID-19 relief programs include fraud risk and privacy risk. While completing a risk assessment will not protect from all risk, it will create awareness and identify areas to add additional levels of control to safeguard assets and personal information.
- 1.18 Due to the rapid deployment of COVID-19 financial support and the complexity of collecting, managing, and storing individual, employment, and business data, there are many risks that can impact the success of emergency



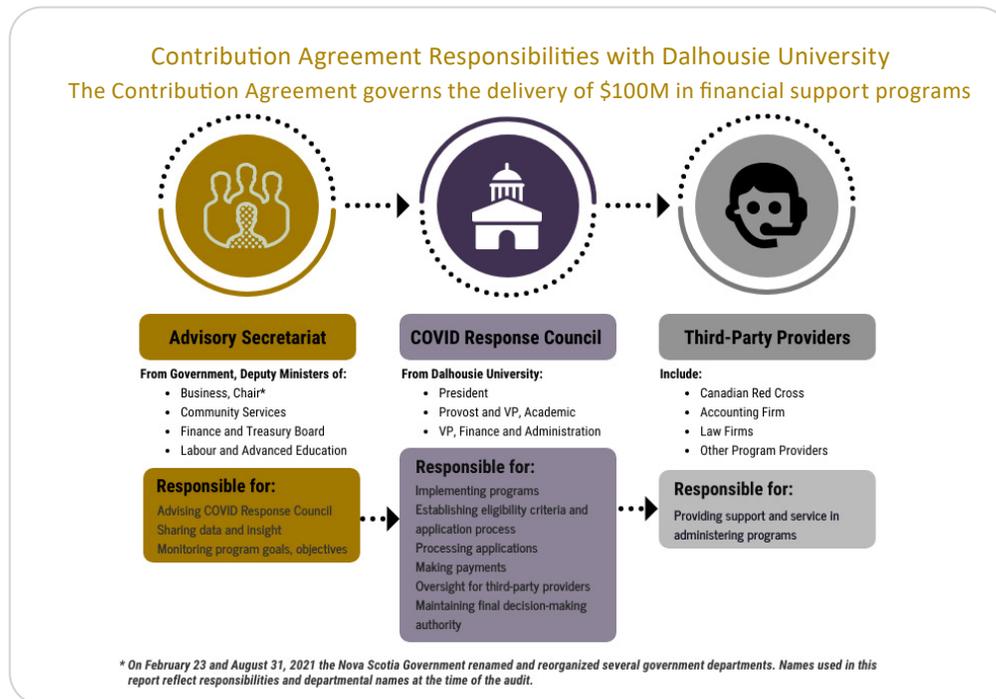
grants. It is important for the Province to actively identify, monitor, and manage these risks to reduce their impact.

- 1.19 We did not find any risk assessments completed by the Province or the Department of Education and Early Childhood Development. We did note Dalhousie University completed a Privacy Impact Assessment relating to the delivery of the Small Business Impact Grant.
- 1.20 The Province contracted with Dalhousie University and gave them full responsibility for any subcontracts. This means the Province accepted a significant level of risk by relinquishing control. While we did not find any indication that subcontracts did not receive adequate oversight, it is important that in the future, the Province carefully consider the risks associated with placing oversight responsibility with an external party.



**Contribution Agreement with Dalhousie University well defined with some weaknesses**

- 1.21 Detailed goals and objectives for the Worker Emergency Bridge Fund, the Small Business Impact Grant, and the Small Business Reopening Grant were documented in the Agreement, program descriptions, and guidance documents. Public notices on the Province's COVID-19 financial support webpage were consistent with these goals and objectives.
- 1.22 The Agreement created two bodies to deliver COVID-19 relief programs. The Advisory Secretariat is a committee comprised of Deputy Ministers with an exclusively advisory function. There is also the Nova Scotia COVID Response Council, made up of senior leadership from Dalhousie University with the responsibility to implement programs, establish eligibility criteria, process applications, and make payments to recipients.



Source: Office of the Auditor General, Nova Scotia

- 1.23 Management explained that while the Deputy Ministers’ Advisory Secretariat was created to provide advice, including sharing data and insight into program objectives, the Nova Scotia COVID Response Council is not obligated to seek approval or act on advice for any of the programs that are defined in the Agreement. However, if the Nova Scotia COVID Response Council determined additional financial supports were needed, which was permitted under the Agreement, it was expected that they would consult the Secretariat. The Nova Scotia COVID Response Council maintained final decision-making authority. We found that both parties had a clear understanding of the roles and responsibilities as defined in the Agreement.
- 1.24 We did however find some weaknesses in the Contribution Agreement, including the lack of definition around what should happen with any interest earned on the contribution. Although management from both the Province and Dalhousie University indicated that interest revenue would be spent on future relief programs or go to Research Nova Scotia if funds remain, the agreement with the Province does not address this issue. With just over five years until the contract terminates in 2027, this could result in a significant amount of interest accumulating. As of July 31, 2021 Dalhousie had recorded just over \$500,000 in interest revenue on the Province’s contributions.
- 1.25 There are also a number of standard clauses missing from the Agreement with Dalhousie University. For example, there is no confidentiality clause, nor a conflict of interest clause, and there is no option to terminate the Agreement earlier than the termination date of March 31, 2027. These basic terms are



found in the standard government services contract. These clauses protect personal information collected during the programs as well as ensure parties are aware of conflict of interest issues.

 **The Province received regular reporting on program performance**

- 1.26 The Advisory Secretariat monitored the goals and objectives of the COVID-19 relief programs administered by Dalhousie University through the Contribution Agreement. Regular reporting was received from Dalhousie University and third-party service providers as outlined as a deliverable in the Agreement. These reports informed the Advisory Secretariat of the number of eligible and ineligible applicants, the total grants paid, as well as operational details that required attention, clarity, or problem solving.
- 1.27 A final report with a full accounting of the programs is also required within six months of the final payment under the Contribution Agreement, however, this may not happen until 2027.

 **No performance measures or evidence of monitoring of \$30 million in emergency childcare grants by Department of Education and Early Childhood Development**

- 1.28 Establishing performance measures is an important step in creating any program. Performance measures are metrics that help determine if an overall goal is met. They help define success for a grant program.
- 1.29 Management explained emergency childcare grants were created to ensure the sector remained viable and ready to operate once Public Health orders were lifted. By supporting the sector financially, the Department wanted to ensure childcare spots remained available until September 1, 2020.
- 1.30 While the overall goal of helping childcare providers stay financially viable was clear and communicated to the childcare sector and the public, the Department of Education and Early Childhood Development did not set performance measures to define its success or ensure that the goal was met.
- 1.31 The three types of emergency grants to the childcare sector totaled \$30,359,674 from March through August 2020. Management in the Department indicated they monitored the childcare grants, including the Staff Support Grant, the Family Home Operating Grant, and the Operational Cost Grant by providing updates to the Deputy Minister. However, we found no documented evidence of comprehensive monitoring of the programs.



### **Recommendation 1.1**

We recommend the Department of Finance and Treasury Board, in consultation with the Executive Council Office, develop guidance on providing grants in emergency situations which considers any lessons learned during COVID-19 and includes specific direction on:

- the appropriate timing and use of funding,
- the return of residuals when using external parties,
- the inclusion of mandatory provisions in all contracts with external parties,
- the use of goals, objectives, and key performance indicators, and
- the required monitoring, oversight, risk assessments and reporting.

*Department of Finance and Treasury Board Response: The Department of Finance and Treasury Board agrees that the development of guidance, in consultation with the Executive Council Office, regarding the provision of grants (or other supports) in emergency situations is appropriate. Reviewing lessons learned through the COVID-19 response and documenting key elements of emergency response activities will help inform the advice provided to government decision makers regarding any future emergency event requiring significant financial commitments.*

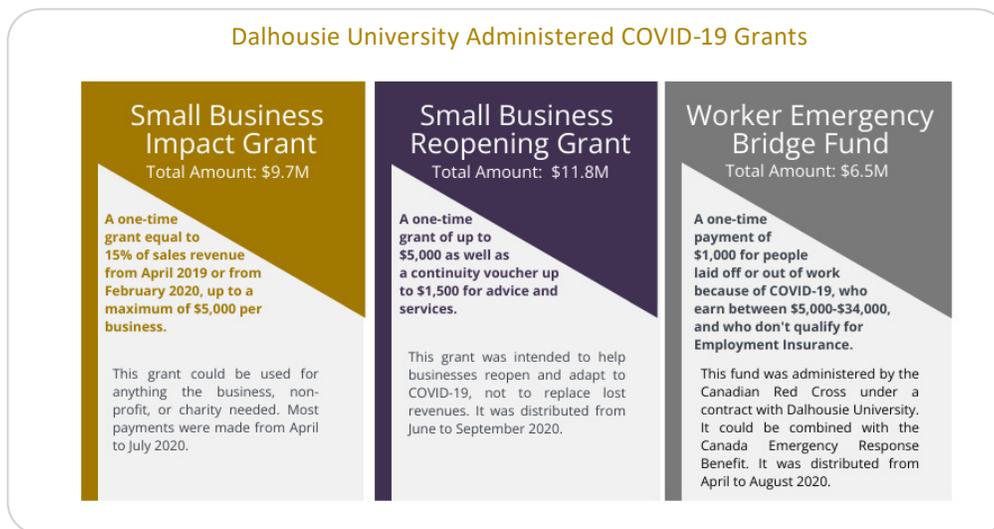
## **COVID-19 Relief Programs Administered by Dalhousie University**

### **Dalhousie University selected to administer COVID-19 relief programs**

- 1.32 On March 30, 2020, Executive Council approved a Contribution Agreement with Dalhousie University for COVID-19 financial support for individuals and businesses across several programs. These programs offered support to the individuals unable to work due to COVID-19 who were not eligible for employment insurance and to businesses in the sectors ordered closed by Public Health. Management explained that these supports were specifically targeted to reach those who were not already eligible for federal government support.
- 1.33 The Contribution Agreement was signed with Dalhousie University and authorized \$50 million in initial program funding, with the option for an additional \$50 million contribution in the future. The second contribution was dependent on the size of the provincial surplus in the March 31, 2020 financial statements. On September 24, 2020, the Agreement was amended, and the additional \$50 million contribution was paid to Dalhousie University.
- 1.34 The Province explained that Dalhousie University was approached as a partner due to its capacity to quickly deliver large and complex programs. Dalhousie University indicated its willingness to help as the university's strategic priorities and community outreach endeavours supported working with the Province to deliver COVID-19 relief programs. Dalhousie University received no financial compensation for its services, and only claimed minor

expenses which totaled less than \$40,000 for student and faculty wages for administering the programs.

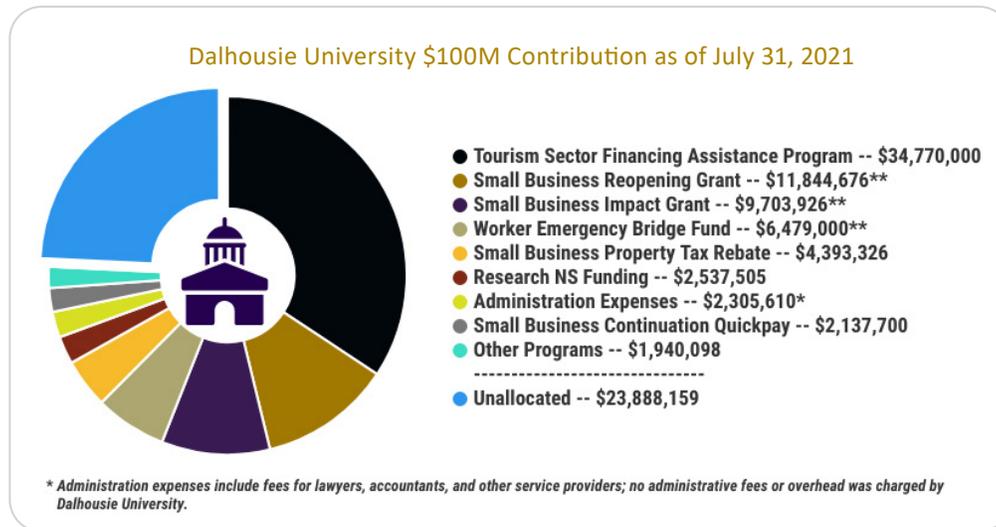
- 1.35 Of the many programs delivered through Dalhousie University, we looked at the Worker Emergency Bridge Fund, the Small Business Impact Grant, and the Small Business Reopening Grant. Collectively, these three programs totaled \$29,681,655 of the initial \$50 million contribution, including administrative fees and expenses.



Source: Office of the Auditor General, Nova Scotia

- 1.36 We selected programs based on the initial budget, which was \$40 million for the Small Business Impact Grant and the Worker Emergency Bridge Fund. We included the Small Business Reopening Grant as it was created to use up funding that ultimately was not required for the Small Business Impact Grant. We did not include various smaller programs such as the COVID-19 Rent Deferral Support Program and the COVID-19 Rural Nova Scotia Restaurant Virtual School Breakfast and Lunch Program.

- 1.37 A full breakdown of the \$100 million contribution as of July 31, 2021 follows:



Source: Dalhousie University (unaudited except where noted \*\*)

 **Small Business Impact Grant and Small Business Reopening Grant were administered well, although some issues identified through our testing**

- 1.38 Overall, we found that the Small Business Impact Grant and Small Business Reopening Grant applications were appropriately reviewed and assessed based on eligibility criteria, and accurately disbursed. The process was designed to ensure there was more than one piece of information to support an application. We found minor documentation issues such as missing tax documents or income statements, however, there was no indication that the grant amount was not supported.
- 1.39 We tested 80 approved and 40 rejected applications across the two programs. We found one application which was approved when the eligibility of the business was unclear. Dalhousie University management indicated the type of business and revenue sources made it difficult to determine if the business type was eligible. However, they indicated the preference in that case was to provide funding rather than decline a potentially eligible business. Under the circumstances, it is reasonable that the approach was to err on the side of approval to ensure Nova Scotians in need received support. We also found two applications that were mistakenly declined when the businesses were eligible for the grant. The applicants were paid after management was made aware of our audit findings.
- 1.40 The information system used to process applications included controls designed to identify potential duplicate applications, however, we noted a lack of documented review to assess whether potential duplicates were acceptable. Despite this, the system retained a record of all activity, allowing us to confirm that reviewers had approved all applications, accepted all potential duplicates and appropriately paid all applications.



- 1.41 For the Small Business Impact Grant and the Small Business Reopening Grant, management indicated the finance team reviewed all payments prior to disbursement, however, there was no documentation of this review. We did note in one case that the finance team identified an application that was inappropriately approved, and the payment was declined.

 **Worker Emergency Bridge Fund administered well; minor errors identified in testing**

- 1.42 The Worker Emergency Bridge Fund, administered by the Canadian Red Cross on behalf of Dalhousie University, had 7,970 applicants resulting in 6,492 approved recipients for \$6.5 million. Applicants called the Canadian Red Cross and provided supporting information for their applications. Individuals were eligible for a \$1,000 one-time payment. We tested all applications and found:

- seven applications were inappropriately approved
- four applicants were incorrectly denied
- six approved applications did not include valid Social Insurance Numbers
- nine pairs of applicants had duplicate Social Insurance Numbers

These 26 errors represent less than 0.4% of the files.

- 1.43 The Province indicated its priority was to provide funding quickly to recipients, therefore it is reasonable to have a small number of errors. The Province put in place an appeal process to ensure applicants had the ability to appeal funding refusals. We reviewed the appeals process and found that decisions were appropriate and well documented.

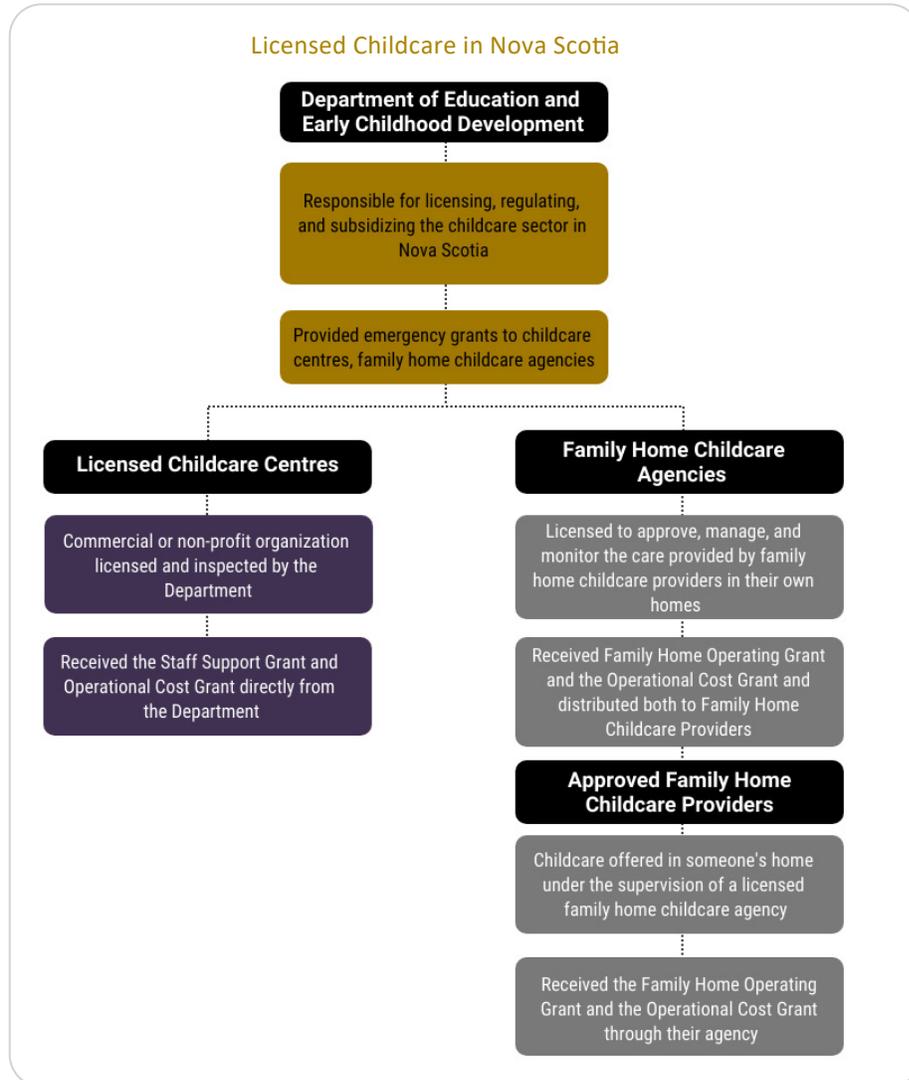
## Emergency Childcare Grants

 **Education and Early Childhood Development relied on existing grant processes to support the childcare sector**

- 1.44 Public Health ordered childcare centres to close on March 17, 2020. Childcare providers were directed not to charge fees until an official reopening date. The Department of Education and Early Childhood Development acted quickly to provide financial support to cover wages, provided the childcare centre continued to pay staff their regular wages. Staff at licensed childcare providers were therefore not eligible for the Canada Emergency Response Benefit. On March 19, 2020, the first emergency grant instalment was issued to family home childcare agencies through the Family Home Operating Grant, and on March 24, 2020, to regulated childcare centres under the Staff Support Grant.



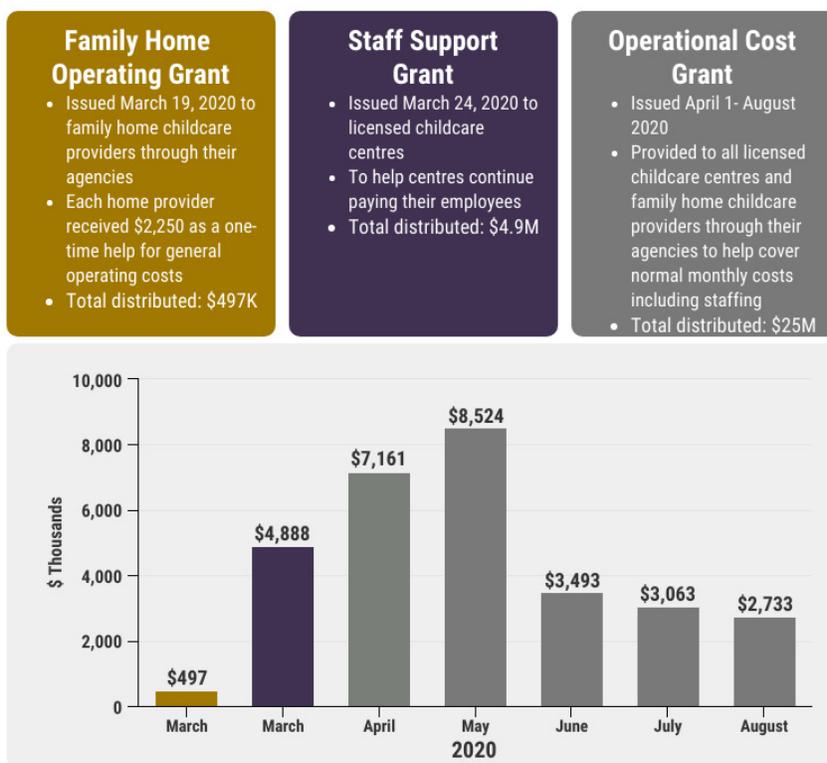
1.45 During April 2020, the Department began offering the Operational Cost Grant to both licensed childcare centres and family home childcare providers. This grant would continue throughout the first wave of mandated closures and reopening.



Source: Office of the Auditor General, Nova Scotia

1.46 The Department received \$62 million in additional appropriations during fiscal 2021, and part of the appropriation was used on emergency childcare grants because they were outside of normal operations. Executive Council approved this increase to the Department's operating budget to address the public health emergency. The following chart shows the distribution of funding totaling just over \$30 million over the first wave of emergency childcare grants.

### Emergency Childcare Grants



Source: Office of the Auditor General, Nova Scotia

1.47 As a result of an audit request by our office, the Department assessed the current status of childcare centres. The analysis revealed 330 of the 344 (96%) licensed childcare centres active in March 2020 had reopened by August 2020, and 195 of 218 (89%) of family home childcare providers operating in March 2020 were active in September 2020. While these results would indicate the grants ensured the majority of childcare operators remained viable and reopened once public health orders were lifted, we still have concerns regarding the approach used.

1.48 To implement the emergency grants, the Department used existing payment and approval processes as well as information technology systems. The individual grant payment calculations were performed using spread sheets while the payment process was done through the Early Childhood Development IT system. Throughout the process, there were manual adjustments to individual grant calculations with no secondary review or spot checks performed. A manual system without review increases the risk of human error. We identified various errors in our testing, and these are further discussed below.



 **No audits or verification of supporting information used for grant calculations**

- 1.49 Childcare centres were required to submit forms detailing their expenses; however, there was no evidence requested to support that the information submitted by the childcare centre was accurate. For example, invoices were not requested to support expenses, nor lease agreements to support rental rates. Information communicated to the centres indicated the Department may review supporting records at a later date.
- 1.50 Attestations stating the information was factually accurate were required to be signed by the childcare centres. During our testing we found 13 of 50 attestations were not signed by the childcare centre representative and we saw no evidence the Department took any steps to get them signed. Attestations are an acknowledgement that the information submitted is factually accurate, and while they do not prevent mistakes or fraudulent submissions, they are an important control.
- 1.51 There was no attestation included for the family home childcare providers and agencies. We found the Department had no direct contact with the family home childcare providers. Agencies received and disbursed the total \$2 million in payments for all family home childcare providers as part of their normal responsibilities. The Department did not confirm the grant money was distributed according to the Department's calculations. Although this is the Department's regular approach, the reliance on agencies to disburse COVID-19 funding increases the risk and highlights the need for regular audits.
- 1.52 Management indicated that there was no verification of supporting documents at the time of the grant distribution due to the rapid deployment of grants, and no audits have occurred to date. Due to the errors found in our testing, along with the considerable amount of money disbursed, audits of the applications are now needed to ensure that amounts were accurately supported, and childcare providers received the amount to which they were entitled.

**Recommendation 1.2**

We recommend the Department of Education and Early Childhood Development perform audits to ensure the emergency childcare grants accurately went to entitled recipients. The Department should take appropriate corrective action if errors are found.

*Department of Education and Early Childhood Development Response: EECD agrees with this recommendation. The department was pleased to respond quickly to the needs of childcare operators during a once-in-a-generation pandemic, ensuring continued availability of child care for families. We also appreciate the role we have in monitoring and fiscal accountability for government funding. As*



*part of the existing financial monitoring audit process, EECD will be including a specific audit review of emergency provincial funding received by operators.*

*Centres may be identified for this audit randomly or as the result of an identified concern, beginning in November 2021. Funding adjustments will be made when necessary.*

*We know how important the availability of child care is to families and to the economy, and we were pleased to successfully meet the goal of keeping regulated child care centres viable and ready to be operational for families to return to care once the mandated closures were lifted.*



**No guidance or review of emergency childcare grant process led to inconsistencies and errors in our testing**

- 1.53 We found that there were no documented processes used by the Department of Education and Early Childhood Development to administer the emergency childcare grants. The Province needs a clearly defined and documented process to administer emergency grants to reduce the risk of staff assessing applications inconsistently, or incorrectly, and to reduce the risk of errors.
- 1.54 We also noted the Department did not have a secondary review process to check the accuracy or appropriateness of grant application decisions. A good safeguard is established when a second person, ideally someone more experienced than the original reviewer, checks the work and ensures things are done correctly.
- 1.55 There was no written guidance available to childcare centres outlining what expenses would be included in the Operational Cost Grant calculation. Expenses were expected to be costs that would continue without children present; for example, rent would still need to be paid. Management indicated discussions were held internally to determine whether certain costs should be included. However, there was no documentation of these decisions, which lead to inconsistencies in the calculation of grant amounts.
- 1.56 For instance, in four of the 50 cases we tested, we questioned the inclusion of certain expenses in the Operational Cost Grant calculation; following discussions with management we determined the expenses were not reasonable. The lack of clear guidance meant staff had to make personal judgments in order to evaluate each grant application, and this led to inconsistencies in the grants paid to childcare centres. For example, taxes were sometimes included in the calculation when they should not have been.
- 1.57 In addition to these inconsistencies, we found multiple calculation errors due to the lack of formally documented manual processes, and the lack of review. We found:



- four of 50 Operational Cost Grants tested with underpaid amounts totaling \$6,338
- one of 50 Operational Cost Grants tested with an estimated overpayment of \$132,000; this error was a result of overcounting staffing costs for multiple rounds of the grant
- one of 10 Staff Support Grants tested had an overpayment of \$1,405

At the time of our audit, the Department told us they did not have a plan to recover or distribute these funds.

- 1.58 There were also situations where there was no documentation to explain manual adjustments to figures within the calculation. While these adjustments were reasonable when explained to us, there was no process documentation to explain the decision.
- 1.59 These issues highlight the need for a review process to mitigate against the risk of human error. We did find that the grant amounts were reviewed for reasonability prior to payment, however this review would not have picked up on the calculation errors. A spot check of files would reduce the risk of human error and promote consistency between staff. As noted above in Recommendation 1.2, it is important the Department complete audits to ensure consistent treatment of all applications.



#### **Testing shows funding approval letters were not sent about half of the time**

- 1.60 The Department did not always communicate with childcare providers to ensure they knew what funding amount to expect, or to explain why they received a certain amount. We noted multiple situations during testing where childcare centres did not receive communication of the grant amount. We found 21 of 50 samples where applicants were not notified:
- Ten of these were for August and we subsequently learned that no funding approval letters were sent for that period.
  - Eight did not receive any funding, and we learned that letters were never sent to applicants not awarded funding.
  - The remaining three received funding and no letter was sent.
- 1.61 Communication of the grant amount to the providers, even if it is \$0, is an important control. It holds the Department accountable by giving providers an opportunity to question if they received the correct amount. The funding approval letters included contact information for the Department, and any details which should have been communicated; important information particularly in cases where the provider received no grant.



- 1.62 The grant recipients did not receive a complete process document explaining how grants were calculated. This reduced their ability to fully understand or redo any of the emergency childcare grant calculations. Without complete communication and process information, childcare centres could not know if they were receiving the amount to which they were entitled. Management indicated the decision was made to provide information verbally as the calculation was complex and centres had varying circumstances.



## Appendix I

### Reasonable Assurance Engagement Description and Conclusions

In Spring 2021, we completed an independent assurance report of the COVID-19 emergency funding programs for individuals and small businesses administered by Dalhousie University and the Department of Education and Early Childhood Development. The purpose of this performance audit was to determine whether there are adequate processes and controls to ensure that expenditures, made to help Nova Scotians get through the COVID-19 pandemic, are administered effectively to achieve defined goals and objectives.

It is our role to independently express a conclusion about whether the COVID-19 emergency grants to small businesses and individuals comply in all significant respects with the applicable criteria. Management at the Departments of Education and Early Childhood Development, and Finance and Treasury Board, have acknowledged their responsibility for COVID-19 emergency grants.

This audit was performed to a reasonable level of assurance in accordance with the Canadian Standard on Assurance Engagements (CSAE) 3001 — Direct Engagements set out by the Chartered Professional Accountants of Canada; and sections 18 and 21 of the Auditor General Act.

We apply the Canadian Standard on Quality Control 1 and, accordingly, maintain a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

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

The objectives and criteria used in the audit are below:

**Objective:**

To determine whether the Province of Nova Scotia provided adequate oversight, guidance and monitoring of the COVID-19 funding programs.

**Criteria:**

1. There should be a clear approval process for funding programs created during the COVID-19 pandemic.
2. There should be documented goals and objectives for each funding program.
3. There should be monitoring processes in place to ensure goals and objectives are being achieved.
4. Contracts should have clearly defined terms and conditions to protect public interest.
5. Contracts should be monitored for compliance with terms and conditions.



**Objective:**

1. To determine whether the funding programs administered by Dalhousie University are designed to achieve provincial goals and objectives.
2. To determine whether Dalhousie University defined and followed a decision-making process for awarding funds.
3. To determine whether Dalhousie University is accurately and appropriately disbursing funding to approved applicants.

**Criteria:**

1. There should be clear eligibility criteria and application requirements consistent with the goals and objectives for each funding program.
2. Evaluation of applications should be documented and reviewed.
3. Funding should only be awarded to applicants meeting the criteria.
4. There should be clear guidelines to determine what amount an applicant is entitled to.
5. Disbursements should be reviewed and approved before being paid to the applicant.

**Objective:**

1. To determine whether the Department of Education and Early Childhood Development designed the childcare support grants to achieve specific goals and objectives.
2. To determine whether the Department of Education and Early Childhood Development defined and followed a decision-making process for awarding childcare support grants.
3. To determine whether the Department of Education and Early Childhood Development is accurately and appropriately disbursing the childcare support grants to approved applicants.

**Criteria:**

1. There should be clear eligibility criteria and application requirements for the childcare support grants, consistent with the goals and objectives.
2. Evaluation of applications should be documented and reviewed.
3. Funding should only be awarded to applicants meeting the criteria.
4. There should be clear guidelines to determine what amount an applicant is entitled to.
5. Disbursements should be reviewed and approved before being paid to the applicant.

Generally accepted criteria consistent with the objectives of the audit did not exist. Audit criteria were developed specifically for this engagement. Criteria were accepted as appropriate by senior management at the Department of Education and Early Childhood Development, and at the Department of Finance and Treasury Board.

Our audit approach consisted of conducting interviews with management and staff of the Province, as well as third-party service providers; reviewing policy, examining processes for grants and conducting a detailed file review. We examined relevant processes, plans, reports, and other supporting documentation. Our audit period covered March 1, 2020 to September 30, 2020. We examined documentation outside of that period as necessary.

We obtained sufficient and appropriate audit evidence on which to base our conclusions on November 5, 2021, in Halifax, Nova Scotia.

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

- When the Province contracted with Dalhousie University and committed the \$100 million to be spent, they relinquished control of the money and program delivery to



Dalhousie University. Although the province provided the limited oversight, guidance and monitoring required under the contract through the Advisory Committee, we have concerns with the overall approach, including:

- Front-loading the spending of the funds before knowing what was needed
- Unused funds not returning to the province, instead going to Research Nova Scotia
- Some weaknesses in the contract
- The Department of Education and Early Childhood Development provided inadequate oversight, guidance and monitoring of its emergency grant programs.
- Goals and objectives were defined to meet the Province's goal of providing funding quickly:
  - Dalhousie University had documented goals and objectives for COVID-19 programs.
  - The Department of Education and Early Childhood Development communicated the overall goal to the childcare sector and the public, however, the Department did not set performance measures to define its success or ensure that the goal was met.
- Decision making:
  - Dalhousie University had a defined process for awarding funds.
  - The Department of Education and Early Childhood Development did not have a documented process for awarding funds; inconsistencies were found in the documentation and calculation of grants.
- Accurate Payments:
  - Dalhousie University was accurately and appropriately disbursing funding to approved applicants with only minor errors.
  - The Department of Education and Early Childhood Development disbursed funds to eligible childcare centres and family home childcare agencies, however, we noted numerous process and control weaknesses, as well as errors in the calculation of grants.

• • • **Office of the Auditor General** • • •

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