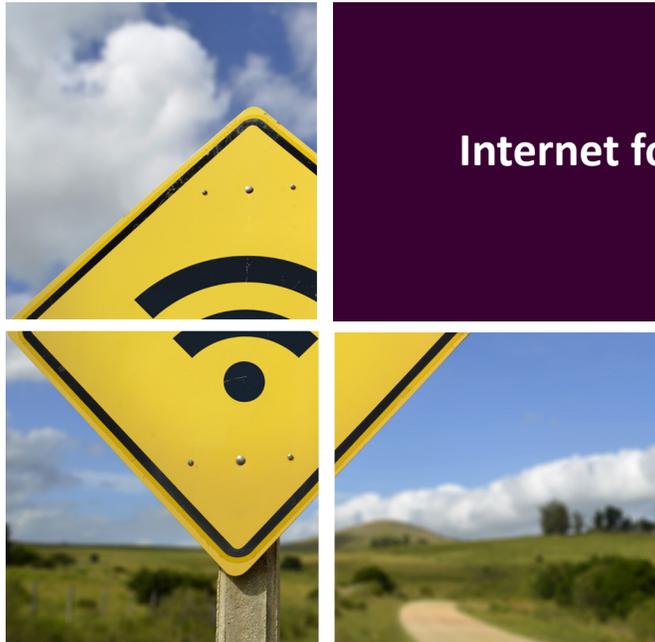


2021
**Report of the Auditor General
to the Nova Scotia
House of Assembly**

Internet for Nova Scotia



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

Auditor General of Nova Scotia

5161 George Street
Royal Centre, Suite 400
Halifax, NS B3J 1M7
Telephone: (902) 424-5907
Fax: (902) 424-4350
Website: www.oag-ns.ca



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Internet for Nova Scotia

Key Messages

- Once projects are complete, the Province should achieve its goal to help fund the infrastructure required to make affordable high-speed internet available to at least 95% of Nova Scotians
- Develop Nova Scotia succeeding on many aspects however improvement needed in monitoring of progress
- Numerous value-for-money concerns when using external trusts to deliver major province-wide initiative

Why We Did This Audit

- Access to affordable high-speed internet is important to Nova Scotians
- COVID-19 heightened demand for internet connectivity as work, school and healthcare moved online in early 2020
- \$193 million committed by Province to the Nova Scotia Internet Funding Trust is a significant investment
- Proper planning and oversight of such an important province-wide project is essential for success

According to Develop Nova Scotia – Progress as of August 2021

- 85% of Nova Scotians have access to affordable high-speed internet (2023 target 99%);
- Over 42,000 additional homes and businesses can now access high-speed internet (target approximately 100,000), and 10,825 have signed up
- \$33 million of \$193 million Trust funds paid to date, with up to \$164 million committed to expand service

Strategic Planning and Implementation

- Develop Nova Scotia has:
 - a strategic plan to address the internet needs of Nova Scotia
 - followed adequate procurement policies
 - agreements with internet service providers consistent with bid submissions and included appropriate terms and conditions
 - adequate processes for project approvals, payments, and policies
- However, improvement needed in monitoring internet service provider progress

Value-for-money concerns with use of external trust fund

- Province prematurely relinquished control of \$193 million to ensure revenue from an offshore royalty settlement was spent on the initiative
- Lost use of public funds almost two years before the initiative's first projects were announced
- Province predetermined the initiative's cost to taxpayers before the project was tendered
- Potential millions in unused trust funds may go to underserved municipalities or internet service providers, as unspent trust funds cannot return to the Province



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 relating to the use of trusts including specific direction on conducting:

- an analysis of alternative options, including value-for-money considerations to taxpayers for each option
- an analysis to determine the necessary funding prior to committing provincial funds; and
- an assessment of what level of control the government will have over the trust and whether risks have been appropriately mitigated for those that will be at arm's length.

Recommendation 1.2

We recommend Develop Nova Scotia complete, date and sign all parts of the Contribution and Service Delivery Agreements in a timely manner.

Recommendation 1.3

We recommend Develop Nova Scotia perform regular onsite inspections for all proponents to ensure progress reported by the proponent is accurate.

Recommendation 1.4

We recommend Develop Nova Scotia track project progress against schedules and document monthly meetings with proponents including sign-off on all progress reports received.

Questions Nova Scotians May Want to Ask

1. Will homes and businesses not already reached under the Internet for Nova Scotia Initiative ever have access to affordable high-speed internet?
2. What is Develop Nova Scotia doing to improve its monitoring of progress and schedules to ensure the projects are completed on time?
3. What is being done to minimize delays and ensure projects currently underway will be completed on time?
4. What are other ways the government could have funded a project like this? How will they ensure the issues identified in this report don't happen for the next project?
5. Technology is always changing. What is Develop Nova Scotia doing to ensure that evolving technologies are incorporated into the Initiative?

1 Internet for Nova Scotia

Background

- 1.1 In February 2018, the government established the Nova Scotia Internet Funding Trust (“the Trust”) and during that fiscal year committed \$193 million to be transferred into the Trust to help bring affordable, high-speed internet to homes and businesses across the province. At the time the Trust was created, approximately 70% of Nova Scotians had access to high-speed internet and the government’s stated goal was to connect more homes and businesses and enhance service for underserved communities. The Department of Business (now the Department of Economic Development) appointed a Chair for the Trust, and the Chair subsequently appointed two additional trustees.
- 1.2 In July 2018, Nova Scotia’s Waterfront Development Corporation was given a new name and mandate by the government. The Crown corporation was created in 1976 to redevelop waterfront property surrounding Halifax Harbour and around the province. When it became Develop Nova Scotia, its mandate was expanded by the Department of Business to include strategic economic infrastructure. The Department of Business at that time indicated Develop Nova Scotia would develop and manage an implementation plan to expand high-speed internet in rural Nova Scotia in connection with the Nova Scotia Internet Funding Trust.
- 1.3 In October 2018, the Trust contracted Develop Nova Scotia to plan, design, and manage the implementation of the Internet for Nova Scotia Initiative (“the Initiative”). Develop Nova Scotia has no authority to commit or disburse trust funds or to enter into an agreement with an internet service provider without approval from the trustees. However, Develop Nova Scotia, by nature of its project management responsibilities, plays a key role in the ultimate success of this significant, province-wide initiative.
- 1.4 The funds in the Trust are intended to subsidize the cost of capital expenditures associated with expanding infrastructure to underserved areas that would not otherwise be financially viable for internet service providers. Providers are reimbursed a portion of their expenditures for a project but are required to fund the remainder. The portion paid by the Trust differs for each proponent, depending on the proponent’s proposal, and has ranged from 25% to 70% of total project costs covered by the Trust. Funds provided from the Trust are not intended to subsidize operating costs.
- 1.5 As the Trust only reimburses proponents for partial costs to put the infrastructure in place, the internet service providers have an incentive to complete their work as quickly as possible. Only when new customers are



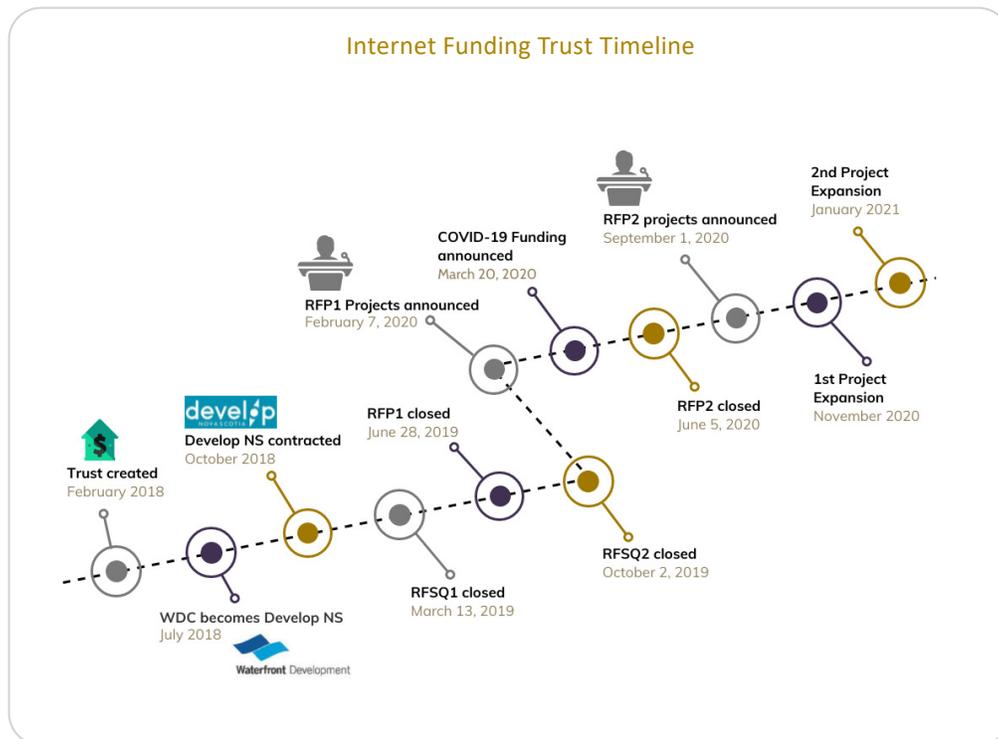
signed up to begin receiving services does the provider see any return on their investment. This inherent incentive for service providers to complete projects on schedule helps ensure Nova Scotians living in underserved areas are provided access to high-speed internet in a timely manner. Management also indicated the agreements signed with internet service providers hold the providers accountable to project timelines.

- 1.6 The Initiative was launched in December 2018 when Develop Nova Scotia posted a Request for Supplier Qualifications (RFSQ) to pre-qualify organizations interested in providing internet services. The purpose of an RFSQ process is to ensure proponents meet a certain qualification threshold before being allowed to submit a bid for a Request for Proposal (RFP). A request for proposal is a process where bids are sought from organizations to complete a project. Ten organizations were successful in the first round, and an additional five were approved in a second round. Only pre-qualified organizations were then eligible to respond to the subsequent requests for proposal.
- 1.7 The first round of successful proposals (“RFPI”) was announced in February 2020 and \$45 million in trust funds was committed to provide access to high-speed internet to 42,000 homes and businesses.
- 1.8 In March 2020, Develop Nova Scotia responded to an increased network demand brought on by COVID-19. The trustees agreed to set aside funding for organizations that pre-qualified through the RFSQ process to propose solutions to boost existing network performance quickly or to accelerate their RFPI projects to address increased internet traffic. As a result, the Trust awarded up to \$5.5 million to six organizations.
- 1.9 The second round of successful proposals (“RFP2”) was announced in September 2020 and a further \$59 million in trust funds was committed to provide access to high-speed internet to another 32,000 homes and businesses.
- 1.10 In November 2020 and January 2021, some proponents with RFPI and RFP2 projects underway were awarded additional funding to expand their projects to include additional housing units. Proponents were required to submit bids, and these were evaluated using the same approach as the original RFPs. These additional housing units were added in the same geographic areas of the previous awards. These scope expansions increased the funding for some RFPI and RFP2 projects by a total of \$53 million.
- 1.11 According to Develop Nova Scotia, when all projects currently underway are completed, 97% of Nova Scotians will have access and be able to sign up for affordable high-speed internet. There are also two municipal-led projects not funded by the Trust and when these are completed, the coverage will increase to 99%. According to Develop Nova Scotia, as of August 2021:



- 85% of all Nova Scotians now have access to affordable high-speed internet;
- 42% of homes and businesses (42,263) targeted by Trust initiatives now have access to high-speed internet and 10,825 have signed up;
- \$33 million in claims have been paid by the Trust to internet service providers for work completed on expanding high-speed internet access;
- \$164 million of the \$193 million has been committed to various internet service provider projects;
- Uncommitted funds total approximately \$29 million.

1.12 Refer to Appendix III for additional information on progress and payments as of August 2021.



Source: Office of the Auditor General, Nova Scotia

Use of a Trust Fund

 **Province prematurely relinquished control of \$193 million to ensure revenue from offshore royalty settlement was spent on the Initiative**

1.13 The \$193-million Nova Scotia Internet Funding Trust represents a significant investment by the Province. With a project this large, we would expect to

see documentation on the various options considered to fund the Initiative. However, we did not find evidence of a comprehensive analysis completed to reach the decision to use an external trust to deliver this initiative. The lack of a comprehensive analysis is concerning because the Province relinquished control of the Trust and the \$193 million before knowing how much the project would ultimately cost the taxpayer.

- 1.14 During fiscal 2017-18, the Province received \$232 million from a settlement relating to offshore petroleum royalty revenues. We were informed that all of the funding for the Initiative came from this one-time royalty settlement. The trust approach for the Internet for Nova Scotia Initiative was identified as an option in a consultant report commissioned by the Department of Business in 2018. The report outlined how previous Nova Scotia governments successfully used trusts for lump sums earmarked for multi-year programs. The use of an external trust was viewed as a way to ensure that funds remain available for the designated purpose without risk of reallocation to other government priorities from year to year.
- 1.15 Consequently, when the Trust was created in 2018, its set up ensured it was external to government, resulting in the Province giving up control over the funds, and the trustees becoming legally responsible for the funds in the Trust. Government has no legal control over the funds in the Trust and cannot make decisions on where the funds are disbursed or to whom. Only the trustees have the authority to make decisions on disbursement of trust funds. According to the Trust indenture, trustees can only use the funds to fulfil the purpose of the Trust.



The Province predetermined the Initiative's cost to taxpayers before the tendering process began

- 1.16 The Government of Nova Scotia set a goal of providing affordable, high-speed internet to at least 95% of Nova Scotians. Considering the starting point of 70% provincial coverage, we would have expected to see a robust analysis of the potential cost to scope and deliver such a substantial project.
- 1.17 The Department of Business commissioned three studies in 2016, 2017 and 2018 to support the current and future high-speed internet infrastructure needs in the province. These reports first identified the goal of bringing affordable high-speed internet to 95% of Nova Scotians and outlined how, in 2016, only 70% of Nova Scotians had access to high-speed internet that met Canadian Radio-television and Telecommunications Commission (CRTC) standards. These reports did include some financial analysis of the potential costs required for the engineering designs proposed and discussed ways to accomplish the goal. The consultants determined that a provincial subsidy of approximately \$300 million was required to support the expansion of the middle and last mile infrastructure. Appendix IV provides more details on the middle and last mile.



- 1.18 We found no documentation to support how the \$193 million was determined. Before obligating taxpayers to the project for \$193 million, we would have expected that the Province would have determined a reliable cost estimate. The importance of this is heightened by the circumstance that Trust residuals will not flow back to the Province and that the cost to taxpayers was determined before the tendering process began.
- 1.19 A strategy document created by the Department of Business in early 2018 indicated the amount to be put into the Trust was estimated to be \$120 million but could change depending on the surplus available at year end March 31, 2018. There was no indication of how Government arrived at the \$120 million.

 **Potential millions in unused trust funds may go to underserved municipalities or internet service providers, as unspent trust funds cannot return to the Province**

- 1.20 The Trust Indenture (the “Indenture”) is the legal document that governs the creation and operation of the Trust and describes what the funds can be used for. The Indenture indicates that the Trust will terminate either when all funds within the Trust have been spent, or on March 31, 2028, whichever is earlier. At that date, if trust funds remain, they are to be distributed to municipalities with underserved internet service areas. If there are funds remaining after this distribution, the funds are to be distributed to all successful proponents from the RFP processes on a pro-rated basis calculated using the amount paid to each proponent proportional to all payments made by the Trust. The indenture notes these payments would be used to “*maintain the investment in internet infrastructure,*” but no details on requirements are defined. This means successful proponents could potentially receive additional payments without anything required in return. As of August 2021, \$29 million has not yet been allocated to future projects.

 **Additional impacts of prematurely funding an external trust**

- 1.21 Fully funding the Trust in 2018 almost two years before the first Initiative projects were announced meant that the Province prematurely lost discretion over how these funds could be used or invested. One of the primary objectives of the trustees is to preserve the money invested into the Trust. Although the trustees subsequently decided to invest the funds with the Province, the trustees were under no obligation to do so, as they have control over the investing decisions of the Trust. The Trust invested in promissory notes with the Province that were earning a rate of return at year end of .17% in 2020 and 1.7% in 2019. Had the Province not relinquished control over the full \$193 million to the Trust in 2018, the funds could have remained within government until needed.
- 1.22 Another implication of using an external trust was that the Trust was subjected to income taxes. Since 2018, the Trust has paid \$2.6 million in

income taxes. These represent funds that were unable to be directly used to enhance internet access for Nova Scotians.

Recommendation 1.1

We recommend the Department of Finance and Treasury Board, in consultation with the Executive Council Office, develop guidance relating to the use of trusts including specific direction on conducting:

- an analysis of alternative options, including value-for-money considerations to taxpayers for each option
- an analysis to determine the necessary funding prior to committing provincial funds; and
- an assessment of what level of control the government will have over the trust and whether risks have been appropriately mitigated for those that will be at arm's length.

Department of Finance and Treasury Board Response: The Department of Finance and Treasury Board, in consultation with Executive Council Office, will develop guidance relating to the use of trust funds.

**Trustees meeting policy, procedure and reporting requirements of the Trust Indenture**

- 1.23 The Trust Indenture was signed between the Department of Business on behalf of the Province, and the Trustees, which establishes the roles and responsibilities for each party.
- 1.24 The only reporting requirement noted in the Trust Indenture is that the audited financial statements and the books and records of the Trust shall be made available upon reasonable request by the Province. Consistent with that provision, our office had no issues accessing any information requested and we received full cooperation from the Trustees.
- 1.25 Other requirements outlined in the Trust Indenture relating to establishing policies and procedures for the conduct of business, holding quarterly meetings by the Trustees, and making appropriate investments of the trust funds, were met.
- 1.26 We did identify some issues around monitoring and verification of claims, and progress reporting, and we encourage the Trustees to ensure their project manager Develop Nova Scotia completes these recommendations.

Strategic Planning

Goals and objectives for the Internet for Nova Scotia Initiative are clearly defined

1.27 The Internet for Nova Scotia Initiative directly impacts thousands of Nova Scotians across the province, so it is important the project is built to succeed. Develop Nova Scotia created a strategic plan for the Initiative, which had an overarching goal to provide competitively priced, quality, high-speed internet access to more than 95% of rural Nova Scotians. Speed targets were determined and are described below. The second table describes what types of activities are possible with these speeds. Affordability was defined through the procurement process which is described and assessed later in our report. In their submissions, proponents were required to provide proposed pricing, as well as comparative pricing available in the Halifax area, and were scored based on this comparison.

Service Type	Minimum Download Speed (in Megabits per second/Mbps)	Minimum Upload Speed (in Megabits per second/Mbps)
Wired (e.g. fibre)	50 Mbps	10 Mbps
Wireless	25 Mbps	5 Mbps

Source: *Develop Nova Scotia*

What Will the Speeds Allow You to Do?

A 50 Megabits per second (Mbps) broadband connection vs. a 25 Megabits (Mbps) connection:

50 Mbps



With 50 Mbps, you can Facetime and make other video connections, search the web, and livestream

You can also watch ultra-high definition (HD) videos on two separate media streaming devices



You also have the ability to download an hour of music in less than a minute and a two-hour movie in less than 15 minutes

25 Mbps



With 25 Mbps, you can stream movies and videos on up to two devices without buffering, and access most websites and online games without waiting

Source: *Office of the Auditor General, Nova Scotia*

Scorecards used to monitor action items at a high level

1.28 A detailed action plan for items in a strategic plan is critical to accomplish goals and objectives. Develop Nova Scotia created scorecards for this project to identify specific actions and timelines. The scorecards track the status of each action, through both percentage of completion and whether it is “on schedule,” “at risk,” or “requires intervention.” Scorecards are presented at Develop Nova Scotia’s Finance, Audit and Risk Management Committee meetings which generally occur on a quarterly basis.

- 1.29 We reviewed all scorecards presented to Develop Nova Scotia’s Finance, Audit and Risk Management Committee during our audit period and confirmed this process was operating as intended. We found two instances where actions categorized as being “at risk” of not being on schedule were shown as “back on track” in subsequent scorecards with appropriate evidence to support this change.
- 1.30 Develop Nova Scotia’s strategic plan includes implementation objectives which address how they will facilitate the development of the middle mile and last mile infrastructure. These objectives focus on three key areas: implementation management; technology and infrastructure; and financial and procurement.
- 1.31 At a high level, we found progress is tracked against strategic objectives and progress information is available to the public on the Develop Nova Scotia website. This information allows Develop Nova Scotia to show when and how their overarching goal will be met. For example, Develop Nova Scotia’s website is updated regularly with the number of homes and businesses with new access to high-speed internet, and the percentage of rural communities expected to be covered with announced projects. However, we did identify concerns with the tracking of project-specific progress which we discuss later in this chapter.



A defined process was used to determine the internet needs across Nova Scotia

- 1.32 As previously mentioned, the Department of Business commissioned three consultant reports in 2016, 2017 and 2018. The purpose of the 2017 and 2018 reports was to develop a middle mile strategy, and a last mile strategy, respectively.
- 1.33 One of the key aspects of these reports was the attempt to identify the gaps in internet availability in Nova Scotia. The consultants looked at demand mapping and supply mapping; engaged stakeholders; and performed a gap analysis with the information. The consultant reports found significant parts of the province were either entirely unserved or partially unserved with respect to high-speed internet services. To identify the gaps, the consultants worked with internet service providers to gather information about the level of demand for internet and the state of the existing infrastructure in the province.
- 1.34 The process described in the reports appears to be reasonable and thorough. Develop Nova Scotia then worked with the consultants to create maps that had more detailed information on underserved areas. These maps were included in the request for proposal documents to give proponents as much information as possible about the location of underserved areas.

Procurement



Develop Nova Scotia appropriately evaluated RFSQ and RFP submissions

- 1.35 As mentioned before, the first step of the procurement process involved Develop Nova Scotia inviting companies or organizations interested in providing internet service in Nova Scotia to prequalify through a process called a request for supplier qualifications (RFSQ). This created a short list of organizations who were then invited to bid on projects through the requests for proposal (RFP).
- 1.36 We found the process used by Develop Nova Scotia to evaluate the submissions for prequalification was thorough and done consistently. There was one unsuccessful submission in RFSQ1 and one in RFSQ2 and we found the disqualification of these submissions was appropriate. The RFSQs resulted in 10 suppliers qualifying in RFSQ1 and five suppliers added after RFSQ2. These 15 prequalified suppliers were the only ones eligible to tender submissions for the requests for proposal.
- 1.37 We examined a sample of the original submissions for both RFP1 and RFP2. We tested 17 successful and 10 unsuccessful submissions from the total 70 submissions across the two RFPs. We found that all proponents who were successful with their proposals were appropriately awarded contracts and those who scored lower or did not meet certain requirements were disqualified. A thorough and consistent process was used to evaluate the submissions and we identified no issues.
- 1.38 We also found the evaluation criteria and processes used to evaluate proponent bids complied with provincial procurement policies. Criteria and weighting established were reasonable and top scoring submissions were appropriately recommended to the Trust and ultimately awarded contracts.



Contribution and Service Delivery Agreements contained appropriate terms and conditions

- 1.39 When a provider is successful with a proposal, a Contribution Agreement is signed which governs the time through to construction completion. The Contribution Agreement is between the provider, the Nova Scotia Internet Funding Trust, and Develop Nova Scotia. The Contribution Agreement specifies information about the contribution amount from the Trust; technical requirements such as speed of internet to be put in place; insurance and financial security required; and project schedules.
- 1.40 When construction is complete and Develop Nova Scotia has verified all requirements have been satisfied, a Service Delivery Agreement comes into effect which lasts for 10 years. The Service Delivery Agreement

is just between the proponent and Develop Nova Scotia. This agreement includes requirements related to service levels, pricing, capital maintenance and reporting to Develop Nova Scotia, as well as penalties in the event the proponent does not fulfill their service level obligations.

- 1.41 The contract templates for both Contribution and Service Delivery Agreements included appropriate terms and conditions, including deliverables, performance expectations, and accountability requirements.

 **Inadequate documentation of trustees providing approval to move forward with highest ranked RFP1 projects, improvements made for RFP2**

- 1.42 As previously discussed, Develop Nova Scotia is fulfilling a project management role for the Trust and is not responsible for decision making or directing the use of the Trust's assets as denoted in the Trust Indenture. Develop Nova Scotia evaluates the requests for proposal, briefs the trustees on the results, makes recommendations, and requests approval to move forward with contract negotiations with top-ranked proponents. The next step of the process is signing the Contribution Agreements by Develop Nova Scotia, the trustees, and the successful proponent.

- 1.43 We found in general, the process was followed, and in all instances the appropriate bidders were given the opportunity to sign contracts. However, for RFP1 projects, we were unable to see formal documented approval by the trustees for Develop Nova Scotia to move forward with the successful proponents. However, Contribution Agreements were signed for these projects by the trustees (as well as Develop Nova Scotia) and we did see evidence of correspondence between Develop Nova Scotia and the trustees regarding the successful proponents. A formal process to clearly document this step was put in place for approval of RFP2 projects. While we do not have concerns that RFP1 agreements were entered into without trustee approval, it is important that all approvals be formally documented for key decisions made by the trustees.

 **Some issues noted with signed Contribution and Service Delivery Agreements**

- 1.44 We examined a sample of Contribution and Service Delivery Agreements for both RFP1 and RFP2 and noted some issues.
- 1.45 Out of the five Contribution Agreements we tested, none included a fully signed and dated Exhibit II which acknowledges agreement between Develop Nova Scotia and the proponent over project details in five attached schedules including milestones, eligible costs and testing. The schedules themselves were attached but the overarching form was not signed. Ensuring that all portions of the Contribution Agreements, including exhibits and schedules, are signed is important, as it protects the Initiative from legal disputes and assists in providing clear direction on project deliverables.



- 1.46 All Service Delivery Agreements we tested were appropriately signed and dated, however for one proponent, there were missing schedules that were outstanding for eight months at the time of our testing. Develop Nova Scotia indicated these schedules are provided by the proponent in the RFP response and form part of the Service Delivery Agreement. However, when a contract is signed it is important that any relevant schedules are attached to ensure all parties are clear on what details are being agreed to.

Recommendation 1.2

We recommend Develop Nova Scotia complete, date and sign all parts of the Contribution and Service Delivery Agreements in a timely manner.

Develop Nova Scotia Response: Agreed. While the Contribution Agreements and Service Level Agreements were executed at the time of the audit, the outstanding schedules have now also been signed.



Procurement completed appropriately for COVID-19 projects and expansion projects

- 1.47 In March 2020, as previously noted, the Trust approved and committed up to \$5.5 million to six proponents to speed up delivery of high-speed internet to assist Nova Scotians who relied on internet access to work or learn from home during the COVID-19 pandemic. All proponents were prequalified through the RFSQ process. All Contribution Agreements related to these projects contained appropriate signatures, measurable targets, and funding amounts consistent with the request submitted by proponents.
- 1.48 In the Fall of 2020, Develop Nova Scotia asked proponents who already had RFP1 and RFP2 projects to consider solutions for remaining underserved areas within their existing project zones. An alternative procurement process was used, and the resulting contract extensions were awarded in November 2020 and January 2021, totaling \$53 million. This process was consistent with procurement policies, and we felt it was reasonable given the lack of interest through RFP1 and RFP2 for the remaining underserved areas, the need for compatible technologies, and the duplicate costs that would likely have been incurred with the introduction of a new supplier.
- 1.49 We found that projects awarded to proponents were supported by documentation; submissions were evaluated consistently; all required approvals were granted by the trustees; and Contribution Agreements were appropriately amended.



Inadequate monitoring of progress on projects

- 1.50 Proponents are required to send in monthly progress reports so Develop Nova Scotia can track project status. We examined a sample of monthly



progress reports submitted by proponents and none of the samples showed evidence of review by Develop Nova Scotia. Develop Nova Scotia indicated they hold monthly meetings with proponents to discuss these progress reports. However, while Develop Nova Scotia was able to provide evidence that monthly meetings were scheduled, minutes of these meetings are not maintained. Therefore, we could not confirm what was covered in these meetings.

- 1.51 In addition to the monthly progress review process, the Contribution Agreements allow Develop Nova Scotia to conduct compliance and technical audits on the projects which are essentially onsite inspections of infrastructure and equipment. Develop Nova Scotia indicated they ideally would be doing these audits through site visits and spot checks throughout each project in order to verify progress made by proponents. However, they indicated that due to the global pandemic, they stopped performing site visits. They have instead relied on the information provided by proponents on progress and indicated their in-house engineer assessed progress reports for reasonableness. However, by not verifying progress on site, there is a risk that the work may not be completed as reported which could result in delays in completing the projects. Develop Nova Scotia indicated that as of August 2021, they have again started doing site visits to verify progress. Regular site visits would also help provide further support for any interim claims being paid.
- 1.52 Although they were not verifying each monthly progress report on site, Develop Nova Scotia does maintain a tracking log on each project, and it is updated monthly based on the progress reports. The log documents the percentage of work completed for each project, the number of housing units that now have access to faster internet, the number of connected customers, and the claims made by each proponent.
- 1.53 Develop Nova Scotia is not formally tracking overall project schedules by comparing project completion dates versus actual progress. Management indicated they were aware of progress from the above-noted provider reporting, and they discuss delays and challenges in their monthly update calls, but that they are not formally tracking progress compared to original schedules. Management explained they rely on the subscriber sign-up incentive for providers to start earning profit as the primary tool to drive the providers towards completion.

Recommendation 1.3

We recommend Develop Nova Scotia perform regular onsite inspections for all proponents to ensure progress reported by the proponent is accurate.

Develop Nova Scotia Response: Agreed. Develop NS restarted onsite inspections as of August 2021, after pausing onsite inspections for a period due to COVID.

**Recommendation 1.4**

We recommend Develop Nova Scotia track project progress against schedules and document monthly meetings with proponents including sign-off on all progress reports received.

Develop Nova Scotia Response: Agreed. The overall project schedule is tracked and is currently on time. The timeline to complete individual projects is adjusted as required and reported publicly and internally, with some individual projects behind schedule and some projects ahead of schedule. Project Reports are now being signed off by project engineer and project manager.

**Payments to proponents were appropriate with minor improvements identified**

- 1.54 We tested a sample of 12 payments made by the Trust to proponents. Our testing revealed no significant issues; however, we did find areas for minor improvement in Develop Nova Scotia's review process. Develop Nova Scotia is responsible for reviewing the support from proponents for these payments before requesting approval from the trustees to release funds.
- 1.55 Companies submit a claim form to Develop Nova Scotia and management indicated it is reviewed for reasonability by the engineer dedicated to the Initiative at Develop Nova Scotia.
- 1.56 The Contribution Agreements state that Develop Nova Scotia can request up to ten per cent of invoices from a proponent to support the amount being claimed. We found Develop Nova Scotia did not always request invoices from the proponent because they indicated the expenses were consistent for each claim and professional judgment was used to determine whether they were reasonable. In addition, we did not see any sign-off on the claims or evidence of review. It is important to have documentation to show that review took place.
- 1.57 In order to mitigate the risk of issuing payments to a proponent and the proponent not following through on their obligations, the Contribution Agreements include a requirement to repay some or all of the contribution received if a proponent defaults on the terms of the agreement. Proponents are also required to have security in place for the full amount of the contribution, less ten per cent, which can be withheld in the event of a default on the contract. This security remains in place until the project is complete and Develop Nova Scotia has verified all requirements have been met. Those proponents that opt to receive payment only when their project is completed are not required to provide security.

 **Administrative Trust expenditures were appropriate**

- 1.58 We tested a sample of nine payments from the Trust for legal and administrative fees for 2019 and 2020. Our testing revealed no significant issues with these payments.

 **Communication to the public happens on a regular basis**

- 1.59 Clear and effective communication is important, especially for projects with high public interest such as access to high-speed internet. Underserved Nova Scotians are likely interested to know when high-speed internet may be available where they live or work.
- 1.60 Develop Nova Scotia created a detailed communication plan which includes identification of key stakeholders as well as approaches to engage them.
- 1.61 One section on the website is dedicated to helping citizens of Nova Scotia determine when high-speed internet is expected in their community. The website features a map of the province, divided into clickable zones. Information is further broken down to show specific projects by community. Details are provided around which roads will be served by each project, the type of technology that will be used (i.e. fibre optic cable), the status of the project, and its anticipated completion date.
- 1.62 While the website provides a good overview of when citizens and communities might expect high-speed internet connectivity, we did note some coverage maps are more detailed than others due to the nature of the technology – i.e. wired internet access can be more specifically narrowed down compared to satellite.
- 1.63 Project announcements and updates are posted on Develop Nova Scotia's website. The public can also sign up to receive updates via email which can include project progress, pandemic impact, key milestones, and next steps. Frequency of updates depends on progress but overall, we found that updates were done on a regular basis.



Reasonable Assurance Engagement Description and Conclusions

In Fall 2021, we completed an independent assurance report of Internet for Nova Scotia at the Department of Business (now Department of Economic Development), Develop Nova Scotia and the Nova Scotia Internet Funding Trust. The purpose of this performance audit was to determine whether the Province of Nova Scotia is making adequate progress towards the goal of providing high quality internet service to more than 95% of Nova Scotians and if there is adequate safeguarding of the assets of the Nova Scotia Internet Funding Trust.

It is our role to independently express a conclusion about whether the Department of Business, Develop Nova Scotia and Nova Scotia Internet Funding Trust comply in all significant respects with the applicable criteria. Management at the Department of Business, Develop Nova Scotia and the Chair of the Trustees of the Nova Scotia Internet Funding Trust have acknowledged their respective responsibility for the Internet for Nova Scotia Initiative.

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 has an adequate plan to address the internet needs of Nova Scotia.

Criteria:

1. There should be documented support for the approach used to fund internet in Nova Scotia.
2. There should be a defined and documented process to determine the internet needs of Nova Scotia.
3. There should be clearly defined goals and objectives for the Internet for Nova Scotia Initiative which address the identified internet needs of the province.
4. There should be a plan in place to achieve the defined goals and objectives.
5. There should be adequate monitoring and accountability measures for the plan.
6. There should be regular communication with stakeholders on the Internet for Nova Scotia Initiative.



Objective:
To assess Develop Nova Scotia's implementation of the plan to address the internet needs of Nova Scotians.

Criteria:

1. There should be support for procurement approaches used on the Internet for Nova Scotia Initiative.
2. There should be a defined process used to pre-qualify companies to bid on internet projects that complies with the Province of Nova Scotia procurement policies.
3. There should be a defined process used to evaluate the request for proposal submissions from the pre-qualified companies that complies with Province of Nova Scotia procurement policies.
4. Contribution and service agreements should be consistent with the request for proposal and include appropriate terms and conditions.
5. There should be regular monitoring of provider progress on projects.

Objective:
To determine if there is adequate accountability and oversight over the activities of the Nova Scotia Internet Funding Trust.

Criteria:

1. The Province of Nova Scotia should have ensured adequate accountability measures were put in place when it created the Nova Scotia Internet Funding Trust.
2. The Nova Scotia Internet Funding Trust should have and follow policies around how final project decisions are made and documented.
3. The Nova Scotia Internet Funding Trust should have and follow policies around how they manage, account for and report on all trust fund spending.

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 Business and Develop Nova Scotia and by the Chair of the Trustees for the Nova Scotia Internet Funding Trust.

Our audit approach consisted of interviews with management of the Department of Business and Develop Nova Scotia and with the trustees of the Nova Scotia Internet Funding Trust as well as staff from the Department of Finance and Treasury Board. It also included reviewing policies, reviewing and testing procurement work, and a variety of other project documentation. Our audit period covered January 1, 2018 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 2, 2021, in Halifax, Nova Scotia.

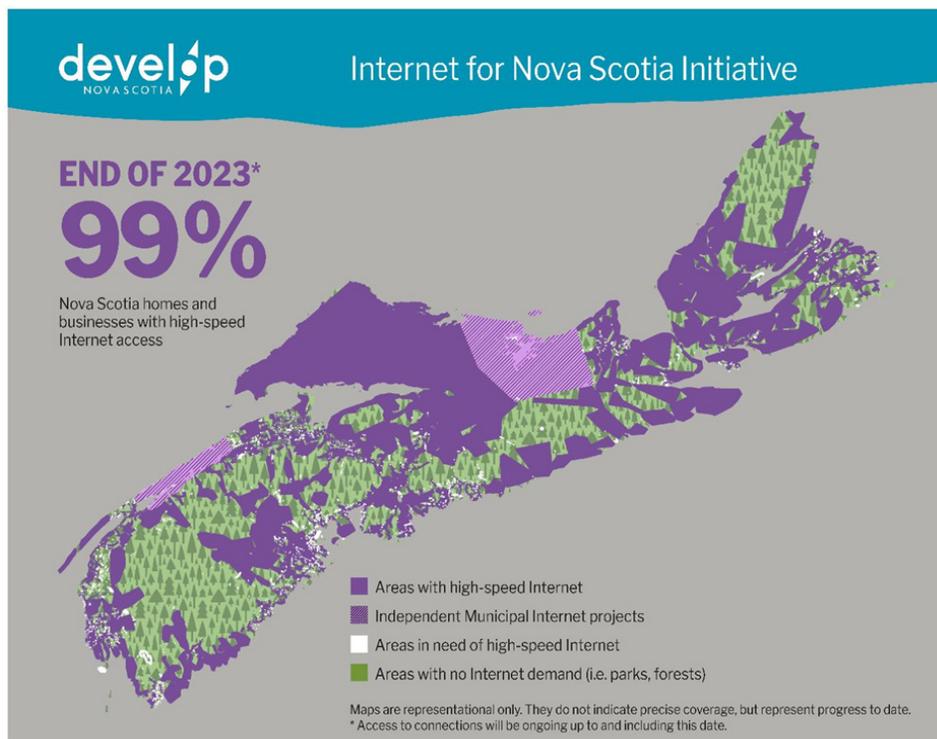
Based on the reasonable assurance procedures performed and evidence obtained we have formed the following conclusions:

- We found the Province of Nova Scotia has an adequate plan to address the internet needs of Nova Scotia however we found no evidence to show consideration of alternatives to using a trust or an analysis to conclude that using a trust was the best option for this project. We also found no assessment of whether the amount put into the Trust would be sufficient to achieve the project's goal or if it would exceed the requirement for the project.



- We found Develop Nova Scotia had, and complied with, relevant procurement policies for the Internet for Nova Scotia Initiative and Contribution and Service Delivery Agreements were consistent with bid submissions and contained appropriate terms and conditions, although verification of claims and monitoring of progress requires improvement.
- We found the Nova Scotia Internet Funding Trust has, and follows, the required policies and procedures in place for the administration of the Trust, but the nature of the Trust means the Province has no oversight capacity of the money committed.

High-speed internet coverage once Internet for Nova Scotia Initiative Projects are complete



Source: Develop Nova Scotia



Appendix III

Project Progress as of August 2021

	RFP1	RFP2	Total
Actual homes and businesses reached	39,367	2,896	42,263
Targeted homes and businesses	46,376	53,784	100,160
Percentage of homes and businesses reached	85% ^{Note 1}	5%	42%
Actual payments made	\$22,049,177	\$11,227,122	\$33,276,299
Budgeted payments	\$52,044,299	\$112,076,196	\$164,120,495
Payments made vs budget	42% ^{Note 1}	10%	20%

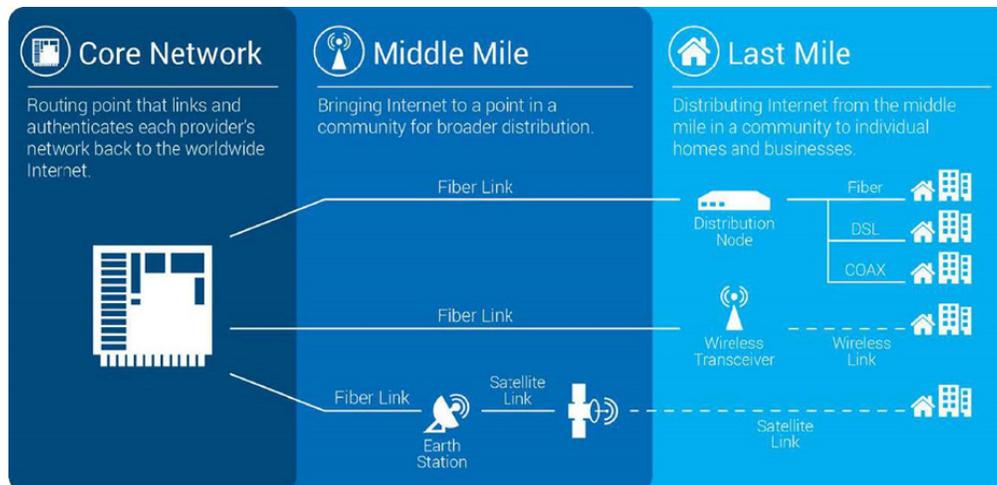
RFP figures noted above are as of August 2021 and include all original amounts for RFP1, RFP2, project expansions, some small amendments to various contracts and COVID-19 figures.

Note 1

- One proponent in RFP1 has a multi-phased approach to providing high quality internet. Develop Nova Scotia indicated the first phase is complete; therefore, all 16,000 homes and businesses in this project are shown above as being reached. However, the two subsequent phases will provide a higher level of service and represent a larger portion of their expected expenses and resulting payments. Accordingly, they have only been paid approximately 24% of their \$21.4 million contract.
- Five smaller proponents indicated they will only submit one final claim, which means all \$13.1 million related to these proponents has not yet been paid and will not be until these projects are fully complete. Combined, these five proponents have reached roughly 3,900 homes and businesses of the just under 11,000 they are contracted to reach.

Source: Develop Nova Scotia

What are the Middle Mile and Last Mile?



Source: Develop Nova Scotia

Diagram intended for illustration purposes only. Technologies indicated in this diagram may not meet specifications required under the Internet for Nova Scotia Initiative, such as DSL.

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

5161 George Street, Royal Centre, Suite 400

Halifax, Nova Scotia

 B3J 1M7

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