

HANSARD

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COMMITTEE

ON

PUBLIC ACCOUNTS

Wednesday, May 25, 2011

LEGISLATIVE CHAMBER

May 2011 Report of the Auditor General

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Public Accounts Committee

Ms. Diana Whalen, Chairman
Mr. Howard Epstein, Vice-Chairman
Mr. Clarrie MacKinnon
Ms. Michele Raymond
Mr. Mat Whynott
Mr. Brian Skabar
Hon. Keith Colwell
Mr. Chuck Porter
Mr. Allan MacMaster

[Mr. Leonard Preyra replaced Mr. Howard Epstein]
[Mr. Jim Morton replaced Ms. Michele Raymond]

In Attendance:

Mrs. Darlene Henry
Legislative Committee Clerk

Mr. Gordon Hebb
Chief Legislative Counsel

WITNESSES

Office of the Auditor General

Mr. Jacques Lapointe, Auditor General
Mr. Alan Horgan, Deputy Auditor General
Mr. Terry Spicer, Assistant Auditor General
Ms. Ann McDonald, Assistant Auditor General
Ms. Evangeline Colman-Sadd, Assistant Auditor General



House of Assembly
Nova Scotia

HALIFAX, WEDNESDAY, MAY 25, 2011

STANDING COMMITTEE ON PUBLIC ACCOUNTS

9:00 A.M.

CHAIRMAN
Ms. Diana Whalen

VICE-CHAIRMAN
Mr. Howard Epstein

MADAM CHAIRMAN: Good morning, members of the committee. I'd like to call the Public Accounts Committee meeting to order this morning. If we could, I'd like to begin as we normally do, with an introduction of the members present today and we will start with Mr. Morton.

[The committee members introduced themselves.]

MADAM CHAIRMAN: Thank you very much. Our subject this morning is going to be the Auditor General's Report that was presented last week. Last week we had our meeting in camera and had a long presentation and introduction to the report so this week we have the opportunity to, again, ask questions. I think we have a short opening statement from the Auditor General.

Mr. Lapointe, if you'd like to begin.

MR. JACQUES LAPOINTE: Thank you, Madam Chairman. As you know and as we discussed last week, my Spring report was tabled with the House of Assembly last week. It was my first report in 2011 and covered audits completed by my office during the Fall of 2010 and the winter of 2011. I'm pleased to have the opportunity to discuss it with you today.

My senior staff are with me here today. Each are responsible for certain chapters in the report and among us I'm certain we can answer any questions you may have. I believe all my staff have done very good work on this report and I want to congratulate them for their dedication and professionalism. I must also thank the many public servants in departments and agencies across government for their co-operation during the audits.

There are eight chapters in the report, so it is a long one, and it covers a range of government activities. We make over 100 recommendations to correct problems we found and to improve departmental and agency operations.

I would like to mention, just briefly, the topics that were covered. The report follows up on recommendations we made from 2005 to 2008. Audited departments and agencies accepted almost all the recommendations made in those years but their record in implementing them has been poor. Education and Health, for instance, implemented 14 per cent and 36 per cent, respectively, and by contrast, Community Services implemented 75 per cent of our recommendations to improve their operations.

We report on audits of Nova Scotia Business Inc. and the Industrial Expansion Fund. You may recall that last year we discontinued our work and offered no opinion on controls of these entities because of restrictions on our access to information. The new Auditor General Act eliminated that issue and this time we received full access to the information we needed.

We recommended significant improvements in oversight administration and controls for IEF or, alternatively, as transferred to NSBI, where sound business practices and adequate controls are in place.

We reviewed the apparent cost overruns associated with design and construction of the new Colchester Regional Hospital in Truro, at government request. We found weaknesses in the budgeting process that allowed a series of budgets, from the original request of \$104 million to the final estimate of \$184 million, to be understated, incomplete and inaccurate. We also found weaknesses in oversight and project management and recommended that in future large building projects be coordinated by a central agency with construction expertise.

We reported on the program to replace old long-term care facilities and to build new ones. We concluded the program had been well managed in many respects, particularly in tendering for new facilities and the management of construction. However, there are some issues with priorities in replacement of facilities, a lack of competitive processes in some cases and the long-standing need to implement contracts with providers.

We concluded that the Office of the Fire Marshal is not doing enough to ensure that public buildings, and other places where people gather, are being adequately inspected for fire hazards. As well as doing less than half the required inspections in our sample, the

office is not overseeing municipal inspections which are also inadequate. These issues have been cited in our reports as far back as 2001 and some even in 1987.

The final two chapters of the report deal with operations in the Registry of Motor Vehicles where we found weaknesses in processes designed to keep unsafe drivers and mechanically unfit vehicles off the roads and weaknesses in IT security and information management that increase the risk of privacy invasion and identity theft and fraud.

Madam Chairman, it would be our pleasure to answer any questions you may have.

MADAM CHAIRMAN: Thank you for that statement and we will begin, as is our practice, with 20-minute rounds of questioning starting with the Liberal caucus and Mr. Colwell.

HON. KEITH COLWELL: Thank you. I'm going to ask a whole range of questions, as you can imagine. I'm going to run out of time, I know that. I also want to thank the Auditor General and his staff for this thorough report and it's good to see that we have these questions being asked of government to ensure that the dollars are spent well in the province.

I'm going to talk first about the weaknesses in the Registry of Motor Vehicles, in the security system. This is a problem that keeps coming up over and over again. It doesn't matter what department it's in, it seems like people can leave and they keep their passwords and all kinds of strange things. How serious a problem is this in the government and what have you seen them do so far to correct it? It's something that should be simply corrected.

MR. LAPOINTE: That actually is a very good question because it's true. We find similar problems in IT systems dealing particularly with weaknesses in access and security in the numerous audits that we conducted. In fact, we found them in management letters from auditors of agencies doing the financial statements quite often reported to the boards of directors of those agencies. This is over quite a period of time.

The solutions to these things are not resource-heavy and so I'm not sure why this is so pervasive. We do find it consistently. As to more specifics, I will ask Alan to talk a little bit more about the specifics we found in this case.

MR. ALAN HORGAN: I would agree as well that we're seeing these types of things in most of the audits in which we do detailed work around information technology. The government agencies that we audit seem to be very responsive to what we're finding and we usually don't have much in the way of arguments as to what needs to be done to fix some of these.

I think there is an attitude out there of wanting to maintain security and privacy; however, the actual practices can be a little lacking at times.

MR. COLWELL: Do you feel that it is an internal management problem or it's not a strong enough directive from government? What do you think is the root cause of that? What does it appear to be?

MR. HORGAN: I think there would be some solution to these issues if there were more control from central government. Government is moving in that direction. Based on some audit work we did two or three years ago, we recommended that there be consolidation of a lot of the IT operations so that they're not recreating the wheel, as you'd have it.

Government has done that. They've put together the Chief Information Office and they're really in the midst now of consolidating policies and getting to know what information technology operations are out there. I think once that centre becomes stronger and is clearer on what its roles and responsibilities are and what individual department's responsibilities are, more control should come to the actual systems being managed. They have a little ways to go yet.

MR. COLWELL: It seems as though it shouldn't be an issue because this technology has been around for a long time, it's improving all the time, I understand that, but it's pretty basic when someone has a password they shouldn't have. It's very basic.

When I go through all these reports that you gave, continually pointing things out, it all appears to me a quality control issue. If people aren't doing the quality control that they should do to make sure that things are done properly, all these things happen, all these weird things happen that shouldn't happen. Would you agree or disagree with that?

MR. HORGAN: I believe any system would benefit from quality control and it doesn't change for information technology. Every operation should have someone that regularly reviews the control structure and documents that and then actually has process to make sure that that is implemented, whether it's internal audit or just closer supervision. I think that would benefit just about any operation.

MR. COLWELL: Also you talked about the safety sticker with the vehicles and a lot of books not turned in. Is that just someone in the department not following up like they should be or no teeth in the regulations that they can make the inspection agency or company responsible? Is that what it appears to be?

MR. LAPOINTE: I believe the answer to that lies in processes that exist and procedures that should be done, but it's simply, for a variety of reasons, not followed. We found a number of instances in the monitoring and management of the inspection station,

from the testers to the safety stickers and so on, that simply needed tighter control and implementing the processes that are there.

MR. COLWELL: So it's just a matter of managing it a little bit differently would basically resolve the problem.

MR. LAPOINTE: I would say so. It's just a question of insuring that if stickers are followed and there is a process for receiving old ones back before you hand out new ones, that that is actually done, that they are reconciled and the issuing of them is appropriate. I think that is a simple process and can be easily fixed.

MR. COLWELL: One that worries me more than either one of these things - well the access to computers is really nerve-racking; it could be a real big problem for people. In your report, you said, "... stronger controls are needed to prevent such offenses as credit card fraud, identity theft and drivers having fraudulently-obtained licences." Those are serious implications. Has the department worked towards eliminating these things you've identified already? These are things that should be rectified immediately, not in six months or a year or five years time.

MR. LAPOINTE: I'll ask Alan to continue with the response on that one.

MR. HORGAN: The issue that you mentioned with regard to the retention of credit cards numbers and social insurance numbers, that is something that they appear to be acting on pretty quickly because when we were clearing up the audit and discussing the findings, they mentioned that they were changing their policies in that area basically as we speak. I'm hoping that - which I agree is one of more relatively serious findings that we had - would be something that would be fixed sooner rather than later.

MR. COLWELL: I think if I was a hacker out there listening to all these announcements that you've made, I'd be hacking the Registry of Motor Vehicles. Thank goodness I'm not and hopefully nobody is, but I wouldn't bet on it. What assurance do we have? When you went through that, did you look at the possibility of hackers getting into the system with the lackadaisical security they have?

MR. HORGAN: That definitely is one of the considerations, it is one of the avenues of risk. Industry literature indicates that you're just as likely to have someone do inappropriate things who actually works for you as opposed to someone on the outside, just because people who work with the systems generally understand them better and if controls are weak, it's very easy for them to do inappropriate things.

So the risks actually come from the inside as well as the outside, and perhaps even more so from the inside. Things like providing inappropriate access and not closing down dormant accounts exposes the systems whether someone is outside or inside the system.

MR. COLWELL: If it is that lax or had been that lax in the past, it would be pretty easy for someone to get into it. The recommendations and the difficulties you found here are quite shocking, to be frank, and I think the people should be concerned about it. I think they do have good staff there, but if the management direction isn't right from the top and through the system, it won't improve. So you feel that that's underway now?

MR. HORGAN: I do. They provided a relatively in-depth response to us commenting on each of our recommendations within and basically that they are going to implement them. A number of the comments they gave actually laid out a time frame for their implementing that. So I, personally, was quite pleased with the type of response we got from them.

MR. COLWELL: Well, that's good. In amongst all that stuff there is also that the privacy policies were not always followed. It also indicates in here that the department is unable to determine if its employees view this information as well as other sensitive registry information for their own personal knowledge or gain. So in other words, someone viewing this information that necessarily wouldn't normally have access to it, is that what you're indicating, in that area?

MR. HORGAN: Yes. The people who are on the front lines at RMV, of course, have to access that database regularly to do their work. So when customers come up to their work station, they need to access certain records, but there's nothing to prevent them from accessing other people's records, let's say, neighbours or friends, and that kind of thing. We believe that there are some controls that you could implement so that people who work inside the system are only accessing records they're supposed to and not just browsing through for either just curiosity or to do inappropriate acts, going through other people's data.

MR. COLWELL: So as we go through this, when do you plan to follow up on this? Do you plan to follow up on this, and this is a pretty serious one, this is something I would think that probably your department should follow up quite quickly to see if things are being done?

MR. LAPOINTE: As you know, our policy is to give them two years and we hadn't really planned to go in earlier than that on this one or any other. We could have potentially had a less in-depth review earlier on, but we like to give them the time to complete not only the ones that have to be urgent but the ones that take a little bit longer and some of them can take up to 18 months or two years.

MR. COLWELL: In this case though, I would think maybe just a quick review to see if these things might be in order. This is serious stuff, I mean this is real serious stuff.

MR. LAPOINTE: That's not a bad idea, we'll keep that one in mind for this one – simply because of the nature of the recommendations – as you say.

MR. COLWELL: Yes, thank you. I want to talk now about things in the Department of Health and Wellness. Overall recommendations that you've had, and I just want to get this on the record, how many recommendations have you made to the Department of Health and Wellness that have been followed in the past? Are there a lot of them or a few of them?

MR. LAPOINTE: I don't have the exact number perhaps but it is quite a number. In the Department of Health and Wellness all told?

MR. COLWELL: Yes.

MADAM CHAIRMAN: Would it be Ms. McDonald?

MR. LAPOINTE: Yes, I think Ann can talk to that one.

MS. ANN MCDONALD: On Page 23 of our report, there's a table that lists the recommendations that we followed up on between 2005 and 2008. So for that period of time, I can tell you that there were 101 recommendations made, not just to the department but also to departments that have since been rolled up, for example, Health Protection and Promotion are now part of Health and Wellness. Of those 101 recommendations made in that four-year time span, 36 recommendations or 36 per cent have been implemented and 62 per cent have not, or 61 per cent rather have not been implemented.

MR. COLWELL: So they are making some progress but probably not as well as you would like to see?

MS. ANN MCDONALD: We would certainly like to see a substantive amount of our recommendations implemented in that period of time.

MR. COLWELL: Is that unusual that that few of them be implemented?

MS. ANN MCDONALD: If you look at the departments where there have been a significant amount of recommendations made in that four-year time span, Page 18 of our report has a chart on it, it gives you the implementation rates of those departments and certainly the Department of Health and Wellness, and Education are the lowest in terms of implementing recommendations made in that four-year time span. The range is from 14 per cent for Education up to 75 per cent for the Department of Community Services in that four-year time span.

MR. COLWELL: Is that just a management decision not to do these, do you feel, in the interim? It must be because those are the people responsible for implementing it or a discrepancy that they feel with what you recommended.

MS. ANN MCDONALD: Certainly in the last years we've taken a stronger stance in getting agreement, if you will, from departments when we make recommendations. We provide the recommendations and draft comments and then ask for them to indicate whether or not they agree with the recommendation and whether or not they intend to implement it.

We certainly are receiving positive responses from that process, indicating that the recommendations are agreed to and that they intend to implement. However, the work that follows indicates that the implementation rate is not where we'd like it to be.

MR. COLWELL: In other words, they're not doing probably what they said they would do to the process, or indicated they would do.

MS. ANN MCDONALD: Well, it seems contrary to what we're being told. We've indicated in this report that we would like to see a substantive rate of implementation within a four-year period.

MR. COLWELL: I understand it must be frustrating to put these things in place to better control what is going on and then not see them implemented.

MS. ANN MCDONALD: We'd certainly like to see the implementation rate improve, yes.

MR. COLWELL: It was recommended that the business plan should receive Governor in Council and the Department of Health and Wellness approval prior to commencement of the fiscal year and the status so far, I believe, is: no progress to date or plan of action taken.

Were you given any indication as to when actions would be taken on these business plans?

MS. ANN MCDONALD: No, we were not. I think that recommendation has been made in that chapter you mention, and it has been made in the past and no, there was no indication, just that it's work- in- progress.

MR. COLWELL: Have they identified any challenges they have in getting these things done before the fiscal year?

MS. ANN MCDONALD: As part of our follow-up work, just to give you an idea of the level of work we perform, we really talk to the department as to whether or not they've been implemented and look at their status and whether or not the status they've provided, given the information they provide, are sort of reasonable. In other words, that what they're saying in terms of work in progress, that it makes sense as to where they say they are in implementing.

We don't go into a really in-depth sort of audit of the recommendations and where they are. So I don't know what their plans are at this point for implementing that recommendation, other than they say they are working towards it.

MR. COLWELL: You also recommended that the Department of Health, and Medicare monitor the gap between the number of registered beneficiaries and the province's population by an explanation of the variance there. The work is in progress. To your best knowledge and information received through your office, has this gap been reviewed at all by the department?

MS. ANN MCDONALD: To my knowledge, I'm not sure at this point. I don't know which chapter you are referring to right now, Mr. Colwell.

MR. COLWELL: It's Chapter 10.5. That's the only note I have here, sorry about that.

MS. ANN MCDONALD: That's all right. I think that's 2006. Again, whatever status they indicated to us on that, we assessed it as being reasonable. In terms of going deeper and asking them about their plans and whether or not they've worked on that in more detail, we didn't follow up on that to that extent for this review of these recommendations.

MR. COLWELL: Also - this is repeated from 2003, it's Chapter 10.4 - you recommend that the Department of Health conduct a detailed analysis of the risks and benefits associated with the payment of claims for expired health cards and the appropriate controls and procedures be implemented.

First of all, do you know whether that has been started at work?

MS. ANN MCDONALD: No, I'm sorry, I don't know that answer. I could find out for you but I don't know right now.

MR. COLWELL: Okay, it would be nice to know. Maybe you could give this back to the committee.

Also, from what I understand, someone is using these cards that are expired and there are still payments being made on them. Is that what's happening?

MS. ANN MCDONALD: I believe that was one of the findings of possible implication when we did the audit back in 2006, I believe.

MR. COLWELL: Is there any indication that it might be people who really don't own the cards using them or is there any possibility that could be happening, cards out

there that maybe aren't Nova Scotia residents or somebody has cards that shouldn't be used because they don't qualify under the system?

MS. ANN MCDONALD: I think that was one of the risks that we identified because of the fact that there was not a reconciliation, if you will, between the population and the number of cards issued, that that would be a possibility. In terms of whether or not that has happened, no, we don't know whether that has happened.

MR. COLWELL: Is there any indication that the department is looking to see if that has happened or is there any way you can evaluate that down the road sometime?

MS. ANN MCDONALD: Again, I don't have that information, but I can inquire of the department and get back.

MADAM CHAIRMAN: Thank you, Ms. McDonald. The 20 minutes has elapsed, Mr. Colwell, so I will turn it over to Mr. d'Entremont for the Progressive Conservative caucus.

HON. CHRISTOPHER D'ENTREMONT: Madam Chairman, first I'm going to continue on the question I asked last week, which revolved around the issue of leaking documents, particularly your report in response to - I believe it was the issue of the IEF and NSBI chapter. I'm just wondering if you had an opportunity to look at that one a little bit further on, not necessarily who spilled the beans, but if there is a better way to get this report shared around, but then again not have it leaked off to media before this House gets to see it.

MR. LAPOINTE: As I mentioned before, this is the first time that we've experienced one of our chapters quite clearly leaked to media or anyone else. I conducted some inquiries just with senior management in the area as to whether they know anything about it. Beyond that, I have not taken it any further. They've indicated they're not aware of where it could have been.

The circulation of our drafts is quite limited. We circulate them around to senior management in the audited departments - in this case the department and the agency - in order to get some assurance of the factual accuracy of what we have in there before we finish, and to get the response, which we then publish. Then just very shortly before publication the CEO or deputy will get a copy in order to see what's going to be the final product.

That's very limited circulation, but we have always left it up to the auditees to manage the confidentiality of that document and that has always worked very well in the Public Service. What happened this time is very hard to say, but right now I don't have any more information as to where it could have come from.

MR. D'ENTREMONT: I think it also would go to - not necessarily the scathing report but - the issues of lax controls around IEF and NSBI that it showed true once again that some of that information through those channels did find its way to probably where it didn't need to be. At this point it's neither here nor there, but just for future reports it would be nice to see them when you present them rather than having to read them in the paper that morning before we ever get here.

MR. LAPOINTE: I couldn't agree more. It's highly inappropriate and we will seek to avoid it in the future.

MR. D'ENTREMONT: I want to move on and since my honourable colleague here started with Chapter 7, Registry of Motor Vehicles, maybe I'll go there for a couple of moments as well, just to follow up the issue of confidentiality and really revolving around the computer system they use. This has been my concern looking at government for some time now when it comes to their electronic management systems, they seem to build them so complicated that people try to find work-arounds - sharing passwords in order to sort of cut the time it takes to actually use these difficult programs.

I'm just wondering if that played into the system. I know the member was talking about shared passwords and things like that. I'm just wondering, do we build these things too complicated to try to make them secure, but they're so complicated that they're not user-friendly and people work around them?

MR. LAPOINTE: I'll ask Alan Horgan to speak to that one.

MR. HORGAN: I can't say that our audit was designed to pick up on matters of complexity and how that impacts the users. It is true though, systems are getting more and more complex as time goes on. That's because the risks are growing. The risks of systems being penetrated now are just incredible. The ways so-called hackers can get into systems or people who are employed by the organization can misuse systems are so imaginative and varied that you have to create so many controls. You have to have strong firewalls and password systems and stuff like that. Though I think also the culture of an organization is that they have a tendency to understand that and I think use of passwords is getting better in some regards.

We did not come across any - we never noticed any sharing of passwords, not necessarily that we would, but if we had actually seen that, we would have mentioned it as a finding.

MR. D'ENTREMONT: I was also wondering, if I look at all the computer systems that we have, whether it's Registry of Motor Vehicles, whether it's HITS-NS, we seem to hold a lot of data now that almost too many people seem to be able to get their hands on, even internally. The examples that I would quickly have are the issues that we're starting to have in some hospitals and this is that clerks and other folks who seem to have certain

levels of access to computer systems are sort of popping in, checking things, seeing how their neighbour is doing, how their friends are doing, how their aunt is doing. Is this translating a little bit into the Registry of Motor Vehicles and is there legislation to keep this tight, that there are actually repercussions to doing this?

Right now it's just, I'm just going to sneak in and have a look, and there's no repercussion to it. Do we need to build a stronger, more robust system for penalties if these things are starting to happen?

MR. HORGAN: I believe there's a pretty good understanding at the department about what information you access and how you use it. Most of the employees of the Registry of Motor Vehicles, if not all the employees who access the system, have to sign a confidentiality agreement every year. I think there would be some high expectations that once you've signed that agreement, if you abuse it, there would definitely be some standard personnel fallout from it.

With respect to systems, right now they don't have the systems to prevent casual browsing of other people's records. I can't comment on the health systems because we haven't audited that, but we definitely noticed in the Registry of Motor Vehicles that there was very little to prevent and more so, one of the most common ways of controlling that is to have logging of user access so that if a complaint ever comes in the future - say someone contacts Registry of Motor Vehicles and says my neighbour seemed to have all my personal information and I know my neighbour works for the RMV - well if they make that complaint then the registry should be able to go into their systems and just take a look. Did such and such customer service representative access so and so's file and did they have any real reason to do it.

Those logs aren't being maintained for that purpose. It would make it very difficult to control it from that point of view.

MR. D'ENTREMONT: I remember from my discussions with HITS-NS, or the electronic medical records system of who had access, who wouldn't have access, the different levels of what kind of information you were able to see depending on your level. I was just wondering if some of those things were built into our motor vehicle system. I mean, does the registrar get to see everything and then a clerk gets to see half the stuff? Does it list off what they're able to see?

MR. HORGAN: No, there are controls as to what they can do with the system, what transactions they can process, but when it comes to just seeing data in the system, there's very little to control that.

MR. D'ENTREMONT: I'm going to move on a little bit here to driver examiner employment criteria. In the report it says that the department's processes for licensing and monitoring of driver schools need to be improved. Do you believe the safety of young or

inexperienced drivers are being compromised because of the lack of criteria and processes for this?

MR. LAPOINTE: I'm going to ask Terry to answer that question.

MR. TERRY SPICER: It's obviously very difficult to talk about whether safety is being compromised so we don't typically comment specifically on that but as the report noted there are some improvements that need to be made to how they monitor driver training schools and making sure that they do have the right curriculum, the right equipment and the right qualifications to provide the training that they are supposed to provide.

MR. D'ENTREMONT: Within there too you talked the three-month backlog of medical documentations awaiting review. Can you give us an indication of why the backlog exists or it is just simply a matter of resources that there are not enough people to process the information being provided to them?

MR. SPICER: Sure. Again, it's a little difficult to talk about whether appropriate resources are there or not. We know based on our audit and talking to the people there, they are busy. There are a lot of documents flowing through so it obviously could be partly because they don't have enough resources to do it, but we can't conclude that. There is a lot of volume of documents going through there.

MR. D'ENTREMONT: So really what that indicates is that if a doctor identifies someone as not being able to drive anymore due to medical reasons, they make an application to RMV, or send that information along, it takes a while to review, it takes a while for someone to identify the suspension and notify the actual driver. That could be a two or three month process, that person is still driving. Is there a mechanism that we might be able to put in place to make sure that from the doctor it goes immediately because apparently it's not showing that actually happening?

MR. SPICER: Obviously they are going to have to make some improvements in that area. We noted that there is a backlog, although we did note in the report that they attempt to prioritize the documents that come in but it is a visual scan of the documents. We noted in the report that we did note a document where a doctor indicated that this individual shouldn't be driving a vehicle and it took 27 days from the time that the letter was received to the time that the driver was notified that they weren't able to drive. Obviously some of the priority ones need improvements to make sure that those key ones, those really risky ones, are dealt with immediately.

MR. D'ENTREMONT: I'm going to move to Chapter 7 for a bit and talk about the follow-up and then maybe in my second round I'll go into some other things because I already see that 12 minutes have almost elapsed. You note in the report that the Department of Education has implemented about 14 per cent of the recommendations and then

basically is essentially ignoring the recommendations. Have you discussed this situation with the staff of the department and have they given you an explanation why so few of the recommendations have been implemented?

MR. LAPOINTE: I'll ask Ann McDonald to answer that.

MS. ANN MCDONALD: Part of our practice when we complete the follow-up chapter is if we have negative comments on the department's progress, we provide them with those comments as more of a courtesy because we don't specifically make recommendations to departments within this chapter. So in providing those comments to the senior management at the Department of Education, there really wasn't an explanation as to why the implementation rate was so low for these four years, however, the department did indicate to us that they will make implementing these recommendations a priority.

MR. D'ENTREMONT: One of the things I've heard before is that we'll make it a priority and yet four years go by and nothing actually happens and maybe it's because I've had an opportunity to sit in government and see recommendations flow and you give them to people and they seem to die on someone's desk for some reason. You indicate in the report failure to address the weaknesses that you and your team point out, in a timely manner, increases the risk of financial loss or failure to effectively deliver services. With an implementation rate of only 14 per cent, is the department at risk of financial loss and which services is the department putting at risk by essentially ignoring the recommendations?

MS. ANN MCDONALD: I don't know. I mean certainly when we make the recommendations, they are made during the audit with the objective of improving operations. So with respect to any of these recommendations in each of the chapters there would be some possible implication or some possible outcome of financial loss. But specifically in this assignment, that's not our objective to note that so what we're looking at here is just sort of the state of implementation.

Perhaps if any of these recommendations or any of these areas that we've looked at here come up in a future audit of that area, then we can comment with more certainty about the possible financial loss as a result of not implementing the recommendations.

MR. D'ENTREMONT: Further to that, and this is sort of what I remember a little bit, too, is the issue of cost analysis on those recommendations. Being that we have had tight budgets over the last number of years, do you think that's starting to play into it? Some of these recommendations require dollars to do it and all the dollars have been pre-committed to do other things so they have to wait until at least the next budget round rolls around and they seem to get lost in the fray.

I don't know who wants to answer that question, I see you looking at each other.

MS. ANN MCDONALD: I guess what I'd comment is that when we make the recommendations we're looking for practical solutions. We certainly are aware of budget constraints within departments. We have talked about this and feel that many of the recommendations we make are not resource-heavy in terms of implementation. An example of that was noted just this morning, the issue of access. Something like that, for example, is not, we feel, difficult to implement nor would it be either time-consuming or resource-heavy.

We are aware of that and in the responses that government provides throughout the chapters, that they will indicate, I think, whether or not they consider it to be a resource-heavy recommendation. Generally speaking, we don't think that what we're recommending are recommendations that will take a lot of resources to implement.

MR. D'ENTREMONT: Well if I just look at this quickly, I mean if we're talking about logging, let's say, logging who has access to a file, I just see something spiralling there because you end up going up to - it might be something that's not on your system, that you're going to have to build a component for. So government goes out and contracts that out to some kind of consultant to start with that design work and then it goes on from there.

I'm just looking at the examples of other computer systems we've had in our province that start off with a number and after a while have either doubled in cost or have gotten a fair amount more expensive. I know things sometimes look relatively inexpensive but maybe there's a mechanism in government to make sure that they don't spiral because little things off to the side, in my experience, seem to spin off a little too far.

MR. LAPOINTE: I'm going to add a little something to that; Ann is right, we always consider that some of our recommendations may require some resources and that's one of the reasons why, in fact, we give government time before we go back and look. The government in one of its responses to that second chapter indicated that well, you know, the government does have to prioritize recommendations and there is a question of resources involved in putting them into place.

The fact remains that if you weigh a cost and benefit, the potential losses and inefficiencies from not implementing these recommendations usually, in my mind, will far outweigh any initial costs you might have in implementing, say, better passwords in computers. If resources are an issue in not implementing 86 per cent of our recommendations made since 2005 and 2006, I would say that if it's a resource issue to not implement those recommendations, then the cost must be enormously high to warrant a delay of six years.

MR. D'ENTREMONT: Understood. Also, and just one final point on this chapter, you indicate in the report that only one recommendation from your first follow-up assignment of health wait times was completed last year. Does the failure to act on the remaining five recommendations impact the management of wait lists on patients because

we build an awful lot on wait times these days? If you haven't done the other five, what are we missing?

MADAM CHAIRMAN: Ms. McDonald, and if you could be brief because the time is just up.

MS. ANN MCDONALD: Certainly, again, the work that we do in this chapter is quite limited, if you will, to the objective of providing a review level of assurance. You know the recommendations originally made to improve the wait time systems and the progress they have made to date have not been satisfactory. We're hopeful that the Department of Health and Wellness will improve their rate of recommendation and get the wait-time system in better shape than it is now.

MADAM CHAIRMAN: Thank you, that's the end of the time. I would like to turn it over to Mr. MacKinnon for the NDP caucus.

MR. CLARRIE MACKINNON: Madam Chairman, it's great to have the Auditor General with us this morning, and senior staff. I would like to zero in for a moment on Nova Scotia Business Inc. and perhaps accentuating the positive. Your report found that the policies, processes, controls and government structuring at NSBI were adequate. Can you expand on that?

MR. LAPOINTE: Yes. We did, in fact, find that the controls we looked at in all of those areas were overall fairly strong. We had recommendations to make. The recommendations in comparison to the equivalent were relatively minor and they indicated a willingness to put them in place, but they constituted improvements on the existing system. So the way that they managed the applications coming through and the approval process all the way through to those that have to go to Cabinet, the way they manage the monitoring of loans and repayments and conditions afterwards, were all relatively strong.

MR. MACKINNON: You tested eight NSBI loan approvals. Can you summarize your findings?

MR. LAPOINTE: I'll ask Evangeline Colman-Sadd to speak to that one.

MS. EVANGELINE COLMAN-SADD: As Jacques just indicated, by and large the results of our work at NSBI are fairly positive. We did have, in the instance of loan approvals, just one exception that we noted in terms of compliance with policies and that was in looking at risk elements around one particular loan; there was an instance in which we didn't think the board was given as full information as they should have been.

It's an instance where policy states that if a loan falls outside of a certain risk threshold for any of five - I think it's five - risk elements, that the loan be rejected. While that information was certainly stated in the information that went to the board of directors -

so the board would have known that the loan exceeded that risk threshold in a particular area - there wasn't a reminder that that technically does not comply with their policy, which we thought should have been there, because I think it's easy to forget those little nuances in policies over time.

Certainly in discussions with NSBI staff, what they indicated to us is that they believe there should still be some flexibility for the board to approve a loan in those instances and I think they're going to look at changing their policies in accordance with that.

MR. MACKINNON: So seven of the eight sample loans you tested complied with the policies and procedures of NSBI.

MS. COLMAN-SADD: That's right.

MR. MACKINNON: And one actually resulted in Recommendation 3.15, is that correct?

MS. COLMAN-SADD: Yes, that's correct.

MR. MACKINNON: And I guess NSBI's response to that was that they believed one of their policies was, in fact, too rigid. Can you explain in a bit more detail what led to this recommendation and the actual response from NSBI?

MS. COLMAN-SADD: What we were informed while we were clearing the report and whatnot - and I think that is reflected in their response - is that they believe that in that particular area, policy states that if a loan exceeds the maximum risk threshold for any of five risk elements, that the loan be rejected. They believe that there were circumstances in which it might be appropriate to approve a loan that exceeds perhaps one or two of those thresholds and they believe there should be some flexibility for the board to have that information, be aware that the loan exceeds those thresholds and then be able to make a decision on whether or not they are comfortable with that level of risk. That's what they're referring to there with the policy and my understanding is that they intend to look into that and update those policies.

MR. MACKINNON: NSBI's approach is similar to those used by banks. I guess the point that I would be making is, do you accept that a government should be able to approach some clients with more flexibility to reach the desired socio-economic outcomes?

MR. LAPOINTE: I can speak to that. Certainly it is government's choice as to how it manages business assistance and ultimately who makes the final decisions on it. What we were commenting on in this report was the processes and accountability and controls

around the process of doing that. We're not commenting on the government's ability to make decisions.

MR. MACKINNON: Looking at the Industrial Expansion Fund in response to your findings regarding the IEF, the Premier announced that the fund would be wound up and a new fund with policies, processes, controls and program management similar to those of NSBI would be set in place. Is this announcement consistent with your recommendations regarding the IEF?

MR. LAPOINTE: I would say that yes it is. We were not making recommendations of that nature, putting in a different organization, but that's certainly one approach. The controls and management procedures that have been discussed in these announcements seem to comply with the recommendations that we have made and if this new organization implemented the recommendations we made in the report, then it would certainly satisfy the comments we've made.

MR. MACKINNON: Just going back to NSBI. I was getting a positive feeling from your report in relation to it. Generally speaking, NSBI has been operating well?

MR. LAPOINTE: Yes, our conclusion was that what we found overall at NSBI were sound business practices and good controls with some areas for improvement that we recommended.

MR. MACKINNON: With the remaining time, I'll turn it over to the member for Hammonds Plains-Upper Sackville.

MR. MAT WHYNOTT: Madam Chairman, I'm going to focus a little bit on Chapter 4, around the Colchester Regional Hospital replacement. First I want to just get a little bit of an understanding on how a building like this would start, I would assume from the community up, I guess. I know for instance in my area right now, there is a new high school going up and the Department of Transportation and Infrastructure Renewal has a big part to play in the tendering process, the design process. They work in conjunction with the school board and the Department of Education.

Was there a difference on how that process unfolded with the hospital? Was there no working agreement with the Department of Health and Wellness and TIR? Can you explain that a little bit to me.

MR. LAPOINTE: I can get Evangeline Colman-Sadd to give you more details on it, but basically there was a substantial difference. The bulk of the work on this was delegated to the district health authority and they were in charge and managed it on the whole with some advice from the Department of Health and Wellness, going through the Department of Health and Wellness for such things as budget requests, but the focus of control was the district health authority.

MS. COLMAN-SADD: In terms of your question on whether or not there was a working agreement with Transportation and Infrastructure Renewal, there was not in this instance. There was a representative from the Department of Transportation and Infrastructure Renewal on - I believe it was the Planning Committee. They would have attended meetings with the architects and various consultants and attended the various planning meetings throughout with the board and whatnot. However, it was just one individual and that person was there really in a very limited role. They weren't asked to review detailed drawings, those types of things; they were there in a very limited capacity, much more limited than what you're describing, for example, for the school.

MR. WHYNOTT: So now my understanding is the Department of Health and Wellness has now put a new process in place with regard to the management of a large construction project such as a hospital being built in a different part of the province, let's say, and that there is a memorandum of understanding between the Department of Health and Wellness and the Department of Transportation and Infrastructure Renewal. Do you know anything about that or did you see that process unfold once you got into doing the audit?

MS. COLMAN-SADD: My understanding is that that's something that they are looking at from a going forward perspective but I don't believe it's anything that impacted the audit period that we were looking at. I do know that the Department of Health and Wellness has indicated to us that they do plan to have a working agreement with the Department of Transportation and Infrastructure Renewal, moving forward for additional projects. I'm not certain whether or not it applies for the remainder of the construction of the Colchester Hospital or not.

MR. WHYNOTT: Again, I know in the example of the school in my area, there are three different levels of quotes and drawings. I forget the terminology of what they are. Were there not levels of quotes that were given from the tendering process? I think the first quote there is a 20 per cent difference on either side of that quote. Then once you get closer to the bill it's maybe 10 per cent either side, and then once the final drawings come in, it's 2 per cent on either side of - I think that's the number. Can you clarify that for me as well?

MS. COLMAN-SADD: Certainly there would have been some estimates throughout in order to come with the various budget numbers as they worked on construction of the hospital. One of the things that there were not, in this instance, were estimates at specific stages of drawing completion, which typically, on a construction project, would be 30 per cent, 60 per cent and 90 per cent.

Generally the feeling is that by the time you get to 90 per cent your drawings are substantially complete and your estimates should then be substantially complete as well and that it is sort of evolving over time throughout the 30 per cent and 60 per cent phases. Those 30 per cent and 60 per cent quotes did not take place in this instance. There is some response or feeling from the Department of Health and from the health authority in

Colchester that that's not necessarily possible with the fast-track type project, which is where you are building as you are still designing, as opposed to completely designing a building and then waiting to break ground until you have those final plans.

We don't agree with that assessment. I think perhaps the exact 30, 60, 90 might not be possible at those exact stages but I think certainly in significant tender packages, for example, it is possible to do estimates at those stages that let you know whether or not you are on track and that provide greater opportunity for mitigation, if it's necessary, if things are getting out of control - exceeding the funds that are available for the project. There's more opportunity for mitigation the earlier that you can identify those things.

MR. WHYNOTT: Yes, I think it's important for the public to note, and the many people who are watching this at home today, and we'll get this on the record. I think it's important that Nova Scotians understand that it was the government, it was the Minister of Health and Wellness who saw there was an issue and asked and, Mr. Lapointe, as you mentioned in your opening remarks, that the government actually asked you to go in and take a look at this, which I think is an important piece of information and also shows how valued your office is within government. So thank you for that. It's also important for people to remember, especially in the Colchester area, that this hospital is well-deserved and well-needed for the area.

Mr. Lapointe I'd like to ask you, would you agree that for a future date of the Public Accounts Committee that the Colchester Regional Hospital and the health authority should be witnesses to this committee?

MR. LAPOINTE: It's certainly one of the more substantial financial chapters that we have done. I would say that any of the chapters that we've put out in this one could make a good session for a hearing in Public Accounts. Certainly that's one.

MR. WHYNOTT: Thank you. I'd like to ask specifically- we all know this project was initiated under the previous government and we already talked a little bit about the incurred considerable cost overruns since the budget was first determined. I will just ask if you could - in your report you noted that the initial budget excluded a number of costs - can you summarize for me some of the items that were excluded?

MR. LAPOINTE: Certainly, in fact I'll ask Evangeline Colman-Sadd to do that, she has all the details with her.

MS. COLMAN-SADD: Some of the areas that were excluded from that initial budget, for example, were any estimates of inflation. So, obviously it's such an early stage of a project when it's going to be five, six, perhaps even more years before the project is complete. It's an almost certain likelihood that inflation will have an impact over that period. We've never had negative inflation, certainly not in construction in the province.

That was excluded and I think all parties should have known that excluding that was going to make the budget inadequate to complete the project.

Another area that was excluded fairly early on was space contingencies. At the point of that initial budget there were no drawings for this facility. It was just a basic concept that they needed a new hospital but at that point it's not even clear, for example, is it going to be a high rise, is it going to be the three-wing design that was ultimately selected or something totally different? That isn't known at that point in time, so typically you allow for space contingencies for things that perhaps were missed or stuff that changes over time with building codes and whatnot and all of those space contingencies were removed from that initial budget.

I also think that made it very difficult to live within that budget at the end of the day, because when there are no drawings you definitely need some contingencies in a budget to allow for things to change over time.

MR. WHYNOTT: So you would agree that it was unreasonable to have those costs not in the budget?

MS. COLMAN-SADD: I think that's a big part of what led to the inadequacies of that original budget is excluding things like inflation and space contingencies. I don't think it's reasonable to exclude those, no.

MR. WHYNOTT: In response to your recommendations, I think I've already touched on this a little bit around the Department of Health and Wellness and Transportation and Infrastructure Renewal, you mentioned that those two departments are in the final stages of securing an MOU for the oversight of future large projects, such as hospitals. What are your thoughts on that? Is that a good step forward? Are there models out there that we should be using? I noted the agreement between Education, the school boards and TIR. What are your thoughts on this?

MS. COLMAN-SADD: Certainly anything that looks at putting an agreement in place that formalizes the relationship of Transportation and Infrastructure Renewal that provides for a better mechanism for them to be involved and to ensure that level of expertise is brought to bear on large projects, is a good thing I think.

I haven't seen the details of whatever they're looking at putting in place so I can't say whether or not it covers all aspects. We've not looked, I don't think, at the Department of Education's agreement with Transportation and Infrastructure Renewal, I can't speak as to whether or not that could be a model.

MR. WHYNOTT: Thank you. Again, we're always glad to work with the Auditor General's Office in making public policy better.

MADAM CHAIRMAN: There are two minutes left.

MR. WHYNOTT: Excellent. Now I'll move to the long-term care facilities, Chapter 5. You praised the process used by the department to determine where new long-term care facilities should be located. Can you expand your thoughts on that process?

MS. COLMAN-SADD: The department definitely had a good process in place to look at where new facilities should be located. They considered age of the population, population projections by county; they dealt with stakeholders, so there was a very robust process where they considered all of the things that you would typically expect them to consider in determining where the demand was likely to be for those new facilities.

MR. WHYNOTT: Did you find that there was a lot of collaboration with the district health authorities on that?

MS. COLMAN-SADD: I can't answer that off the top of my head. I'd have to look at our detailed notes to know whether or not there was collaboration with the DHAs.

MR. WHYNOTT: Your audit included an analysis of the design and construction process for both the new and replacement long-term care facilities. Can you summarize your findings there and can you identify a few of the strengths and weaknesses that you did identify?

MS. COLMAN-SADD: With regard to the process to actually oversee the construction, it was a fairly similar process regardless of whether it was a new facility or a facility that was replacing an old facility. In reality, in both instances you are essentially putting up a new building. We found that they had programming standards that they ensured were adhered to. The department ensured that the developers of these facilities, whether they are a replacement or a new facility, were staying within their budgets. They worked out per diems and whatnot with them. One area of weakness that we did identify in the audit relates to how they selected which facilities should be replaced. In that particular instance we did not find that there was, essentially, any evidence to show that the facilities most in need of replacement were, in fact, selected for replacement.

MADAM CHAIRMAN: Your time has elapsed now and I'll turn it back to Mr. Colwell, please. I've allowed for 15 minutes on the last round.

MR. COLWELL: I'm going to ask some questions this time about the IEF. In the report, Auditor General, you stated that the IEF activities represent an inappropriate way to manage public funds, and you were quite strong on that statement, and then the Premier has been quite vague on what he is going to replace the IEF with. In the meantime, the Cabinet and the Premier have again approved some spending through the IEF, only six days after your report came out. What would you like to see in terms of controls or accountability

while the IEF is being phased out or improved or made more accountable, whatever the Cabinet decides they're going to do?

MR. LAPOINTE: In general I don't think the issue, from our audit's point of view, is what organization the IEF loan or assistance program is in; it's the way it is managed. Our comments had to do with the management of the whole application process, treating all applicants in the same way, having proper analysis of the various applications and ensuring that due diligence had been applied to all of those. The effect of that is that the recommendations and reports made to Cabinet then can be relied upon by those who are reading them. Our concern is that those making the decisions can, in fact, rely on the reports they're receiving, that they have been properly processed and they know these came about. That's on the one side.

On the other side is that, once approved, the loans and assistance and the conditions attached to them are managed in an appropriate way. These are now public funds which are issued and they are managed in a way that allows you to trace whether loans are in arrears, whether repayments are being made and so on. Regardless of what institution these are put in, the recommendations we make are designed to ensure that the management, both before and after approval, is appropriate and is strong. Regardless of what organization it is put in, we would hope to see that these recommendations are put in place and that would then deal with the issue from our point of view.

MR. COLWELL: When you conducted the audit, were there any indications of any - I understand that you didn't get a lot of information - but any indication the IEF would have approved loans that NSBI had turned down?

MR. LAPOINTE: They are substantially different. In fact, I suppose that's a distinct possibility in that the policy is to process applications through IEF which are different from the kind that NSBI would deal with and this is the issue of flexibility. But we wouldn't be able to make a comparison of one comparing to what would have happened if it had gone into a different organization like NSBI. I think that would be speculation on our part.

MR. COLWELL: Do you feel that a spending cap should be put in place on the IEF until the government gets this under control, with the proper application process and approval process?

MR. LAPOINTE: I think that's really up to government to decide. I think the priority from our point of view is to get the recommendations and controls implemented as quickly as possible and that will then deal with it.

MR. COLWELL: With the substantial amount of money and the lack of controls and information in this file, do you think a year is soon enough to get this resolved?

MR. LAPOINTE: I don't know how long it would take to implement the things that we're talking about; that's kind of outside our scope of ability to judge. But the issue would be, from our point of view, to make it a priority and to ensure that action is taken quickly and that the recommendations are put in place as quickly as is reasonably possible.

MR. COLWELL: Again it's a substantial amount of money and it will be interesting to see how quickly the government reacts to your recommendations; hopefully it's quickly.

There was a recently established advisory committee with no oversight role. Do you think that that committee - from what we've been able to determine so far, it really only makes recommendations, and even then they could be overruled. Do you think that's an appropriate process or was that in place when you reviewed it?

MR. LAPOINTE: Yes, the advisory committee was put in place not that long ago; it was just starting to operate as we were doing the audit, in fact. We were able to look at some of what they were doing, we looked at a sample of one of the transactions they were asked to look at. But they are in fact an advisory committee, that's all it is, and government is always free to get expert advice in any dealings and that can only add to the quality of the decisions that are made. But it's an advisory committee, it's not part of an oversight or a control structure. It's meant to bring in voluntary advice from outside and that's what it does. With any advisory group, the advice that you receive can be taken, modified or rejected. It's there for advice only.

MR. COLWELL: It seems to me that some of the correct documentation should be pretty straightforward. You do standard accounting processes and see if their assets are there or whatever criteria would be set up. I noticed in your report on page 36 that, "Much of the information we needed for testing was not in files . . ." and that seems to really raise some questions about how these loans are given out without proper information in place. If the staff in the department doesn't have the information, Cabinet definitely never had it. This is a very serious statement - how serious is that?

MR. LAPOINTE: The concern we had with this aspect of it primarily to ensure that the information that goes to Cabinet is reliable, so that the decisions are informed decisions and that they are based on reliable analysis and consistent treatment of the applicants, then the decisions can be made on the basis of facts

In addition to that I'd say that the concern is that all applicants be treated appropriately and that all information that is available is maintained and is documented, so that it is possible for management to exercise some oversight over the process and to ensure that quality control is in place and that the end product is appropriate.

The failure to have these processes in place was a significant concern to us and that's why we made recommendations in detail to put processes in place to improve that.

MR. COLWELL: This process, again, you will recheck this again in the normal two years?

MR. LAPOINTE: Yes, we will.

MR. COLWELL: Is there any indication you might be interested in just quickly reviewing this in a shorter time than that?

MR. LAPOINTE: I think we have to, given particularly the scale of the changes that we are recommending, treat this organization as we treat others and allow them the time to make the changes before we go in and review.

MR. COLWELL: When you went through that there doesn't seem to be an entry point that businesses could get to for this. Is that correct? In other words, how do businesses get into the IEF to see if they qualify? This seems to be pretty sketchy.

MR. LAPOINTE: I think it is but I might let Evangeline give you a little more detail on that.

MS. COLMAN-SADD: You are correct, there isn't really an application process. My understanding from talking to staff at Economic Development is that potential IEF recipients, assistance recipients, come there a number of ways - sometimes through general knowledge, perhaps in the business community that that is a source of assistance that could be available. Sometimes if they've approached perhaps another government entity or organization or department and maybe don't fit within their programs but that entity believes they might fit within IEF - a variety of ways but not really any sort of formal application process or package or anything like that.

MR. COLWELL: So basically what could happen is you could have a company that does need assistance that would have a legitimate case, not realizing that was there and not accessing the funds.

MS. COLMAN-SADD: I think there is a risk, yes, when you don't have any sort of an application process and perhaps good information on the availability of a program, that that could happen. I think the other significant risk that we've identified in our audit, when there is no application process, is that you don't collect consistent information from the various applicants who do come forward for the program and that there isn't a consistent assessment of applicants. So you could end up with a situation where two similar businesses, one could end up being rejected and one could end up being approved, just because you simply haven't looked at a consistent package of information with regard to both companies.

MR. COLWELL: In other words, you would have a situation that one company that might be favoured, for whatever reason, would get a loan and another one wouldn't,

because there is no information to justify a loan or not justify a loan or whatever the case might be. Would that be accurate?

MS. COLMAN-SADD: We didn't identify any instances during our audit and the files we tested, where we felt there was any sort of evidence of favouritism. But that is one of the concerns, I think, that we have identified throughout here. When you don't have a process and when you have files that have very little information in them to support what was ultimately recommended to Cabinet, there's certainly a risk or a perception that that can occur.

MR. COLWELL: Yes, and hopefully it never does. There seems to be - the minute we see more and more of these loans that go astray and the government states on a regular basis that for every dollar they invest they get \$2.80 back, is there any justification for that? There doesn't seem to be any way you could track it, really. They must track it somehow, but because the information is missing or not reliable so how can they possibly say that they get \$2.80? Maybe it's \$10 they get back, maybe it's none.

MS. COLMAN-SADD: We didn't audit that specifically during this particular audit, so we didn't look at what is the return over time. The particular statistic you are quoting, I believe there was a consultant report that they had commissioned at one point that provided them with that information. I'm not sure what was done to come up with that number, but it's not something that we audited during our work.

MR. COLWELL: Is it something you would audit in the future just to see if the return is, down the road, a worthwhile investment?

MR. LAPOINTE: It's not part of our plans right now. We were concerned with the management of these funds and not the overall benefit in the long term to the province.

MR. COLWELL: In your educated guess, these funds aren't managed properly and is it because of just lack of information or is it policies around the way that the funds are put in place?

MR. LAPOINTE: The whole structure of the policies, procedures, all the processes in place, all the documentation, the way that they're managed, that is the failure in this case, and that's simply the way that this fund is structured to operate. So the solution is simply a change of the management of the program and putting in stronger controls and more open processes. We feel that that's what's required and that would take care of the deficiencies that we've noted.

MR. COLWELL: That's something that probably could be done very quickly, I would think?

MR. LAPOINTE: It's hard to say. It has been an approach that was taken to doing it, and I wouldn't want to guess at how long it would take. That's up to management and it will depend in each case what approach they're taking to implementing the recommendations.

MR. COLWELL: And this is something that should be done, and you made very strong recommendations that this should be done, sooner than later?

MR. LAPOINTE: Yes, we do. We believe that all our recommendations, as we noted in the report, require, I think, a higher priority by departments and agencies but in this case this is one in which the recommendations are significant enough that they should be acted on rapidly.

MADAM CHAIRMAN: Mr. Colwell, your time has elapsed I'm afraid. So I'll have to turn the floor over to Mr. d'Entremont who has 15 minutes.

MR. D'ENTREMONT: Madam Chairman, I am going to ask a couple of questions around the Colchester Hospital just for a few moments because I did get to live the first increase when the first \$104 million was set aside for this development and the discussions that ensued afterwards with the district health authority which culminated in the extra \$51 million in order to complete the hospital at that time.

I'm just wondering, realistically, because there are a couple of steps in there that probably weren't followed when it goes to design and some of those pieces, you know, what would the savings have been, or what would have the realistic number have been, and now that we're at I think \$184 million and we're not complete yet, you know, I'm at a loss right now to where some of those really missing pieces were because I did get to live it for a bit.

MR. LAPOINTE: I will ask Evangeline Colman-Sadd for the statistic.

MR. D'ENTREMONT: Sure.

MS. COLMAN-SADD: So just to clarify, is your question sort of what was lacking from the \$104 million or what would a reasonable estimate have been at that time?

MR. D'ENTREMONT: No, I think I know what was lacking from the \$104 million because I know what the number was built on. The number was built on basically what the community was able to raise. If you look at the \$25 million community component of that and you multiply it by four, you get \$104 million or somewhere close to it.

My question is, when we had the presentations from the district health authority that the increase should be about \$55 million to complete the hospital at that time, I'm just

wondering what was lacking in that second ask of \$51 million, I think, is what the second, or the second proposal to Cabinet went, what was missing there?

MS. COLMAN-SADD: So, in that second ask I think a few things. Initially just prior to coming to Cabinet for that particular ask, which increased the budget overall to around \$155 million, Health and the district had agreed on a budget of about \$163 million, but that one was never actually moved forward to Cabinet. They eventually whittled it down to \$155 million. In that particular ask there were some things that were not followed up on, for example, hospital size, there was a commitment to reduce the hospital size significantly. At that point they still didn't have - I don't think - a definitive drawing of the facility so ultimately, at the end of the day, the hospital is actually significantly bigger than what was proposed rather than smaller.

There are also some issues around furniture and equipment and whether or not the total amounts included in there were adequate for that. Additionally there are some things that were identified in that second OIC request that were inaccurate. One of the identified increases in cost that added around \$50 million to the project referred to the site preparation and the fact that the site hadn't been selected at the time of the initial OIC and that an additional \$10 million was now needed for site preparation. The site actually had been selected at the time of the initial OIC so I'm not sure where that \$10 million fell into play.

Another item that was added back into that particular OIC was a physical plant cost. In the initial OIC they took out money related to a physical plant because they were hoping to find a private partner for a co-generation plant. There are a number of things, I guess, over the life of the project that contributed to some of the issues.

MR. D'ENTREMONT: Part of the issue that I also see is that when you get into these things, you're looking at patient care, you're looking at patient safety and then what you get is an absolutely gorgeous hospital with a lot of breezeways and a lot of natural light that really have very little to do with patient care or patient safety. How can the government, in the future, try to limit some of those things? I mean, if you're setting a budget of \$155 million and here is the package that we're paying for, but the district health authority or secondary entity is going to say, but we want this glass behemoth, where are you going to draw the line?

Is there a recommendation in there that can limit some of this pie-in-the-sky? We've not only seen it in Colchester Hospital, but there are some issues with long-term care that we saw some of that pie-in-the-sky kind of dreaming that gets us into a whole bunch of trouble.

MR. LAPOINTE: I can answer a couple of things on that. There are a couple of issues involved. The first is that the budgeting process itself, we've concluded, needs to be more realistic. I don't know how realistic it is to make it more realistic, but certainly the process would be helped by having projects like this begin with a request for funds, which

is adequate to complete the project and which is not negotiated down or modified or played with in any way. It's hard to say whether a proper budgeting process would have reduced the cost at all, but it would certainly have identified at the beginning - let's say, if \$184 million is the cost, it should have identified that as a cost. Approve it or don't approve it at the beginning, but don't approve \$104 million in the hopes that will be the cost, knowing it can't be. I don't know if that will solve all the problems, but it's one of the things we found that occurred in this case and can hopefully be presented in the future.

The more difficult one is the question of decision-making along the way in which decisions were made, perhaps for aesthetics, for other reasons, without consideration of cost. That has to do with the management of the project and the oversight over that management. If a decision was made for a particular style of building, then perhaps another style of building - perhaps a high-rise or something else - would have been more efficient and less expensive to build; we don't know. At the time the decision has to be made, considering the cost is one of the critical factors, and if a more expensive choice is to be made that it is done knowingly.

One of the solutions we feel can help prevent a lot of this in the future is a solution to have a strong government oversight group involved in all large projects, whether it's from the Department of Transportation and Infrastructure Renewal or from anywhere else, but that strong centre of expertise in large construction is available in the government to oversee and be heavily involved - not marginally involved, but heavily involved - in oversight and direction of all large buildings. I think that would go a long way to preventing unnecessary spending in the future.

MR. D'ENTREMONT: And just to finish that one off, originally when this started its life, there was one engineer in the Department of Health and there is now more than one because of the long-term care process that has been put in place. There are a number of building specialists now within that department who really weren't there at the onset of the Colchester hospital.

It's also the to and fro between who is responsible for what. You are trying to set a number, as a department, saying try to stay within these means and then you are told by the district health authority that no, we're responsible for that. It ends up that it's a good recommendation to centralize that information and it's one that I definitely support.

MR. LAPOINTE: Given that our mandate in this was to look at solutions for the Department of Health and Wellness, and we weren't being asked to look at government-wide solutions for other projects, although we feel that the solutions can apply to other departments, certainly the Department of Health appears to be taking steps, in fact has taken some steps, to manage its own need for expertise within the department and to deal with these issues in future, I think that should go a long way towards moving in the direction we're talking about.

MR. D'ENTREMONT: Oh, absolutely. My final set of questions - I know I'm running out of time already . . .

MADAM CHAIRMAN: You've got about five minutes.

MR. D'ENTREMONT: Thank you - will revolve around Labour and Advanced Education and the Office of the Fire Marshal. In the report it identified many deficiencies in the Office of the Fire Marshal so in your opinion, does the office have - and I know I'm probably going to get the answer - does the office have sufficient resources to protect public safety and comply with this legislative mandate?

MR. LAPOINTE: We couldn't conclude from our work whether there are enough resources in place. There's a possibility that the department simply needs to have more fire marshals or just more money involved. We don't know that. What we recommended was a fairly substantial overhaul of that whole office but that would have to begin with, or have to include, a major review by the department of the function of the fire marshal and the intent of the legislation, what has to be done, and then from that evolve what resources are needed to do it. They can see then whether they need efficiencies or they need new processes or they need more people. That would fall out of the review that they should conduct.

MR. D'ENTREMONT: Did you find that they were concentrating on other things rather than what their legislative mandate was? In my experience as a volunteer fireman it seems like the Office of the Fire Marshal is more focused on the professionalization of firemen in the province, of trying to build some structure and training around that, rather than some of its legislative mandates. Did you see some of that in there?

MR. LAPOINTE: I think I'll ask Terry to speak to that.

MR. SPICER: We saw a little of that. We interviewed six deputy fire marshals as part of the audit, to try to understand exactly what your job is, what you do. They spend a lot of time doing investigations as well as fire inspections. They work with municipal fire safety inspectors; they do some training when they need to, monitoring of municipality inspection stuff, which we indicated here in the report. They have a number of different hats that they wear. Now most of it leads directly to the mandate but there is some of what you indicated there.

MR. D'ENTREMONT: What I see, in my almost 20 years in the fire service, what the responsibility is that a fireman has and a lot of it has been dictated from the Fire Marshal's Office on that professionalization. I'm seeing that maybe they were focusing too far on that one and not on some of their basic stuff of making sure that buildings were safe.

My question around the position of fire marshal right now is open, as far as I understand; the gentleman had retired or maybe is off for a little bit. Is that an opportunity

for government to maybe redesign who that fire marshal is and maybe what his or her mandate is?

MR. SPICER: I think that certainly is a question for the department really but hopefully, and management has indicated in their response that we've made a number of recommendations here. There are some fundamental things that need to be done in that department that we hope will get done and management's response has certainly indicated that they plan to address that and make it a priority.

MR. D'ENTREMONT: And I think making it a priority is important but it would be nice to see some actual activity around this since it has gone through a number of different governments since 1987, so it would be nice to see. Personally, I see the size of that operation to be part of it, it's only really a small group of individuals that maybe they were too busy doing other things than what they should be doing.

With that, I want to thank you folks for being here today because I know my time is almost done so I'll qualify it as done and look forward to questions some other day.

MADAM CHAIRMAN: I'll turn the floor over to Mr. Skabar for the NDP caucus.

MR. BRIAN SKABAR: In your report you list that a licence could be issued based on fraudulent misrepresentations or inappropriate actions of employees. During your audit did you or your team find any instances where the driver licences were issued improperly?

MR. LAPOINTE: I'll ask Alan Horgan to answer that question.

MR. HORGAN: No, we found no such instances.

MR. SKABAR: What kind of fraudulent misrepresentations - were any identified?

MR. HORGAN: No actual cases were identified where people had received cards that they weren't qualified to receive.

MR. SKABAR: Okay so there's some potential for it to happen but no one thought about it but you guys found it before anyone else.

MR. HORGAN: Yes, that's a good way to put it, there's potential but in our sampling we didn't find cases where that potentiality came to life.

MR. SKABAR: Would you characterize the recommended actions be primarily related to systems processes?

MR. HORGAN: I would characterize them as control, a huge part of control is just managing risk and when you're dealing with information technology there are so many

risks involved and managing them is basically a full-time job. So I think if you have the right controls you manage your risks.

MR. SKABAR: What has been the department's response to date? I note in your report that the department has already acted on a number of your recommendations. Are you satisfied with the response?

MR. HORGAN: I'm very satisfied with the response. When we met before the end of the audit to discuss our draft report we found that they were taking everything very seriously. They indicated at that time they have strong intentions to implement what we were going to do and as is our usual practice we asked them to prepare a formal, written response. The written response was of the same vein that indicated that they were going to move on these and actually provided some timelines in which they'd do that.

MR. SKABAR: Well excellent. Now in some of the other departments that your audit took place was there equal buy-in by senior management of the departments and they were just not able to come up with a timeline in a similar fashion, or were some of the recommendations well, for lack of a better term, that didn't get total buy-in by the departments?

MR. LAPOINTE: I can say that the responses from the departments in all of these audits were generally speaking pretty positive. They tended to indicate that they agreed to those recommendations and would act on them in different degrees to which they were specific about what they intended to do and about what time. With the RMV, as Alan mentioned, they were quite specific but there weren't any cases in which the departments would disagree with us or hesitate to want to implement. So overall we were satisfied with the response we were getting from the departments as to their intentions that they're stating here.

MR. SKABAR: So their response is fine, just the implementation, the actions are taking longer than perhaps they should, for a whole range of reasons then.

MR. LAPOINTE: Well, I'm speaking specifically to this particular report. What has happened in the past, responses have varied over the years. We have gotten a little better over the years and are trying to phase recommendations in which they are straightforward to respond to and getting more specific about the response we want from departments and trying to get commitments from them. That response from them is improving over time as we're having more discussion with them about it.

The period of time from 2005 to 2008 that we were looking back on here would be characterized by inaction as opposed to lack of intention. I wouldn't say that there was, generally speaking, over that period of time, a lack of intention by government in what they stated by departments and agencies - what they stated to what they intended to do - but the actual action taken in the implementation was not always up to what was stated.

MR. JIM MORTON: Madam Chairman, thank you all for your audit report and the important work that you do. I'd like to move us briefly back to the Office of the Fire Marshal and to ask a couple of questions, perhaps, there. I understand how important this work is. In my distant past, I had some responsibilities for doing fire inspection reports and I understand how critical they are for both safety and giving people a sense of security in a variety of settings.

Certainly in that chapter of the report you made a large number of suggestions about areas that need improvement. What I have done is read through the department's responses and I think, as Mr. Spicer already noted briefly, it looks to me like the department has already taken a number of steps to address the concerns that you've raised, but looking at the department's specific responses to each recommendation, I'm wondering what your thinking is about the department's initial reaction and initial response to your recommendations.

MR. SPICER: I was encouraged. They recognized that there were issues that needed to be dealt with. They've already established a project manager to take control of the recommendations and make sure these things happen. They've already indicated that they will be a priority so yes, I was quite encouraged by management's response.

MR. MORTON: I guess just as you pointed out, one of the things that has happened is that a project director has been established and the department has said that it will actually address all of your recommendations within 18 months so it seems to me that the department is taking some real action on the concerns that you've raised. Maybe you've already answered this, but to just push you back there again, do you think that the department's response is adequate?

MR. SPICER: Yes, it is.

MR. MORTON: From reading the chapter, it seems to me that the core problem was a lack of reporting on activities. This doesn't mean that the work was actually neglected or not done, but rather that there was a need to improve monitoring and reporting. Is that an accurate reading of your finding?

MR. SPICER: I would have to disagree with you on that. The report indicates a number of examples of where inspections were not completed. I guess the facts that we have there speak for themselves. There are inspections that are not being done. There are follow-ups on deficiencies that are not being done. Those are both, I think, critical pieces that aren't being done that need to be addressed and management has indicated they will be.

MR. MORTON: I think I will refer the rest of my time to Mr. Preyra.

MR. LEONARD PREYRA: I did just want to take five minutes, really more comments than questions. It relates to the IEF. If I can just summarize what the report says, that you are really talking about the quality of information that is going into the decision-making process and the application process and the controls that might be improved to make sure that there's some oversight on the decisions as they are being made and once they are being made.

You're not looking at the quality of the decisions themselves that were made, in terms of the - there were no instances or evidence of wrong-doing or that the decisions themselves were wrong or that the default rates were higher or that there's no return on investment. You don't go there, or at least you don't comment on that. Is that a fair summary?

MR. LAPOINTE: Yes, that's a fair comment. We're not looking at what occurs within Cabinet. The decision-making occurs there. Once the information is received by Cabinet they are perfectly entitled to make decisions as they please and we do not get involved in that process or comment on it. We're looking at the process leading up to the information going in for that decision and then subsequent to the decision being made.

MR. PREYRA: In commenting on the Advisory Committee, it's not so much the existence of the Advisory Committee but you would like to see something similar in principle to what the NSBI uses. Because you found that to be - not the model department or agencies is not the right word but it's better controls and better information that goes into that process and you'd like to see something more closely approximating that in the decision-making.

MR. LAPOINTE: We're looking at processes that would, if put in place, more closely resemble NSBI. All our recommendations, if they were implemented, would wind up with an organization or a process within the department that would look very similar to what is going on in NSBI. The significant difference would be the policies around the types of loan applications that were being considered and the fact that all decisions would wind up at Cabinet, as opposed to only a percentage of them through NSBI. That's one of the reasons why we indicated that one of the solutions could be to put these processes within NSBI since they already exist substantially and could be modified or expanded to incorporate this process.

MR. PREYRA: I have a comment on that, maybe it's more argument than a comment. The IEF goes back several decades and the overall objective of the IEF has always been economic development. So you look at a government wanting to stimulate economic development or incubate certain industries or companies, you look at what the government has been doing in terms of energy efficient lighting or tidal energy or wind or to stimulate the ship-building industry, for example, there's always been a government sort of long-term interest in stimulating economic development.

To a certain extent it's a little different from NSBI, which is a much more narrow, much more particular set of circumstances. You're not questioning the Cabinet's right or the government's ability to define the long-term interests of the province and to address it through whatever tools it has?

MR. LAPOINTE: No, certainly not. We're not commenting on government policy, we never do. We're commenting on the application of that policy and the implementation of it.

MR. PREYRA: I think I have one more minute and then

MADAM CHAIRMAN: You have a couple of minutes.

MR. PREYRA: I guess the question really is whether or not this new mechanism - clearly the government is heading in terms of developing a new mechanism that will meet the test of control and oversight more than the kinds of decisions that are going to be made. That seems to be the general theme of the report, if I can characterize it, that there does appear to be no sort of sense of the decision-making being wrong, it's just the process that leads to some of that decision-making may need to be better documented.

MR. LAPOINTE: Yes, I believe it could be on the documentation but I think the creation of better processes in place, not just for the applications but also for the management of the assistance after the decision is made. You have the two sides to it but what we're looking at is improvements in the process. It can happen in different types of - whether this organization or a different one, but the recommendation, if implemented, in whatever organization, I believe would correct the deficiencies that we found.

MR. PREYRA: Just one last comment. Maybe this is not appropriate to comment on something that's not in there. But as someone who has followed the process from the outside as an academic and the inside, on this committee, what we don't see in this report is any argument or disagreement about access to information about where the Auditor General can range or what kinds of things you can't have access to or not. I just want to say that it's great not to see those kinds of things and maybe the new Auditor General Act is working much better than in the past.

I also want to thank you for ranging as widely as you have and providing as comprehensive a report as you have and we look forward to the next follow-up that you do. We hope you'll be able to say that the follow-up rates are higher and that we are continuing along that path to improving the process.

MR. LAPOINTE: Thank you, appreciate the comments and I hope I can make those comments at the next report as well.

MADAM CHAIRMAN: Thank you, Mr. Preyra, you're finished with your questions? Yes. I'd like to offer a little bit of time if you wanted to make any final statement, Mr. Lapointe.

MR. LAPOINTE: Yes, in closing, I just want to say on behalf of my team that we do appreciate the opportunity to discuss our report with you today. I also appreciate this committee's continuing support for my office and for improved accountability in government. Thank you for your time today.

MADAM CHAIRMAN: Thank you very much. We also took note last week that you had recommended that we do follow-up on virtually every chapter in this report that we've just received. In the Fall, we'll be looking at that for upcoming meetings. Just to note that we take your comments seriously.

There have been a couple of requests for further information so I believe our clerk will have that information since that came up through the questioning. Mr. Preyra.

MR. PREYRA: Can I just comment on the request for information? I'm wondering if the request should come directly from the committee to the departments involved rather than go through the Office of the Auditor General?

MADAM CHAIRMAN: Can you say what the requests were? I know we took note of them from our support staff. It may be fine to do that, would you prefer that from the auditor's office? I know it was health related, wasn't it? Yes. Mr. Lapointe.

MR. LAPOINTE: If the information is available from departments, it's possibly better to get it from there to be more comprehensive to begin with. If not, we're always happy to provide whatever information the committee wants.

MADAM CHAIRMAN: I believe the request was for follow-up on recommendations that we wanted to know the status of on a couple of recommendations from Mr. Colwell. Right? We'll look at that, that's a good suggestion, thank you.

With that, there's only one piece of committee business and that is we have our meeting for next week on Family Pharmacare but it won't be held here, we're going to the Committees Office. The reason for that is that there is some construction work happening here at the House. I just wanted to make sure that you saw the location has been changed.

If there's no other business, I'll just ask for a motion to adjourn.

MR. MACKINNON: So moved.

MADAM CHAIRMAN: Thank you, we are adjourned.

[The committee adjourned at 10:53 a.m.]