



OFFICE OF THE
AUDITOR GENERAL
MANITOBA

Web version

March 2014

Annual Report to the Legislature

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Our vision

The Office of the Auditor General is an accessible, transparent and independent audit office, serving the Manitoba Legislature with the highest standard of professional excellence.

Our desired outcomes

Government organizations focus on results.

Government organizations produce meaningful, user-friendly performance reports for the public.

The Public Accounts Committee and the Legislative Assembly closely monitor the spending of public funds.

Our objectives

To add value to the management systems and practices of government organizations.

To provide Members of the Legislative Assembly with relevant information.

To manage our internal business effectively.

Our operating principles

Independence

We conduct our work in an objective and unbiased manner.

Value-added work

We provide the Legislative Assembly with value-added reports.

Balanced perspective

We put forth well considered and fair conclusions based on analysis of all opinions and where appropriate, reporting on strengths as well as weaknesses.

Professional excellence

We maintain sound audit methodology and meet the professional standards and competency requirements of our Office.

Teamwork

We work together cooperatively and in a coordinated manner to achieve a common goal.

Professional conduct

We adhere to the Office values of respect, honesty, integrity, and openness.

Accountability

We are accountable for our individual contributions to the products and services we provide.

Financial stewardship

We use taxpayers' money efficiently and effectively.

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Overview by the Auditor General

Overview by the Auditor General

The Auditor General Act outlines two annual reporting requirements, in Sections 10 and 14. In addition, Section 16 of our Act permits us to submit special audit report findings to the Assembly, if it is in the public interest to do so.

Section 10 requires an annual report to the Assembly about the audit of the Public Accounts and other financial statements which are prescribed by Legislation. Chapter 1 of this report covers the results of our financial statement audits.

Section 16 permits the Lieutenant Governor in Council, the Minister of Finance, or the Standing Committee on Public Accounts, to request a special audit. We must report the findings of an audit under Section 16 to the person or body that requested the audit and to the Minister responsible. In August, 2012, the Minister of Finance requested a special audit of the procurement card purchasing activity of staff in the Northern Airports Office. We have completed our audit and will be sending our detailed findings to the Ministers of Finance and Infrastructure and Transportation. In **Chapter 9** of this report, we include those findings which the Legislature should be made aware of.

Section 14 permits us to select project audits independently, for both government operations and recipients of public money. The remaining chapters of this report cover the project work we completed this year. The nature of our work and a description of how we select our project audits is more fully described in our annual report on the Operations of our Office for the year ended March 31, 2013 issued last August.

Chapter 1: Accounts and Financial Statements

The Auditor General Act (the Act) requires us to report to the Assembly by December 31st each year about the examinations and audits conducted under Section 9 of the Act. This section of the Act relates to audits of the Public Accounts and other financial statements included in the Province of Manitoba's Public Accounts. Section 10(2) of the Act requires us to indicate anything resulting from this work that we consider should be brought to the Assembly's attention.

We are pleased to report that for 2012/13, we once again issued a clean audit opinion on the government's Summary Financial Statements, which means that the summary statements are presented fairly in accordance with Canadian public sector accounting principles. We are also pleased to report most organizations consolidated into the Summary Financial Statements received clean audit opinions.

Understanding Manitoba's financial reporting is important in order to evaluate the government's financial affairs. As a result, in **section 1** we discuss how financial information is presented in the Summary Budget and the Summary Financial Statements. We have drawn attention to the difference between focusing on information at the core versus the summary level. And we have described considerations necessary for understanding accountability at the summary level.

In **section 2**, we discuss various measures representing different aspects of the Province's debt. We provide information to help understand Manitoba's borrowings, net debt, accumulated deficit and debt servicing costs. In **section 3**, we discuss the Province's pension liability. We provide information on the types of pension plans in the Province, how the liability is estimated, discount rates and the accounting for the various pension plans in the Province.

In **section 4**, we list the significant matters that arose from our financial statement audits.

We report that:

- the Province's public sector compensation disclosure accounting policy is inconsistent.
- the statement of payments over \$5,000 is out of date and incomplete.
- the Province does not release its quarterly reports promptly.
- the Manitoba Floodway and East Side Road Authority did not promptly provide information on assets it transferred to the Department of Infrastructure and Transportation.
- more policies are needed for the report of amounts paid or payable to Members of the Legislative Assembly.
- the Northern Affairs Fund's financial statements were not completed promptly.
- the Financial Institutions Regulation Branch was transferred to Manitoba Securities Commission before the transfer was approved or due to take effect.

Section 5 provides status updates on our prior year recommendations.

Chapter 2: Citizen Concerns

Issues are brought to our attention throughout the year by concerned members of the public, Members of the Legislative Assembly, or government employees. Our Act does not include a complaint mechanism, and we are not obliged to follow-up these issues, however we choose to do so.

We conduct preliminary examinations of all such issues, decide which ones are within our mandate and which ones are better investigated by another organization, such as the Office of the Ombudsman or appeal boards. When an issue is better investigated by another organization, we monitor the work performed to ensure it is appropriately resolved. Sometimes the issues are information requests or requests for contact details, in which case we answer those requests. Sometimes we are unable to examine the issue because we are not provided with enough information. Where possible, we request further information. When the issue falls within our mandate and there is enough information to proceed, we initiate limited scope audits.

Occasionally, we receive correspondence or calls which are not easily understood, include inappropriate language or have been sent to us anonymously. We do not dismiss these concerns, in case they are valid. However, where possible, we recommend a more positive approach, help identify the organizations and processes in place to resolve concerns raised. When appropriate, we conduct limited scope audits.

Prior to April 2011, we did not formally track the results of our limited scope audit procedures. Since then, we have done so. When our limited scope audit procedures are complete, we report our findings to the Minister responsible and the Minister of Finance. This Chapter includes a

summary of our completed audit work for the Manitoba Property Registry; the Office of the Fire Commissioner – sale of vehicles; Manitoba Hydro Funding of the Keeyask Centre; Thompson Fire and Emergency Services – Untendered Contract; Town of Lac du Bonnet – Bulk Water Sales.

Chapter 3: Government Deficits and Debt

We selected this project to assist the Legislature with its discussions around deficits and debt. While our Act prohibits us from commenting on the merit of policy, policy discussions should take place with a full set of facts.

We engaged KPMG LLP to assist us with this project. The project report summarizes research about Manitoba's deficit and debt levels. The data and information about Manitoba's deficit and debt levels is compared to other provinces and the Government of Canada. Research is summarized from international and national sources. A list of those sources is included in the report.

We held roundtable discussions bringing together business, labour, academic and community representatives to discuss deficits and debts. We met with MLAs and senior officials of the Government and of the Official Opposition Party to present the same information as the roundtables and responded to questions.

The research and a summary of the roundtable discussions are included in this report. Based on the research, analysis and observations, we have outlined 7 considerations for the Government with respect to improving understanding of and information on government deficits and debt, as follows:

1. Framework for fiscal sustainability and addressing long-term debt and deficits.
2. Need for medium-term and long-term scenario analysis, demographic analysis and projections.
3. Setting fiscal targets and communicating results against targets.
4. More details in budget reporting on deficit and debt reduction plans.
5. Explaining the relationship and impacts of Manitoba Hydro debt.
6. Monitoring developments in comparable jurisdictions.
7. The Auditor General role and independent review of projections and assumptions.

Chapter 4: Helicopter Ambulance Program

Our audit objectives were:

- To assess if procurement of the helicopter ambulance program was in compliance with provincial tendering principles, policies, and legislation.
- To assess if the Department of Health (Health) has an appropriate oversight process to ensure compliance with key elements of the Services Purchase Agreement (SPA).

During the course of the audit other matters were brought to our attention regarding quality of patient care concerns. We have included this in **section 2.1**.

We concluded that:

- The procurement of the helicopter ambulance program was not in compliance with provincial tendering principles, policies and legislation.
- Health conducts some oversight of the SPA, but not in all key areas.

We base our conclusions on the findings discussed in our report and summarized below.

Feasibility study conducted - Health commissioned a feasibility study on adding a permanent helicopter emergency medical response service (HEMS) program in Manitoba. Health determined that a helicopter ambulance program would benefit Manitoba residents. The program would include emergency medical transport and transfers between medical facilities. It would provide access to areas not easily reached by other means and faster transport times. Health estimated that a helicopter ambulance program in Manitoba will save 35-50 lives annually.

No public tender - Health signed a SPA for 10 years with the Shock Trauma Air Rescue Society (STARS). Health did not conduct a public tender. This did not comply with government's tendering principles and policies. As well, contract information was not made available to the public as required by legislation.

Health estimated total program costs at \$159 million for 10 years. This included all staffing and servicing of a HEMS program and capital items, including a helicopter, equipment, and helipads.

Value for money analysis was weak - Health obtained budgets during SPA negotiations showing costs-per-mission were likely to be 231% to 618% higher than other province's programs. Despite these significant variances, Health performed inadequate procedures to assess if it would obtain value for money. Health did not conduct a detailed needs assessment to determine all requirements. Instead, it relied on STARS as the main source to define program delivery needs.

Quality of patient care - concerns about STARS' medical management of some patient transports were brought to the attention of Health. Health reacted with an adequate plan to assess the quality of patient care concerns. Health lacks a quality assurance process for the patient care that STARS provides. Such a process may have detected some quality of patient care concerns earlier.

On December 2, 2013 Health issued a News Release saying there was a recent patient transportation incident with STARS that resulted in a temporary suspension of service. On January 8, 2014 a report was released by a third-party independent doctor with critical care and aeromedical experience. He concluded that STARS' preparation of its Air Medical Crews for helicopter flight operations in Manitoba was inadequate.

License issued on a provisional basis - Health has a well-defined framework to license air ambulance operators and inspect air ambulances and facilities. Health has provided STARS with provisional operational licenses because the license applications lacked certain documentation. One of the key missing items was the Medical Director's agreement. While an individual occupies a Medical Director position in STARS, a signed agreement to document that

individual's acceptance of their responsibilities was not on file with Health. The Medical Director's responsibilities are outlined in legislation. They are essential patient safety components of operating an air ambulance. The Medical Director must ensure that a quality assurance program is performed and documented, and that aeromedical attendants perform their patient care duties competently. It is a concern that this agreement was not on file at Health as required by the licensing process and legislation.

Some oversight, but more needed - Health conducts some oversight of the SPA, but not in all key areas. It could improve performance reporting, management of operational issues, and monitoring of financial matters.

Chapter 5: Lake Manitoba Financial Assistance Program: Parts C and D

The Manitoba Agricultural Services Corporation (MASC), a crown corporation in Manitoba Agriculture, Food and Rural Development (MAFRD), was responsible for delivering the Lake Manitoba Financial Assistance (LMFA) Program, part of the Building and Recovery Action Plan (BRAP) developed by the Province in response to the 2011 flood. Part C of the LMFA Program provided residents and businesses with financial assistance to offset the costs of property damage, temporary accommodation, and flood protection measures taken as a direct result of elevated flood waters in the Lake Manitoba flood zone. Part D provided assistance for more permanent flood protection.

We examined MASC's administration of Parts C and D of the LMFA Program, particularly the adequacy of its systems and processes for setting and communicating program rules, processing claims, and communicating decisions. We also examined how the BRAP Appeals Commission and MASC handled Part C and D appeals.

We found that MASC was administering a number of BRAP and agri-recovery programs, experiencing higher than normal transaction volumes of agricultural insurance claims related to the 2011 flood, and received no advance notice that would have allowed it to prepare to deliver Parts C and D of the LMFA Program. This contributed to:

- timing and transparency problems in setting and communicating LMFA Program rules.
- inconsistencies, areas for improvement, and significant policy decisions in claims processing.
- gaps in communicating payment decisions to claimants and in handling claimant appeals.

Costs would have been better controlled if these matters had been better managed. A more detailed description follows:

Setting and communicating Program rules

The original terms and conditions for Parts C and D of the LMFA Program were publicly available, but not the detailed policies and rules developed to administer the LMFA Program. This left claimants with limited information about the types of costs they could claim and hindered their ability to determine if their claims had been properly processed. Also, policies and rules were not fully developed before claims processing began and were not all clearly documented in a comprehensive manual as they were established. This resulted in inconsistent treatment of claims, depending on when they were processed and staff members' understanding

of the current policies. And some claimants felt the Province's early communications had promised that flood-affected individuals would be "made whole", which created an expectation gap when the LMFA Program's policies and rules failed to facilitate this.

Processing claims

MASC was unfamiliar with processing this type of disaster financial assistance and received no advance notice that would have allowed it to prepare to deliver Parts C and D of the LMFA Program. In addition, as well as administering the LMFA Program, it was administering several other BRAP programs, a number of agri-recovery programs, plus a larger than normal volume of agricultural insurance claims resulting from the 2011 flood. These factors, combined with time pressures, the high volume of LMFA transactions, the lack of clearly documented policies at the start, and gaps in staff training all affected claims processing.

Most payments we examined were accurately calculated (based on the policies in effect at the time of processing) and reasonably supported by appropriate documentation (with an element of trust in some cases for items that were difficult or impossible to verify). At the same time, some inconsistent treatment of claims occurred in payments for temporary accommodation, flood mitigation, damaged or destroyed household contents, and business income losses. There was also room for improvement in staff training; quality assurance and conflict-of-interest processes; file management and documentation; the management of out-sourced inspections and appraisals; and the tracking and monitoring of management information, such as payment timeliness.

Several significant policy decisions affected the payments available to businesses and residents. For example, property lot developers were allowed to claim business income losses for lost cottage lot sales and to also retain the lots for future sale, unencumbered by any provision to repay a portion of the financial assistance if the lots were eventually sold. It was unknown if the value of the lots would suffer any long-term impairment. Eligible business income losses were restricted to businesses physically touched or totally surrounded by floodwaters, denying benefits to those only affected by their location in a flooded community. And damage to attached garages—but not detached garages—was deemed an eligible cost for non-principal residences. Analysis supporting policy decisions did not always include the number of claims likely to be affected or the likely cost. LMFA Program officials told us this reflected the lack of readily available data and time pressures.

Communicating decisions and handling appeals

Letters accompanying payments to claimants did not always adequately explain what the payments were for, or why certain amounts claimed were deemed ineligible.

An appeal body was in place, but its mandate was unclear. It also lacked independent access to the LMFA Program's policies and rules. And claimants were not always adequately informed about the types of evidence and witnesses required for successful appeals.

Chapter 6: Managing the Province's Adult Offenders

The Department of Justice manages approximately 10,000 adult offenders. About 24% are in provincial correctional centres; the other 76% are supervised in the community. We examined how adequately the Department managed adult correctional centre capacity, adult offenders in the community, adult rehabilitation programs, and related public performance reporting.

We found that the Department's management of its adult correctional centre capacity was inadequate for its long-term needs. Although it had increased capacity by 52% since 2008, overcrowding in centres was on-going; offender population forecasts were not always reliable; there was no comprehensive long-term capital plan to address either the forecast bed shortfall or the deterioration in aging correctional centre infrastructure; and initiatives to help reduce bed demand required greater attention.

There were also problems in managing adult offenders in the community. While the Department had a number of policies in this area, we found that offenders were not always adequately supervised; their rehabilitation plans needed improvement; supervisors were not regularly reviewing staff's work to ensure it complied with standards; and management had reduced offender supervision standards in 3 regions to resolve workload issues.

In addition, there were gaps in planning and monitoring adult rehabilitation programs, and limited public information provided on how well the Department was managing its adult offenders.

Taken together, these issues affected the Department's contribution to public safety and reduced the likelihood of successful offender rehabilitation.

A more detailed listing of findings in each area follows:

Adult correctional centre capacity

The Department was struggling to deal with a growing offender population. The overall occupancy rate in correctional centres on May 15, 2013 was 126% (and ranged from 110% to 145% in different centres) — even though the Department had increased capacity by 52% since 2008, adding 651 beds at a cost of \$182 million. Measures to accommodate overcrowding (such as double-bunking, triple-bunking, and adding dorm-style bunk beds in space previously used for recreation and treatment programs) had several negative impacts, such as restricting offenders' access to rehabilitation activities and increasing security risks.

The Department's system of ad hoc capital planning was inadequate for its needs. It had no system-wide, clearly defined accommodation standards and the rated capacity of centres was determined subjectively. Offender population forecasts were not always reliable or sufficiently detailed for management purposes. There was no comprehensive long-term capital plan to address the shortage of 2,744 beds anticipated by 2019/20, the deterioration in aging correctional centre infrastructure, or the likely significant costs. And the Department did not use a rigorous or transparent process in the recent selection of a new correctional centre site.

The Department also needed to give greater attention to initiatives with the potential to reduce bed demand, such as those reducing the average time to trial and case disposition, diverting offenders with drug and mental health problems to treatment programs, and supporting lower risk offenders in meeting bail requirements.

Adult offenders in the community

The Department had a number of policies in place for managing offenders in the community, but they were not always embedded in operational practice. There was a lack of effective and consistent supervision of offenders, affecting the Department's contribution to public safety. And deficiencies in case management decreased the potential effectiveness of offenders' rehabilitation plans.

While risk assessments were prepared for all offenders in the files examined, 34% of those completed in the community were late, causing some offenders to initially receive less supervision than they otherwise would have. In several cases, probation officers were not scheduling on-going meetings with offenders as frequently as required by Department policy for offenders' risk profiles. They were also sometimes inconsistent in monitoring offenders' conditions (such as attendance at programs), verifying offenders' self-reports about compliance, and responding to offender non-compliance. Case management plans were present in only 63% of the files examined; were not always done within required timeframes; and often lacked meaningful or measurable goals, specific planned interventions, or timeframes for achieving these. And supervisors were not regularly reviewing staff's work to ensure it complied with standards.

In 2012, citing unmanageable workloads, the Department reduced offender supervision standards in 3 regions, allowing staff to meet less frequently with offenders and for shorter periods of time than would otherwise be required. Tracking additional data related to caseloads and the use of probation officers' time would improve the Department's ability to assess workload reasonableness.

Adult rehabilitation programs

The Department offered various adult rehabilitation programs through its correctional centres and community supervision offices, but gaps in the planning and monitoring framework for these programs hindered their potential effectiveness. The Department had started to provide more consistency and central direction, but more work was needed to identify offender needs and then align rehabilitation programs accordingly. The Department also needed to work with Aboriginal stakeholders to ensure that rehabilitation materials were culturally appropriate and met the unique needs of Aboriginal offenders, who accounted for about 60% of the adult offender population. And inter-agency coordination needed strengthening, particularly for shared, very high-risk clients.

In general, the Department had no means of determining if rehabilitation programs were achieving positive outcomes for offenders. Tracking of program offerings, enrolments, completions, and outcomes was limited and, in some cases, non-existent. And a broader range of recidivism measures about the level of re-offending was needed for management purposes,

including tracking results over longer times, for specific programs, and by offender risk categories.

Public performance reporting

The Department provided little public information on its management of adult offenders. This limited the ability of legislators and citizens to assess the results being achieved. Some jurisdictions reported much more information, particularly on overcrowding levels and impacts, and rehabilitation programs and outcomes.

Chapter 7: Manitoba's Framework for an Ethical Environment

Ethics, at its simplest, can be defined in an organizational context as understanding what is right and what is wrong, and then doing what is right. The ethical culture of a workplace (which is not just formal policy statements, but includes the informal unwritten standards of behaviour) communicates what is acceptable behaviour, how employees ought to treat others, the importance of complying with internal policies and safeguards, whether questioning authority is acceptable, and whether it is safe to report observed misconduct. As it is difficult for organizations to write rules for every situation, having a strong ethical culture is essential to creating a workplace where the focus is on doing what is right.

A well-constructed values and ethics program or framework is a key element in ensuring a strong ethical environment within the public service. We focused on the framework put in place by Manitoba's Civil Service Commission (CSC) and examined:

1. Whether policies and guidelines, with specified standards and procedures, are in place to foster an ethical environment within the public service.
2. Whether the policies and guidelines are clearly communicated to all civil servants, with ongoing education and training.
3. Whether the policies are being monitored to ensure implementation across all government departments.
4. Whether systems are in place to identify, mitigate and report any incidents of an ethical/fraudulent nature which may arise.
5. Whether the policies and guidelines are reviewed and updated periodically.

In order to obtain a comprehensive understanding of the ethical climate within the civil service, we reviewed the ethics-related policies, procedures and training programs currently in place. We also obtained the perspectives and opinions of all Deputy Ministers on the implementation of ethical policies and practices within their departments, as well as the challenges faced within their specific context. And we conducted an internet-based ethics survey of employees within the 18 core government departments to obtain their perceptions of ethics in their workplaces and whether they feel supported in maintaining ethical standards. We utilized an external research firm to administer and analyze the employee survey in order to assure respondents of their anonymity and confidentiality. We greatly appreciate the thoughtful commentary and valuable input provided by the nearly 5000 employees across all 18 departments who provided responses to our survey.

Ethics is a critically important issue that civil servants care about, and recognize the importance of. The high response rate from department employees to our ethics survey is indicative that this is a topic of deep interest and concern to civil servants striving to do a good job and provide quality service to Manitobans.

- *94% of survey respondents perceive ethics and integrity as critical issues in the public sector, and an important part of fulfilling their work as a public servant.*

A variety of central policies are currently in place that assist in fostering an ethical environment. The Values and Ethics Guide, introduced in 2007 as part of the Civil Service Renewal Strategy, was the first government-wide document specifically establishing the overall corporate values and ethical expectations of all civil servants. We found that the communication and training efforts in ethics-related matters by the CSC need to be enhanced. Ethics training is of significant corporate value because it assists managers and employees in understanding, demonstrating and maintaining required ethical standards. A one-day workshop covering a variety of ethics-related topics has only recently been developed by the CSC.

The Conflict of Interest Policy was put in place in 1984 and revised in 2007 as part of the Civil Service Renewal Strategy. We found that the policy and procedures need to be enhanced, as does training on conflict of interest issues. It is especially important that senior management be trained, not only to ensure consistent understanding of ethics-related requirements, but how to appropriately assess and deal with issues brought to their attention. Our survey of department employees indicated that conflict of interest situations are perceived to be the third most likely type of ethical misconduct to occur in the workplace.

Conflict of interest declarations by employees are an important activity for ensuring conflict situations are communicated and properly managed. Conflict of interest declarations are required at hire for all staff and annually for only Deputy Ministers and Assistant Deputy Ministers. From the sample of personnel files we examined, we found that many required declarations are not in place.

The Fraud Prevention and Reporting Policy was implemented in 1996, however we found that its purpose is not well understood. Studies show that fraud occurs in all workplaces, and that it is most likely to be detected by tips from employees than by any other method. Hence, having employees who can recognize fraud is a valuable asset that may significantly reduce the incidence of fraud in the workplace. However, fraud awareness training is not provided. Our survey of department employees noted that 34% of respondents would like to receive training on fraud awareness and identification of risk within their department.

Monitoring efforts by the CSC and departments on the implementation of ethical policies across government needs more focused attention. In addition, the systems in place to identify, mitigate and report ethical issues require improvement. It is critical to create a safe environment for employees to report instances of ethical misconduct or fraudulent activity. Our survey of department employees indicated that a third of respondents are personally aware of ethical misconduct or fraudulent activity within their workplace, yet only half of these instances have been reported to management. There is currently no formal process in place for employees to anonymously report concerns of ethical misconduct or fraudulent activity. Our report discusses both ethical misconduct and fraudulent activity, and it is important to note the distinction

between these two concepts. Ethical misconduct encompasses a wide array of inappropriate behaviours in the workplace, including acts of fraud. Fraudulent activity is more specific to actions that result in a personal benefit or gain, which may or may not be of a monetary nature.

There has been limited use of *The Public Interest Disclosure (Whistleblower Protection) Act* by employees. Our survey indicated that many employees do not know who their department's Designated Officer is and that less than a third of respondents felt confident that they would be protected from reprisals if they reported an issue under the Act.

Ensuring employees are made aware of the consequences for violating ethical standards is a key deterrent to fraud in the workplace. Little information is communicated by the CSC or departments on ethics-related investigations conducted, nor on enforcement actions taken. The overall number of investigations and outcomes could be reported at a department level, in a manner that does not compromise individual confidentiality. Our survey of department employees indicates that only about half of respondents perceive that those who violate ethical standards will be subject to appropriate consequences.

The effectiveness of the ethics-related policies has not been assessed and updated since their implementation. Our survey of department employees found that just over half of respondents believe that the current policies are working effectively, and only half of respondents reported that their workplace always makes decisions consistent with the values and ethics policies.

We believe a proactive approach is required to instill a strong ethics program throughout the civil service. Especially in times of fiscal restraint, ensuring that the corporate values and ethics are embedded within the workplace culture helps to foster and maintain an ethical environment throughout government. This is a critical function that deserves focused attention by the CSC, and by senior leadership in departments.

Chapter 8: Manitoba Hydro – Managing Cyber Security Risk Related to Industrial Control Systems

Cyber security risk is defined as the potential for adverse events impacting organizational operations (including mission, functions, image and reputation), resources and other organizations due to unauthorized access, use, disclosure, disruption, modification, or destruction of information, information technology (IT) and/or operations technology (OT). (Source: *Electricity Subsector Cybersecurity Risk Management Process*, U.S. Department of Energy, May 2012)

Our objective was to determine whether Manitoba Hydro's risk management practices ensure the design of security controls over Industrial Control Systems (ICS) and related Information Technology (IT) reasonably mitigate identified cyber risks

We concluded that cyber security risks related to ICS systems are not identified, assessed and managed. Until Manitoba Hydro has assessed the risks to all ICS systems it cannot be certain that it has applied the appropriate level of controls to prevent unauthorized access, modification or damage to these vitally important systems.

We based our conclusion on the findings in our report and summarized below:

Manitoba Hydro not aware of all significant ICS cyber security risks

Manitoba Hydro has not prioritized its ICS and related IT systems for criticality to its generating, transmitting and distributing processes. Manitoba Hydro's risk management process includes 52 risk profiles, but ICS cyber security risk has not been identified as a corporate risk profile and has not been assessed. And as such, has not been communicated to the Board. Without comprehensive and coordinated ICS cyber security risk assessments, Manitoba Hydro may not be able to design and implement effective security controls for its ICS systems.

Manitoba Hydro must comply with the North American Electric Reliability Corporation's (NERC) Critical Infrastructure Protection (CIP) standards which include cyber security controls (see **Appendix A** for a description of NERC). Manitoba Hydro's NERC CIP compliance program, however, consistent with NERC requirements, focuses on assets critical to the bulk electric system and not risks to Manitoba Hydro operations. For NERC CIP compliance purposes, only 2 physical locations have been identified as housing critical ICS cyber systems which must be protected using NERC CIP standards. These systems do not necessarily represent the only ICS systems that are critical to Manitoba Hydro operations. NERC standards and related compliance efforts by Manitoba Hydro should not be interpreted as adequate corporate cyber security risk management.

The **bulk electric system**, often referred to as the North American electric grid, includes electrical generation resources, transmission lines, interconnections with neighboring systems, and associated equipment.

Many gaps in ICS security controls at sites we visited

The 6 locations we visited (4 generating stations, a modernized transmission substation, a high voltage direct current (HVDC) convertor station) make use of ICS systems and are critical to Manitoba Hydro operations. We compared cyber security practices in place at each location to Public Safety Canada's recommended best practices for industrial control systems as they represent the minimum standards that should be implemented by all industries that use ICS. While some ICS security controls are evident at each location, we identified serious weaknesses in cyber security controls.

We identified several factors that we believe led to this lack of attention to ICS cyber security risks:

- "Air-gap" and non-routable serial cables provide a false sense of security.
- Responsibility for corporate-wide cyber security has not been assigned to one executive.
- Comprehensive ICS cyber security policies not in place.
- Responsibility for physical security is fragmented.
- Lack of ICS security awareness program and training.
- Management only recently exploring benefits of IT/OT convergence. IT Security not yet involved.

Chapter 9: Northern Airports and Marine Operations

On August 29, 2012, the Minister of Finance requested that the Office of the Auditor General (OAG) conduct a forensic review of the procurement card purchasing activity by staff in the Northern Airports office, under Section 16 of *The Auditor General Act*. This request was made after inappropriate procurement card purchasing activity was found by the Director of Northern Airports and Marine Operations (NAMO) in the Department of Infrastructure and Transportation. On August 30, 2012, we wrote a letter to the Minister of Finance accepting the request.

We completed our audit in December 2013 and will be sending our detailed audit findings to the Ministers of Finance, and Infrastructure and Transportation, as required by Section 16 (2) of our Act. We have prepared this summary in accordance with Section 16 (3) which allows us to submit a report to the Assembly “*if it is in the public interest to do so*”.

The objectives of our audit were to determine the extent of funds reimbursable to the government by 2 staff of the Northern Airports office and to determine why these inappropriate transactions occurred without detection. The 2 staff included in our audit were the former Financial Clerk (Clerk) and the former Manager of Northern Airports (Manager), who the Clerk reported to. These 2 staff have since resigned. The government is considering taking legal action, depending on the results of our audit.

We found financial irregularities of over \$80,000. We believe one of the staff incurred personal expenses of over \$39,000 on government purchasing cards, for the records we were able to audit. We classified these expenses as personal because in our view, they had no legitimate business purpose. For many of the personal expenses incurred, our findings indicated that the staff member misrepresented what was purchased on the purchasing card log. We found 3 instances where the receipts seemed to be tampered with so that the items purchased were not clear. In addition to making inappropriate purchases, the 2 staff did not follow the government’s purchasing card guidelines.

When we obtained the purchasing card records from the Department many receipts were missing. We contacted suppliers and obtained copies of some of the missing receipts. We were unable to audit about \$22,400 of receipts.

Because the Manager failed to exercise appropriate oversight and clerical checks were inadequate, the inappropriate transactions occurred without detection over several years.

We have recommended that the Minister of Finance forward our detailed audit findings to Civil Legal Services. In addition, we have recommended some changes to the government’s purchasing card guidelines to help strengthen the system.

Chapter 10: Waiving of Competitive Bids

Our objectives were to determine whether departments and special operating agencies (SOAs):

- Ensured fair access to government contracts by waiving competitive bids only when “acceptable circumstances” identified in the government’s Procurement Administration Manual (PAM) were demonstrated.

- Assessed quoted prices on untendered contracts for consistency with fair market value.
- Publicly disclosed untendered contracts over \$1,000.

We examined untendered contracts in 5 departments and 3 SOAs.

We concluded that:

- Fair access to contracts was not always assured.
- There were significant gaps in public information on untendered contracts over \$1,000.

Because there was little to no documentation on the information that departments and SOAs used to ensure quoted prices represented fair market value, we could not conclude on whether they ensured fair market value was obtained.

Acceptable circumstances frequently not demonstrated

Departments—26 of 50 contracts we examined were not supported by an acceptable circumstance needed to justify waiving competitive bids. The justifications for some of these were public policy initiatives or reasonable or practical business practices. Of greatest concern were the 12 contracts awarded to vendors because a department wanted to work with them or because provisions in requests for proposals or existing contracts amounted to promises of future contracts. In these cases, competing vendors may have been unnecessarily denied access to government contracts.

SOAs—8 of 30 contracts we examined did not show an acceptable circumstance to justify waiving competitive bids. For 6 of these contracts, all with one SOA, the Deputy Minister approved a policy that gave the Chief Operating Officer (COO) the authority to “waive bidding requirements where expedient”. This, in effect, allowed the SOA to bypass the PAM’s requirements.

Proper approvals for the awarding of untendered contracts not always obtained

Departments—11 of 50 contracts we examined lacked the required approvals (8 needed Treasury Board approval). Many of these occurred during the 2011 flood and related to one department. To see if the approval of emergency contracts was an issue in another department, we selected a sample of 10 emergency contracts with 19 related amendments in that department. The department did not obtain the required Treasury Board approvals for the 10 contracts or for 17 of the 19 amendments.

SOAs—2 COOs had unlimited spending authority, but the approvals by one of them were not documented. One SOA adopted the spending authority limits for untendered contracts in the government’s General Manual of Administration, but it did not get proper approvals for 4 of 10 contracts we examined.

Most contracts not disclosed within one month, many not disclosed at all

Departments and SOAs—during our 18-month audit period, 1,857 of the 2,133 untendered contracts disclosed in the public access database (by the 5 departments and 3 SOAs we examined) were not disclosed within the required one month of contract signing. For contracts

not disclosed within one month, the average number of days between contract signing and disclosure ranged from 48 to 182. These long delays mean that for extended periods of time many contracts that should have been disclosed were not. Many other untendered contracts were not disclosed for reasons other than timing. They totaled \$183.2 million.

Public access to untendered contract database severely limited; database hard to use and unreliable

The public can access the untendered contract information only on one computer in the Legislature's Reading Room, and only during business hours. Internet access is not available.

Disclosure threshold unchanged in 17 years

In 1996, the *Financial Administration Act* set the disclosure threshold for untendered contracts at \$1,000. It is still \$1,000, 17 years later. It is unclear if the threshold still reflects the Government's disclosure objective.

Management and administrative practices need to be stronger

Several management and administrative weaknesses caused these performance problems, including:

- fragmented and incomplete file documentation.
- no compliance monitoring.
- only limited communication of the *Waiving of Competitive Bids Policy*.
- an inefficient and error-prone process to enter information to the public access database.



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Final Remarks of the Auditor General

Final Remarks of the Auditor General

This is my final annual report to the Legislative Assembly before my retirement from this position on March 31, 2014. It has been an honour to serve the Manitoba Legislature as Auditor General since 2006. During that time, we have issued 68 chapters and stand-alone reports. Most of these have been considered and passed by the Public Accounts Committee (PAC) of the Legislature.

The PAC is an all-party Standing Committee of the Legislature. Its primary role is to examine the financial administration of public assets and spending of public funds. All our reports are referred to the PAC. During its meetings, the PAC considers our audit reports; questions witnesses; and, when it has finished deliberating; passes our reports, which means they have no further questions.

I previously reported that the progress made by Manitoba's PAC over the last few years was nothing short of remarkable. I reported that, in my view, the main reason was that members from both sides of the Legislature had shown a commitment to improving it. And support from various other people including the previous and current Committee clerks, the full-time Legislative Assembly researcher, and staff within my office - had contributed to the progress. The Chair, Vice-Chair, clerk, researcher, and I have been meeting as a steering committee to assist the full PAC. And the PAC regularly meets in-camera prior to the public meeting to resolve administrative issues and to receive briefings from my Office on the audit reports.

At the same time, I see the opportunity for the PAC to have an even greater impact on improved government operations. PAC makes a positive contribution by holding frequent meetings, issuing agendas in advance, using the work of the PAC researcher to guide meeting questions, meeting in-camera to better understand audit reports, and remaining constructively non-partisan at its meetings. But PAC's contribution can be even better if it can find a way to reduce partisanship even further. Currently, Ministers appear alongside Deputy Ministers of departments or Chief Executive Officers (CEOs) of crown corporations. Partisanship would be reduced by broadening the invitation list to also include the CEOs of agencies, boards, commissions or grant recipients and allowing invited witnesses to ask other staff members to answer questions, where appropriate. This would allow those responsible for public administration to better explain what went wrong or what needs to be improved to strengthen operations, without the perception of political interference. In addition, the PAC rules do not allow PAC to call witnesses from rural municipalities (RMs), despite audits conducted by our Office in the RMs of La Broquerie (2008), St. Laurent (2010), St. Clements (2012) and Lac du Bonnet (2013). And all witnesses would benefit from coaching or training to better explain PAC's expectations in advance of public meetings. Further, PAC would be even more effective if government members asked more questions and if PAC regularly asked witnesses for action plans to address areas needing improvement, issued its own recommendations, and provided the Legislature with full reports on PAC activities.

In addition to PAC oversight, boards of directors of crown corporations, agencies, boards, commissions, and grant recipients play a critical monitoring role over the appropriate spending of public funds. This is also true of elected members of government plus managers in all of these

organizations and in government departments and special operating agencies. But one recurring theme in our reports is the need for additional monitoring and oversight. Given the size of operations under overall government control, errors will be made and systems will fail. But I often ask myself – do all of the players have a clear understanding of what their role is? And how their role fits in with everyone else’s? These are governance questions worth answering. Our Office has taken a keen interest in governance issues, and in September 2009, we issued a Study of Board Governance in Crown Organizations to assist in moving practice forward in that area, and in January 2012, Chapter 2 of our Annual Report to the Legislature covered the *Appointment Process to Agencies, Boards, and Commissions*.

Other reports we have issued point to improvements needed with other aspects of monitoring, including inspections and quality assurance practices. For example, in 2007, we noted such needed improvements in our audits of *Workplace Safety and Health*, *The Province’s Management of Contaminated Sites and Landfills*, and *The Department of Conservation’s Management of the Environmental Livestock Program*. Our audits, in 2008 of the *Pharmacare Program – Part 2*, in 2009 of the *Personal Care Homes Program*, in 2010 of *Economic Development: Loans and Investments under the Development Corporation Act*, and in 2011 of *Manitoba’s Participation in Canada’s Economic Action Plan*, also all included recommendations for improving certain aspects of monitoring. In addition, in chapters of this report, we include recommendations for improved monitoring within the *Helicopter Ambulance Program* and in *Managing the Province’s Adult Offenders*. And better oversight and monitoring may have prevented or detected the financial irregularities that we found in the *Office of the Fire Commissioner* in 2013, and in *Northern Airports and Marine Operations* this year. Managers, board members, and elected officials should question whether monitoring and oversight is being given adequate ongoing attention in all program areas.

One of the first reports I issued in 2006 was the *Audit of the Child and Family Services Division Pre-Devolution Child in Care Processes and Practices*, which had in essence been completed before I started my term as Auditor General. At the time, I wrote “We recognize that the issues are not only complex, but have existed for many years.” In 2012, we followed up the recommendations made in that report so a follow-up report would be available to the Commission of Inquiry into the Circumstances Surrounding the Death of Phoenix Sinclair, which was mandated to consider our 2006 report. Many of our recommendations had been implemented, but unfortunately progress had been slow in a number of other areas. And in 2014, the Commission’s report was released with a comprehensive description of the circumstances surrounding Phoenix Sinclair’s death, a thorough analysis of the underlying causes, and systemic issues. Our audit was one of many inputs to the Commission. For me, it highlighted the importance of how our audit findings can properly inform the Legislature in areas of importance.

Informing the Legislature in areas of importance was our motivation for including this year’s chapter on *Government Deficits and Debt*. We emphasize that we are not recommending policy – the Legislature of Manitoba is responsible for policy decisions. Instead, the intention is to provide information and research for better understanding and discussions on these important policy issues. But the information still needs to be used with caution. One limitation to international comparisons is that financial information is not always prepared on the same basis. And in Canada, some of the information is used without considering reservations disclosed in related auditor’s opinions. Similarly, in 2006, we issued 3 publications to assist audit committees:

Enhancing Audit Committee Practices in the Public Sector, Internal Audit Services: A Self-Assessment Checklist, and A Guide to Leading Edge Internal Audit in the Public Sector. And while we do not recommend policy, there are times when our recommendations lead to changes to legislation – that was the case when *The Municipal Act* was changed, requiring municipalities to table our reports at a council meeting when we make recommendations regarding the operations of a municipality and requiring council to adopt a response to those recommendations.

Other audit areas where common themes have emerged include procurement issues, public reporting and information systems. This report includes a chapter on the *Waiving of Competitive Bids*, noting the need to improve procurement practices and improve the public information on untendered contracts. Needed improvements to public reporting were also noted in other reports: wait times and compliance with standards for the *Personal Care Homes Program* and *Members' Allowances* in 2009. Our audit findings about information systems ranged from negative to positive: our 2012 follow up report noted that the future of the Child and Family Services Information System (CFSIS) or a new case management system had not yet been determined; improvements needed over *Information Technology Security Management* as reported in Chapter 3 of our 2013 Annual Report to the Legislature; our 2009 report on *Treaty Land Entitlements* described a comprehensive database used by external parties and available to the Manitoba government.

This 2014 report is the largest single report we have issued. This was possible because of the dedication of the staff of the Office of the Auditor General (OAG). And it required constructive, professional, objective relationships between OAG staff and those we audit. I am extremely proud of the work of the OAG and of the progress made by the PAC since 2006. A hallmark of achievement is not only what we contribute day to day, but also the organizational strength we leave behind. I was fortunate to lead an office that has had a history of strong leadership and that has invested in exceptional staff. I will miss the people in our Office and the dedicated elected members and appointed officials I have had the pleasure to work with as Auditor General.

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