January 2013

OFFICE OF THE
AUDITOR GENERAL
MANITOBA

Web Version

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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.

OFFICE OF THE
AUDITOR GENERAL
MANITOBA

January 2013

The Honourable Daryl Reid
Speaker of the House
Room 244, Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Sir:

It is an honour to provide you with my report titled, *Annual Report to the Legislature*, to be laid before Members of the Legislative Assembly in accordance with the provisions of Sections 10(1), 14(4), 16(3) and 28 of *The Auditor General Act.*

Respectfully submitted,

Original document signed by
Carol Bellringer

Carol Bellringer, FCA, MBA
Auditor General

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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 14 permits us to select project audits independently, covering government operations and recipients of public money. Chapters 2 through 4, 7 and 8 of this report cover the project work we completed this year. The nature of our audit 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, 2012" issued last August.

Section 16 permits the Lieutenant Governor in Council or 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 for any government organization concerned. Last year, the Minister of Finance requested a special audit of the Office of the Fire Commissioner. We have completed our audit and have provided our detailed findings to the Ministers of Finance, and Family Services and Labour. In Chapter 6 of this report, we cover those findings which the Legislature should be made aware of.

The eight chapters in this year's report are summarized below:

Chapter 1: Accounts and Financial Statements

The government reported a $999 million deficit for the 2012 fiscal year in the Summary Financial Statements. We are pleased to report that for 2011/12, we once again issued an unqualified audit opinion on the Summary Financial Statements, which means the summary statements are presented fairly in accordance with Canadian public sector accounting principles.

In Chapter 1, we provide explanations of the Summary Financial Statements and the Summary Budget. We explain that the actual deficit was $561 million greater than budget. The difference is comprised of a $437 million net loss related to unbudgeted disaster costs, nets of recoveries, and a $124 million net loss related to unbudgeted non-disaster costs. We also define net debt, total borrowings, the accumulated and annual surplus or deficit, the change in net debt and the cash position and cash flow.

Understanding the purpose of the Summary Financial Statements and the Summary Budget is important in order to evaluate the government's financial affairs. In our report on the Operations of our Office for the year ended March 31, 2012, we reported that we are looking

at ways to assist the Legislature with its discussions around debts and deficits. While our Act prohibits us from commenting on the merit of policy, policy discussions should take place with full sets of facts. We have started to find ways to research and report on these matters within the constraints of our legislation and will be conducting workshops and other meetings with legislators throughout the coming year.

Chapter 2: Citizen Concerns

Issues are brought to our attention throughout the year by concerned members of the public, the Legislature, 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. Sometimes they are information requests or other 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.

Chapter 2 summarizes our limited scope audit findings for Business Transformation and Technology, the Disaster Financial Assistance claim area, the Employment and Income Assistance Program, and the North Portage Development Corporation.

Chapter 3: Information Technology (IT) Security Management Practices

Our objective was to determine whether Business Transformation &Technology (BTT) designed and implemented adequate Information Technology (IT) security management practices and controls.

In 2005, work began to consolidate information technology services for all government departments (except Health) into BTT. Consolidation was mostly complete in 2011. The Department of Health continues to manage and secure its own IT services. And the Legislative Building Information Systems unit also continues to manage and secure its own distinct IT services (network, systems, data storage) though it was part of the consolidation.

We concluded that BTT needs to significantly improve its IT security management practices and controls to properly secure information. The lack of IT security risk assessments, IT security plans, and a data classification system means that the rationale for the design and implementation of IT security practices and controls is not well supported. As such, we cannot comment on the completeness, relevance and effectiveness of the practices in place to secure systems and network operations.

We base our conclusion on the findings discussed in our report and summarized below. Many of the findings are longstanding problems, going back over 8 years and persist despite

repeated recommendations to remedy the situation. It is important to note that we did not assess whether IT security practices and controls were operating as intended.

BTT not aware of all significant IT security risks: BTT only recently began to assess some common IT security risks. Much more work is needed to identify and assess risks, decide how to mitigate them, assign accountability, and mobilize resources – section 1.

IT security decisions may not support government objectives: BTT has not developed an IT strategic plan or an IT security plan. BTT does not use IT security objectives and performance measures to monitor and improve the IT security program. BTT does not know the full direct costs of the IT security program – section 2.

Many IT security risks not sufficiently mitigated: BTT recently implemented an IT Policy Management Framework. But the Framework does not require that risks drive policy creation or updates. Most existing policies need updating; there are many IT security policy gaps – section 3.

Many users unaware of critical IT security expectations: A security awareness program has been in place for several years, but important aspects are missing: attendance by all government employees is not mandatory; workshops are not based on job duties or associated risks, nor do they refer to all security policies; and some common awareness improvement techniques are not used – section 4.

Information assets not properly safeguarded: An information management framework is not in place even though the government has known, since at least 2004, of weaknesses in the state of information management. Notably, the government has not implemented data classification standards to identify the various sensitivity levels of government information. Specific security procedures tailored to the sensitivity of the information assets and data could then be designed and used. In addition, the risk of unauthorized access to information assets has not been sufficiently mitigated because logical (electronic) and physical control requirements have not been defined – section 5.

Contractor IT security practices may not meet government requirements: BTT has not defined IT security requirements. So each major contractor uses their own security practices. BTT obtains assurance over the operation of security practices on only a small portion of these contracted security services – section 6.

Security controls may not protect network and systems: Protecting the network and systems from external threats involves using controls, many of which need to be actively managed and monitored. BTT has implemented preventive and detective controls, but they are not well managed, specifically in the use of high security zones and encryption, and the development of a data loss prevention strategy. In addition, there are several weaknesses with BTT's incident handling practices – section 7.

Previous recommendations not yet resolved: The lack of progress is a problem. Recommendations included in our January 2011 and January 2008 Reports to the Legislature, and in our 2008 and 2009 Public Accounts management letters are noted in the following sections of this report as not yet being implemented: IT risk assessments (1.2), IT strategic plans (2.1), and IT Security Policy (3.3), and disaster recovery planning (7.6).

In addition, while not discussed in the detailed sections of this report, many recommendations included in either our March 2004 Report to the Legislature (the chapter on Computer Security Incident Response Capability), or the related internal management letter (issued to the Department) were in response to findings similar to those included in the following sections of this report: IT security risk assessments (1.2), IT strategic planning (2.1), security patch management (7.2), monitoring of security events (7.3.6), IT security incident handling (7.5), and disaster recovery planning (7.6).

Previous Information Protection Centre (IPC) strengths no longer in place: Our 2004 audit on Computer Security Incident Response Capability found that the IPC had a Threat Risk Assessment Guideline (see section 1.2), an interim IT Security Policy (section 3.3), and an Operations Manual (section 7). These 3 documents are no longer in place, but would have been solid foundations to build current IT security practices on.

Chapter 4: Manitoba Early Learning and Child Care Program

The Manitoba Early Learning and Child Care Program oversees child care (often called day care) services provided by licensed child care centres and family home providers. It is administered by the Department of Family Services and Labour. We examined the Department's management of the Program, including its systems and practices for planning and performance measurement, ensuring compliance with child care standards, and providing financial support to eligible child care facilities and families.

The Department developed a 5-year (2008-2013) plan for child care and publicly reported annual progress on the plan's key commitments. Legislated child care standards were in place and the Department monitored compliance with them by inspecting all licensed child care facilities annually. Most facilities met the standards by the time their annual licences were renewed, but about 25% received provisional licences because they did not meet all legislated requirements. Licences were posted in facilities and on the Department's website, but standards violations listed on licences were not clearly identified and described. The Department did not publicly disclose the overall level of facility compliance with key standards.

The Department's preferred approach was to work with facilities to help them comply with standards, and to only consider issuing licensing orders or revoking licences when it deemed this necessary. But there were some gaps in its monitoring and enforcement activities. It did not always adequately follow up violations noted during inspections, perform the required number of monitoring visits, or ensure activities were sufficiently escalated for repeated or serious violations.

The Department did not have adequate processes to deter or detect family home providers operating over the allowed 4-child (at any given time) limit without required licences. Nor did it always adequately follow up the complaints it received about unlicensed providers, although it was taking steps to correct this.

Inconsistencies in the way staff conducted inspections, followed up violations, and issued licences, need to be addressed. The Department also needs to improve its processes for determining facilities' inclusion support funding, and correct errors and inconsistencies in the way it calculates operating grants, inclusion support payments, and parent fee subsidies. The Department was beginning to address some of these issues by developing new staff orientation and training materials, improving supervisory reviews of licensing packages, and reviewing and revising its inclusion support funding procedures.

A complete listing of all significant findings follows:

Strategic planning and performance measurement

- After considering stakeholder input and barriers to achieving Program goals, the Department developed a 5-year (2008-2013) plan with 12 key commitments. Although the Department used a variety of information to support its strategic planning, this could be strengthened with additional data (such as wait times for child care and trends in the level of facility compliance with key standards).
- The Department publicly reported on its key commitments and several other performance indicators annually. This could be improved by more clearly stating the level of progress achieved for some commitments and disclosing the actual level of facility compliance with key standards. The Department posted facility licence information on its website, but standards violations listed on licences were not clearly identified or described.
- The Department generally coordinated its actions with other government departments and was working with First Nations and the federal government to clarify Manitoba's role in on-reserve First Nations child care. It was also working to improve communication and accountability reporting between the Program's service delivery and policy/administration arms.

Enforcing compliance with child care standards

- Legislated child care standards were regularly updated and generally covered areas similar to those in other provinces.
- The Department's child care facility database was fairly comprehensive. It included all licensing information, but did not include inspection information.
- All child care facilities were inspected before initial licensing and annual re-licensing. But some inspection files lacked evidence that all licensing requirements were met before the Department issued the licence and inspection documentation was not always clear and complete.

- The Department did not have adequate processes to deter or detect family home providers operating over the allowed 4-child (at any given time) limit without required licences.
- Inspection and monitoring visits were mostly unannounced, but the Department didn't consider this practical for family home inspections. The Department needs to avoid overly preparing facilities for upcoming inspections, ensure children are present during family home inspections, and do some visits to facilities with extended hours during evenings and weekends.
- The frequency of regular inspections and monitoring visits to facilities were not based on each facility's past record in complying with standards, and not all required monitoring visits were being conducted.
- Complaints about licensed facilities were resolved promptly and thoroughly. Complaints about unlicensed facilities operating with more than the allowed number of children were not always investigated thoroughly. The Department was taking steps to correct this.
- While the majority of facilities met the standards by the time their annual licences were renewed, about 25% received provisional licences because they did not meet all legislated requirements. The Department's preferred approach was to work with facilities to help them comply with standards, and to only consider issuing licensing orders or revoking licences when it deemed this necessary. But violations noted during inspections were not always adequately followed up, and monitoring and enforcement activities were not always sufficiently escalated for repeated or serious violations.
- All the Department's child care coordinators were trained as early childhood educators. Job-specific training was provided to new coordinators and was also available to supervisors, but it was delivered inconsistently. The Department was working on developing new staff orientation and training materials. Processes were in place to ensure Department staff, including child care coordinators, complied with the government's conflict-of-interest policy.
- Inconsistencies in the way staff conducted inspections, followed up violations, and issued licences reflected a need to enhance and clarify policy guidance, and a need to improve and increase supervisory reviews of inspection and licensing files. Licensing manuals, used by both Department staff and child care facilities, need to be more regularly updated to reflect current standards and practices.

Providing financial support

- The Department's allocation of new funding to previously unfunded child care spaces was not completely transparent or well documented.

- Inclusion support program (ISP) funding needs to be better-linked to child needs and facility capability, with an adequately documented rationale for the nature and level of funding support provided. The Department was working to improve its ISP funding processes.
- The Department's financial monitoring of facilities would be stronger if financial reviews included documented variance analysis and better monitoring of facility compliance with parent fee maximums, pension plan financial requirements, and the Department's base minimum wage rates for early childhood educators and child care assistants training to be early childhood educators (for facilities receiving wage adjustment grants).
- Processes to verify applicants' eligibility for child care subsidies were mostly adequate, although methods of identifying any undeclared applicant income could be enhanced. And the provincial child care and income assistance programs need to more regularly share information when recipients' eligibility for child care subsidy depends on their eligibility for income assistance.
- There were some significant errors and inconsistencies in the calculation of complex operating grants, ISP payments, and subsidy payments, indicating a need for better quality assurance processes.

Chapter 5: Manitoba eHealth Procurement of Contractors

The Manitoba eHealth Program (eHealth) was established to create a provincial electronic health record. eHealth develops systems that allow medical information to be collected electronically and accessed by healthcare providers throughout Manitoba when needed. Directed by the Manitoba eHealth Program Council, eHealth provides province-wide service to:

- integrate healthcare delivery systems across regions and care sectors.
- improve and expand health services by managing Information and Communication Technology (ICT) to achieve economies of scale.
- improve the efficiency and effectiveness of ICT services.
- create reliable and secure connections to health information.

eHealth is administratively housed in the Winnipeg Regional Health Authority (WRHA) and is subject to WRHA policies and processes, covering communications, finances, human resources, legal, and procurement. Procurement processes include issuing tenders for goods and services, contracting, and purchasing.

We examined eHealth's processes for hiring and managing contractors to ensure that eHealth was following its policies and procedures in hiring contractors and they were properly managing the contractors they hired.

We found that although eHealth's tendering processes were adequate, the number of departures from the competitive tendering process were significant. Also, the reasons for and the process used for hiring contractors were not documented.

Contracts were properly documented but improvements are required in setting contract completion dates and the payment processes could be strengthened.

Many of eHealth's policies and procedures for the procurement and management of contractors follow those of the WRHA; however, we noted that those processes specific to eHealth were not formally documented and approved.

Chapter 6: Office of the Fire Commissioner

On July 29, 2011, the Minister of Finance requested that the Office of the Auditor General perform a Special Audit of the Office of the Fire Commissioner (OFC) under Section 16 of *The Auditor General Act*. This request was made after financial irregularities were found by the Provincial Comptroller. On August 2, 2011, we wrote a letter to the Minister of Finance accepting this request.

We completed our audit in November 2012 and sent our detailed audit findings to the Ministers of Finance and Family Services and Labour, 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".

We found financial irregularities as described below, totalling over $300,000 for the records we were able to audit. Over several years, we believe OFC employees received payments they were not entitled to, that were supported with documents that may have been fabricated and in one instance may have been forged. Many payments were for personal expenses, amounts were claimed on more than one occasion, and in a number of instances payments were made with no supporting documentation at all or were supported by a manipulated receipt with details of the items purchased torn off the receipt. In addition, we found that OFC was not in compliance with government policy or even OFC's own policies for travel related expenses. We were also made aware of claims made to Natural Resources Canada that included salaries and other costs that did not relate to the project.

The financial irregularities involved several individuals in the OFC over an extended period of time. Our findings suggested that the former senior OFC officials colluded to circumvent the requirement for the Deputy Minister to approve the former Fire Commissioner's expense claims. Many accountable advances paid to the former Fire Commissioner were cleared off by expense claims submitted by other OFC staff and approved by the former Fire Commissioner.

The irregularities were uncovered in 2011 when the Provincial Comptroller was notified that the former Fire Commissioner's credit card was cancelled. The Provincial Comptroller took prompt action, asked the right, in-depth questions to uncover what had happened at

OFC and used the services of Internal Audit and Consulting Services (IACS) to do an initial investigation and involved Labour Relations and the Civil Service Commission.

In our view, the blame must be placed on the individuals directly involved in the financial irregularities. But, it is important to analyze what went wrong in the system to permit this to take place. It is also important to discuss how the system can be strengthened to prevent and detect irregularities.

Our work to date has been focused on examining thousands of records to summarize details about the individual transactions and determine which were inappropriate. But, during the course of our work we also learned about other factors which contributed to the problem. We found that the control environment was inadequate and the governance framework failed. Oversight was inadequate, the tone at the top was inappropriate and the OFC Controller's position was changed which impacted the internal control system within OFC. The OFC Controller complained to Human Resources about these changes, but no action was taken on his complaint.

We have recommended that the Minister of Finance forward our detailed audit findings to Civil Legal Services. In addition, to ensure that the control environment across government is functioning as intended, we have recommended that the special operating agency governance model and effectiveness of *The Whistleblower Protection Act* be assessed and revised if necessary.

Chapter 7: Province Nominee Program for Business

The Provincial Nominee Program for Business (the Program) allows Manitoba to recruit and nominate qualified business immigrants who agree to settle in Manitoba, make a business investment, and run a business within the Province. The Province issues *Certificates of Nomination* that accelerates the federal government's processing of *Permanent Resident Visas.*

We examined the Program's policies and procedures for the assessment of applications. We found policies and procedures in place, but weaknesses existed. We also found opportunities for efficiencies to be gained by updating the current process. The most significant weakness we found was that before 2010, due diligence procedures were limited to obtaining application information and conducting interviews. Information was not being verified. Also, due diligence procedures were not risk based.

During our audit we found application documentation in some files that was or was thought to be false. As a result, we examined the processes in place for the detection of and response to false documentation.

The Program started reviewing some previously submitted information for false documentation. In some cases they found false information for individuals who had already received *Certificates of Nomination* and *Permanent Resident Visas.* Consistent with

direction from the federal government, the Program is not pursuing the withdrawal of such *Certificates of Nomination* or taking further action. The Program is no longer reviewing previously submitted applications for false documentation. However, the Program has responded to the problem of false documentation on a go-forward basis. The Program created an Integrity and Quality Assurance Unit (the Unit) to coordinate and manage third party verification and to monitor and track false documents. Information is now being verified appropriately.

We also found that the Program does not measure long-term performance in retaining business immigrants and the financial benefits to Manitoba because it does not track nominees.

Chapter 8: Senior Management Expense Policies

We examined senior management expense policies in 113 provincial agencies, boards and commissions. This included 16 special operating agencies, 37 school divisions, 11 regional health authorities (prior to the recent amalgamation), 7 post secondary education institutions, 6 government business enterprises, and 4 child and family service authorities. We wanted to find out if policies existed in each of these organizations and whether they were consistent with the central government's *General Manual of Administration* (GMA). We then randomly selected 10 for detailed examination to determine if senior management was complying with the policies in place in their organization, and to assess if all of the expenditures were reasonable.

We found that the GMA generally covered appropriate topics related to senior management expense policies and those policies were comprehensive. Not all provincial organizations had senior management expense policies in place. The policies that were in place varied significantly from one another and from the GMA. For the sample that we examined in detail, senior managers were complying with policies, with few exceptions. We did not identify any excessive expenditures.

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