

## 10.

### NOVA SCOTIA ECONOMIC RENEWAL AGENCY - SPECIAL ASSISTANCE PROGRAM

#### BACKGROUND

**10.1** The Special Assistance Program, as described in the *1996-97 Estimates*, “provides funding for projects which have potential for being the basis of new economic activity or for enhancing existing economic activity.” With 1996-97 budgeted net expenditures of \$5,596,000, the Special Assistance Program is a significant discretionary fund in government.

**10.2** The Special Assistance Program is administered by the Nova Scotia Economic Renewal Agency (NSERA), although requests for funding may originate from any department within government. No matter where they originate, all requests for funding are referred to a staff member of the NSERA who becomes the project officer for that project. This could be an individual in any division of the NSERA. There is integration of assessment and monitoring activities of the Program with other NSERA programs. Assistance provided to a company, through any program of the NSERA, would have the same project officer. The project officer is responsible for evaluating the request for assistance to determine if assistance should be provided through the Program, the ongoing monitoring of the project if it is approved, and ensuring all funds due to the Province are recovered.

**10.3** There are no funding limits set for individual projects. Assistance agreements typically incorporate a shared risk arrangement whereby the client receiving the assistance provides a portion of the financing. Projects may extend over several years and assistance may be fully repayable, partially repayable or non-repayable depending on the terms and conditions of the agreement. All applications for assistance must have final approval by the Minister of the NSERA and those of significant value may receive approval from the Priorities and Planning Committee.

**10.4** Exhibit 10.1 on page 121 provides a financial summary of the Program over the past three years. Projects approved in prior years have a significant impact on current expenditures. Expenditures for projects approved prior to April 1, 1995 accounted for approximately \$6,458,596 million or 65% of total expenditures for 1995-96.

**10.5** Exhibit 10.2 on page 122 provides information on assistance authorized through the program in excess of \$1 million which has incurred expenditures since April 1, 1995.

#### RESULTS IN BRIEF

**10.6** The following are the principal observations resulting from our review.

- Improvements are required in overall accountability for the Special Assistance Program. Outcome measures and targets need to be established for the Program with timely monitoring of and reporting on performance. NSERA has not prepared an annual report as required by its Act, but such a document could facilitate the provision of more detailed information on the plans and performance of the Department’s programs like the Special Assistance Program.

- Guidelines should be established for the authority limits for the Program. These guidelines should consider all assistance provided to an entity and not just the amount which is being considered under the Special Assistance Program.
- Adequate documentation is required to facilitate accountability and performance monitoring of the Special Assistance Program. Documentation supporting assistance approved has improved in the past few years. However, prior to April 1, 1995, there were some projects funded where there was insufficient documentation to support the use of the Special Assistance Program.
- We found projects funded were being monitored to ensure the terms and conditions of the assistance provided were complied with before payments were made, the funds were used for the purposes intended, and all funds due to the Province were collected.

## AUDIT SCOPE

**10.7** The objective of this audit was to review and assess the systems and procedures used to control and account for the Special Assistance Program, including:

- the internal and external accountability frameworks;
- the project assessment and approval process; and
- the system for monitoring compliance with terms of assistance and performance of the program.

**10.8** We reviewed selected projects which incurred expenditures since April 1, 1995. These projects were approved both before and after April 1, 1995, including projects approved up to October 31, 1996.

## PRINCIPAL FINDINGS

### *Accountability*

**10.9** *Overview* - In order to have an adequate accountability framework, roles and responsibilities and program objectives must be clearly defined along with a process for measuring the achievement of results. Responsibilities can be communicated through formal policies and procedures, and should include timely reporting on performance.

**10.10** *Policies and procedures* - There are no documented policies and procedures for the Program. These should include items such as the roles and responsibilities with respect to establishing the budget for the Program, review and approval of applications for assistance, disbursement of funds, monitoring of projects approved, required file documentation and reporting on performance. While in our view such documentation would support improvements in the accountability and overall control framework for the Program, we found no instances during our review which would indicate that staff involved in the Program did not understand their role or responsibilities.

**10.11** *Performance measurement* - There is a documented objective for the Program. However, no outcome measures or targets have been established to monitor the achievement of that objective. Projects are monitored on an individual basis but there is no tracking mechanism in place to measure and evaluate the results of the Program.

**10.12** The Agency is aware of this deficiency and, as part its 1997-98 budget exercise, it is in the process of developing an improved program tracking system which will monitor large scale projects. Project officers will be required to report quarterly on results achieved relative to projected economic impact. Economic impact will be assessed in terms of investment, jobs, leverage, industry infrastructure support, size of industry and industry goals.

**10.13** *Reporting* - Reporting to senior management on the Special Assistance Program consists of a schedule of budgeted and actual expenditures reconciled to the Department of Finance general ledger account. The information reported to the Legislature consists of the estimate of program expenditures contained within the NSERA annual budget submission, and the total actual expenditure compared to budget which is reported in the *Public Accounts*. There is no information reported on the outcomes of the Program and the achievement of its objectives. Program specific performance information could be provided through the annual report of the NSERA. However, the NSERA does not publish an annual report, even though such reporting is called for under its enabling Act.

### ***Project Assessment and Approval***

**10.14** *Overview* - We reviewed a sample of projects to evaluate the project assessment and approval process followed. We found that in the past there has been insufficient documentation in the project files to support the use of the Special Assistance Program. Adequate documentation is required to facilitate accountability and performance monitoring for the Program. We did note improvements in file documentation in the past few years.

**10.15** *Review of projects approved before April 1, 1995* - We tested six projects approved before April 1, 1995. There was insufficient documentation in the project files to support the use of the Program in three of the six projects reviewed. These three projects had a total approved budget of \$5,196,000. In one case, there was also no economic analysis completed on the project to demonstrate the economic impact of providing funding of \$1,396,000.

**10.16** In two instances, it appears the funding could have been achieved through other government assistance programs such as the Business Development Corporation Fund (BDCF) or the Industrial Expansion Fund (IEF). In one of these cases, a loan had been approved through the BDCF and the Program was used to pay principal of \$1,500,000 on the loan for the company.

**10.17** *Review of projects approved since April 1, 1995* - We reviewed a sample of nine new projects approved after April 1, 1995. We found one project with a value of \$500,000 where there was inadequate documentation to support the use of the Special Assistance Program. There was also no economic analysis completed on the project to demonstrate the economic impact of providing the funding.

**10.18** *Approval guidelines* - The Program is a discretionary fund of the Minister of the NSERA. However, as can be seen from Exhibit 10.2 on page 122, approval is obtained from the Priorities and Planning Committee and Executive Council for some assistance projects. There should be guidelines established as to the authority limits for the Program, especially in light of the fact that in certain instances the assistance is to be paid out over a number of years while the Minister's discretion relates to the current year's budget. Thresholds should be established, based upon the nature and size of the assistance, which identify projects which warrant Priorities and Planning Committee or Executive Council approval. These thresholds should consider all assistance provided to an entity, not just the amount which is to be charged to the Special Assistance Program for one particular project.

**10.19** There are certain loan funds administered by the Nova Scotia Business Development Corporation (NSBDC) which require Executive Council approval for repayable loans where the Province has security against those loans. In the case of the BDCF, this includes all loans or other assistance in excess of \$1 million. With the Program, much of the assistance provided is grants or is only repayable if the terms of the assistance are not met. It would be appropriate for the Program to consider using authority limits similar to those established for the NSBDC.

**10.20** Staff have indicated that an approval threshold of \$1 million will be established for the Program. Assistance in excess of this amount will require Priorities and Planning Committee approval. This threshold is to be based upon each particular funding request rather than considering all assistance provided to an entity.

### ***Monitoring***

**10.21** *Overview* - Once assistance is approved, projects must be monitored to ensure the terms and conditions of assistance provided are being complied with before payments are made, the funds were used for the purposes intended, and all funds due to the Province are collected in accordance with the terms of the assistance. The monitoring procedures required vary according to the terms of assistance provided and can include such items as receipt of invoices, audited financial statements or an audit certificate on employment levels maintained. There may also be a need to perform one or more field visits to a company.

**10.22** *Review of projects* - We examined eight projects to determine if they were being properly monitored and found seven of the projects were properly monitored. In the eighth case, based upon discussions with the project officer, the project was properly monitored but there was insufficient documentation in the project file to support the monitoring activities.

### **CONCLUDING REMARKS**

**10.23** While we have identified some areas for improvement in the systems and procedures used to control and account for the Special Assistance Program, we found that the projects approved under this Program have been properly monitored. There have been improvements in the project assessment process to support the appropriate use of the funds.

**10.24** Overall accountability for the Program needs to be improved in order to determine and report on whether funds issued under the Program have been well spent.

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*Exhibit 10.1***THREE YEAR ANALYSIS OF BUDGETED AND ACTUAL NET EXPENSES**

<b>Period</b>	<b>Budget</b>	<b>Expenditures</b>	<b>Recoveries</b>	<b>Net Expenditures</b>
1993-94	\$ 7,610,300	\$ 7,515,008	\$141,348	\$7,373,660
1994-95	7,592,000	9,368,053	672,218	8,695,835
1995-96	10,120,000	10,070,732	102,593	9,968,139

Note 1 - The budget figure includes the impact of projects approved in prior years as well as an allowance for new projects. New assistance approved during 1995-96 totalled \$4,341,830. Some of this assistance will be disbursed in subsequent years.

*Exhibit 10.2***AUTHORIZED ASSISTANCE IN EXCESS OF \$1 MILLION WHICH HAS INCURRED EXPENDITURES SINCE APRIL 1995**

<b>Project Name</b>	<b>Budget \$ (Note 3)</b>	<b>Date Approved</b>	<b>Approved by Priorities and Planning Committee</b>	<b>Associated Industry</b>
OSP Consultants	950,000	June /96	N	Technology and Telecommunications
	950,000	Apr. /95	N	
Atlantic Theatre Festival	665,000	May /96	Y	Culture and Tourism
	350,000	Oct. /95	Note 1	
	245,000	May /95	Y	
CIBC Call Centre	3,400,000	Feb. /95	N	Technology and Telecommunications
Newbridge Networks	2,000,000	Mar. /96	Y	Technology and Telecommunications
SHL Systemhouse	2,300,000	Jan. /95	Note 2	Technology and Telecommunications
Dynatek Automation Systems	1,500,000	Jan. /95	N	Technology and Telecommunications
Amherst Aerospace Cleanup	1,369,000	Nov. /93	Y	Aerospace
Comeau's Sea Foods	1,405,000	Feb. /90	Y	Manufacturing and Processing
Larsen Packers	1,750,000	Nov. /89	Y	Manufacturing and Processing
Air Nova	1,200,000	May /89	Y	Aerospace
Louisiana Pacific	6,000,000	Nov. /88	Y	Manufacturing and Processing

Note 1 - Staff have indicated that the project was approved by the Priorities and Planning Committee but there is no documentation on file to support this.

Note 2 - This non-repayable assistance was approved by the Executive Council. However, at the time of authorization, the program funding source was not specified.

Note 3 - Some of this assistance has been disbursed over a number of years.