

7 AUDIT OF SELECTED ASPECTS OF OPERATIONS

BACKGROUND

- 7.1 In 1999, the Department of Tourism and Culture - renamed the Department of Tourism, Culture and Heritage in December 2003 - was created by combining the Tourism Division (formerly under the Department of Economic Development, now named Office of Economic Development), with the Culture Division (formerly under the Department of Education and Culture, now named Department of Education). Responsibility for the Nova Scotia Museum, included in the transfer from the Department of Education, was incorporated into a Heritage Division.
- 7.2 The Department's mission, as outlined in its 2003-04 business plan, is to "champion the development, preservation and promotion of tourism, culture and heritage to stimulate economic growth and provide for stewardship of our natural and cultural heritage for the benefit of all Nova Scotians."
- 7.3 The Department is organized into five divisions: Tourism, Culture, Heritage, Nova Scotia Archives and Records Management, and Corporate Affairs. The Department had budgeted net expenses of \$40.8 million for 2003-04 (consisting of \$46 million of expenses offset by recoveries of \$2 million and fees of \$3.2 million), with approximately 300 full-time staff and 250 seasonal employees.

RESULTS IN BRIEF

- 7.4 The following are our principal observations from this audit.
- The audit criteria used to assess the accountability function of the Department were met.
 - The goals and objectives of the Tourism Division are integrated with those of the Department and are closely aligned with the tourism strategy and annual plans developed through the Nova Scotia Tourism Partnership Council.
 - Systems to monitor, measure and report performance of the Tourism Division are adequate. The economic model used to calculate the impact of tourism on the Provincial economy should be reviewed and updated for any changes to the underlying assumptions.
 - The Department entered into three major contracts following open tendering processes. Responsibilities for overseeing the contracts are clearly assigned within the Tourism Division. The Division should consider initiating periodic audit and other verification processes as provided for in the contracts.

- The licensing and inspection system and practices, mandated by the Tourist Accommodations Act, should be reviewed. Policies should be established for determining frequency of inspections and improving compliance with licensing requirements. Improvements should be made to file documentation.
- The Culture Division has established policies and procedures for selecting and distributing investment funding. We noted a weakness in monitoring receipt of final reports and that certain funding decisions were made outside the established processes.

AUDIT SCOPE

- 7.5** In March 2004, we completed an audit of the Department of Tourism, Culture and Heritage. The audit was conducted under the mandate of Section 8 of the Auditor General Act, in accordance with auditing standards established by the Canadian Institute of Chartered Accountants, and included testing and other procedures we considered necessary in the circumstances.
- 7.6** The summary objectives of this assignment were to examine the overall accountability, management and control arrangements for selected aspects of the operations of the Department, and to assess the adequacy of:
- compliance with statutory or other requirements;
 - control systems, procedures and practices; and
 - due regard for economy and efficiency.
- 7.7** The following selected aspects of the Department's operations were examined:
- accountability;
 - Tourism Division; and
 - Culture Division investment programs.
- 7.8** Criteria were developed to assist in the performance of our audit (Exhibit 7.1). These criteria were discussed with and accepted as appropriate by senior management of the Department. Our work included interviews with management and staff, examination of reports and other documents, as well as detailed testing of inspection and investment processes.

PRINCIPAL FINDINGS

Accountability

- 7.9** **Summary** - We evaluated the accountability structure of the Department, detailed in Exhibit 7.2, and concluded that the audit criteria used to assess the accountability function were met. Roles and responsibilities within the Department are clearly defined and communicated. The Department prepares an annual business plan and budget, monthly financial forecasts, and accountability reports as required. The 2003-04 business plan identifies the goals and objectives of the Department and includes measurable performance targets and indicators. The business plan is available on the Department's website and is also incorporated into the Government business plan which is presented in the House of Assembly.
- 7.10** We looked at the Department's 2002-03 Accountability Report and found it was prepared in accordance with government guidelines. Accomplishments toward the goals and objectives are listed and information on the activities of the Department is provided. We suggested that the sources of information for some of the data presented be more clearly identified.

Tourism Division

- 7.11** **Background** - The Department's 2002 *Tourism Industry Facts* publication notes tourism was a \$1.3 billion industry for the Province; generating 34,700 direct and indirect jobs, \$498 million in direct and indirect wages and salaries, and \$96.2 million in Provincial taxes. There are a number of stakeholders involved in the tourism industry that interact with the Division, including departments of the Provincial and Federal governments as well as government agencies and industry groups and associations (Exhibit 7.3).
- 7.12** In 1996, the tourism industry and government released a jointly-developed tourism strategy for the Province. The strategy called for a partnership between industry and government to improve the economic benefits to the Province from the tourism sector. A joint private/public sector tourism committee was established to develop a model for how the partnership would work. This resulted in the formation of the Nova Scotia Tourism Partnership Council in 1998.
- 7.13** The Council is made up of 14 representatives from the industry and two from the Department. The Council provides input and strategic direction on Departmental investments in tourism and takes a lead role in developing the tourism strategy and annual tourism plans.
- 7.14** The Tourism Division provides support and representation on the Nova Scotia Tourism Partnership Council, manages contracts with outside agencies (Exhibit 7.4), undertakes tourism marketing and planning, supports tourism development, and develops sales and partnerships to promote and develop tourism.

- 7.15 The Division is also responsible for the annual licensing and inspection of approximately 1,300 fixed roof establishments and 128 private and municipal campgrounds under the Tourist Accommodations Act and Regulations.
- 7.16 **Summary** - We evaluated the processes supporting the planning, monitoring, measuring and reporting of performance of the Tourism Division. We also reviewed the Division's policies and procedures for ensuring compliance with the Tourist Accommodations Act and Regulations. Our observations with respect to these areas are noted below.
- 7.17 **Planning** - The goals and objectives of the Tourism Division are included in the goals and objectives of the Department set out in the business plan. The Division is also guided by the tourism strategy and annual tourism plan developed through the Nova Scotia Tourism Partnership Council. We found that the goals and objectives of the tourism strategy and annual plan are closely aligned with those of the Division. The Vision for Tourism was presented in 2002, and developed through the Nova Scotia Tourism Partnership Council. It is summarized in the phrase "100% tourism revenue growth over the next decade", and provides overall direction to the work of the Division.
- 7.18 **Performance management** - The Tourism Division has systems to monitor, measure and report performance. Managers use monthly financial reports, bi-weekly status reports and regular meetings and discussions with staff for resource planning and management. Our additional comments are listed below.
- The Division plans and conducts a number of marketing campaigns jointly with other government and industry partners. It has developed a spreadsheet to monitor spending on the various programs and track the contributions from its partners. The impact of the marketing campaigns is regularly monitored and assessed through gathering of statistical data, surveys and other analysis.
 - The Division maintains a number of databases that contain information on partners, funding amounts and other data under its various programs. Management identified the need for a system to enable its programs to be managed through a common database. This would eliminate duplicate information and provide a complete view of the Division's programs and funding, for example, by geographical area and by partner. An initiative to determine the requirements for such a system was undertaken. As a result, the Department became part of a joint project to set up a shared database, led by the Office of Economic Development, along with Service Nova Scotia and Municipal Relations and the Nova Scotia Office of Health Promotion - Sport and Recreation Division. The Department expects the system to be operational in late spring 2004 at an estimated cost (Department's share) of \$20,000.
 - The Division uses a spreadsheet based on an economic model developed in 1996 to calculate the impact of tourism on the Provincial economy such as revenues generated, jobs created and taxes paid. The information is used to assess the value of tourism and determine the resources that should be

allocated. We were informed that the spreadsheet needs to be updated as some of the underlying assumptions and other factors used in the model likely need to be reassessed and changed.

- The Division experienced some difficulty with collecting outstanding receivables due to uncertainty over responsibility for collection. An accounts receivable report provided to the Department listed over \$600,000 in outstanding receivables, most of which related to the Tourism Division. Some of the amounts were outstanding since 1997. Invoices from the Division are processed through the Department of Finance - Corporate Services Unit (CSU) and the corresponding receivables are recorded in the corporate financial management system. There was no systematic reporting of the receivables to the Division or follow up by the Division to ensure payments were received. The CSU has been reviewing the overall process to determine how the responsibility for monitoring and collection of receivables should be allocated between the Division and the CSU. This process is expected to be in place for 2004-05.
- In 2002, the Division changed its method of direct-to-consumer literature distribution after a tendering process for distribution services based on geographic markets. The Division indicated its concerns with the cost and delivery time of some of the distribution services were addressed as a result of this change.

Recommendation 7.1

We recommend that the Department review the economic model used to calculate the impact of tourism on the Provincial economy to ensure the underlying assumptions and factors are still valid.

7.19 **Contracts and agreements** - We reviewed the procurement and monitoring practices for the three largest contracts administered by the Division. We found the contracts were entered into following open tendering processes as required by the *Government Procurement Policy*. Responsibilities for overseeing the contracts are clearly assigned. We also reviewed other service agreements administered by the Division. The following are our observations on the contracts and agreements.

- The Department entered into an agreement with a private sector company in early 2002 to manage the three resorts owned by the Province -The Pines, Keltic Lodge, and Liscombe Lodge. A team with representatives from the Division and the Departments of Finance, Justice, and Transportation and Public Works performs a yearly review of the budget, cash flow forecast and prior year's results as provided by the management company. An independent consultant with expertise in the hospitality industry is also involved in this review process. The Division reviews monthly financial, occupancy and capital project reports and there is regular and frequent communication between the

Division and the management company. Although the agreement specifies that the books and records are to be kept on the accrual basis of accounting using the *Uniform System of Accounts for Hotels*, it does not require annual audited financial statements be provided. A clause in the agreement gives the Provincial government the right to request that an audit be carried out. An audit would provide independent assurance on the systems and controls in place and financial information provided by the private sector operator.

- The contract with the agency of record for marketing and advertising services was in effect from January 31, 2001 to December 31, 2003. A second contract with the agency, following an open tendering process, was being finalized at the time of our audit. The terms of the existing contract were extended while negotiations on the new contract were underway. The contract sets out the services to be provided and reporting requirements. Compensation under the contract includes a set amount paid monthly and an additional component based on performance. Each year an advertising strategy and media plan are developed based on the Division's target markets. Within the plan, each campaign requires a cost estimate and Division approval before proceeding. Expenditures under the contract are reviewed and monitored regularly. The agency is not required to provide documentation to support amounts included with billings, such as third party costs, unless requested to do so. The Division does not generally request this information. A reconciliation of the actual hours spent by the agency's staff on the Division's projects is done each year. The Division carries out semi-annual and annual performance reviews of the agency. Payment of the performance-based component is dependent upon the results of the reviews. There is also frequent contact between the Division and the agency on activities under the contract. The Division can request that the contract-related records of the agency be made available for examination but such a request has not been considered necessary.
- The Provincial government has ownership interest in a toll-free, computerized tourism information and reservation system and database. The Department entered into an agreement with a private sector company to manage the system. The first agreement with this company was in effect from 1994 to 2000. A second agreement, following an open tendering process, was signed in June 2000 and ends on June 15, 2005. There is an option to renew the agreement for two additional years. Services to be provided, performance standards and reporting requirements are set out in the agreement. The Division receives monthly activity reports and performs quarterly reviews of performance. The management company carries out annual customer and operator satisfaction surveys; a benchmarking process is carried out every two years to compare the information and reservation services provided with those available in other jurisdictions in North America. The agreement allows the Provincial government access to the company's records in relation to the agreement. The last audit was carried out in 1998 under the previous contract. During 1996 and 1997, a consultant was hired to review and report on the company's performance in providing the services required. There has not been an independent assessment of the services since that time.

- Under the original terms of the tourism information and reservation system management agreement, compensation for the basic services provided was based on a guaranteed minimum number of minutes for inbound and outbound calls. In 2002, the contract was amended to reduce the base cost by \$60,000 and eliminate the guaranteed minimum number of minutes. The actual number of minutes reported by the management company was less than the guaranteed minimum and was not expected to increase significantly in subsequent years.
- The Division has agreements with seven regional tourism industry associations (RTIAs) to provide services in the areas of communication, research, training and development, and marketing, advertising and promotion. Funding is provided and the RTIAs report on the activities undertaken in their areas. Funding is based on the previous year's level rather than specific services provided. Reporting on activities by the RTIAs is not clearly specified in the agreements. Some RTIAs provide comprehensive reports while others provide summary level information. The Division is in discussion with the RTIAs to establish a more structured method of funding based on the services to be provided. The Division is also developing an assessment process for the quality and delivery of those services. Finalization of the new agreement structure is awaiting the outcome of deliberations of the Administration of Tourism Task Force. Those deliberations include the role of the RTIAs.

Recommendation 7.2

We recommend that the Department consider initiating periodic audit and other verification processes as provided for in the management agreements as part of its oversight and due diligence in managing the agreements.

7.20 **Compliance** - The Tourist Accommodations Act and Regulations require that all roofed tourist accommodations and camping establishments obtain a license annually from the Department. The Act and Regulations set the minimum requirements for each type of establishment and provide for inspection. We reviewed a sample of files to determine if the licensing and inspection systems were operating as designed. The following are our more significant observations.

- The licensing and inspection files are a combination of paper files and an electronic database which is used to record names, addresses and other contact information for each licensed establishment. License renewal applications are sent out each year to the establishments recorded in the system and payment of the annual fee is noted on the application when received. Because the tracking system is largely manual, it is difficult to obtain information such as the number of establishments that have renewed licenses and paid fees or which establishments have been inspected. The Department recorded \$181,944 in licensing fees in 2003-04 (2002-03 - \$178,620).

- The Division usually inspects over half of the accommodations each year and the remaining establishments every second year. Determination of the need for an annual or biennial inspection cycle is based on an informal assessment of the quality rating of the establishment, inspection history and visitor complaints. The assessment ratings were not adequately documented in the files and we were unable to determine from file information whether an establishment should be on an annual or biennial inspection cycle.
- The quality assurance officers use inspection reports to document the areas and items inspected and to note any unsatisfactory matters that need to be corrected. We encountered a number of instances where there was inadequate documentation in the file of follow up when an unsatisfactory item was noted on the inspection report.

Recommendation 7.3

We recommend that the Tourism Division review its licensing and inspection system and practices, consider establishing a risk-based approach for determining the frequency of inspections, and establish file documentation standards and a file quality assurance review process.

- 7.21 The Division indicated there are a number of unlicensed establishments in operation (estimated at over 250) and the number may be growing, due in part to the availability of internet advertising. Most are small operations, such as private cottages. The Division relies on its inspectors, through their work in the field, to be aware of these operations. Further, only licensed establishments are allowed to be included in official tourism publications, such as the annual tourist accommodation guide, or linked to the tourism website. However, the Division is not consistently enforcing licensing requirements on unlicensed operators.

Recommendation 7.4

We recommend that the Tourism Division review its practices concerning unlicensed establishments and establish a process for improving compliance with the licensing requirements.

- 7.22 The Canada Select Accommodation Rating program, administered by a private sector organization, is a quality rating system for tourist accommodations and campgrounds. In Nova Scotia, enrolment in the program is voluntary and a quality rating is not required in order to obtain a license to operate. The Division has an agreement with the program administrator whereby Canada Select inspectors conduct dual quality and licensing inspections for those operators enrolled in the program. Approximately half of the licensed tourist accommodations and campgrounds in the Province are rated under the program.

Culture Division

- 7.23** **Summary** - A Statistics Canada study on the culture sector, commissioned by the Culture Division in 2003, reported that the direct and indirect impact of the culture sector in the Province was estimated at almost \$1.2 billion for 2001, with 28,000 direct and indirect jobs depending on culture sector activities. The Division is responsible for developing and supporting the growth of the culture sector through its various investment programs including: cultural activities, grants to individuals, grants to organizations and small groups, cultural industries, and anchor organizations funding (Exhibit 7.5). The Division funded 396 investment projects during 2003-04 totaling \$5.3 million (2002-03 - \$4.2 million). We reviewed the Division's process for selecting, distributing and evaluating its investments.
- 7.24** **Selection and distribution** - The Division has established policies and procedures for selecting and distributing investments. These policies, for the most part, are not written but are understood by staff. The following are the key steps in the funding process.
- Investment proposals are assessed and selected by an independent selection committee (for programs formerly under the Nova Scotia Arts Council) or by Division staff. In both situations, the highest scoring applicants are considered for funding (Exhibit 7.6).
 - A letter, signed by the Minister, is sent to each successful applicant advising of the approved funding amount and indicating that a Terms of Reference document will be forwarded for signature.
 - The Terms of Reference document states significant changes are not to be made to a project without the Division's approval and a final report must be submitted once the project is complete. It clearly states that failure to comply with these requirements could jeopardize future applications for funding. Funds are not to be advanced until the signed Terms of Reference are returned to the Division.
 - The amount of approved funding advanced varies by program. Approved funding for individuals, organizations and small groups is fully advanced upon receipt of the signed Terms of Reference. For the other programs, 80% of approved funding is initially advanced and the remaining 20% upon receipt of the final project report.
- 7.25** The Nova Scotia Arts and Culture Partnership Council, a joint government and industry advisory body, was recently created to gather input from the cultural sector and to provide advice and direction for the Division's programs. One of its priorities is to develop annual cultural sector development plans and review the design and delivery of the investment programs.

- 7.26** **Process testing** - We selected a sample of successful applications for 2003 and found the established policies and procedures for investment selection and funding were followed. However, we noted improvements were needed in the monitoring of receipt of final reports. The Division indicated it plans to enhance its investment tracking database to provide notification if final reports have not been received.

Recommendation 7.5

We recommend that the Culture Division continue to develop its database to include information on receipt of final reports. This would help ensure recipients are held accountable for investment funds received before any new funding is considered.

- 7.27** We were informed that during 2003 there were eight organizations, receiving investment funding totaling \$21,000, that did not follow the regular application process. There were also three organizations that, in addition to the investment funding received through the regular application process, subsequently received additional funding totaling \$12,828. While the amounts are small, we are somewhat concerned that there appears to be an alternative avenue for funding for which there is no defined process and which may not be available to all cultural groups and organizations.
- 7.28** **Program evaluation** - At the time of our audit, the Division did not have a system to review its investment programs and performance. However, the Department has begun a Department-wide program evaluation initiative to establish indicators and outcomes for key program areas and develop a framework for ongoing evaluation and monitoring of results. The Division has worked with Statistics Canada to collect data on the cultural industry in Nova Scotia. This baseline data will be used to help establish outcome measures and targets. Once this is completed, the Division plans to begin regular monitoring of the investment programs. We encourage the Division to continue developing program performance measures and targets and improve its ability to determine whether its investment activities are achieving the expected results.
- 7.29** **Art Bank** - The Division is also responsible for the Nova Scotia Art Bank. The Art Bank acquires and maintains works of art by professional Nova Scotia artists. The Art Bank adds to its collection each year by purchasing pieces as recommended by an independent peer assessment committee. The art works are often loaned out to government departments and other selected entities for display to help promote the artists. The Art Bank is considered a working collection and therefore not subject to the same environmental requirements expected in a gallery setting.
- 7.30** We reviewed the acquisition and administration systems for the Art Bank but did not perform any procedures to test the acquisitions process or verify the accuracy of the inventory listing.

CONCLUDING REMARKS

- 7.31** The accountability framework for the Department of Tourism, Culture and Heritage is adequate and the Department complies with government reporting requirements.
- 7.32** The Tourism Division has adequate procedures in place to ensure resources used in the administration of its programs are managed with due regard for economy and efficiency. There are some weaknesses in the administration and enforcement of the Tourist Accommodations Act and Regulations. The Culture Division has appropriate administrative and accountability procedures for its investment programs.
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Audit Criteria

Audit criteria are reasonable and attainable standards of performance and control, against which the adequacy of systems and practices can be assessed. They relate to the audit objectives developed for an assignment and are used to design detailed audit tests and procedures.

The following criteria were used in our audit of the Department of Tourism, Culture and Heritage.

Accountability

- The mission, vision, strategies and annual plans of the Department should be prepared and communicated.
- There should be a clear linkage to the overall goals and objectives of the government.
- Policies designed to support the achievement of the Department's objectives should be established and communicated.
- Objectives and related plans should include measurable performance targets and indicators.
- Roles and responsibilities should be clearly defined and consistent with the Department's objectives.
- Sufficient and relevant information should be identified and communicated in a timely manner.
- There should be regular reporting of financial position and operating results to senior management of the Department and the House of Assembly, as required.
- Performance against established targets should be measured and reported.
- Reports should provide adequate information to assess the financial and non-financial activities of the Department and should be written in clear, plain language.
- The Department should comply with legislation and any other reporting requirements of the government.

Tourism Division

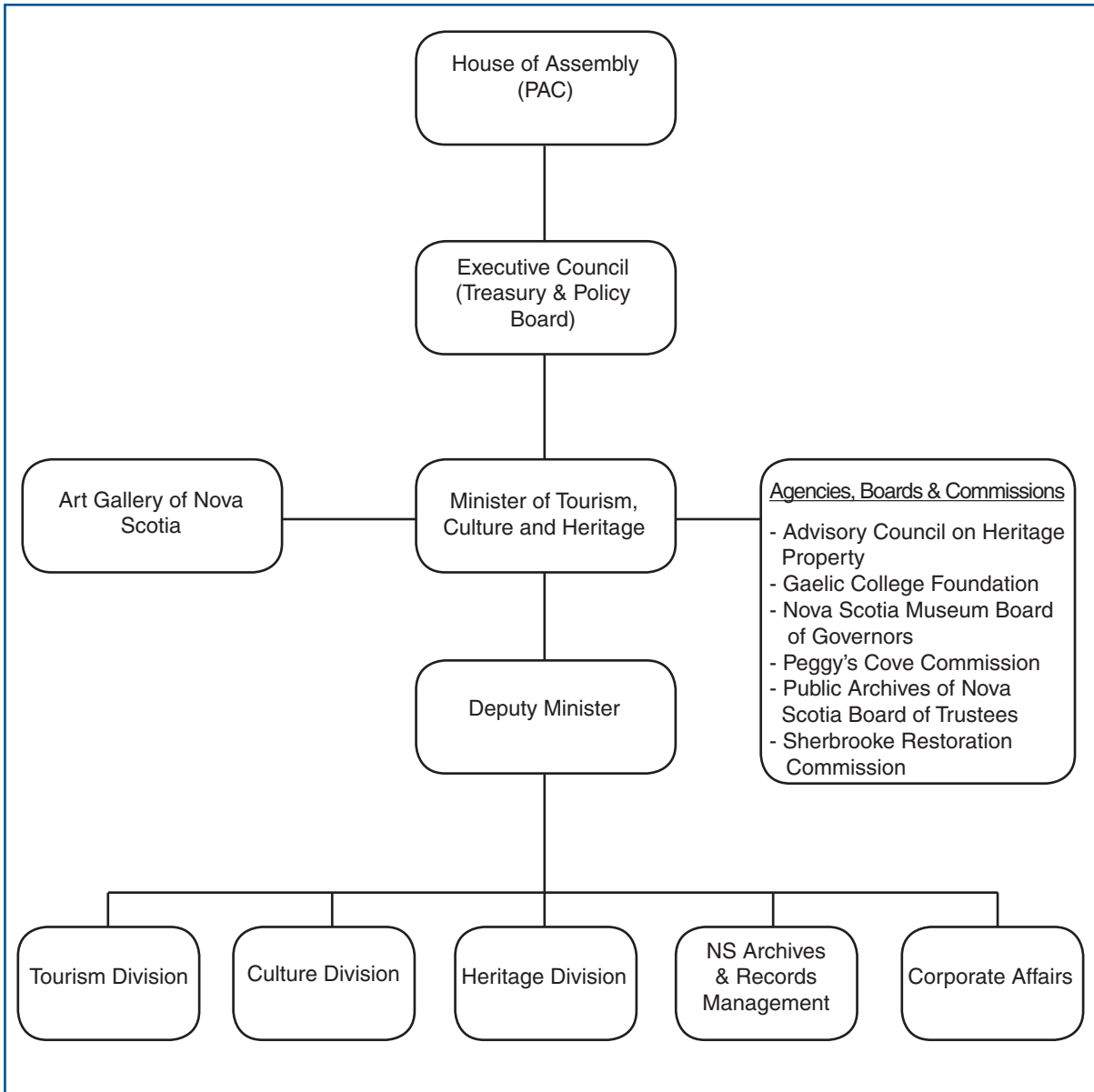
- The goals and objectives of the Division's programs should be clearly identified, defined and communicated and should be aligned with the goals and objectives of the Department.

- Factors critical to the successful achievement of the objectives should be identified and defined.
- Reasonable, measurable performance targets should be established.
- There should be adequate systems to monitor, measure and report performance.
- These systems should provide credible quantitative and qualitative information.
- Management planning and control, operating systems and work practices should demonstrate due regard for economy and efficiency.
- There should be systems which ensure compliance with applicable provisions of Provincial legislation, regulations, policies and procedures.
- Authorities and responsibilities for the enforcement of Provincial legislation, regulations and agreements should be clear.

Culture Division Investments

- Goals and objectives of investment programs should be clearly established.
- Terms and conditions for receipt of investments should be clearly defined and communicated.
- Funding should only be used for the purposes intended by the program. Investment recipients should be held accountable for monies received.
- There should be periodic assessments of the performance of investment programs to determine if the objectives are being met.

**Summary Organization and Accountability Chart
as at March 31, 2004**



Stakeholders in Provincial Tourism which Interact with the Department of Tourism, Culture and Heritage

Atlantic Canada Tourism Partnership
Canadian Tourism Commission
Federal government departments and agencies such as the Atlantic Canada Opportunities Agency
Nova Scotia Tourism Partnership Council
Regional Development Authorities
Regional Tourism Industry Associations
Tourism Industry Association of Nova Scotia
Tourism operators such as hotels and resorts, tours, attractions and transportation
Other Provincial departments such as Natural Resources, Office of Economic Development, and Transportation and Public Works

Tourism Division - Major Third Party Contracts and Agreements

Contract/Agreement	2003-04	2002-03
Nova Scotia Signature Resorts Management Agreement		
- management fee	\$316,000	\$331,000
- incentive fee	30,000	45,000
Check In Information and Reservation System Agreement		
- contract cost	2,200,000	1,800,000
- commissions	429,000	503,000
Marketing Services Agreement		
- base cost	5,400,000	5,100,000
- performance based remuneration	94,000	114,000
Atlantic Canada Tourism Partnership Agreement	\$2.17 million over 3 years to March 31, 2006	
Bluenose II Operating Agreement	\$650,000 per year to April 1, 2005	
Upper Clements Theme Park Lease	\$310,000 per year to January 31, 2007	

Source: Department of Tourism, Culture and Heritage

Culture Division - Investment Summary

Exhibit 7.5

Program	#	2003-04 Investments	#	2002-03 Investments
Anchor Organizations	44	\$2,754,841	39	\$2,478,650
Art Bank	22	30,481	-	-
Cultural Activities	96	691,015	101	400,940
Facilities	10	240,365	9	257,065
Grants to Individuals	88	400,000	42	213,000
Grants to Organizations and Small Groups	72	486,000	22	128,736
Industry Growth	50	521,277	80	607,478
Youth	14	161,334	6	110,790
Total Investment	396	\$5,285,313	299	\$4,196,659

Source: Department of Tourism, Culture and Heritage

Culture Division - Summary of Investment Selection Process by Investment Type

Exhibit 7.6

Investment Type	How Are Applicants Compared Against Eligibility Criteria?	Funding	
Cultural activities, Anchor Organizations, Industries, Youth	Staff assess applicants using rating system	Highest scores receive funding	80% on signing Terms of Reference/ 20% on completion after final report
Grants to Individuals, Grants to Organizations and Small Groups	Independent assessment panel/ jury assess applicants	Highest scores receive funding	100% at start once Terms of Reference are signed
Facilities	Staff review applicants based on criteria, no rating system	Few applicants in this category, same typically receive funding each year	80% on signing Terms of Reference - 20% on completion after final report
Portia White Prize, Grand Pré Prize	Selection committee/ assessment panel review nominees	One prize recipient selected by panel	Prize – 100% on awarding