
3 Economic and Rural Development and Tourism: Funding Programs

Summary

The funding programs we examined which process the bulk of the funding at the Department of Economic and Rural Development and Tourism are not well-managed. Processes to evaluate applications and disburse funding require significant improvement; there is limited monitoring of approved projects and a lack of accountability for funds expended.

Similar to our 2011 audit of the Industrial Expansion Fund, our audit of Nova Scotia Jobs Fund transactions identified numerous issues. The Department has not taken sufficient action to address the concerns identified in the 2011 audit. We found deficiencies in all ten Jobs Fund files we tested. Although a process guide was developed, we found the guide is not consistently followed. Improvements in some areas are overshadowed by missing application information, and project assessments which do not always include required economic and financial analysis. For example, financial assistance totaling \$323 million to three companies was approved without financial analysis. We also identified deficiencies in information submitted to Cabinet for approval. We recommended the Department update the guide for the recommendations in this chapter and require all staff to use the guide in all transactions. Government should consider whether this program is the appropriate mechanism to deliver loans and subsidies to businesses. In doing so, government may wish to revisit our 2011 recommendation to consider whether the administration of the fund should be transferred to Nova Scotia Business Inc.

We tested seven projects under the Strategic Funding Initiatives program and found none met program eligibility criteria. However, these projects totaling \$805,000 were approved for funding. This program has since been transferred to the Department of Communities, Culture and Heritage; we recommended that Department develop and implement appropriate policies which address the issues identified by this audit.

In the remaining eight programs we tested, two programs generally followed guidelines but the Department did not complete sufficiently detailed analysis of applications for the other six programs.

Across all the programs we tested, monitoring of approved projects is limited. In general, there is a lack of accountability back to the Department for funds received. We recommended improvements including site visits and third party verification that projects were carried out as intended.

All funds approved through these programs used public money and, as a general principle, thus require full public scrutiny.



3 Economic and Rural Development and Tourism: Funding Programs

Background

- 3.1 The Department of Economic and Rural Development and Tourism is responsible for the development and implementation of policies and strategies that focus on areas such as productivity, innovation and investment as core economic drivers within the province. The Department provides funding to businesses and organizations through a number of programs including capital investment, student cooperative education, productivity and innovation, and community economic development. These cover many areas such as business start-ups and expansions, employment initiatives, and productivity enhancement.
- 3.2 The Department has 28 programs covering many areas; we examined ten economic development programs, including the Jobs Fund.
- 3.3 During 2012-13, 2,539 applications for funding were received for nine of the programs we tested (excluding the Jobs Fund, discussed later). 1,322 applications were approved with approximately \$25.5 million in funding dispersed.
- 3.4 The application process varies by program but is generally supposed to involve completing an application form and submitting supporting documentation such as financial statements. For some programs, applications are accepted throughout the year until budget funds have been exhausted; for others, there is a defined period during which applicants must apply. Program staff are to assess each application against program eligibility requirements and criteria. In some instances, regional office staff screen projects prior to forwarding the application to head office for approval. Successful applicants receive a letter of offer outlining approved funding and related terms and conditions.
- 3.5 For the majority of programs we audited, funding is provided in installments or upon project completion once the recipient provides evidence that eligible program costs have been incurred. For the remaining programs, some or all funding is advanced on approval. In some instances, projects must be completed by a specific deadline or the recipient is no longer entitled to the funding.
- 3.6 In May 2011, this Office completed an audit of financial assistance to businesses through Nova Scotia Business Inc. and the Industrial Expansion Fund (administered by the Department of Economic and Rural Development and Tourism). The audit identified numerous issues with the Industrial Expansion



Fund including few controls over loans and other financial assistance, an overall lack of support for transactions, and inadequate monitoring of loans.

- 3.7 Subsequent to the audit, the Industrial Expansion Fund was dissolved and replaced with the Nova Scotia Jobs Fund in December 2011. The objectives of the fund include investment for purposes of economic development and the promotion of growth in economic regions or industry sectors. Companies seeking financial assistance submit applications to the Jobs Fund and staff are to evaluate the risks of the transaction along with the potential economic benefits for the province. Proposed transactions are reviewed by an external advisory board prior to submission to Cabinet for final approval.
- 3.8 Since its inception in December 2011 to September 2013, approximately \$611 million in financial assistance (loans, forgivable loans, guarantees and contributions) to businesses has been approved through the Jobs Fund. Of this amount, \$183 million had been disbursed as of September 1, 2013.

Audit Objectives and Scope

- 3.9 In Spring 2013, we completed a performance audit of funding programs administered by the Department of Economic and Rural Development and Tourism, including the Nova Scotia Jobs Fund. Our audit included the application and assessment process, disbursement and monitoring of financial assistance to successful applicants, and evaluation of programs by the Department.
- 3.10 We wanted to determine whether the Department of Economic and Rural Development and Tourism has processes to ensure:
 - program funding is only provided to approved applicants;
 - funding is monitored and used for its intended purpose; and
 - program effectiveness is monitored and the results used in program planning.
- 3.11 The audit was conducted in accordance with Sections 18 and 21 of the Auditor General Act and auditing standards adopted by the Chartered Professional Accountants of Canada.
- 3.12 The objectives of the audit were to:
 - assess the adequacy of the Department's process for evaluating program funding applications;



- assess the adequacy of the Department's process for disbursing funding to approved applicants; and
- determine if the Department has processes to monitor whether funding programs are achieving their goals and objectives.

3.13 The audit excluded programs administered by the Nova Scotia Tourism Agency or through crown corporations on behalf of the Department.

3.14 Criteria were developed specifically for this engagement. The objectives and criteria were discussed with, and accepted as appropriate by, senior management of Economic and Rural Development and Tourism.

3.15 Our audit approach included interviews with management and staff at the Department; review of documentation; and testing of applications, funding disbursements and program evaluations for compliance with Department policies. We conducted our audit in the spring and summer of 2013 using data from April 2010 to December 2012, except for financial assistance through the Jobs Fund which covered the period from December 2011 to March 2013.

3.16 Throughout this chapter, we disclose funding totals which may identify recipients. We believe that significant government grants and assistance should be public information. Such funding requires the highest degree of transparency.

Significant Audit Observations

Nova Scotia Jobs Fund – Progress Since Last Audit

Conclusions and Summary of Observations

Although there have been some improvements since our 2011 audit of the then Industrial Expansion Fund, many of the same issues still exist. The Department of Economic and Rural Development and Tourism developed a process guide for the Jobs Fund. However we found the guide is often not followed. Application forms were not always completed and assessments did not always include the required financial and economic analysis. Limited work is done to assess the reasonableness and accuracy of financial projections submitted by applicants. Management does not review detailed file assessments of proposed financial assistance before that information is summarized and submitted to Cabinet. For several of the Jobs Fund files we examined, the Cabinet submissions did not completely or accurately reflect information on file at the Department. Furthermore, we found grants or loan



forgiveness were often based on employment and salary targets which were lower than those used by Department staff to assess financial assistance. Economic and Rural Development and Tourism needs to take immediate action to implement the recommendations in this chapter and to fully address the recommendations from our May 2011 audit. Significant changes are needed to move the Jobs Fund to appropriate, transparent processes for providing financial assistance.

3.17 *Background* – The May 2011 Report of the Auditor General included an audit of financial assistance through the then Industrial Expansion Fund. In December 2011, this fund was replaced with the Nova Scotia Jobs Fund. When we undertook an audit of funding programs through Economic and Rural Development in 2013, we decided to examine the Department’s progress in addressing deficiencies identified during the 2011 audit. 10 of the 14 recommendations from 2011 which related to the Industrial Expansion Fund are examined in this chapter. The remaining four recommendations relate to areas such as arrears reporting and follow-up. All recommendations from the May 2011 audit will be reported in the follow-up chapter of our Spring 2014 Report.

3.18 The following table lists the 10 highest-value financial assistance transactions approved through the Jobs Fund since its inception.

Nova Scotia Jobs Fund – Ten Highest-value Financial Assistance Approvals		
Date	Recipient	Order-in-Council Approval: Financial Assistance
March 30, 2012	Irving Shipbuilding Inc.	\$304,000,000
August 20, 2012	Pacific West Commercial Corporation	\$66,500,000
December 7, 2012	Bowater Mersey Paper Company	\$32,000,000
June 21, 2012	Cooke Aquaculture	\$25,000,000
April 4, 2013	Northern Pulp Nova Scotia Corporation	\$22,582,000
July 16, 2012	Chorus Aviation Inc.	\$16,500,000
March 19, 2012	NewPage Port Hawkesbury Corp./ Forestry Infrastructure Fund	\$12,000,000
February 6, 2013	Blackberry	\$10,000,000
January 17, 2013	Michelin	\$8,880,000
April 25, 2013	EPC Industries Limited	\$7,100,000
	Total	\$504,562,000

3.19 *Jobs Fund processes* – The May 2011 Industrial Expansion Fund audit included a recommendation that the Department document and implement processes for assessment and approval of loans and development incentives. In response to this recommendation the Nova Scotia Jobs Fund Process Guide was developed. The guide outlines approval, disbursement and financial monitoring processes as well as information which must be considered when



assessing applications. While the development of a guide begins to address our recommendation, our testing of Jobs Fund files indicated the process guide is not followed in many instances.

- 3.20 The Process Guide requires an application form to be completed for each transaction or, if one is not completed, the investment manager is to attach an explanatory note. For five of 10 files tested, an application form was not completed; only three of these files included an explanatory note. In the remaining two instances, the Province's involvement with the companies began before the Process Guide was established. However, it is still important to ensure sufficient information is collected from private companies to protect the Province's interests. While much of the application information was covered by other documentation submitted by the clients, information on pending or outstanding litigation and sign off by company management that information the company provided is accurate were not included. For one additional file, an application form was submitted but the disclosure of pending or outstanding litigation section was not completed. Although the Process Guide allows a transaction to proceed without an application, this is a poor business practice. Information related to potential lawsuits and management sign-off that the company has provided accurate information to the Province are relevant when evaluating a potential investment.

Recommendation 3.1

The Department of Economic and Rural Development and Tourism should require all Jobs Fund applicants to submit formal applications.

Department of Economic and Rural Development and Tourism Response:

The Department agrees with the recommendation and it has been immediately implemented. ERDT will ensure application forms are submitted by applicants for all Jobs Fund transactions, and revise the Jobs Fund Process Guide and application form.

In response to the Auditor-General's May 2011 recommendations, the government of the day announced the establishment of a new fund with modern governance. Legislation creating the fund came into effect December 2011, and new processes were introduced April 1, 2012. ERDT intends to annually review and continuously improve our processes.

- 3.21 *Financial analysis* – The Jobs Fund Process Guide indicates that every assessment should include a financial analysis of the applicant which considers the company's historical performance and its current cash situation. We also believe it is important to assess the reasonableness of projections.
- 3.22 In three of 10 Jobs Fund files tested, the Department did not obtain financial statements from the client; essentially no financial analysis was completed. These transactions totaled approximately \$323 million and included grants,



loans and forgivable loans ranging between \$8.8 and \$260 million. Approving financial assistance of this magnitude with no financial assessment of the recipients is very risky for the Province. In the absence of a detailed financial analysis, Department staff do not have adequate information to assess the companies' ability to repay loans and provide expected economic benefits.

- 3.23 For one of these companies, the approved financing package included a repayable loan. Without a financial analysis, the Department does not know whether the company is capable of taking on the proposed debt and whether it is likely to be able to meet its repayment obligations. For the remaining two cases, the financial assistance was a grant and therefore not repayable. The Department does not consider a financial analysis necessary when assistance is not repayable. However, funding is provided to companies based on the expectation they will produce economic benefits to the Province over the long term. A financial analysis would help ensure the company is likely to operate in the province long enough to produce these benefits. Furthermore, if a company ceases to exist during the transaction period there is an opportunity cost of having provided this money when other applicants may have been rejected.
- 3.24 *Financial information* – Our previous audit of the Industrial Expansion Fund recommended that the Department develop a process to ensure the assessment of loans and development incentives is sufficiently supported. We recommended that this include guidance regarding the appropriate level of assurance for financial information submitted by the applicant. The Jobs Fund Process Guide indicates supporting financial documentation may include accountant-prepared financial statements, when available, or company-prepared statements or projections. There is no requirement for audited financial statements. Additionally, company-prepared projections do not have to be verified for accuracy or reasonableness.
- 3.25 We tested 10 Jobs Fund files. Although the Jobs Fund Process Guide does not require audited financial statements, we expected seven files would have audited statements because the companies involved are large and significant financial assistance was provided by the Province. Some of the companies involved are publicly traded and accordingly, would have audited statements. However, no financial statements were provided for three files; another file included draft, unaudited statements. The remaining three files had audited financial statements. Audited financial statements help ensure financial analysis is based on accurate information.
- 3.26 We also found that three of the ten files included projections estimating future financial results. These projections are key to the success of the Jobs Fund transaction, however for two of the transactions, we found there was no evidence an assessment was completed to determine whether the projections



were reasonable. The value of financial assistance provided ranged from \$7.1 and \$22.5 million.

- 3.27 Without audited financial statements and Department assessments of company-provided financial projections, funding decisions could be based on inaccurate information. This could have a significant impact on the company's ability to repay loans and deliver the expected economic benefits resulting from Provincial funding.

Recommendation 3.2

The Department of Economic and Rural Development and Tourism should require all Jobs Fund applicants that have audited financial statements to include these with their applications.

Department of Economic and Rural Development and Tourism Response:

The Department agrees with the recommendation and it has been immediately implemented. Where applicants have audited financial statements, they will be assessed. Where companies do not have audited financial statements, ERDT will document the reasons in the file (e.g. start-up, branch of large multinational company, etc.).

Not all companies have audited financial statements to review. Companies that are subsidiaries of multinational companies may not have audited financial statements related to Nova Scotia operations, even though the multinational company is publically traded. Also companies that are newly incorporated may not have audited financial statements.

Recommendation 3.3

The Department of Economic and Rural Development and Tourism should complete a financial analysis of all applicants to the Jobs Fund. The analysis should be in compliance with the Jobs Fund Process Guide and documented in the file.

Department of Economic and Rural Development and Tourism Response:

The Department agrees with the recommendation and it has been immediately implemented. Financial analysis will be undertaken in compliance with the Process Guide.

Recommendation 3.4

The Department of Economic and Rural Development and Tourism should document and assess the reasonableness of Jobs Fund applicant financial projections.

Department of Economic and Rural Development and Tourism Response:

The Department agrees with the recommendation and it has been immediately



implemented. ERDT will ensure, where financial projections are applicable; assessments are made of the reasonableness of assumptions in financial projections. The success of the transaction may not be measured in financial terms. Social-economic or regional impacts may be the goal of the transaction resulting in neutral financial impact to the province.

- 3.28 *Economic analysis* – The Jobs Fund Process Guide requires that each assessment include an analysis of the transaction’s estimated economic impact on the Province. For one of 10 Jobs Fund files tested, this analysis was not completed. Without an economic analysis, there is no way to know whether the transaction will provide sufficient economic impact to justify the financial assistance provided. Furthermore, it also means Jobs Fund applicants are not evaluated consistently.

Recommendation 3.5

The Department of Economic and Rural Development and Tourism should complete an economic analysis for all Jobs Fund applicants.

Department of Economic and Rural Development and Tourism Response:

The Department agrees with the recommendation and it has been immediately implemented. ERDT will ensure economic analysis (i.e. an estimate of anticipated provincial employment tax) is conducted where employment is the economic objective.

For certain transactions, the format and documentation of economic analysis may vary from the standard form due to the nature of the transaction. This will often involve enhanced due diligence, third party reports, and more rigorous analysis. The Process Guide will be updated and a note should be placed in the file explaining when the standard form is not being used, because of additional due diligence.

- 3.29 *Assessment checklist* – Our May 2011 Report recommended a standard checklist be developed to ensure consistent information is collected for potential loans and development incentives. The Department has not adequately implemented this recommendation. There is no checklist to help ensure all required information is collected and analysis is completed. The Department has implemented a due diligence questionnaire which addresses some aspects a checklist should cover. However it does not address whether staff analyzed the information.

- 3.30 *Management review* – The Jobs Fund Process Guide requires management review and sign-off for all files. We found management had not reviewed the Jobs Fund files we tested. Appropriate review could help identify which files have missing information which should be considered. Once the investment manager assesses the application, the proposed transaction is summarized



and submitted to the Nova Scotia Jobs Fund Board. Following the Board's review, proposals are submitted to Cabinet for approval. When management does not review the files supporting Cabinet submissions, it means the Jobs Fund Board and Cabinet may not have all the information regarding the transaction and potential risks. This could influence decisions.

- 3.31 As discussed earlier, we identified instances in which required documentation was not obtained and information was not analyzed in accordance with the Process Guide. Management review of completed files and an overall checklist would help promote consistency and compliance with the requirements of the Jobs Fund Process Guide.

Recommendation 3.6

The Department of Economic and Rural Development and Tourism should immediately develop, implement and consistently use a standard checklist to ensure the compliance with the Jobs Fund Process Guide.

Department of Economic and Rural Development and Tourism Response:

The Department agrees with the recommendation and it has been immediately implemented. ERDT has implemented a standard checklist to ensure compliance with the Jobs Fund Process Guide. The Process Guide will be updated to include the checklist, in addition to the current due diligence checklist and the checklist currently done in the excel spreadsheet as per the current Process Guide.

Recommendation 3.7

The Department of Economic and Rural Development and Tourism should implement management review of all transactions once the investment manager has completed the assessment. Evidence of management review should be documented in the file.

Department of Economic and Rural Development and Tourism Response:

The Department agrees with the recommendation and it has been immediately implemented. ERDT has included a management sign-off template to indicate that the file has been reviewed before it is submitted to the Jobs Fund board and Cabinet.

- 3.32 *Nova Scotia Jobs Fund Board* – The Nova Scotia Jobs Fund Board was established as an independent advisory council to provide input to the Minister and Executive Council. While all ten Jobs Fund transactions we tested were reviewed by the Board, the Minister can decide not to send a proposal to the Board for consideration. Board review should be a key component in assessing applications.



Recommendation 3.8

The Department of Economic and Rural Development and Tourism should establish a requirement that all proposals be presented to the Nova Scotia Jobs Fund Board prior to being submitted to Cabinet.

Department of Economic and Rural Development and Tourism Response:

The Department agrees with the recommendation as this is current practice and already implemented. ERDT will revise the Process Guide accordingly.

The Department will ensure that this continues and the Jobs Fund Advisory Board continues to provide advice to the Minister for all transactions.

3.33 *Completeness of Cabinet submissions* – All proposed funding through the Jobs Fund requires Cabinet approval. We tested 10 Jobs Fund files and found information provided to Cabinet in certain instances was deficient; it did not always include all relevant information and related risks from the Department’s assessment of the application. Examples of the deficiencies we identified in submissions for the files we tested include the following.

- For one proposal, the funding was only sufficient for the company to break even. In addition, the company is expected to experience product price declines in the long term.
- On another proposal, the company’s security was not sufficient to cover the financial assistance.
- The Jobs Fund Board expressed concerns with two proposals.

3.34 These deficiencies involved proposals totaling over \$400 million.

3.35 Cabinet is ultimately responsible for approving all financial assistance through the Jobs Fund. Government staff are responsible for ensuring that Cabinet has accurate and complete information on which to base its decisions. The Department of Economic and Rural Development and Tourism has not adequately fulfilled its responsibilities in this regard; information has been missing from Cabinet submissions.

Recommendation 3.9

The Department of Economic and Rural Development and Tourism should implement a process to ensure information submitted to Cabinet is complete and accurate.

Department of Economic and Rural Development and Tourism Response:

The Department agrees with the recommendation, and it has been immediately implemented. ERDT follows the Treasury Board Management Manuals when submitting written documentation to Cabinet.



Section 3.7 of the Manuals, says that substantive information to clearly describe the issue/action to and allow Cabinet to make an informed decision, and should be provided concisely. Given these requirements balancing completeness and conciseness is a difficult task and requires judgment. Where revisions to material circumstances in the file have happened, Cabinet is typically appraised by verbal presentations.

3.36 *High risk loan* – Cabinet approved \$25 million in financial assistance through the Jobs Fund, \$9 million of which will be forgivable if certain conditions are met. We identified a number of issues with the terms and conditions of this loan, including some which increase the Province’s risk.

- There is no security for the loan.
- The net economic benefit to the Province is negligible.
- The funds are not limited to use in Nova Scotia and this company operates in other jurisdictions.
- Most of the assistance will be provided before projects are complete and related jobs are created.
- Loan forgiveness is possible before the project is complete and all economic benefits realized.
- 50 percent of the loan is not repayable until 2022; only minimum payments are required for the initial six years of a 10-year agreement.
- Despite the applicant’s known legal issues, the signed agreement says the Province cannot terminate the arrangement if the company is found guilty.

3.37 We recognize that government financial assistance approved by Cabinet may be intended to serve other purposes besides economic benefits. However, providing funding for projects with low economic benefits to high risk companies, particularly when the terms of the assistance are unfavourable to the province, may not be an effective use of scarce government resources. Such projects can limit funding available to alternative investments which may be able to generate greater economic impacts for the province.

3.38 *Disbursement of financial assistance* – Where applicable, we tested disbursements of financial assistance for the 10 Jobs Fund files selected for audit. We found problems with all six files in which funds had been released to the company.

3.39 The standard terms and conditions for financial assistance provided through the Jobs Fund state the funds will be disbursed by the province based on original invoices and cancelled cheques, or other documentation evidencing



program expenditures. However, our testing showed that funding was often paid with no evidence that expenses were incurred and paid by the company. Examples of poor support include estimated project expenses with no proof of payment. In other instances, recipients were advanced funding upon approval. In most cases, staff told us that the documentation provided was considered appropriate evidence of expenditures and acceptable under the terms and conditions of the assistance. When financial assistance is disbursed without adequate proof of expenses and payment, there is no accountability for how funding is used and an increased risk that the funding will not be used for its intended purposes.

Recommendation 3.10

The Department of Economic and Rural Development and Tourism should only disburse financial assistance based on expenses incurred and paid. Disbursements should be supported by original receipted invoices and cancelled cheques or equivalent documentation to prove the company has paid the related expenses.

Department of Economic and Rural Development and Tourism Response:

The Department understands this recommendation; however ERDT needs to make a distinction between capital and working capital. The department agrees with and is able to implement this recommendation with respect to capital items.

However, this recommendation is not workable for financial assistance provided through accountable advances or for working capital purposes, and therefore would not have receipted invoices or cancelled cheques. Accepting this recommendation for working capital would effectively take a policy decision that working capital assistance (e.g. for inventories, accounts receivable, prepaid expenses) is no longer provided. The department would require direction for this policy change.

Nonetheless, staff will enhance the documentation and verification processes and procedures for disbursements of funds. Such enhancements will be documented in the Jobs Fund Process Guide.

3.40 *Standard terms and conditions for financial assistance* – The Department has standard terms and conditions which are to be used when providing financial assistance to companies. However we found that an older version of the standard terms and conditions (2005 version versus 2009) was used for a transaction valued at \$304 million. At some point before the agreement was signed, Department staff were aware that the most current terms and conditions were not used, however no changes were made. The agreement was signed with the older terms and conditions. We identified several areas in which the older terms and conditions were weaker and exposed the Province to greater risks.



- Proof expenses were paid is not required before disbursing assistance.
- The Province cannot request third party certification of expenditures as it can under the revised standard terms and conditions. The Department told us the company agreed to provide support for claims. However, this does not include copies of invoices. Without details of expenditures, there is no evidence that the goods or services obtained relate to the Province's financial assistance.
- The Province does not have the right to terminate the agreement if the company is in default under other financial assistance agreements with the province or any of its agencies

3.41 The Department should have used the most recent version of terms and conditions which better addresses potential risks to the Province.

Recommendation 3.11

The Department of Economic and Rural Development and Tourism should use the most current version of standard terms and conditions when signing agreements for financial assistance.

Department of Economic and Rural Development and Tourism Response:

The Department agrees with the recommendation and it has been immediately implemented. ERDT will ensure the most recent Jobs Fund Process Guide, Application Form and Standard Terms and Conditions are used for all transactions.

3.42 *Payment conditions* – Our May 2011 audit of the Industrial Expansion Fund included a recommendation that the Department implement a checklist to ensure companies submit required information based on their letters of offer. While companies receiving assistance from the Jobs Fund sign a letter of offer which includes conditions that must be met prior to funds disbursement, we found the Department has failed to implement our recommendation. No checklist has been developed to track required information.

3.43 For two of six Jobs Fund files tested, the conditions outlined in the letter of offer were not satisfied prior to disbursement of funds. Examples include missing project cost estimates, lack of confirmation of other sources of funding, and no confirmation of company financial contributions to the project. Funding conditions are intended to reduce the risk to the province by providing some assurance that recipients have developed project plans and that sufficient financing is in place. Failure to ensure funding recipients meet conditions increases the risk that loans will not be repaid or the expected economic benefits of the projects may not be realized. A checklist would help ensure adequate information was collected as required by signed agreements between the Province and companies.



Recommendation 3.12

The Department of Economic and Rural Development and Tourism should immediately develop, implement and consistently use a checklist to ensure required information has been submitted. Funding should not be disbursed until all information has been received and all conditions have been met.

Department of Economic and Rural Development and Tourism Response:

The Department agrees with the recommendation and it has been immediately implemented. ERDT will ensure disbursements are made in accordance with letters of offer and agreements, and all conditions precedent have been met or there is Ministerial and Deputy Minister or Associate Deputy Minister approval for any waivers or amendments.

3.44 *Solicitor or investment manager review* – The Jobs Fund Process Guide requires that a lawyer or Department staff are satisfied that conditions in the letter of offer have been met and any required security is in place. We tested six files for which funding was disbursed. We found no evidence that four of six files were reviewed to ensure conditions were met before funds were released and in one of these files, the conditions had not been met when the funds were disbursed. In another file, the conditions were not met although an investment manager did review this file before disbursing funds. A documented and thorough review of the file by the lawyer or Department staff would verify all conditions are met and ensure the Department’s policies are followed when disbursing Jobs Fund financial assistance.

Recommendation 3.13

The Department of Economic and Rural Development and Tourism should develop a disbursement memo or similar document and require the solicitor or investment manager to complete this memo confirming all conditions have been met prior to releasing funding.

Department of Economic and Rural Development and Tourism Response:

The Department agrees with the recommendation and it has been immediately implemented. ERDT will ensure a disbursement memo is completed for each disbursement and signed by the Investment Manager and Fund Manager/Director/Executive Director, as well as the Minister and DM or ADM if there are any exceptions to the conditions precedent.

3.45 *Inconsistencies* – Jobs Fund financial assistance may include contributions and forgivable loans based on the project’s estimated economic benefits. The signed agreement documents the requirements companies must meet to earn contributions or loan forgiveness; these are generally based on job creation or retention, and expected salaries. We identified four of 10 files for which the terms of the signed agreement were not consistent with the employment and salary factors used in the economic analysis.



- For financial assistance totaling \$8.9 million the funding agreement had no employment or salary targets but the application was assessed based on creating 52 new jobs and maintaining the company's current workforce at a specific salary.
- For financial assistance totaling \$16.5 million, the project was assessed based on creating 150 new jobs at a specified salary. However, the signed agreement only requires that the company meet a much lower salary requirement.
- For financial assistance totaling \$22.6 million, the economic analysis was based on 230 existing and 20 new jobs at a specific salary. The signed agreement only requires the company to employ more than 200 employees at a lower salary.
- For financial assistance totaling \$25 million, the project assessment indicated it would create 455 new jobs at a specific salary. The actual terms and conditions of the financial assistance only required the company to create 400 new jobs with no salary targets.

3.46 A project's expected economic impact is decreased when fewer jobs are created or retained and lower salaries are provided. Furthermore, the company has no incentive to meet the higher employment levels originally presented to the Department.

Recommendation 3.14

The Department of Economic and Rural Development and Tourism should ensure criteria for the receipt of financial assistance and loan forgiveness are consistent with the information used to assess and approve the initial request.

Department of Economic and Rural Development and Tourism Response:

The Department agrees with the recommendation and it has been immediately implemented. ERDT will work to ensure that the terms and conditions of the financial assistance are consistent with approved documentation. Where there are differences in economic impact and the terms and conditions in agreements, this will be made clear to Executive Council.

3.47 *Verification of forgiveness targets* – We identified issues with how conditions for loan forgiveness would be verified for three transactions totaling \$75.5 million.

- In one instance, external verification of loan forgiveness criteria is not required.
- The signed agreement allows documentation satisfactory to the Minister to support the criteria for loan forgiveness have been met. This means the support may not be verified by an independent third party.



- For the remaining transaction, the company received two loans, both of which are forgivable under certain conditions. One letter of offer did not include guidance on verifying that loan forgiveness criteria were met. Without clearly defined terms, documentation submitted may not provide adequate assurance. For the second loan, forgiveness is based on written confirmation or evidence acceptable to the Minister which also does not provide adequate assurance requirements have been met.

3.48 Loan forgiveness should only be provided if the company achieves the criteria outlined in its letter of offer. If loans are forgiven when criteria have not been achieved, economic benefits may not be realized and the Province may not be repaid funds which it should receive.

Recommendation 3.15

The Department of Economic and Rural Development and Tourism should require an independent third party to confirm that criteria have been met prior to forgiving a loan.

Department of Economic and Rural Development and Tourism Response:

The Department agrees with the recommendation, and will revise the Process Guide accordingly.

3.49 *Jobs Fund site visits and annual reviews* – Our May 2011 audit recommended “*The Department of Economic and Rural Development and Tourism should determine the standard information which should be examined during Industrial Expansion Fund annual account reviews and develop a process to ensure this information is obtained and documented.*” The Jobs Fund Process Guide includes an annual account review form to be completed by the investment manager but there is no guidance on when these forms should be completed and management does not track completion. The Process Guide does state investment managers typically visit a client once per year to tour facilities and discuss financial results and plans for the future.

Recommendation 3.16

The Department of Economic and Rural Development and Tourism should immediately develop and implement a process to track and document the annual monitoring of Jobs Fund clients.

Department of Economic and Rural Development and Tourism Response:

The Department agrees with the recommendation, and a process to track and document the annual monitoring of clients and site visits has been developed and will be enhanced.

ERDT will seek to continuously improve annual monitoring.



- 3.50 *Noncompliance with terms and conditions* – We identified two instances in which companies did not comply with their financial assistance terms and conditions but there were no consequences from the Department. In one case, the letter of offer stated the company shall draw down the first disbursement of funds no later than 90 days following approval of the financial assistance. Failure to comply with this would result in the termination of the agreement. Despite funds not being disbursed to the company by this deadline, the agreement was not terminated.
- 3.51 In another file, the company was to provide audited financial statements within 120 days of its fiscal year end. These statements were not received until 48 days beyond the deadline. Financial statements are necessary to assess the current financial condition of the company. Failure to obtain this information in a timely manner can slow the identification of issues that may impact a company’s ability to repay loans or complete the funded projects. In this case, the letter of offer did not include consequences for failure to meet this requirement which eliminates any incentive for a company to comply.

Recommendation 3.17

The Department of Economic and Rural Development and Tourism should include consequences for failure to comply with terms and conditions in all letters of offer. In the event of noncompliance, the Department should take appropriate action.

Department of Economic and Rural Development and Tourism Response:

The Department agrees with the recommendation. The Jobs Fund will implement a process where, in the event of non-compliance, consideration of different courses of action is undertaken and the decisions and reasons for taking action (or not taking action) are documented in the transaction file.

- 3.52 The Jobs Fund Process Guide lays out processes to assess applicants, approve assistance, and monitor until and after funds are disbursed. While it could represent a significant step forward for the Jobs Fund, Department staff often do not follow the guide.

Recommendation 3.18

The Department of Economic and Rural Development and Tourism should update the Nova Scotia Jobs Fund Process Guide to address the recommendations in this chapter. The Department should require all staff to follow the Process Guide for all transactions.

Department of Economic and Rural Development and Tourism Response:

The Department agrees with the recommendation, and ERDT will develop an action plan to improve internal policies, procedures, controls and governance of the Jobs Fund and will ensure the Jobs Fund Process Guide is followed and



where it permits exceptions, document the reasons for such exceptions, as per the responses provided to recommendations in this chapter.

- 3.53 *Significant change needed* – The findings in this chapter are similar to the serious deficiencies identified during our 2011 audit of the Industrial Expansion Fund. At that time, we recommended that the Department either implement appropriate governance, controls and policies, or transfer the administration of the Fund to Nova Scotia Business Inc. The Department chose to retain the Fund but has not taken sufficient action to address the issues identified by that audit. Immediate and significant changes are needed to ensure transparency and accountability for taxpayer dollars. Government should consider whether this program is the appropriate mechanism to deliver loans and subsidies to businesses. In doing so, government may wish to revisit our 2011 recommendation which suggested transferring the program to Nova Scotia Business Inc. as an option.

Strategic Funding Initiatives

Conclusions and summary of observations

None of the Strategic Funding Initiatives projects we tested met program eligibility criteria. There is no process to guide staff when assessing applications to the program and no support for the assessment conclusions. Funding is advanced once applications are approved; there are no terms or conditions which recipients must meet. There is no monitoring to determine if funds were used as intended. The Department did not know whether funded projects were completed for most of the transactions we tested. As of April 1, 2013, the Strategic Funding Initiatives program moved to the Department of Communities, Culture and Heritage. Accordingly, that Department will be responsible for implementing the recommendation in this section.

- 3.54 *Background* – The Strategic Funding Initiatives program is a pool of discretionary funding controlled by the Minister and used to support economic development projects which do not fit the criteria of other Departmental funding programs but have an overall net benefit to the community. Applicants self-identify potential projects to the Department and, if approved, receive a one-time contribution towards the cost of the project.
- 3.55 As of April 1, 2013, the Strategic Funding Initiatives program moved to the Department of Communities, Culture and Heritage. Accordingly, our recommendation is addressed to this Department as they now have responsibility for this area.
- 3.56 *Project proposal* – Applicants are required to submit a project proposal which provides an overview of the project, cost estimates, and financing sources.



For three of seven files tested, a project proposal was not provided but funding was still approved. Without the information which would typically be included in a proposal, an appropriate evaluation of the project cannot be completed. Additionally, failure to collect standard information means all applicants may not be assessed consistently.

- 3.57 *Assessment of proposals* – There is no process documentation to guide staff in assessing applications against established program criteria. We found the Department often lacked documentation supporting how an applicant met program eligibility requirements and criteria. For example, projects funded under this initiative must be economically sustainable, but staff told us there is no consistent definition of sustainability to be used when assessing proposals. Furthermore, we found little documentation in the files to support an assessment of this criterion.
- 3.58 *Eligibility criteria* – Projects were approved for funding despite not meeting program eligibility criteria. We identified issues in all seven projects we tested which were approved through the Strategic Funding Initiatives. The total funding disbursed for these projects was \$805,000. To receive funding under this initiative certain criteria must be met, including that a project must be economically sustainable, not fall under the responsibility of another provincial government department, and not relate to maintenance activities. We found approved projects did not meet program eligibility criteria for all seven files we tested.
- For six of seven files, the project funded was not economically sustainable.
 - For five of seven files, the project fell under the responsibility of another provincial government department.
 - For three of seven files, the funding related to maintenance projects.
- 3.59 There was no evidence of Department staff sign off on three of these projects. Final approval rests with the Minister; all seven projects we tested received Ministerial approval.
- 3.60 Approving projects which do not meet program criteria reduces the transparency and fairness of the process to assess applications. It may also result in the investment of government resources in projects with minimal economic impact. Furthermore, it takes scarce resources away from projects which may meet program criteria.
- 3.61 *Multiple contributions* – Funding through the Strategic Funding Initiatives is only to be provided on a one-time basis to the successful applicant. However, we identified one recipient with six disbursements from this program during our audit period totaling approximately \$239,500.



3.62 *Advances* – Funding through the Strategic Funding Initiatives program is advanced to recipients upon approval. There are no terms or conditions attached to this funding. Once the funding is disbursed, the recipient is not accountable to the Department for how the money is used, and the Department does not monitor projects to ensure completion. During the audit period, approximately \$3.6 million in funding was provided through this program. For five of seven files tested, the Department did not know whether the approved projects were completed. Payment of funding up front with no mechanism requiring the recipient to pay the money back if projects are not completed is a poor business practice. Recipients could spend the funding on an unrelated project; the Department would have no recourse and may not even be aware funds were spent elsewhere.

Recommendation 3.19

Before continuing with the Strategic Funding Initiatives program, the Department of Communities, Culture and Heritage should develop and implement appropriate program policies. In doing so, the Department should consider the issues identified during our audit and develop policies which address these concerns.

Department of Communities, Culture and Heritage Response:

The Department of Communities, Culture and Heritage agrees with this recommendation. The department has already made some adjustments to the program criteria and will ensure that the development and implementation of complete processes and polices identified in this audit will be completed over the next fiscal year.

Assessment and Evaluation – Other Funding Programs

Conclusions and summary of observations

In the remaining eight programs we tested, information to be submitted by the applicant was mostly on file. Two programs generally followed guidelines. However, we found a lack of guidance to assess applications in the other six programs and we found the Department did not complete sufficiently detailed analysis of applications. This increases the risk of inconsistent decisions.

3.63 *Background* – In addition to the Jobs Fund and the Strategic Funding Initiatives, we examined eight funding programs administered through Economic and Rural Development and Tourism.



Program	Description
Productivity and Innovation Voucher Program	This program provides a credit note which small and medium-sized enterprises can use to acquire assistance from Nova Scotia universities and colleges to help make their businesses more innovative and productive. The maximum credit note is \$15,000.
Capital Investment Incentive	This incentive contributes 20% of the cost of technologically-advanced machinery, clean technology, equipment, software and hardware with preference given to exporters in qualified industries. The maximum reimbursement is \$1 million.
Workplace Innovation and Productivity Skills Incentive	The incentive encourages businesses to invest in training for skills development, productivity improvement and adaption to new technology and innovative processes. Maximum contributions are based on the type and size of business.
Strategic Co-operative Education Incentive	The incentive provides private sector, government-funded and non-profit organizations 50 per cent of the required minimum hourly wage for co-operative education opportunities.
Student Career Skills Development Program	This program partners with not-for-profit organizations to create career-related summer jobs for post-secondary students. Organizations are reimbursed \$8.50 per hour for up to 35 hours worked per week.
Community Economic Development Fund	This program provides financial assistance for regional economic development activities within six different funding categories. The applicant must contribute at least 20% of the project costs.
Team West Community Development Fund	This program is the same as the Community Economic Development Fund but is designated specifically for opportunities in the Western region of the Province.
Nova Scotia Business Development	This program provides assistance for eligible business activity that increases productivity, explores product innovation, delivers strategic planning, implements operational efficiencies to improve competitiveness, and expands the international commerce participation of a business. Funding may be provided up to 50% of total costs, to a maximum of \$10,000.

3.64 *Supporting documentation* – We found applications were completed for the transactions we tested in all eight programs. Applicants are also required to provide supporting documentation to confirm eligibility; this information is also to be used when assessing the application.



- 3.65 Most files we tested had the required documentation from the applicant. However, we identified five of 63 files in which the applicant did not provide required documentation but funding was still approved.
- Two of six Community Economic Development Fund applications and one of two Team West funding applications did not include documentation confirming additional funding sources. This information ensures sufficient funds exist to complete the proposed project.
 - One of 10 Workplace Innovation and Productivity Skills Incentive files tested had no applicant financial statements.
 - The Nova Scotia Business Development Program file tested did not include a resume for the consultant to be engaged for the project.
- 3.66 Supporting documentation assists staff in assessing applications. Without it, applicants may not be consistently evaluated and funding may be granted to applicants who do not meet eligibility requirements at the expense of more qualified applicants.

Recommendation 3.20

The Department and Economic and Rural Development and Tourism should comply with program guidelines to collect and assess consistent information for each applicant before providing financial assistance.

Department of Economic and Rural Development and Tourism Response:

The Department agrees with the recommendation and it has already been implemented. ERDT will create a checklist to ensure all relevant information for each applicant is consistent.

- 3.67 *Evaluation of applications* – Two programs generally followed guidelines and application assessments were adequate. However, for six of eight programs tested, there was insufficient process documentation to guide staff in assessing applications against the established criteria. We found the Department lacked support to demonstrate how an applicant met program eligibility requirements and criteria.
- 3.68 For example, when assessing applications to the Capital Investment Incentive program, staff complete an analysis of the project's costs and benefits to the Province. However, for eight of 27 files (30%) tested, the only justification provided under this criterion was that the proposed project fell within government's JobsHere initiative. This does not consider the costs and benefits of the project.
- 3.69 The Community Economic Development Fund states projects must be sustainable but staff told us there is no consistent definition of sustainability



to be used when assessing applications. Furthermore, we found little documentation to support the assessment of this criterion in the files we tested.

- 3.70 Similarly, for the Productivity and Innovation Voucher program, there is limited guidance for staff detailing how to assess potential projects. A panel of three program staff score projects based on five criteria and award funding to the highest scoring applicants. However we found little information in the files we tested which supported the project ratings. While there will always be an element of subjectivity involved with an assessment of this nature, comprehensive process documentation would guide staff in scoring projects and help promote consistency across staff and from project to project. It would also help define adequate supporting information which should be considered and maintained on file at the Department. Failure to document the rationale for decisions limits transparency and consistent assessment of all applications.

Recommendation 3.21

The Department of Economic and Rural Development and Tourism should develop and document evaluation processes for funding applications. These should clearly outline evaluation criteria as well as provide guidance on how criteria should be assessed.

Department of Economic and Rural Development and Tourism Response:

The Department agrees with the recommendation, and will develop and document evaluation processes for applications, in order to ensure all transactions are in accordance with the program guidelines and that relevant documentation is included in the file.

Recommendation 3.22

The Department of Economic and Rural Development and Tourism should document its evaluation of funding program applications. Documentation should include rationale to support the assessment of program criteria for approved and rejected applications.

Department of Economic and Rural Development and Tourism Response:

The Department agrees with the recommendation, and will develop and document evaluation processes for applications and work to ensure all transactions are in accordance with the program guidelines and that relevant documentation is included in the file in rationale for approving or rejecting applications.

- 3.71 *Rejected applications* – For three programs we tested, there was generally no documentation to support why applications were not approved for funding. (This includes the strategic funding initiatives program discussed earlier in the chapter; this program was transferred to Communities, Culture and



Heritage on April 1, 2013.) Furthermore, for two of these programs rejected applications are not retained at head office. Some documentation may be maintained at regional offices but this would be dependent on the field officers individual file practices. Applicant evaluations and rationale for approving or rejecting proposals should be documented. This allows management to verify approvals and rejections are appropriate.

- 3.72 All government departments are required to have document retention policies. Economic and Rural Development and Tourism's policy states that all economic grant program case files should be kept for a minimum of seven years. Department staff are not complying with this policy.

Recommendation 3.23

The Department of Economic and Rural Development and Tourism should follow its document retention policy for rejected applications.

Department of Economic and Rural Development and Tourism Response:

The Department agrees with the recommendation and it has already been implemented. Staff is being trained and education provided related to records management and retention policies.

As the findings relate to two out of ten programs reviewed, specific STOR training will also be targeted to these program areas to support continuous improvement.

Disbursement and Monitoring – Other Funding Programs

Conclusions and summary of observations

The Department's processes to disburse financial assistance and subsequent monitoring are inadequate. Required documentation and proof of payment are not always provided before funding is disbursed. Furthermore, guidelines are not consistently applied for the Capital Investment Incentive Program. There is limited monitoring conducted by the Department to ensure funding is used for its intended purposes. For one program, the majority of funding may be advanced to the recipient before the approved services have actually been provided.

- 3.73 *Disbursement* – We tested financial assistance payments for the eight program areas we audited. We identified a number of areas of concern including:

- program guidelines were not always followed when disbursing funds;
- proof of payment and other supporting documentation provided by the recipient was not always adequate; and



- funding was advanced with no accountability back to the Department for how the money was spent.

3.74 *Inconsistent application of program guidelines* – Our testing of the Capital Investment Incentive program identified several instances in which disbursements were not in compliance with program guidelines.

- For 8 of 27 files for which funds were disbursed, the project was not completed within six months of approval as required to receive funding under this program.
- For five of 27 files, we could not determine whether the project was completed within six months because the claim submission was not dated.
- For three of 27 files, funding was provided over two claims which is not in accordance with program guidelines.
- For three of 27 files, funding disbursed was greater than the approved amount.

3.75 Deviation from program guidelines can result in inconsistent treatment of participants.

Recommendation 3.24

The Department of Economic and Rural Development and Tourism should comply with Capital Investment Incentive program guidelines.

Department of Economic and Rural Development and Tourism Response:

The Department agrees with the recommendation and it has been immediately implemented. The Department will work to ensure all transactions are in accordance with the program guidelines and that relevant documentation is included in the file through the use of a checklist.

3.76 *Proof of payment* – All programs tested include a requirement that the recipient must provide proof of payment in order to receive the full amount of approved funding. This should include original invoices and cancelled cheques or equivalent documentation to verify the goods or services purchased and the amount paid. We identified several instances across multiple programs in which proof of payment was not provided but funding was still disbursed. For seven of nine files tested in the Community Economic Development Fund, Team West and the Nova Scotia Business Development Fund, proof of payment documentation submitted did not provide adequate support to confirm the recipient incurred the expenses. In some cases, recipients provided cheque numbers and records from their accounting systems. Program staff told us this documentation is acceptable under the Department’s current guidelines.



However, this does not provide evidence of payment for goods or services. Inadequate proof of payment means that funding may not have been used for its intended purposes.

- 3.77 We also identified two instances in the Capital Incentive Investment program and Workplace Innovation and Productivity Skills Incentive program in which payment was disbursed to recipients without proof of payment.
- 3.78 *Supporting documentation* – Under the Capital Investment Incentive program, companies are eligible to receive funding for 20%, up to \$1 million, of the total cost of the project. One of the 27 files we tested did not have support for the full cost of the project. Invoices and proof of payment were submitted to support 60 percent of the total project costs. Without full support, the Department cannot be certain of the total project cost and thus the 20% provincial contribution.

Recommendation 3.25

The Department of Economic and Rural Development and Tourism should follow its process guidelines and ensure companies submit support for full project costs.

Department of Economic and Rural Development and Tourism Response:

The Department agrees with the recommendation and it has been immediately implemented. The department will revise the guidelines accordingly.

Guidelines will require all transactions are in accordance with the process guidelines and that relevant documentation is included in the file to support full project costs.

- 3.79 *Advances* – The Workplace Innovation and Productivity Skills Incentive program provides funding to companies to conduct staff training. Once projects are approved, a portion of the approved assistance is advanced. For projects under \$25,000, 90 percent of the training cost is advanced up front; for projects over \$25,000, 50 percent of approved funding is advanced. At the end of the project, the company is required to provide evidence of total training costs. Advances are based solely on notification from the company that training has begun; no supporting documentation is required. Furthermore, the Department does not conduct site visits to confirm training is actually delivered as documented in the program application. As a result, there is no assurance that advanced funds are used for their intended purpose.

Recommendation 3.26

The Department of Economic and Rural Development and Tourism should require Workplace Innovation and Productivity Skill Incentive program recipients to provide documentation confirming that training has started prior to receipt of funding.



Department of Economic and Rural Development and Tourism Response:

The Department agrees with the recommendation, and has already implemented it. The WIPSI program provides preliminary contributions of 50% and 90% of approved funding when the company indicates by email that training has started. The program now requires that confirmation that training has started is also received from the trainer prior to disbursement of funds. The program is also reviewing the practice of providing preliminary contributions as part of the ERDT Service Excellence Initiative.

3.80 *Monitoring* – There is little to no monitoring of financial assistance programs provided by the Department of Economic and Rural Development and Tourism. The Department relies on the fact that, with the exception of one program we tested, financial assistance is supposed to be based on the reimbursement of eligible project costs. While this could provide some assurance that funding is used for its intended purposes, many of the issues discussed in this chapter illustrate that the Department does not always follow its policies. We identified instances in which recipients received funding with no proof project costs were incurred; in other instances, the evidence provided that funds were spent as planned was weak and inconclusive. Some programs provide assistance for specific capital projects, training initiatives or equipment; site visits are an effective way to verify compliance with funding terms and conditions. For example, the Capital Investment Incentive program requires that all equipment funded be used in Nova Scotia. For companies with operations in multiple jurisdictions, this can only be confirmed through site visits by Department staff. We understand that the Department may not be able to visit all sites and may need to consider visiting a sample of sites to confirm funding was used as intended.

Recommendation 3.27

The Department of Economic and Rural Development and Tourism should develop a monitoring framework for all funding programs that utilizes site visits and third party corroboration to confirm projects are occurring as intended.

Department of Economic and Rural Development and Tourism Response:

The Department agrees with the recommendation, and will develop a monitoring framework for programs at a departmental level.

The Department is working with the independent Internal Audit Centre to develop an overall departmental plan to improve program systems, processes and compliance. Part of this process will be to look at a risk-based approach to defining when site visits and third party corroboration is needed.

3.81 *Quality review* – There is no department-wide process to review funding programs. As a result, weaknesses in guidelines and the assessment of applications are not identified. A review process administered by



Departmental staff external to the funding program could identify instances of noncompliance and promote process improvement.

Recommendation 3.28

The Department of Economic and Rural Development and Tourism should develop and implement a funding program review process. The review should be conducted by staff external to the funding program and focus on determining whether application assessment and funding disbursement are in compliance with program guidelines.

Department of Economic and Rural Development and Tourism Response:

The Department agrees with the recommendation, and will develop a funding program review process at a departmental level for all programs.

The Department is working with the independent Internal Audit Centre to develop an overall departmental plan to improve program systems, processes and compliance. Part of this process will be to look at establishing check-lists, self-assessment processes and external compliance reviews. These processes will also include feedback to support continuous improvement.

Program Performance

Conclusion and summary of observations

The majority of funding programs administered by the Department have no documented goals or objectives and no process outlining how the programs will be evaluated. Only four programs were assessed during our 33-month audit period and we found these assessments were not adequate. Finally, while goals and objectives are documented for the Jobs Fund, there is no established process to evaluate the impact of the Fund's financial assistance.

3.82 *Program goals and objectives* – The Department has not developed measurable goals and objectives for 11 of 14 programs we tested (excluding the Jobs Fund). Several of these programs had broad goals; however they are not specific enough to be measured. Detailed goals and objectives are necessary to measure the success of funding programs and the efficient and effective use of government resources.

Recommendation 3.29

The Department of Economic and Rural Development should develop specific and measurable goals and objectives for each funding program.

Department of Economic and Rural Development and Tourism Response:

The Department agrees with the recommendation and it has been immediately



implemented. ERDT has been developing program specific and measurable goals. This audit reviewed 10 out of 28 ERDT programs. Of these 10, 50% were entirely new programs which were introduced during the audit period (April 2010 to December 2012). Another two programs had significant program revisions in this period.

In April 2013 (after the audit period), ERDT introduced a broad performance measurement framework in its 2013-14 Statement of Mandate (SOM). All of ERDT's programs will have specific measurable goals which align with department-wide outcome measures.

- 3.83 *Program performance review* – Only one of 14 programs outlines how program performance should be reviewed. This program had been in place for a year as of January 2013 but performance had not been reviewed at the time of our audit fieldwork (midway through 2013). For two of the three programs in which goals and objectives exist, there is no process outlining how program performance will be assessed against these goals and objectives, including the frequency of review.
- 3.84 Similar to other funding programs, there is no performance review process for financial assistance through the Jobs Fund. The Department provides significant financial assistance to businesses to promote economic activity. Performance reviews are necessary to determine if funding initiatives are accomplishing their intended goals and objectives and government resources are being used in the most effective and efficient manner.
- 3.85 *Program performance* – Program performance reviews were not completed for 10 of 14 funding programs administered by the Department. For the four remaining programs, the evaluations were limited.
- 3.86 The Student Career Skills Development Program is reviewed annually by surveying program participants. Since there are no documented goals and objectives for the program, there is no link between the information being gathered by the department and program performance. Furthermore, surveys are not completed in a timely manner. The most recent survey completed was for 2011-12; 2012-13 was still in progress when this chapter was written.
- 3.87 The Productivity Investment Program was reviewed five months after it was established in January 2011. Since this program was new, the review focused on program statistics such as the number of applications reviewed, approved and rejected, along with details on the successful applicants, such as the industry in which they operate. The program had not been in operation long enough to gather information on the outcomes of the financial assistance.
- 3.88 The Productivity and Innovation Voucher program provides financial assistance to encourage companies to engage in research and development



initiatives with academic institutions. Funding is provided directly to the academic institution at the completion of the project. Program performance review has been limited to a March 2011 report focusing on recipients within a specific sector. Again, much of the information captured dealt with program administration. While there are goals and objectives for this program, these were not assessed.

- 3.89 The Productivity and Innovation Voucher Program also relies on reports provided by academic institutions that provide feedback on the program at the completion of the project. However, feedback is not requested for the company using the services provided by the academic institution. It is important to obtain feedback from the end user of the service to ensure the program is meeting their needs.

Recommendation 3.30

The Department of Economic and Rural Development and Tourism should develop and implement a regular performance review process for all funding programs, including the Jobs Fund. The process should outline the frequency of review and document the measures to be used in assessing program goals and objectives.

Department of Economic and Rural Development and Tourism Response:

The Department agrees with the recommendation and it has been immediately implemented. ERDT will continue to implement and document the review process.

In 2010, ERDT adopted a portfolio approach for performance reviews with:

- *Routinely monitored annual performance measures*
- *Evaluations of program impact every 5 years*
- *Strategic case studies and qualitative information to support continuous improvement and learning*

However, during the audit period, 70% of the programs were new/changed. Priority was placed on ensuring annual monitoring first, as outcome changes take time and formal evaluations would take place in 5 years. In 2011-2012, ERDT launched a central information and data repository (CIDR) facilitating routine monitoring data collection and analysis across all programs. The regular performance review process will outline frequency and measures.



Economic and Rural Development and Tourism Additional Comments

ERDT values these recommendations and plans to make enhancements in its policies and procedures as part of its continuous improvement agenda. ERDT has already implemented 20 of these recommendations. These changes will add to the improvements that have already been done over a short time.

ERDT appreciates the observations and recommendations of the OAG in this and previous audits, and will work hard to address these issues as we continue to improve operational practices. The observations regarding program management will improve the department's ability to demonstrate good stewardship of resources and transparency for citizens.

The observations regarding value for money will ultimately be for Executive Council, given Jobs Fund investments are used to support regional, economic and social policy objectives of government. Whether or not these have been achieved or how best achieved in the future are policy decisions of Executive Council, as opposed to government officials.