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RESOURCE RECOVERY FUND BOARD INCORPORATED

BACKGROUND

16.1 The Resource Recovery Fund was established by the Province in 1990 to provide financial support for waste management practices and to encourage recycling and protection of the environment. In 1995-96 the Province developed the Solid Waste-Resource Management strategy which committed the Province to achieving 50% waste diversion by the year 2000. On February 6, 1996 the Province repealed regulations under several acts and created Solid Waste-Resource Management Regulations under Section 102 of the Environment Act. The strategy called for the administration of the Resource Recovery Fund to be transferred to a private sector, not-for-profit organization which would be responsible for managing a substantial portion of the Solid Waste-Resource Management Regulations.

16.2 The Resource Recovery Fund Board Incorporated (RRFB) was established on January 5, 1996 under the Companies Act of Nova Scotia as a not-for-profit corporation. On February 6, 1996 the RRFB entered into a five-year agreement with the Province to administer the Resource Recovery Fund and to achieve the following five objectives.

- Develop and implement industry stewardship programs.
- Fund municipal or regional diversion programs.
- Develop and operate a deposit-refund system for beverage containers.
- Develop education and awareness of waste-resource reduction, reuse, recycling and composting.
- Promote the development of value-added manufacturing in the Province.

16.3 According to its Articles of Association, the RRFB may have between seven and fifteen members on its Board of Directors. Regulations empower the Minister of Environment to appoint three members, one of whom is the Chair, and the RRFB appoints one director who is a nominee from the Union of Nova Scotia Municipalities. The remainder are appointed by the Board, and at the time of our audit the RRFB had nine directors. The RRFB is accountable to the Minister of Environment and must follow an annual action plan approved by the Minister.

16.4 For the year ended March 31, 1997 the RRFB had total revenues of \$17.1 million, expenditures of \$14.4 million and a surplus of \$2.7 million. The surplus was used, in part, to fund external education and awareness initiatives (\$334,361), regional waste coordinators (\$137,500), and solid waste diversion in municipalities (\$1,149,202).

16.5 The ultimate goal of the RRFB is to help the Province achieve 50% solid waste diversion by the year 2000. According to Department of Environment statistics, 26.6% diversion had been achieved by March 31, 1997. The Province is divided into seven regions for purposes of the Solid Waste-Resource Management Strategy, and progress to the diversion target was estimated as 55.8% in the Halifax region, but only 2.0% in the Cape Breton region. The other 5 regions were in the 5.4% to 13.7% waste diversion range.

RESULTS IN BRIEF

16.6 The following are the principal observations from this audit.

- Although the RRFB was incorporated as a private, not-for-profit company, it is administering government programs and assets, and is responsible to government for its activities. Accountability for public funds would be better served by formally presenting the RRFB's annual report and business plan to the House of Assembly.
- The RRFB remitted \$250,000 in Goods and Services Tax, net of rebates, in the year ended March 31, 1997. With the implementation of Harmonized Sales Tax, the RRFB is now paying sales tax to the Province as well. It is unclear whether a different, tax-exempt form of organization would have created other difficulties in the accomplishment of the RRFB's goals.
- The responsibilities and accountability of the RRFB are well defined in regulations and a formal agreement, and we observed compliance by RRFB with most significant requirements. However, we noted an absence of minutes for certain meetings of the Board of Directors and failure to include a summary action plan and reporting on compliance with the code of conduct in the annual report.
- The RRFB's annual report is well organized, understandable and adequately accounts for its activities and performance. We have recommended making the report more complete by addressing all materials banned from landfills and incinerators.
- Planning at the RRFB is organized, strategic, timely and addresses an appropriate future period. However, there is little evidence of formal strategic planning during the first year of the RRFB's operation.
- Roles, responsibilities and powers for enforcing compliance with the rules of the beverage container deposit and tire recycling programs have not been established. To date, there has been insufficient compliance auditing of beverage distributors and tire retailers.
- Several recommendations were made to improve internal control. These included more timely financial reporting, improved segregation of duties and approval of journal entries.
- The RRFB used processes to ensure goods and services were acquired at competitive prices. However, we were not able to conclude whether value-for-money was achieved from the RRFB's contracting with the Clean Nova Scotia Foundation.
- The minutes of RRFB Board of Director meetings describe situations where it appears certain directors were not in compliance with the RRFB's code of conduct.

AUDIT SCOPE

16.7 In September 1997 we commenced a broad scope audit of the RRFB in accordance with the provisions of the Auditor General Act. The RRFB was incorporated as a private, not-for-profit corporation. However, we have established that the RRFB administers public funds and has a direct responsibility to the Crown through the Minister of Environment. Sections 2 and 8 of the Auditor General Act address these issues and give the Auditor General an audit mandate in this situation.

16.8 Our audit objectives were to examine and assess:

- compliance with key provisions of the regulations to Section 102 of the Environment Act and with the February 1996 agreement with the Province of Nova Scotia;
- the accountability structure and reporting practices;
- strategic and operational planning practices;
- internal control over revenues and expenditures;
- controls within the computer environment and individual computer applications; and
- the policies and practices used to ensure due regard for economy and efficiency in the RRFB's procurement activities.

16.9 The following general criteria were used in our audit.

- The RRFB should comply with all requirements of relevant legislation, regulations and contractual agreements. Summary information on compliance should be reported annually to the Board of Directors and the Minister.
- Accountability and responsibilities should be formally defined and accountability reporting should be accurate and timely. Reporting should address performance relative to the RRFB goals and priorities, and should be supported by a system of performance measurement.
- Strategic and operational planning should be performed on a regular basis and be consistent with the RRFB's mandate. Goals should be outcome-oriented and measurable, where possible, and goals and other plans should be communicated to all staff.
- There should be an appropriate combination of Board of Directors, management, process and information system controls to ensure that all revenues are received and funds are only expended for authorized purposes.
- Procurement practices should ensure goods and services of an appropriate quality are acquired at the lowest possible cost, and only goods and services relevant to mandated operations are acquired.

16.10 Our audit objectives and criteria were reviewed with management at the beginning of the assignment. Our audit involved interviewing staff, performing detailed transaction testing, as well as examining reports, correspondence, agreements, minutes and other relevant documents.

PRINCIPAL FINDINGS

Organization, Accountability and Compliance with Authorities

16.11 On February 6, 1996 the RRFB entered into a five-year agreement with the Province to administer the Resource Recovery Fund and to achieve five goals noted in Section 4 of the Solid Waste-Resource Management Regulations. The RRFB is subject to the requirements of this agreement and these regulations, as well as those contained in its Articles of Association under the

Companies Act of Nova Scotia. We examined issues relating to the RRFB's organizational structure, accountability and compliance with authorities.

16.12 Organizational structure - The RRFB was incorporated on January 5, 1996 under the Companies Act of Nova Scotia as a not-for-profit entity. It is management's understanding that the RRFB was intended not to be an agency of the Provincial government and was to have the autonomy to direct its own operations. However, as noted above, the RRFB meets the definition of "agency of government" under the Auditor General Act. Furthermore, it meets the definition of "department" in accordance with the Provincial Finance Act, as it applies criteria almost identical to those described in the Auditor General Act. Both Acts consider an organization to be a government entity if "... all the members of the board of management or board of directors of which, ... (i) for the proper discharge of their duties are, directly or indirectly, responsible to the Crown." In our view, the requirement of RRFB directors to administer government-owned funds in accordance with regulations, and to follow government-approved action plans and to account to the Minister of Environment for their performance, indicates at least an indirect, if not fully direct, responsibility to the Crown.

16.13 This appears to be a unique organizational structure in Nova Scotia for the administration of government programs. Management of RRFB indicated that one of the reasons for this structure was to avoid suggestions that the recycling programs are just another means of raising revenue for the general operations of the government. The creation of an arm's-length entity to operate the programs would avoid such a perception, and would ensure all fees collected are channelled into environmental programs.

16.14 Senior officials at the Department of Environment have told us that a major reason for this unique structure was to create an agency that, because it was at arm's-length from government, would be more successful in negotiating environmental stewardship agreements with industry. The government wished to have industry participate voluntarily in stewardship programs and to avoid the use of regulatory measures. At the same time, there had to be strict accountability to the government because public funds were at stake.

16.15 We wish to note two issues relating to the organizational structure.

- *Reporting* - As noted above, the government has imposed strict accountability requirements on the RRFB by way of regulations. The regulations require reporting by the RRFB to the Minister of Environment, and that any such reports received by the Minister be considered public documents. In our opinion, these requirements serve the needs of the government and public, but do not address the information needs of the group ultimately responsible for the stewardship of public funds - the House of Assembly. We recommend that there be a formal requirement for the timely tabling of RRFB business plans and annual reports in the House of Assembly.
- *Sales tax* - The majority of RRFB's revenue is from a beverage container deposit program implemented on April 1, 1996. In 1996-97 Goods and Services Tax (GST) was paid to the Federal government by RRFB at a rate of 7% on all beverage container deposits received. This amounted to approximately \$250,000, net of GST rebates. The Harmonized Sales Tax (HST) was implemented April 1, 1997 and subjected the deposit program to an additional 8% tax, representing the Province's portion. RRFB management estimate that, due to the introduction of HST, an additional \$430,000 will be paid in tax in 1997-98. This will further reduce funds available for recycling programs and sharing with municipal governments. RRFB management has met with Nova Scotia Department of Finance officials to attempt to have the Provincial share of HST refunded, and they plan to continue to pursue the issue in 1998.

The crux of this issue is whether or not GST or HST would have been levied against beverage container deposits if the program was organized differently. For example, if the program was operated as a division of the Department of Environment, sales tax would likely not have been applicable. If the RRFB had been set up as a crown corporation, the issue would have been less clear. We cannot comment on the propriety of sales tax application and refunding, as we have no expertise in this area and it was not a focus of our audit. However, sales tax is a real cost to the government and public of Nova Scotia in the delivery of the beverage container deposit program. It is unclear whether the benefits of the organizational structure outweigh these additional costs.

16.16 In discussing these issues with management, we learned they were unaware that Provincial legislation suggests that the RRFB is an agency of government. They expressed concern about whether or not the RRFB must comply with government policies, such as those pertaining to procurement, wage-restraint and access to information. We recommend that RRFB management and government officials meet to clarify the RRFB's organizational structure and relationship to government.

16.17 *Accountability* - The accountabilities of the RRFB are defined in the regulations, the agreement with the Province and its incorporating Articles. The RRFB is ultimately accountable to the Minister of Environment. The agreement with the Province requires the RRFB to present an annual action plan to the Minister, and the plan must be followed after receiving approval from the Minister. The agreement also requires the RRFB to present to the Minister an annual report and audited financial statements.

16.18 We found that all significant accountabilities had been fulfilled by the RRFB. During 1997, the RRFB held meetings with the Minister and his staff. A Department of Environment official is a director of the RRFB and he attended Board of Directors and RRFB committee meetings. In April 1997 the RRFB presented its 1997-98 action plan to the Minister. In June 1997 the RRFB held an annual general meeting which was attended by the Minister and audited financial statements and an annual report were presented.

16.19 As part of our audit, we examined the RRFB's annual report to assess its value as an accountability document. In general, we found the report to be well organized, understandable and goal-oriented. We believe the reporting of performance could be more complete with respect to banned materials. The Minister designated 13 materials to be banned from landfills and incinerators, with 7 of them to be effective on or before April 1, 1997. The RRFB annual report only discusses one of these designated materials

16.20 *Compliance with authorities* - We reviewed the requirements imposed on the RRFB under the regulations, agreement and Articles of Association. Except for the instances noted below, all significant provisions and clauses were complied with.

16.21 We observed that the RRFB was not in full compliance with two clauses of its Articles of Association. Clause 78 discusses corporate minutes and requires that minutes be kept of meetings of directors. We found that minutes of four conference calls in the fall of 1996 (constituting formal meetings of the Board) were not entered in the minute books. Copies were eventually obtained during our audit in the fall of 1997 by petitioning individual directors. Clause 78 also requires that minutes be kept for meetings of committees of the Board, but no committee minutes were available during our audit. When we met with management to discuss the results of our audit, they indicated that minutes are now being maintained for all meetings of the Board and its committees.

16.22 We also found that the RRFB was not complying with section 11.03 of the agreement with the Province. Section 11.03(b) requires that the RRFB's Annual Report include a summary of its action plan and specific objectives. The 1997 Annual Report did not contain a summary of the action plan because one did not exist for 1996-97. An action plan was created for 1997-98, and management intends to include a summary of it in the 1998 Annual Report. Section 11.03(c) requires that the annual report include a report on the compliance and/or non-compliance of RRFB Board members with its code of conduct. The 1997 Annual Report did not address this matter.

16.23 In paragraph 16.65 below, we describe possible conflicts of interest on the Board of Directors.

Planning

16.24 The RRFB was created in January 1996. It operated for most of 1996 with very few staff. The Board of Directors was significantly involved in the day-to-day activities of the entity. However, no business plan or action plan was prepared to guide these activities. Accordingly, there is little evidence of formal strategic planning in the first year of the RRFB's operation.

16.25 The current management team was put in place during the summer and fall of 1996. In January 1997 management met with Department of Environment officials to determine the contents of the action plan required by RRFB's agreement with the government. Subsequently, RRFB staff prepared a financial budget and action plan for the 1997-98 year. In March 1997 the Board of Directors reviewed and approved the two items, and the plan was presented to the Minister in April 1997.

16.26 The action plan describes the RRFB's corporate mission and concentrates on the five goals listed in the agreement with the Province. Objectives have been set to promote progress toward the five goals. As well, the annual budget and five-year financial projections contained in the plan also focus on the prescribed goals. The plan reviews the achievements of 1996-97 and sets targets for 1997-98. There was participation by most RRFB staff in the preparation of the action plan and budget.

16.27 In our view, whereas formal planning was absent at the RRFB during its first year of operation, planning is now organized, strategic, timely and addresses an appropriate future period.

Internal Control

16.28 The RRFB is responsible for administering the beverage container deposit program. As well, it is responsible for other programs such as the recycling of used passenger and light truck tires. The beverage deposit program was implemented on April 1, 1996 and generated revenues of approximately \$16.6 million and incurred expenses of \$12.5 million in 1996-97. The 1997-98 budget forecasts revenues of \$17.3 million and expenses of \$13.9 million. Retailers of passenger and light truck tires were required to pay a recycling fee effective January 1, 1997. The tire recycling program generated approximately \$290,000 revenue and incurred \$166,000 of expenses in 1996-97. In 1997-98 the tire recycling program is expected to result in \$2.3 million of revenue and \$2.6 million of expenses.

16.29 Accounting services were provided by an accounting firm until April 1997, when responsibility for all accounting functions was assumed by RRFB staff. Accounting and other reports are prepared on a monthly basis for internal management review. Each quarter, various accounting and information reports are prepared for the Board of Directors.

16.30 The financial statements of the RRFB are examined by external auditors on an annual basis. The 1997 auditor's management letter identified a number of internal control weaknesses, including the fact that certain basic accounting procedures were not being performed. The external auditors returned in November 1997 to review the RRFB's progress in addressing their recommendations. In a letter to management, the auditors indicated they were pleased with the progress made.

16.31 We examined the systems used by the RRFB to ensure management and the Board of Directors receive appropriate, accurate and timely information necessary for monitoring operations and making decisions. As well, we reviewed systems used to control the processing of revenues and expenditures. Our findings are reported below.

16.32 *Compliance enforcement* - The RRFB collects beverage deposits from approximately 70 product distributors and collects tire fees from approximately 800 tire retailers. The RRFB was late in implementing procedures to verify sales information reported by distributors and retailers and, at the time of our audit, was not fully assured that all remittances received to date were complete and accurate. The beverage deposit program began in April 1996, but a search for a compliance auditor was not started until May 1997, 13 months after the beginning of the beverage container program. It took until October 1997 to find and hire a person suitable for the job. Compliance auditing of beverage distributors and tire retailers is a critical component of the RRFB's control systems, and we believe it should have been instituted closer to the beginning of the recycling programs.

16.33 Furthermore, payments to the RRFB are not always made on a timely basis and accompanied by the type of information the RRFB requires. RRFB staff follow up to ensure monthly remittances are received from all distributors and retailers. However, the RRFB cannot levy interest or penalties if the payments are not received on a timely basis or if the remittance information is not filed in the format required by the RRFB. This limits the authority of the RRFB to enforce compliance with the beverage container and tire recycling programs.

16.34 It appears that the primary cause of these problems is a lack of clarity in legislation and regulations as to responsibility for compliance enforcement activities. The Environment Act gives the Department of Environment the power to investigate and levy fines in certain situations. There is no such power provided to the RRFB. RRFB management have discussed the matter with Department officials, but there is no consensus yet. Management explored the possibility of contracting with the Provincial Tax Commission to perform audit services, but found the cost to be prohibitive. Because the lack of compliance enforcement is a serious control weakness for the RRFB, management proceeded with the hiring of a compliance auditor before the issue of responsibility and authority was rectified. We fully agree that compliance enforcement is important to the proper control of the RRFB, and we urge that the respective roles, duties and powers of RRFB and Department of Environment staff in this area be settled as soon as possible.

16.35 *Policies and system documentation* - The RRFB makes extensive use of computerized information systems, including electronic billing and payment of suppliers who are involved with the beverage container and tire programs. Computer operations are documented in a comprehensive system manual and the RRFB has begun to prepare a manual which documents manual processes and other policies. Examples of policies which still need to be developed include procedures for granting credit and collection of overdue accounts receivable.

16.36 *Financial reporting* - Financial statements are prepared monthly and distributed to senior management, and are presented at quarterly meetings of the Board of Directors. We observed that financial statements could be prepared on a more timely basis. In our opinion, monthly financial statements should be completed within two or three weeks after the end of the month. During our audit, the August 1997 financial statements were not available until mid-October. The Board received June quarterly financial statements at their September meeting. We believe financial

information must be timely to be relevant and useful. Management has indicated to us that they have set a monthly reporting target of 20 days, and that they are currently meeting that goal.

16.37 In June 1997 the external auditor noted that there were several deficiencies in the recording of RRFB's accounts. We understand that all recommendations addressed at making the monthly financial statements more accurate have been implemented.

16.38 *Revenue processing* - It is important that adequate controls be in place to ensure all revenues due are received, accurately processed and recorded. The RRFB had in excess of \$20 million in receipts in 1996-97. We reviewed the system to process revenues and have the following observations.

16.39 The RRFB uses a manual system to record the sale of recovered materials such as aluminum, cardboard and glass. The 1996-97 sales of these materials were in excess of \$2 million. Currently it would be possible for materials to be sold and the sale not recorded in the accounts. The only control is a review of recorded revenues by the Controller. If the sale function was computerized, the RRFB would be able to automatically generate and record sale and accounts receivable transactions and also track recovered materials from the time they are shipped from the Enviro-Depots to the time they are sent to the final purchaser. The RRFB is exploring the feasibility of expanding computer systems to incorporate this function.

16.40 All beverage distributors and tire retailers are required to make monthly remittances to the RRFB, and in 1996-97 approximately \$18 million were received in the mail from these sources. We reviewed staff responsibilities relating to cash receipts and found the need for better segregation of incompatible accounting duties. The staff member responsible for making bank deposits is also responsible for recording receipts, following up late payments, making adjustments to accounts receivable and preparing bank reconciliations. Proper segregation of duties requires the responsibility for handling funds to be separate from accounting duties so that errors and misappropriations cannot occur and remain undetected.

16.41 We observed that not all remittances are recorded in the mail log book. Internal control would be strengthened if all receipts were recorded in log books and totals were agreed to bank deposits by a person who is not responsible for handling cash receipts.

16.42 We also observed that adequate documentation was not prepared for journal entries which adjust accounts receivable. Also, the journal entries were not reviewed or approved by a second person. Management have indicated that all journal entries are now fully supported and reviewed.

16.43 *Expenditure processing* - It is important that adequate controls be in place to ensure all expenditures are accurately processed and recorded. Controls should also ensure that payments are made only after goods and services have been received and that correct prices are paid.

16.44 A computerized system is used to process payments to Enviro-Depots, local trucking companies and Regional Processing Centres (RPC's). In 1996-97 approximately \$12.6 million was paid by electronic funds transfer to these entities. A series of edit checks have been built into the computer system to ensure the accuracy and completeness of these cash transactions. Enviro-Depots are paid based on the number of beverage containers shipped to RPC's. To test the accuracy of payments made to depots, bags of recyclables are recounted on a test basis. This procedure also allows the RRFB to determine if the depots are submitting only authorized containers for recycling. RPC's are paid based on the number of bags of material received from the depots and processed. In the following paragraphs we describe areas where control could be improved.

16.45 In 1996-97 the five RPC's were paid approximately \$893,000 to process recyclable materials and to prepare them for further shipping. The RRFB had no written contracts with the RPC's during that period, nor for the subsequent six months. However, in the fall of 1997 management were able to finalize contracts with four of the five RPC's. We have recommended that the contract with the remaining RPC be executed as soon as possible.

16.46 The cost of the tire recycling program is budgeted to be \$2.6 million in 1997-98. A tire recycling company is paid \$1.25 for each used tire collected. The company submits an electronic monthly claim with supporting documentation for tires collected, but the RRFB does not agree or test the claim's details to its supporting documentation.

Computer Environment and Applications

16.47 Information systems are comprised of two major applications - a commercial accounting package and a custom-designed product control system. The custom application software receives data from suppliers, performs various edit tests on data received and calculates the payments due to the suppliers. The information is transferred to the accounting system and an electronic funds transfer is subsequently made by the product control system. The custom application also produces various management reports.

16.48 We examined various aspects of the computer control systems including the general computer environment, disaster recovery planning, program change controls, logical access controls and application processing controls. Generally, we found the controls in these areas were good. However, we noted certain areas where improvements should be considered.

16.49 *Disaster recovery planning* - Disaster recovery planning is the process of identifying procedures and guidelines to be used to recover from a loss of computer processing capacity. Contingency planning is the process that focuses on how an entity will maintain operations while the disaster recovery plan is being put into effect. Both plans are essential to allow for uninterrupted operations in the event of a disaster such as a flood or fire.

16.50 A disaster recovery and contingency plan has been prepared by RRFB. We have identified the need for more training of staff with respect to disaster recovery procedures.

16.51 *Logical access controls* - In information processing environments, logical access or password controls provide the primary means to restrict access to information systems and their related processes and functions. The purpose of such controls is to provide assurance that all access to information systems is authorized and in accordance with established policies and procedures. A well controlled computer application will restrict each user to the specific functions necessary to perform assigned responsibilities and tasks.

16.52 The controls in RRFB's accounting systems are adequate in this regard, though staff should be required to change their passwords on a regular basis. Also, the product control system was designed and implemented with a security function that only restricted overall access to the system. This weakness enables staff who have access to the system to have complete and unrestricted access to all system processes or functions. As such, it is more difficult for the RRFB to ensure only authorized persons use the computer system and that only appropriate uses are made of the system. We noted that the RRFB's external auditor recommended improvements in this area, and we understand that the designers of the product control system have recently been contracted to enhance the system's security functions.

Procurement

16.53 The RRFB was established in January 1996 and was required to develop a comprehensive beverage container deposit-refund program by April 1, 1996. Due to the tight deadline, the engagement of collection depots, transport companies and regional processing centres was not publicly tendered. For the most part, many existing bottle collection depots became Enviro-Depots, and a common rate was set for paying them. The RRFB held information sessions around the Province and asked that interested parties submit proposals for collection, transportation and processing services. The proposals were reviewed by staff, and in most cases, the lowest cost proposal was chosen.

16.54 We noted several instances where the selection of other services was by public tender or request for proposals. Based on our review of the procurement practices of the RRFB, we concluded that, in most cases, due regard was given to efficiency and economy. We describe below how due regard was given to economy and efficiency with respect to the setting of deposits and fees. However, we also describe dealings with Clean Nova Scotia Foundation where it is unclear to us whether value-for-money was achieved. We follow with a description of potential conflicts of interest on the Board of Directors concerning contracts with Clean Nova Scotia Foundation.

16.55 *Deposits and other fees* - In the development of the various recycling programs, rates were set for beverage container deposits, Enviro-Depot handling fees, tire recycling fees and payments to Regional Processing Centres (RPC's). As described below, it appears that adequate regard was given to economy and efficiency in the setting of the various rates.

16.56 The 10 cent beverage deposit was based, in part, on a deposit system that was already operating in another maritime province, and on the studies that supported that program. As part of the rate structure adopted, Enviro-Depots are paid a 2.5 cent fee for each beverage container handled. Analysis has led RRFB management to believe a depot can operate economically, as a stand-alone business, within this fee structure as long as the population base served remains above 25,000.

16.57 The RRFB implemented a recycling program for vehicle tires on January 1, 1997. The RRFB hired a consultant to review over 50 business proposals and to recommend a company to collect and process Nova Scotia's used tires. The consultant reviewed the proposals and chose two for in-depth analysis. The in-depth analysis compared and evaluated the two proposals against 13 criteria, including the amount of the tire recycling fee. The RRFB contracted with the company recommended by the consultant. We reviewed the consultant's recommendations and noted that the successful company proposed a lower fee, committed to having finished goods produced in Nova Scotia, and that no government assistance was to be provided to the company. We also observed that the negotiated tire fee appears consistent with the fee implemented or proposed in six other provinces.

16.58 The RRFB engaged five Regional Processing Centres (RPC's) in March 1996 based on proposals submitted to the RRFB at the outset of the beverage container deposit program. In some cases, the proposed fee was negotiated downward. The current group of RPC's are paid a fee for each bag of material processed, but fees range from \$5.20 per bag to \$7.50 per bag depending on the RPC. We have recommended that the RRFB conduct Province-wide competitions for the provision of processing services as contracts with RPC's expire.

16.59 *Clean Nova Scotia Foundation* - For the year ended March 31, 1997 the RRFB entered into four contracts with Clean Nova Scotia Foundation (CNSF). The contracts were for various public relations, awareness and education initiatives. None of the contracts were subject to a tender or a request for proposal process.

16.60 On March 29, 1996 based on a proposal from CNSF, the RRFB Board of Directors approved a three-month contract for \$25,250 subject to receiving CNSF financial statements and monthly status reports. There is no record that the statements were ever received. During a July 1996 Directors' meeting it was noted that the required monthly progress reports had not been received, though in August 1996 a final report was provided.

16.61 In August 1996 the RRFB entered into a five-month contract with CNSF for \$75,850 to set up a Waste Reduction Centre. The contract required monthly progress reports but only one report was received by the RRFB.

16.62 On October 17, 1996 the RRFB approved a five-month \$133,398 contract with CNSF for education and awareness initiatives. The contract period was from August 1 to December 31, 1996, but we noted that CNSF was estimated to have spent between \$90,000 and \$100,000 on the initiatives before the contract was signed. The Chairman of RRFB wrote to CNSF on October 15, 1996 noting that he was surprised to learn that money was spent without a binding contract. The letter also noted that some of the work done by the CNSF was not in accordance with RRFB standards. The contract required monthly progress reports, but no reports were provided to RRFB.

16.63 On December 20, 1996 the RRFB approved a \$400,000 contract which required quarterly performance reports. The contract is for the provision of services described in a November 29, 1996 proposal for operation of a Waste Reduction Centre for the RRFB. To date, reports are being received by RRFB, but it is not easy to determine from the reports whether or not all contracted services are being provided. Also, no information is provided in these reports or was provided before the contract was signed to indicate the cost to CNSF of performing these services.

16.64 We cannot determine whether or not value-for-money has been received from the CNSF contracts because:

- the services provided by CNSF were not subject to a tender or request for proposal process to ensure the cost of the services is competitive;
- the RRFB was never privy to CNSF's cost of providing the services;
- of 13 status reports required for three of the contracts, only two reports were received by RRFB; and
- certain directors had a conflict of interest, and the minutes of the Board indicate that some of these directors voted on matters related to CNSF on two occasions, as discussed below.

16.65 *Conflict of interest* - Section 53 of the RRFB Articles of Association notes that directors should declare any relevant interests and should refrain from voting in respect of a contract or other arrangement that conflicts with an interest they possess. The agreement with the Province also requires that the RRFB adopt a code of conduct to prevent any real or perceived conflict of interest and that the code shall be no less stringent than the rules under the Canada Business Corporations Act. We observed that the RRFB has a code of conduct consistent with the Act.

16.66 However, we reviewed minutes of Board of Directors' meetings and noted instances where an appearance of conflict of interest was given by the minutes. Although the minutes during this period were noted as approved by the Board in subsequent minutes, they were not signed by Board officials to indicate this approval.

16.67 During the March 13, 1996 Board of Directors' meeting, one director suggested that it was inappropriate and represented a conflict of interest for certain board members (who were also members of the Clean Nova Scotia Foundation) to involve themselves in discussion of a proposed contract between the RRFB and the CNSF. The Chair ruled that the CNSF members could participate in discussions, but should refrain from voting on issues relating to CNSF. However, we noted the following:

- During the July 26, 1996 meeting of Directors, approval was given to a five-month \$210,000 contract with CNSF. Although current members of CNSF were present at the meeting, the minutes do not indicate any abstentions due to conflict of interest.
- During a October 17, 1996 Directors' meeting to discuss a five-month \$133,398 contract for the CNSF to provide education and awareness services to the RRFB, eight directors participated and a director who had previously been identified as having a potential conflict was not named in the minutes as abstaining from voting.

CONCLUDING REMARKS

16.68 The RRFB is about two years old at the time of the writing of this Report, but the current management team have been on staff for a little over one-half of this period. We observed good attention to the need for regular and timely strategic planning, as well as a recognition of the importance of accounting for performance and achievement of goals.

16.69 The RRFB uses sophisticated technology to account for and control its operations, and we have found the systems to be well controlled. However, we believe more attention could be given to other areas of control, such as internal reporting, segregation of duties and establishing the roles and responsibility for compliance enforcement. As well, we recommend that attention be given to ensuring fair value is achieved in contracts for services with Clean Nova Scotia Foundation.

RESOURCE RECOVERY FUND BOARD INC.'S RESPONSE

We would like to thank the Auditor General's office for their comprehensive audit of the policies, practices and procedures of the Resource Recovery Fund Board Inc. (RRFB). Since signing an agreement with the Province in February 1996, RRFB staff have worked diligently to develop policies, procedures and computer systems to effectively carry out our mandate under the Solid Waste-Resource Management Regulations.

We recognize that there are, and will be, areas that need improvement. We appreciate the efforts of the Auditor General to identify those areas and to make positive suggestions for change. The process of implementing the recommended changes has already begun and will be completed in a timely fashion.

The RRFB Board and management have attempted to operate the company as efficiently and effectively as possible. The goal is always to maximize the net revenues available to municipalities and thereby reward them for helping the Province achieve its goal of 50% diversion by the year 2000. The roles, powers and responsibilities of the RRFB and the Department of Environment must be clearly defined to ensure all revenues are collected when due. Inconsistencies that frustrate the efforts of both parties to maximize revenues, such as the Harmonized Sales Tax on beverage containers, must be eliminated. The RRFB supports the recommendations of the Auditor General in both these areas.

*The RRFB has stepped up its audits of beverage distributors and tire retailers to ensure compliance with the **Environment Act** and the Solid Waste-Resource Management Regulations. RRFB staff and DOE officials are meeting to clarify the responsibility for compliance enforcement under the legislation and regulations.*

The Board and management of RRFB have taken a proactive approach to management of the company. We must ensure that our policies, practices and procedures support the initiatives of the Province, the municipalities and of all Nova Scotians in treating solid waste as a valuable resource.
