

6.

ECONOMIC DEVELOPMENT AND TOURISM - ECONOMIC DIVERSIFICATION AGREEMENT

BACKGROUND

6.1 During 1998, we commenced a broad scope review of selected aspects of the management and control of the Province's participation in the Canada/Nova Scotia Cooperation Agreement on Economic Diversification (EDA). The purpose of this chapter is to report upon our results and observations to date.

6.2 The original EDA was signed effective March 30, 1994. The general objective of the Agreement was to undertake initiatives which would *"promote economic development, diversification and competitiveness within the Nova Scotia economy."* It was to cover a five-year period and provide \$52.6 million in assistance, with overall costs shared approximately 70:30 between the Federal and Provincial governments respectively. The final date of approval of projects under the Agreement was March 31, 1999 but claims for the projects could be paid until March 31, 2001. According to a September 1997 external consultant's report, which was commissioned by the Management Committee as an interim evaluation of the EDA, the Agreement *"had committed \$49.6 million or 94% of its available funds as of June 1996."*

6.3 The EDA was amended in July 1996. It was to become more strategically focussed, building on the existing economic strengths of the Province, as agreed upon by both levels of government. The funds available increased by \$187.9 million to \$240.5 million with overall costs shared on a Federal/Provincial basis of approximately 60:40. The project approval date was extended to March 31, 2001 with claims for projects being paid up to March 31, 2003.

6.4 In May 1998 the EDA was further amended to change the cost sharing ratio to 70:30 with the Federal government commitment remaining unchanged at \$144.3 million while the Provincial government commitment was reduced by \$34.3 million to \$61.9 million. The amendment to the cost sharing ratio was applied retroactively to projects approved under the Agreement and the Federal government issued a cheque to the Province for approximately \$4.3 million in July 1998. The amendment reduced the total funding available under the Agreement from \$240.5 million to \$206.2 million.

6.5 As defined in the EDA, the purpose of the Agreement is *"to provide a mechanism whereby Canada and Nova Scotia may jointly address a range of strategic priorities for economic development."* Those priorities as defined in the Agreement are to *"increase business investment activity; develop product and market opportunities; develop strategic sectors and industries; develop sustainable communities; and improve economic foundations."*

6.6 The detailed objectives of the Agreement are to:

- *"create quality sustainable jobs;*
- *develop profitable world-class companies that are export-oriented and market-driven;*
- *build on the potential of strategic sectors;*

- *use public-private collaboration to lever resources and ideas to achieve economic development objectives;*
- *combine and coordinate the efforts and resources of government in order to encourage focussed, effective approaches to economic development;*
- *enhance the sustainability of communities; and*
- *improve business climate and build an entrepreneurial culture through strengthened economic foundations."*

6.7 The strategic sectors referred to in the objective are defined in the Agreement as, but not limited to, "*information technologies, goods, facilities and services; environmental industries and solutions; marine industries and related services; aquaculture and sport fishery; health products and health related products and services; tourism; cultural industries; and education and educational related goods, services and facilities.*"

6.8 The EDA is divided into eight programs. These programs are Business Investment, Technology Infrastructure, Strategic Sector Development, Community Economic Development, Building Economic Foundations and Improving Business Climate, Strategic Initiatives, Administration and Evaluation, and Communications.

6.9 Along with a focus on community economic development there are five economic strengths of the Province identified to guide activity under the Agreement. They are culture and heritage, trade, education and research, oceans and the environment, and gateway to North America.

6.10 The administration and management of the EDA is the responsibility of a joint Federal-Provincial Management Committee which consists of four voting members, two of whom are appointed Federally and two by the Province. The Committee is headed by a Federal Co-chair (Vice-President, Nova Scotia Region, Atlantic Canada Opportunities Agency) and a Provincial Co-chair (Deputy Minister of Economic Development and Tourism). In August 1997 four additional non-voting members were appointed to the Management Committee for their knowledge and experience in various sectors, two from the Federal government and two from the Provincial government. Projects must be approved by the Management Committee before they can proceed. For more background on the management and control of the EDA see Exhibits 6.1 and 6.2 on pages 76 to 78.

6.11 Exhibits 6.3 and 6.4 on pages 79 to 80 provide summary information on the budget, expenditures, recoveries and projects approved, by program and economic strength. As of November 15, 1998 there were 383 projects approved under the Agreement, committing \$183.1 million of the \$206.2 million of funds available and leaving \$23.1 million available to commit. Of the \$183.1 million committed, \$92.0 million had been disbursed and \$51.1 million recovered from the Federal government.

6.12 Some projects under the Agreement are referred to as blanket funding projects where a government department/agency is responsible for providing the funding approved for a project to various sub-projects. These sub-projects are treated in a similar manner to a typical project with regard to project assessment and monitoring processes.

6.13 Funds disbursed under the Agreement may go to government departments/agencies, non-government entities, and government departments/agencies for distribution to non-government entities on sub-projects. Information maintained on the disbursement of funds is not segregated by type of entity using the funds, but Exhibit 6.5 on page 81 provides information on projects or clients approved under the Agreement which committed \$2.5 million or more and who used the funds. These 48 projects represent \$103.3 million or 56% of the funds committed as of November 15, 1998.

RESULTS IN BRIEF

6.14 The following are the principal observations from our review.

- Management responsible for the EDA recognizes the importance of measuring the performance of the Economic Diversification Agreement in achieving its objectives. Outcome measures have been established against which to measure performance, an interim evaluation has been completed and a second evaluation is planned, in order to measure the performance of the Agreement. However, overall accountability of the Agreement would be improved with further development of the outcome measures that have been established. As well, targets should be established for the outcome measures with the timely monitoring of and reporting on the performance of the EDA against targeted outcome measures. The Department of Economic Development and Tourism has not prepared an annual report as required by its Act. Such a document could facilitate the provision of more detailed information on the Department's plans and performance, including those related to the EDA, to the members of the House of Assembly.
- In the past, management has recognized the need to improve the administrative processes and management of the EDA. As a result, initiatives were undertaken to address this issue and changes were made, beginning in August 1997. Efforts in improving processes are continuing through a planned second interim evaluation of the Agreement which is to include a review of administrative processes.
- Project proposals are evaluated by staff in order to determine eligibility under the EDA. We tested a sample of 25 projects and found the projects had defined objectives which were linked to the EDA's objectives. However, documentation supporting eligibility assessments of projects prior to August 1997 was not adequate. After August 1997, improvements to file documentation supporting eligibility assessments of projects were implemented.
- Controls have been established to ensure the terms and conditions for the assistance provided are being complied with and funds are used for their intended purposes. However, not all controls have been operating as intended or, due to a lack of documentation, we were unable to determine if the controls were operating appropriately.
- During the 1997-98 fiscal year, we found that there were controls in place to ensure funds due to the Province were claimed from the Federal government for its share of the Agreement costs. With the changes in accounting responsibilities for the Agreement in 1998-99, the planned processes to be followed for recoveries should provide improved controls to ensure all funds due to the Province are recovered.

SCOPE OF REVIEW

6.15 In the fall of 1998, we began a review of the Canada/Nova Scotia Cooperation Agreement on Economic Diversification. The objective was to review and assess the systems and practices of selected aspects of the management and control of the Canada/Nova Scotia Cooperation Agreement on Economic Diversification, including:

- the accountability framework;
- the project assessment and approval process;

- the system for monitoring compliance with the terms of the assistance provided, and performance of the Agreement; and
- the accounting systems for the receipt and disbursement of funds under the Agreement.

6.16 Our approach included interviews with Provincial and Federal staff involved with the Agreement, a survey of Federal and Provincial project officers, and a review of information made available to us. We tested a sample of 25 projects when assessing the adequacy of the project assessment, approval and monitoring processes. Since there were changes in the administrative processes in August 1997, we segregated our test sample to include 13 projects which were approved prior to August 1997 and 12 projects approved from August 1997 to September 1998.

6.17 As part of our sample selection process, we selected six blanket funding projects for testing. In these instances, we tested one sub-project within the project when assessing the adequacy of project assessment, approval and monitoring processes.

PRINCIPAL FINDINGS

Accountability

6.18 *Overview* - An adequate accountability framework includes clearly defined roles and responsibilities and Agreement objectives along with a process for measuring the achievement of results and timely reporting on performance.

6.19 *Roles and responsibilities* - The roles and responsibilities of the Management Committee and the Federal and Provincial Directorates, which are described in Exhibit 6.1, are clearly defined in the EDA and other planning documents related to the Agreement.

6.20 The responsibilities of the Provincial Coordinator along with the staff reporting to him are defined in job descriptions or, for one employee, an employment contract. However, the job description of the financial services officer and communications officer are not up-to-date. Staff indicated they are in the process of having them updated.

6.21 Currently project officer responsibilities are assigned to staff within the Federal and Provincial governments. The role and responsibilities of these project officers have not been formally communicated to them. While in our view such documentation would support improvements in the accountability and overall control framework for the Agreement, we found no instances during our review which would indicate that those assigned the EDA project officer role did not understand their role or related responsibilities.

6.22 Some guidelines are available to project officers in carrying out their responsibilities such as the required content of project briefs. However, additional guidelines are required. They should include such things as file documentation, and the monitoring of projects, including review and verification of information provided.

6.23 For each approved project, a letter of offer is signed which clearly defines the roles and responsibilities of the parties involved in the project. Of the 25 projects we reviewed, 22 required a letter of offer to be issued and had reached the stage where this would have been completed. In all instances a letter of offer was issued.

6.24 *Performance measurement* - There are clearly defined objectives for the EDA which are documented in the Agreement. As well, outcome measures against which to measure the

performance of the Agreement have been identified. The accountability framework would be improved with further development of those outcome measures identified, as noted in paragraph 6.25 to 6.27 below. As well, targets should be established for the outcome measures and the measures should be linked to each of the objectives of the Agreement to demonstrate how the performance of each of the objectives is to be measured.

6.25 Some of the outcome measures identified need to be more specific. For example, two measures identified are to improve the labour force and increase training but they do not identify how the labour force would be improved or what type of training would be increased.

6.26 A 1996 ACOA document called *Economic Development in Nova Scotia - Towards a Strategy and Framework* describes specific goals to be achieved related to each of the economic strengths of the Province, and outcome measures and targets for each. However, these outcome measures and targets are not being used to measure the performance of the Agreement. They would be a good basis for further development of applicable outcome measures which can be linked to the objectives of the EDA and used to demonstrate the performance in achieving each of the objectives.

6.27 As well, through *Government By Design*, government-wide outcome measures are identified for economic growth. The outcome measures of the EDA could be better linked to the government-wide outcome measures in order to demonstrate the EDA's impact towards achieving the targets set in *Government By Design*. For example, one of the outcome measures of the EDA is to increase employment while the outcome measures identified in *Government By Design* related to this would be the net number of new full and part-time jobs created.

6.28 Each project proposal recommended for approval has a completed project brief. The purpose of the project brief is to clearly define the goals and objectives of the project and link the project to the Agreement objectives. The project briefs are also required to describe, in measurable terms, the anticipated outcome of completing the project, including the impact on economic development.

6.29 We reviewed 25 projects and found project briefs which defined the goals and objectives of the project and linked them to the Agreement objectives.

6.30 Eleven of the 13 projects approved before August 1997 and all 12 projects approved after August 1997 described in measurable terms, the anticipated outcome of completing the project.

6.31 *Agreement evaluation* - Section 11 of the EDA requires an evaluation of the performance of the EDA. It requires the Management Committee to have an evaluation report issued on the EDA six months before the termination of the Agreement.

6.32 Management responsible for the EDA recognizes the importance of reporting on the performance of the Agreement as part of the accountability framework. Since the EDA was significantly amended in 1996, an interim evaluation on the original Agreement was requested. One objective of the evaluation was to measure the extent to which the Agreement objectives were achieved and the impact on the Province. This evaluation was performed by an external consultant with a final report released in September 1997. The evaluation covered the period between March 1994 and June 1996. It does not conclude specifically on the achievement of the Agreement objectives and outcomes because many of the projects were incomplete and for those completed, an insufficient amount of time had passed to generate substantial outcomes.

6.33 Rather than waiting until the end of the Agreement to evaluate its performance, as required in the EDA, a second interim evaluation was approved by the Management Committee in August 1998. This evaluation will revisit projects reviewed in the first evaluation and projects approved since then in order to assess the achievement of the objectives and impacts of the Agreement. The report on the results of this evaluation is expected to be released to the Management Committee by the spring of 1999.

6.34 *Evaluation of projects* - One of the terms which must be in all letters of offer for projects approved is the requirement of the recipient to submit an evaluation report on the project within four weeks of completion and as part of the final claim. The report is to include a review of the intended objectives and reporting on outcomes related to the objectives.

6.35 Of the 25 projects we reviewed, there were eight completed, four approved before and four approved after August 1997. Of the four approved prior to August 1997, three had not included a review of the intended objectives and reporting on the outcomes as part of a final evaluation report. Of the four approved after August 1997, one had not included a review of the intended objectives and reporting on the outcomes. One project did have a review of the intended objectives but did not report on the outcomes of the project.

6.36 Since August 1997, another evaluation report is required 12 to 18 months after completion of the project on the sustained results or impacts of the project. According to staff, no projects had reached this milestone by October 1998.

6.37 *Reporting* - There is no specific reporting to the House of Assembly on the results or outcomes from the EDA. Estimated expenditures and recoveries under the Agreement are included in the Department of Economic Development and Tourism's (EDT) annual budget submission. The EDA is part of the appropriation vote called *Funds for Federal/Provincial Economic Cooperation* which includes a number of cooperation agreements. Financial information on the EDA is not specifically disclosed in the *Estimates or Public Accounts*.

6.38 There have been some external communications to create awareness of the EDA. A range of general and project specific information is published through the EDA's internet web site. There have been press releases related to the Agreement and approved projects and two newsletters were published in the spring of 1996 and 1998 with a third in progress. Through these mechanisms no specific information has been reported on the actual outcomes of the Agreement and the achievement of its objectives. Some estimated outcomes on a project basis have been reported through the announcements of projects being funded under the Agreement.

6.39 It is expected that the second interim evaluation report of the Agreement will provide information on the performance of the Agreement to date but the accountability framework would be improved if there was a project tracking system in place to gather information and monitor, on a continuing basis, actual project outcomes against targets. This would aid in the timely reporting of the outcomes of the Agreement and the achievement of its objectives.

6.40 Performance information could be reported through the Annual Report of the department. However, it has not published an annual report, even though such reporting is required by Section 10 of its enabling Act which states "*the Minister shall annually submit to the Governor in Council and table in the House of Assembly a report respecting the work performed by the Agency (Department of Economic Development and Tourism) in the preceding fiscal year.*"

6.41 *Allocation of funds* - Schedule A of the EDA provides an allocation of the Agreement funds among the program areas of the EDA. The Agreement also gives the Management Committee the authority to reallocate these funds among programs without amending the Agreement. As can be seen in Exhibit 6.3, as of November 15, 1998 the funds committed in some program areas have already exceeded the original allocated amounts. However, the amounts reallocated were not subject to specific approval by the Management Committee. The Management Committee is not receiving information on the commitments to date compared to the allocated funds by program area so it is not aware of when projects it approves cause those planned allocations to be exceeded.

6.42 *Improvements in administrative processes* - Management of the EDA has identified areas of improvement in the administrative processes and management of the Agreement. As a result,

initiatives were undertaken to address this issue including having the first interim evaluation examine how to improve the efficiency and effectiveness of the delivery of the EDA. An external consultant was also hired to hold discussion group meetings in early 1997 to gather ideas and suggestions on potential projects for the EDA from key stakeholders.

6.43 Changes were implemented, beginning in August 1997, to improve the administrative processes and management of the EDA. Some of the improvements made are noted in this chapter including the establishment of Federal and Provincial Directorates dedicated to the administration of the Agreement, assigning the Provincial Directorate responsibility for receiving project proposals and tracking the status of those proposals, and developing a ranking process for proposals received. Exhibit 6.6 on page 84 provides a summary of observations for improvement from the first interim evaluation report along with departmental comments related to actions taken to address those observations.

6.44 Management responsible for the EDA has demonstrated the desire to continue to improve the administrative process. It has requested in the terms of reference of the second interim evaluation that the evaluation include consideration of questions such as “*are there more effective and/or efficient mechanisms to deliver and implement future programs and are there lessons learned which could be immediately applied to the Diversification Agreement?*”

Project Assessment and Approval

6.45 *Overview* - We reviewed a sample of 25 projects to evaluate the project assessment and approval process followed. We found that all projects had a project brief and project authorization form which noted a linkage to the EDA objectives. However, the file documentation supporting the analysis of how that linkage was determined was deficient before August 1997. Improvements were noted after August 1997. We also found project proposals were being approved as required under the EDA.

6.46 *Review of projects* - We reviewed 25 projects and found they were properly approved by the Management Committee.

6.47 Of the 25 projects reviewed, there were 13 project proposals approved prior to August 1997 which required analysis by the project officers for eligibility under the EDA. Five of these did not have documentation on file to support the analysis of how the linkage to the EDA was determined. Of the 12 projects approved after August 1997, one did not have adequate documentation on file to support the analysis.

6.48 According to prescribed policies, after August 1997, letters of offer had to be signed by the Deputy Minister of EDT if the commitment was in excess of \$250,000, otherwise the letters were signed by the Federal or Provincial coordinator. We reviewed four projects approved after August 1997 which had commitments in excess of \$250,000 and all were appropriately signed.

6.49 *Priorities* - The strategic priorities of the EDA are defined in the Agreement. According to policies established, the project brief and project authorization form must demonstrate how the project contributes to the objectives and priorities of the Agreement. Of the 25 projects reviewed, we found that the rationale for recommending projects was adequately documented and the rationale was consistent with the Agreement.

6.50 In August 1997 a new eligibility test was implemented which required project officers to answer a number of questions as to the eligibility of the proposal under the Agreement and each question had a weight in order to rank the project as low, medium or high. The purpose of the test was initially to improve the documentation supporting the eligibility of the project. If a project fell within the objectives of the Agreement, it was allowed to be recommended for approval. Since January 1998, due to the rapid reduction in funds available under the Agreement, the ranking

information produced was used to ensure remaining funds available would go to the highest ranking project proposals received. The Federal and Provincial Coordinators asked the project officers to provide them with priority project proposals and the Coordinators then ranked them based upon how they fit into the overall objectives of the EDA. The coordinators then confirmed the ranking with the project officers and the management committee.

Monitoring

6.51 Overview - Once an EDA project is approved and payments are made, it must be monitored to ensure the terms and conditions for the assistance provided are being complied with and the funds used for the purposes intended. The monitoring procedures required may vary according to the terms of assistance provided and may include such items as receipt of invoices supporting expenditures, progress reports or site visits. Controls have been established to ensure the terms and conditions for the assistance provided are being complied with and funds used for their intended purposes but not all controls have been operating as intended or, due to a lack of documentation, we were unable to determine if the controls were operating appropriately. The controls established include the following.

- *Internal audit* - It is the intention of staff involved in the Agreement to have a joint annual audit of expenditures under the Agreement by the internal auditor at EDT and ACOA. The objective of this audit, as described in the latest audit letter, is “to examine each selected transaction for evidence of being incurred and paid by the applicant and being claimed to ACOA. The audit also ensured the transactions or expenditures were consistent with the project agreements as approved by the Management Committee.”

The last joint audit completed on the Agreement was related to expenditures of the 1994-95 and 1995-96 fiscal year and was completed in 1996-97. It was indicated that another audit is planned in 1998-99 to cover expenditures for 1996-97 and 1997-98. In order to identify issues on a timely basis and specifically before all or a significant portion of the funds have been advanced on a project, the internal audit coverage of the Agreement should be completed on a more timely basis.

- *Support for claims* - Claims received from clients for approved projects must include either actual invoices supporting the expenditures in those claims or a detailed accounting of how the funds were spent. The detailed accounting was allowed due to the volume of support which clients would have to send in with each claim. It is left to the discretion of the project officer as to what is required depending on their knowledge and experience with the client. The clients are informed that any claim submitted could be subject to audit at any time. According to the terms of assistance, clients are required to maintain the supporting documentation for a claim for a period of three years.

The appropriateness of providing a detailed accounting as support for a claim depends on audits of claims being conducted, on a timely basis, as allowed under the terms and conditions of the assistance provided. This would be accomplished by the joint annual internal audit which we have already indicated is not being done on a timely basis. Since an audit does not guarantee that all errors are identified and it may be a year or more before an audit is completed on expenditures claimed, a policy should be put in place which establishes an approved expenditure limit over which actual invoices must be submitted.

Of the 25 projects we reviewed, we found 22 which had payments made related to them, 13 approved prior to August 1997 and 9 approved after August 1997. Of the 13 pre-August projects, 6 did not have adequate support for the costs claimed. Three

others had support provided but the detail of information included was insufficient to determine if the costs were eligible. Of the 9 post-August projects, 2 did not have adequate support for the costs claimed. Three additional projects had a detailed accounting of the expenditures.

It should be noted that, on occasion, if staff are not comfortable about the accuracy or eligibility of costs being paid under a project, they have asked the internal auditor to do a review of the expenditures for that project.

Another method for ensuring claims are adequately supported is an option which is typically included in the letters of offer where the "*Minister may request the Recipient to provide an Audit Report/Certificate prepared and signed by the external auditor of the Recipient.*" It is at the discretion of the project officer, if he/she has a concern about the costs claimed under a project, whether this option is used and as noted in a letter of offer, the audit can deal with "*related party transactions, conformity with generally accepted accounting principles, any other government assistance received or to be received for costs that are being supported under the Project, and eligible project costs.*" Of the 25 projects we tested, we noted one instance where such an audit had been requested.

- *Project Officer responsibilities* - Project Officers have been assigned responsibility for monitoring projects to ensure compliance with the terms and conditions of assistance provided. Of the 21 approved projects we reviewed, which would require monitoring activity, there were 12 pre-August 1997 projects and nine post-August 1997 projects. Of the 12 pre-August projects, there were four which did not have sufficient documentation on file to support regular monitoring activity such as reports, correspondence, and results of site visits. Of the eight post-August projects, there was one which did not have sufficient documentation on file to support regular monitoring activity.
- *Cheque requisitions* - The project officers prepare cheque requisitions to initiate a payment for an approved project and can request that the cheque be returned directly to them for delivery to the client. There is a risk that an unsupportable cheque requisition is requested, the cheque is directed to the project officer, and is misplaced and goes undetected. The joint internal audit would be a control over this risk. However, controls would be improved if the cheques requested by the project officer were not returned to the officer before delivery to the client.

6.52 *Procurement* - If the Provincial government is the implementing party of the project, the Government Procurement Policy must be followed according to the terms of the EDA. The Policy addresses due regard for economy in government procurements. One of the objectives of the Policy is "*ensuring that the government's requirements for goods, services, construction and facilities are met through an open and fair process that provides the highest degree of competition and value to the Province.*" For projects that are not implemented by government, the letter of offer addresses due regard for economy including the requirement that "*an appropriate tendering process will be followed in all circumstances where more than one supplier of goods and services is believed to be available.*" It notes the procurement process followed should be acceptable to the project officer.

6.53 Of the 25 projects we reviewed, there were two projects which were implemented by a Provincial government department and had procurement transactions, one approved prior to August 1997 and one after this time. The project approved prior to August 1997 lacked documentation supporting compliance with the Government Procurement Policy. Of the remaining 23 projects, 15 were implemented outside of the Provincial government and had procurement transactions, (nine pre-August 1997 projects and six post-August 1997 projects). Of the nine pre-August projects, none had documentation on file to support whether due regard for economy was followed for

procurements under the projects. Of the six post August projects, three did not have documentation on file to support whether due regard for economy was followed for procurements.

6.54 *Repayable assistance* - Under the EDA, only the Federal portion of assistance under the Business Investment Program (BIP) has to be repaid. However, there have been some projects approved in other programs which require the Provincial portion to be repaid. There are no established criteria to define when the Provincial portion of a project should be repaid.

Accounting Controls

6.55 *Overview* - During the 1997-98 fiscal year the recovery of expenditures from the Federal government under the Agreement was the responsibility of the Department of Finance. This responsibility was transferred to the Provincial Directorate at EDT for 1998-99. EDT has been and remains responsible for accounting for the expenditures under the Agreement.

6.56 *Recoveries* - The Provincial government disburses all funds under the EDA and then recovers the Federal share of the costs. As noted in paragraph 6.59, claims are typically sent to the Federal government once a month. According to staff this would be the only type of payment due to the Province under the Agreement until 2000-01 when some of the Provincial costs of assistance become repayable from the clients.

6.57 During the 1997-98 fiscal year we found that there were controls in place to ensure funds due to the Province from the Federal government were recovered but improvements in the cash receipt function were required to ensure adequate controls. There was a segregation of duties weakness where one individual was responsible for setting up the receivable, receiving the cash, recording the receipt in the accounting records and following up on delinquent receivables. During our testing we did not note any instances where cash was not deposited intact.

6.58 At the time of our audit, no claims had been made to the Federal government for expenditures under the Agreement but the planned processes to be followed for recoveries should provide adequate controls to ensure all funds due to the Province are recovered.

6.59 Claims for expenditures under the Agreement, for 1998-99, are not being made on a timely basis. According to staff, claims typically are prepared on a monthly basis. However, as at November 15, 1998, there had not been a claim prepared for 1998-99 and there had been approximately \$13.5 million in funds disbursed under the Agreement of which \$9.45 million is recoverable by the Province from the Federal government.

CONCLUDING REMARKS

6.60 The Canada/Nova Scotia Cooperation Agreement on Economic Diversification provides a significant amount of government funding to promote economic development in the Province and identifies strategic priorities in order to focus efforts under the Agreement. It is important that those funds are properly managed and controlled to ensure the objectives of the Agreement are met and that an effective accountability framework is in place to provide information on the plans and performance of the Agreement in meeting those objectives.

6.61 Management responsible for the Agreement recognizes the importance of the proper management and control of the Agreement, initiatives have been undertaken to identify areas of improvement and changes have been implemented to improve management processes. Through our review, we have identified further improvements related to the management and control of the Agreement.

*Exhibit 6.1***BACKGROUND INFORMATION ON THE MANAGEMENT AND CONTROL OF THE EDA**

Federal responsibility for the Agreement belongs to the Atlantic Canada Opportunities Agency (ACOA), while Provincial responsibility lies with the Department of Economic Development and Tourism (EDT). The delivery structure of the EDA has changed in the last few years. In the past, there were various staff throughout the Federal and Provincial government who were assigned responsibility for various aspects of the Agreement either individually or as part of project committees. Most of these staff were not dedicated to the EDA. As of August 1997, a Provincial Directorate was established with nine positions dedicated 100% to the EDA. The Federal Government also has a directorate. These Directorates are responsible for areas including planning, policy development, financial reporting and budget control, administration and evaluation, and communication related to the EDA. Exhibit 6.2 provides a description of the governance, accountability and management organization of the Agreement for the Provincial government.

As of August 1997, the economic strengths of the Province are split between the two Directorates with each taking a lead role in their assigned strengths. There are some projects which do not fall into a specific strength. These are classified as multi-sectoral projects. The responsibilities of the lead role include evaluating proposals received, being the primary contact with the clients, and continued monitoring and follow up on projects. The Provincial Directorate has the lead role in culture and heritage, trade, and education and research; with the Federal Directorate responsible for oceans and the environment, gateway to North America and multi-sectoral projects. The Federal and Provincial Directorates share responsibility for community economic development but other staff within EDT and ACOA, rather than the directorates, are performing the lead role duties related to this area.

There are four project officer positions in the Provincial Directorate which have been vacant since the Directorate was established. In the meantime, various project officers have been selected throughout the provincial government as project proposals have come forward for review and subsequent monitoring, if approved. It was the intention that one project officer be responsible for all projects in an economic strength area. Since there are limited funds available for projects now, the plan is to fill only two of the project officer positions. At the time of our audit a competition was in progress to fill these positions. These project officers will be responsible for completing an analysis of project proposals received for the remaining uncommitted funds and monitoring projects approved to date and in the future.

The Provincial Directorate receives project proposals, distributes them to Provincial or Federal project officers accordingly, and tracks their status. All projects recommended for approval by project officers are reviewed by the Federal and Provincial Coordinators to ensure consistency of treatment for projects brought forward and a review based upon the knowledge of other priorities and pending initiatives of which the project officer may not be aware. According to the EDA, projects must be approved by the Management Committee before they can proceed.

The Provincial Directorate disburses all funds under the Agreement based upon costs claimed through projects. The Federal share of the costs are then recovered. The budget for EDT includes the expenditures of EDA net of recoveries from the Federal government. The 1998-99 EDA net expenditures budgeted for the Province were approximately \$11.1 million, while actual net expenditures for 1997-98 were reported as approximately \$7.9 million.

The EDA generally does not provide for direct assistance to a business or individual except under the Business Investment Program (BIP). Under the EDA, the Federal portion of assistance provided under the BIP is required to be repaid. As well, typically, in any program if the terms of assistance are not complied with, 100% repayment is required. There is no interest charged on repayable assistance except when there is a default on a project and then interest at the Bank of Canada prime rate on the day of default would be charged. According to staff of the Provincial Directorate, as of October 1998, there have been no defaults on agreements identified and there is approximately \$1.975 million in provincial expenditures from two projects which is recoverable from clients but no amount is payable until 2000-01 or later.

Exhibit 6.2

**PROVINCIAL
GOVERNANCE, ACCOUNTABILITY AND MANAGEMENT ORGANIZATION
AS OF NOVEMBER 1998**

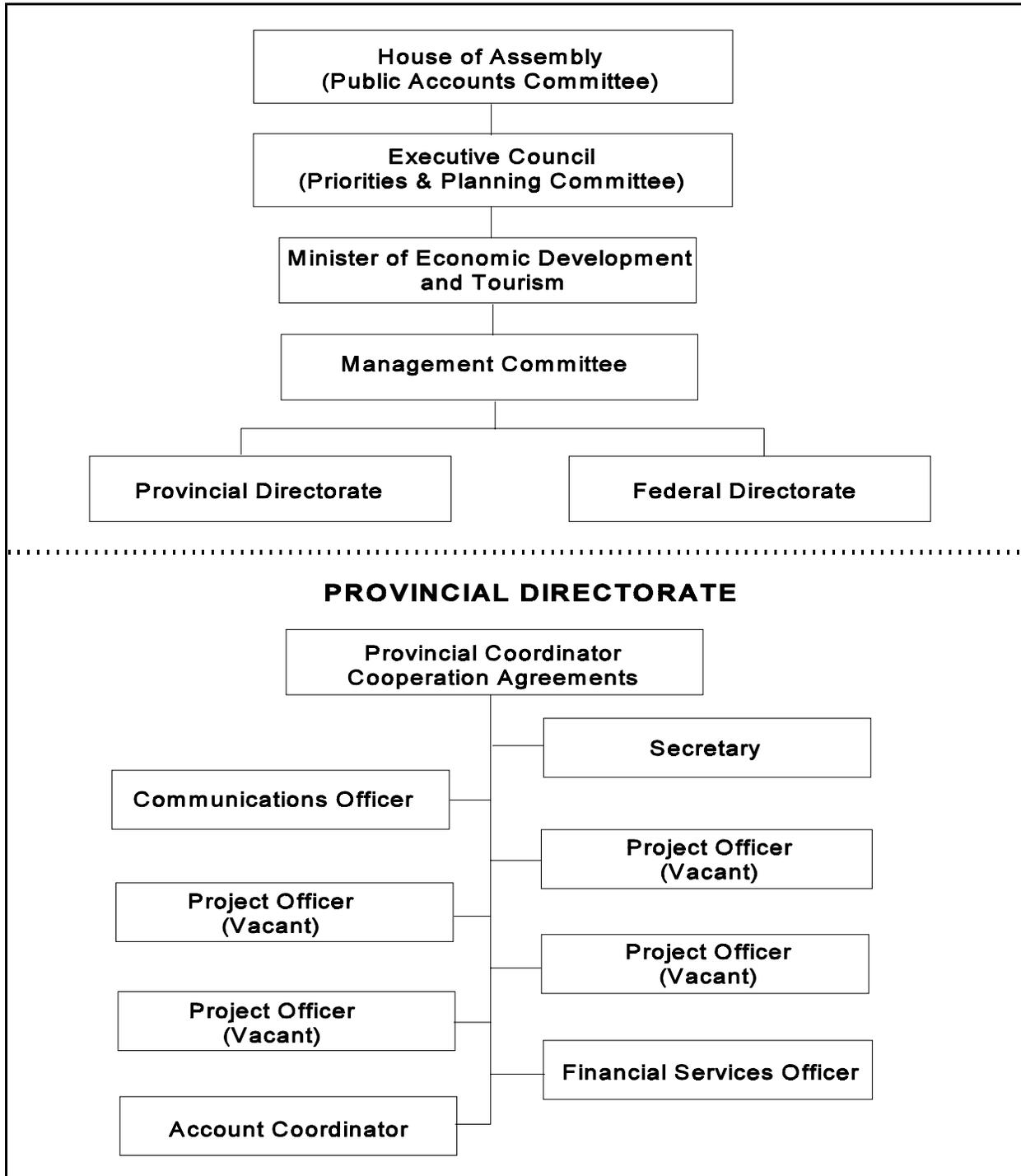


Exhibit 6.3

**SUMMARY INFORMATION ON THE EDA BY PROGRAM
AS AT NOVEMBER 15, 1998
(\$000)**

(Source: EDT and ACOA Staff)

Program	Total Budget for Agreement	# Projects Approved	% of Total Committed	Committed	Disbursed	Recovered From Federal Government
Business Investment	\$ 6,300	13	0.2	\$ 420	\$ 353	\$ 247
Technology Infrastructure	27,000	32	24.6	44,970	3,816	1,932
Strategic Sector Development	55,775	135	18.6	34,149	13,475	6,474
Community Economic Development	19,300	26	13.6	24,945	15,178	8,476
Building Economic Foundations and Improving Business Climate	30,000	97	6.6	12,129	6,344	3,507
Strategic Initiatives	63,520	63	34.2	62,584	50,061	30,358
Administration and Evaluation	2,860	13	1.9	3,431	2,532	59
Communications	1,430	4	0.3	462	217	79
TOTAL	\$ 206,185	383	100.0	\$ 183,090	\$ 91,976	\$ 51,132 (Note 1)

Note 1: The amount recovered plus the amount from paragraph 6.59, which is recoverable, does not equal 70% of the total disbursed to date. This is because the cost of each project approved may not be 70% recoverable from the Federal government. The cost sharing ratio can vary by project but at the end of the Agreement the total costs by program will be cost shared 70:30 between the Federal and Provincial government as noted in paragraph 6.4.

Exhibit 6.4

**SUMMARY INFORMATION ON THE EDA BY ECONOMIC STRENGTH
AS AT NOVEMBER 15, 1998
(\$000)
(Source: EDT Staff)**

Strength	# of Projects Approved	% of Total Committed	Committed	Disbursed
Culture and Heritage	54	25.3	\$ 46,306	\$ 30,845
Trade Centre	20	5.3	9,834	5,852
Education and Research	89	35.0	64,010	18,306
Gateway	14	3.4	6,163	1,456
Oceans and Environment	106	6.2	11,405	6,394
Multi-Sectoral	55	8.7	16,107	11,031
Community Economic Development	28	13.9	25,372	15,343
Administration and Evaluation	13	1.9	3,431	2,532
Communications	4	0.3	462	217
TOTAL	383	100.0	\$ 183,090	\$ 91,976

Note: The budget was established based upon programs and not strengths. The amount recovered by strength is not monitored and reported by the Directorate.

**PROJECTS APPROVED WHICH COMMITTED \$2.5 MILLION OR MORE IN FUNDS
AS OF NOVEMBER 15, 1998
(\$000)**

(Source: EDT Staff)

Project Name Program/Strength Date Approved	\$ Committed	\$ Spent	Type of Assistance (Note 1 & 2)	Project Objective
Information Economy Initiative Technology Infrastructure/Education and Research May 1998	\$ 35,000	\$ 0	Govt	The development of the human resource base and information technology infrastructure within universities, communities and schools to accelerate the development of the knowledge based economy of Nova Scotia.
Regional Development Authorities Community Economic Development (CED) /CED Various	13,426	9,314	GD (7 projects)	To provide core funding for the operation of 14 Regional Development Authorities (RDA) throughout Nova Scotia.
	5,051	1,799	GD (5 projects)	To assist the RDAs with the implementation of their strategic plans to enhance the sustainability of communities and create quality sustainable jobs.
	2,831	1,791	GD (19 projects)	To provide funding for various individual RDA projects not under the scope of core funding or strategic plans.
	<u>21,308</u>	<u>12,904</u>		
Halifax Summit Projects Strategic Initiatives/Multi Sectoral March 1995	2,578	2,578	Non-Govt	Infrastructure projects completed for: The Waterfront Development Corporation.
	1,577	1,577	Non-Govt	The former City of Halifax.
	800	800	Non-Govt	The former City of Dartmouth.
	720	720	Govt	The Province of Nova Scotia.
	<u>5,675</u>	<u>5,675</u>		

Project Name Program/Strength Date Approved	\$ Committed	\$ Spent	Type of Assistance (Note 1 & 2)	Project Objective
Black Business Initiative CED/CED June 1995	5,000	3,000	Non-Govt	This project is designed to create viable business opportunities by providing advice, counselling, training, and financial support to enable black communities throughout the Province to increase their economic activity.
Glace Bay Recreation Facility Strategic Initiatives/Culture and Heritage June 1994	4,850	4,850	Non-Govt	To construct a multi-purpose facility as part of the community's efforts to revitalize its infrastructure.
Middle Shoal Improvement Program Strategic Initiatives/Trade Centre August 1996	4,741	4,063	Non-Govt	To create a deeper channel that will improve the competitiveness of the mining and milling operations in the area of Little Narrows, Cape Breton.
Neptune Theatre Foundation Strategic Initiatives/Culture and Heritage August 1995	4,500	4,500	Non-Govt	To renovate and expand the Neptune Theatre located in Halifax, Nova Scotia
Pier 21 Society Strategic Initiatives/Culture and Heritage August 1997	3,850	2,836	Non-Govt	To assist Pier 21 Society establish the Pier 21 Centre, an historic attraction and multi-purpose facility to be located on the Halifax Waterfront.
International Year of Music Strategic Sectors/Culture and Heritage March 1997	3,484	1,884	GD	To substantially grow the cultural sector in the province through the development and implementation of a number of activities based upon the music and cultural traditions of the province.
Silicon Island Arts and Innovation Centre Strategic Initiatives/Education and Research June 1997	3,296	2,002	Non-Govt	To renovate the former Courthouse and adjacent facilities at MacDonald House in Sydney, Cape Breton to take advantage of the inherent strengths of the small but growing Cape Breton multimedia sector. The facilities will be used as a Digital Media Innovation Centre, Digital Art Gallery and Digital Business College.

Project Name Program/Strength Date Approved	\$ Committed	\$ Spent	Type of Assistance (Note 1)	Project Objective
BioScience Enterprise Centre Technology Infrastructure/Trade Centre January 1998	1,750 1,500 <u>3,250</u>	394 338 <u>732</u>	Govt Govt	The Waterfront Development Corporation and EDT are to jointly establish an incubation facility in Halifax that will be a major catalyst in the creation of the bio-life science industry sector. The first project mentioned is for the capital improvements and maintenance of the facility and the second project is to cost share the renovations and laboratory installations with tenants.
Computers in Schools Strategic Initiatives/Education and Research April 1996	3,068	3,068	Govt	This project was to establish community education training centres in 135 junior and senior high schools.
Sobey Centre for Business Strategic Initiatives/Multi Sectoral July 1998	2,750	619	Non-Govt	This contribution to Saint Mary's University is to provide for costs earmarked for building space designated for non-academic and non-credit programs in the new building.
Harbour Edge Strategic Initiatives/Culture and Heritage April 1996	2,575	1,000	Non-Govt	To assist the former City of Dartmouth complete Phase II of a commercial and recreational infrastructure project on the Dartmouth Waterfront.
TOTAL	\$ 103,347	\$ 47,133		

Note 1: **Govt** - funds disbursed to government department/agency

Non-Govt - funds disbursed to non-government entity

GD - funds disbursed to government department/agency for sub-projects outside of government

Note 2: Each amount represents one project unless otherwise stated.

Exhibit 6.6

**FOLLOW-UP TO THE FIRST INTERIM AGREEMENT
EVALUATION RECOMMENDATIONS
STATUS AS OF NOVEMBER 1998
(Source: EDT Staff)**

Observations	Department Response
1. Establish a small secretariat with a full-time staff (including clerical) to serve as the central handling point for EDA projects.	Implemented August 1997.
2. Introduce a system of delegation for decision-making on project proposals to speed up project funding decisions and contribute to achieving the client friendly delivery the EDA is seeking.	Agreed to by the EDA Management Committee in November 1997; final component, the ability to make financial commitments below a certain value, subject to confirmation of authorities, is planned to occur in December 1998.
3. The EDA needs a clear strategic focus that both its staff and clients can easily understand.	A strategic plan and updating process for identifying priority projects was accepted in August 1997. The submission of consistent written statements of priority activities at regular Management Committee meetings commenced in February 1998.
4. Create a single entry point for EDA clients which facilitates tracking of proposal status from inception all the way through to completion.	A single entry point for projects was implemented in August 1997.
5. Create a project tracking system for Directorate staff to monitor the outcomes, results and progress of projects from inception to completion.	A unified tracking system for projects was implemented in August 1997. It provides information on the stage of project proposals from receipt to approval or rejection of the proposal. The tracking system is currently being enhanced to provide for effective monitoring and reporting of outcomes and results. Planned implementation is early 1999.