

# 12 NOVA SCOTIA GAMING FOUNDATION - REVIEW OF OPERATIONS

## BACKGROUND

- 12.1** The Nova Scotia Gaming Foundation was established in March 1998 pursuant to the Gaming Control Act and the Provincial Finance Act. The Nova Scotia Gaming Foundation Regulations set out the authority and accountability, and state that the Foundation receives, maintains and disburses funds for research and education regarding gambling or treatment and remediation of the effects of gambling.
- 12.2** Responsibility for the Foundation moved from the Nova Scotia Gaming Corporation and the Minister of Finance to the Minister of Health in 1999. In December 2002, the Office of Health Promotion was created and responsibility for the Foundation was transferred from the Department of Health to this new portfolio.
- 12.3** The Foundation's original Board was comprised of members of the Board of the Nova Scotia Gaming Corporation. In 1999, the Minister of Health appointed an interim board which was later replaced by a permanent board. The Board is currently comprised of five members, with the majority coming from the community at large and one member from a District Health Authority (DHA). Board members are appointed by the Minister for varying terms at the Minister's discretion. Current Board members were appointed for three-year terms with staggered expiry dates.
- 12.4** The Foundation's revenues come from two sources: VLT retailers contribute 1% of their commissions to the Foundation and the Nova Scotia Gaming Corporation matches the retailer contributions. For the year ended March 31, 2003, the Foundation's total revenues from both sources totaled \$910,518. The Foundation had a fund balance of approximately \$4 million as at March 31, 2002.
- 12.5** For 2002-03, the Foundation provided grants totaling \$776,967 (2001-02: \$574,740). Grants fall into several categories including community projects, research grants, operational grants and conference grants. Grant terms and amounts vary up to a maximum of \$300,000 for a period over five years (see Exhibit 12.2 for details). Certain smaller grants for community projects are paid 90% in advance while other larger grants are paid out in installments over the life of the project. Progress reports may be required periodically based on the terms of the funding agreement with a final report required at the end of the project.
- 12.6** Community groups, charities, non-profit organizations, District Health Authorities (DHAs) and others are eligible to receive grants from the Foundation. Individuals and for-profit groups are not eligible for funding. (See Exhibit 12.1 for a description of the Foundation's reporting and funding relationships.)

- 12.7** The Foundation's financial statements are audited annually by this Office. For the year ended March 31, 2003, the Foundation had an unqualified audit opinion.

## RESULTS IN BRIEF

- 12.8** The following are the principal findings from our review:
- The Board and staff of the Foundation have made progress in many areas since assuming responsibility in 1999. The Foundation has expanded its activities and operations and, at the same time, has been improving its administrative processes.
  - The accountability relationship between the Foundation and government is not clear and we recommended this be clarified in the Memorandum of Understanding between the Office of Health Promotion and the Foundation.
  - To date, the Foundation has not developed a process to monitor targets established in its strategic plan. We have recommended that the Board implement a formal process to monitor achievement of these targets.
  - The Foundation's conflict of interest policy does not address the action to be taken when a conflict is disclosed. We have recommended that the Board expand its policy to include this.
  - During the Foundation's stakeholder consultation process, lack of public knowledge of the Foundation and availability of grants was noted. The Foundation's website is a key part of its communication strategy and is under development. We have recommended that the Foundation develop a plan to address completing the website as soon as possible to allow greater access to grant information by applicants.
  - Under the Foundation's current grant process, recipients of certain grant types continue to receive subsequent grant installments even if they do not file the required progress reports. We have recommended that the Foundation require formal progress reports be filed in order for applicants to continue to receive grant funds.
  - The Foundation has a draft investment policy that deals with funds on deposit and the need to protect the principal invested. There is no long-term financial plan which addresses the fund balance to be maintained or projected grant funding. We have recommended that the Foundation formally approve the draft investment policy and develop a long-term financial plan.

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## SCOPE OF REVIEW

**12.9** In March 2003, the Board of Directors of the Foundation wrote our Office to request a review of operations and our suggestions on items to include in a proposed Memorandum of Understanding with the Office of Health Promotion. Accordingly, our objectives for this assignment were to:

- review the operations of the Foundation and assess adequacy of policies and practices in the areas of governance, accountability to the Office of Health Promotion, relationship with District Health Authorities, and grants and investment policies and processes; and
- make recommendations to the Foundation regarding potential items for inclusion in a Memorandum of Understanding with the Office of Health Promotion.

**12.10** It should be noted that this assignment was structured as a review engagement rather than an audit because the primary objective was to respond to the Board's request for advice. The engagement consisted mainly of review, inquiry and discussion and the extent of testing was less than an audit. Therefore, the level of assurance associated with our comments is less than for an audit engagement.

**12.11** Our review of Foundation operations included interviews with Board members, the Foundation staff person, Directors of Addiction Services in DHAs and staff at the Office of Health Promotion as well as a review of documentation.

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## PRINCIPAL FINDINGS

### Accountability

**12.12** The Nova Scotia Gaming Foundation Regulations set out the authority and accountability of the Foundation: "*The Foundation shall be accountable to and under the authority of the Minister.*" (Section 4, Regulations) We noted no instances of non-compliance with the Regulations.

**12.13** Board members expressed concerns that the Foundation was viewed as accountable to the Department of Health (DOH) prior to the transfer of responsibility to the Office of Health Promotion. Staff informed us that the lines of communication from the Minister often went through individuals at DOH rather than directly from the Minister to the Board. This did not appear to cause any operational problems or delays but the Foundation's perception was that it interfered with the Foundation's decision-making authority (see Exhibit 12.1 for a description the Foundation's reporting relationships). Since the transfer to the Office of Health Promotion (OHP), the Board Chair has met with the Minister of OHP and requested that any questions or direction come through the Chair or Foundation staff to the Foundation Board.

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### Recommendation 12.1

We recommend that the Foundation and Office of Health Promotion clarify the roles, responsibilities and accountabilities of both parties and incorporate this in any Memorandum of Understanding.

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## Governance

- 12.14** **Strategic plan** - The Board of Directors of the Foundation approved a strategic plan in late 2002 which is to be implemented during the period from 2002 to 2005. A draft strategic plan was prepared by the Board Chair and Program Administrative Officer for review by the Board. The Foundation's various stakeholders such as community groups and Addiction Services staff in the DHAs were not consulted during the strategic planning process.
- 12.15** Although the strategic plan includes measures, targets and expected results, many of the targets are not quantified, making it difficult for the Foundation to measure progress towards achieving these objectives. For example, one of the targets is to increase the number of applications. This could be improved by quantifying the percentage or number by which the Foundation hopes to increase applications
- 12.16** To date, the Foundation has not developed a process to monitor targets established in the strategic plan. There has been some discussion at the Board level regarding the need for monitoring but nothing had been finalized at the time of writing this Report.

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### Recommendation 12.2

We recommend that the Board consider implementing a formal process to monitor targets set out in the strategic plan.

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- 12.17** **Board composition** - Nova Scotia Gaming Foundation Regulations require the Board of Directors of the Foundation to have at least three members. The current Board has five members, four from the community and one from the District Health Authorities. In our discussions, Board members noted their concern with the current composition of the Board; there are no women and no visible minorities represented on the Board. Three of the four Board members we spoke with indicated they felt the Board could function better with more Directors, suggesting that eight members would permit better discussion, bring additional perspectives to the table and could also help ensure the Board is more representative of the population being served. Board members' expenses to attend meetings are paid by the Foundation. The Board decided not to provide honoraria or any compensation for attendance at meetings.

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**Recommendation 12.3**

We recommend that the Board further explore its composition and, if appropriate, request that the Minister appoint additional directors.

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- 12.18** **Conflict of interest policy** - The Foundation's *Funding Application Procedures Manual* includes a section on conflict of interest which states "Board members, committee members and Foundation staff are required to disclose any relationships with applicants that constitute actual or perceived conflicts of interest. These are disclosed in writing or by notation in the Foundation's minutes..." The policy does not address what action is taken when a conflict is disclosed. Foundation staff informed us that Board members, committee members and reviewers are aware they must identify conflicts of interest with applicants and leave the meeting while that application is being discussed and voted on.

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**Recommendation 12.4**

We recommend that the Foundation Board expand its conflict of interest policy to formally include action to be taken when conflicts are disclosed.

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- 12.19** Board members and staff of the Foundation expressed concerns with potential or perceived conflict of interest. The Board Chair is a Director of Addiction Services for three District Health Authorities and he expressed concern that this could be perceived by the public as a conflict of interest. Some of the grants awarded by the Foundation include operational and project funding to DHAs and some Board members were concerned that the Chair's familiarity with the application process could be seen as giving those DHAs an unfair advantage.
- 12.20** Concern was also expressed regarding potential perceived conflict in the reporting relationship of the Foundation's sole employee. The Program Administrative Officer reports to the Director Addiction Services at the Office of Health Promotion (OHP). OHP recovers 100% of salary, travel, training and other costs for the Program Administrative Officer from the Foundation. Divisions of the OHP may apply for, and in the past, have received Foundation grants. Some Board members suggested that it would be better if the Program Administrative Officer reported directly to the Minister of the OHP rather than to the Director Addiction Services. In our opinion, this is a decision for the Minister of OHP.

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### Recommendation 12.5

We recommend that the following potential conflict of interest areas be addressed in a Memorandum of Understanding between the Foundation and the Office of Health Promotion:

- the Board Chair's role as a Director Addiction Services with the District Health Authorities and related role in applying for Foundation grants on behalf of DHAs; and
  - the Foundation's sole employee's reporting relationship to the Director Addiction Services at the Office of Health Promotion when the Director has involvement in grant applications submitted by Addiction Services.
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## Grant Policies and Procedures

- 12.21** The Foundation's *Funding Application Procedures Manual* provides information to applicants on the types of grants available, eligibility requirements, excluded expenditures and required reporting over the life of the grant. This Manual is included in a brochure package which the Foundation will mail to interested persons on request.
- 12.22** The Foundation has a website which is under development. Application information had not been entered on the website at the time of writing this Report and the Foundation did not have a plan to address completion of the website on a timely basis. When the Foundation consulted various stakeholders in the fall of 2002 during preparation of the *Brand and Marketing Strategy Report*, lack of knowledge of the Foundation and the availability of funds was frequently cited as an area for improvement.

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### Recommendation 12.6

We recommend the Foundation complete its website to enhance communications and address related concerns reported in the *Brand and Marketing Strategy Report*.

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- 12.23** Grant applications are reviewed by various committees comprised of individuals who have expertise in problem gambling. Research grant applications are submitted to a peer review and scoring process through the Nova Scotia Health Research Foundation to provide expertise in the research area. Operational grant applications are reviewed by committees consisting largely of Addiction Services staff from the various District Health Authorities. Community project grant requests are reviewed by qualified reviewers selected based on expertise. Applicants must include measurable objectives and explain how these objectives will be met. The applicant's score, narrative comments from the reviewer(s) and a recommendation on whether to fund are sent to the Board. The committees make recommendations only and the Board formally approves the grants. One exception is conference grants which are awarded by committee. This is a new type of grant that started in April 2003 and no conference grants had been

awarded as of May 2003. For the 2002-03 application year, the Foundation approved 18 grant applications.

- 12.24** Once an application has been approved, the recipient must sign a contract with the Foundation. Contracts include information on use of funds, requirements for accounts to be maintained, a schedule for progress reports required and a requirement that unexpended funds be returned to the Foundation.
- 12.25** The Program Administrative Officer is responsible for overseeing grant payments and, where required, ensuring progress reports have been received prior to payments being released. Final reports are required for all grants and certain types of grants may require interim reports as well. In most cases, these reports are not tied to continued receipt of funding and do not have to be approved by the Board prior to the next grant installment being paid. Grant recipients will still receive funding if they do not submit reports on time. Reports are provided to the Foundation Board for information purposes only. There are two exceptions: annual progress reports must be submitted and approved by the Board before the next installment of multi-year research grants is released; and a final report must be received for certain community group grants before the remaining 10% of the grant is paid.

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#### **Recommendation 12.7**

We recommend the Foundation require progress reports from grant applicants prior to payment of subsequent grant installments.

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### **Investment Policies and Procedures**

- 12.26** **Investment policy** - The Foundation has approximately \$4 million in available funds which earn a rate of return of prime minus 2%. There is a draft investment policy which deals with funds on deposit and considers the need to protect the principal invested. At the time of our review, this policy had not been formally approved. The Board plans to ask the Department of Finance (DOF) for investment advice in order to achieve an increased rate of return with acceptable risk.
- 12.27** **Long-term financial plan** - The Foundation does not have a long-term financial plan to address whether a fund balance should be maintained, how large such a fund should be, or how much the Foundation should allocate to grants each year. The Board has an informal understanding that it will maintain a \$2 million fund balance and that annual grants will be awarded approximately one third to each of operational grants, community projects and research grants.
- 12.28** The Foundation is aware that its existing policy needs to be expanded to address longer-term planning. This could be achieved by establishing parameters for the financial management of the Foundation in the strategic plan.

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## Recommendation 12.8

We recommend that the Foundation:

- formally approve its draft investment policy; and
  - develop a long-term financial plan to address projected grant funding and capital to be maintained.
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## Memorandum of Understanding

**12.29** The Foundation requested our advice on items to include in a proposed Memorandum of Understanding with the Office of Health Promotion. Our primary concern is to ensure adequate accountability for funds and internal controls in an environment with a volunteer board and only one staff person. We suggest the following items be considered for inclusion in the Memorandum of Understanding.

- Agreement on the Foundation's objectives and a determination of the types of programs which would qualify for Foundation funding with a general indication of related amounts
- Clarification of the Foundation's accountability relationship with the Office of Health Promotion including the types of decisions to be made by each
- Measurable performance targets which can be used to determine whether the Foundation has achieved its objectives
- A requirement for the Foundation to provide the Minister an annual business plan and an annual report of how it has achieved its objectives during that year with provision for tabling of each in the House of Assembly
- Clarification of the roles, responsibilities and reporting relationships of the Board, the Foundation's staff person, the Minister of the Office of Health Promotion, the staff of the Office of Health Promotion, and major stakeholders such as District Health Authorities
- Agreement on the reporting relationship of the Foundation's sole employee to the Office of Health Promotion
- Agreement on the long-term financial plan of the Foundation (see recommendation 12.8) and estimated funding for the next three to five years
- An indication of how the Foundation and Office of Health Promotion will work together to ensure eligible grant recipients are made aware of grant availability
- Clarification of how the Foundation's administrative expenses will be funded

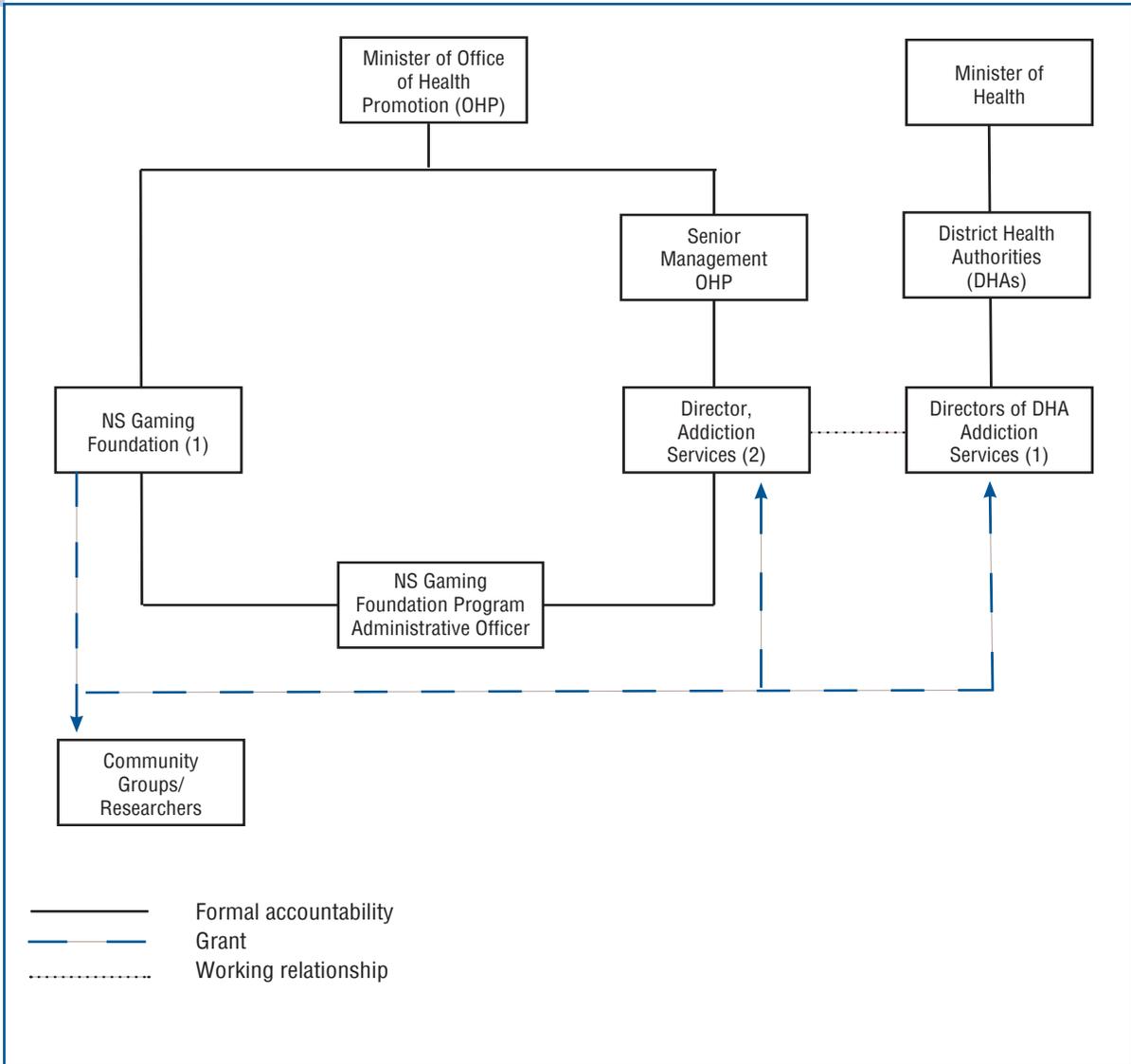
- Agreement on how the Board composition can be changed to be more representative of the population being served

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## CONCLUDING REMARKS

- 12.30** The Board and staff of the Foundation have made progress in many areas since assuming responsibility in 1999. The Foundation has expanded its activities and operations and, at the same time, has been improving its administrative processes.
- 12.31** The relationship between the Foundation and the Office of Health Promotion is a major area of concern for the Foundation. We have provided the Foundation with a list of items to consider for inclusion in a Memorandum of Understanding with the Office of Health Promotion with a view towards clarifying the relationship. The Foundation should also work on its own accountability for funds by implementing a requirement for grant recipients to provide progress reports prior to payment of subsequent grant installments and by developing a long-term financial plan to ensure the continued financial viability of the Foundation.
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### Relationships with Key Stakeholders



- (1) The Nova Scotia Gaming Foundation’s Board Chair is a DHA Director of Addiction Services.
- (2) The incumbent is a former Board Chair of the Nova Scotia Gaming Foundation

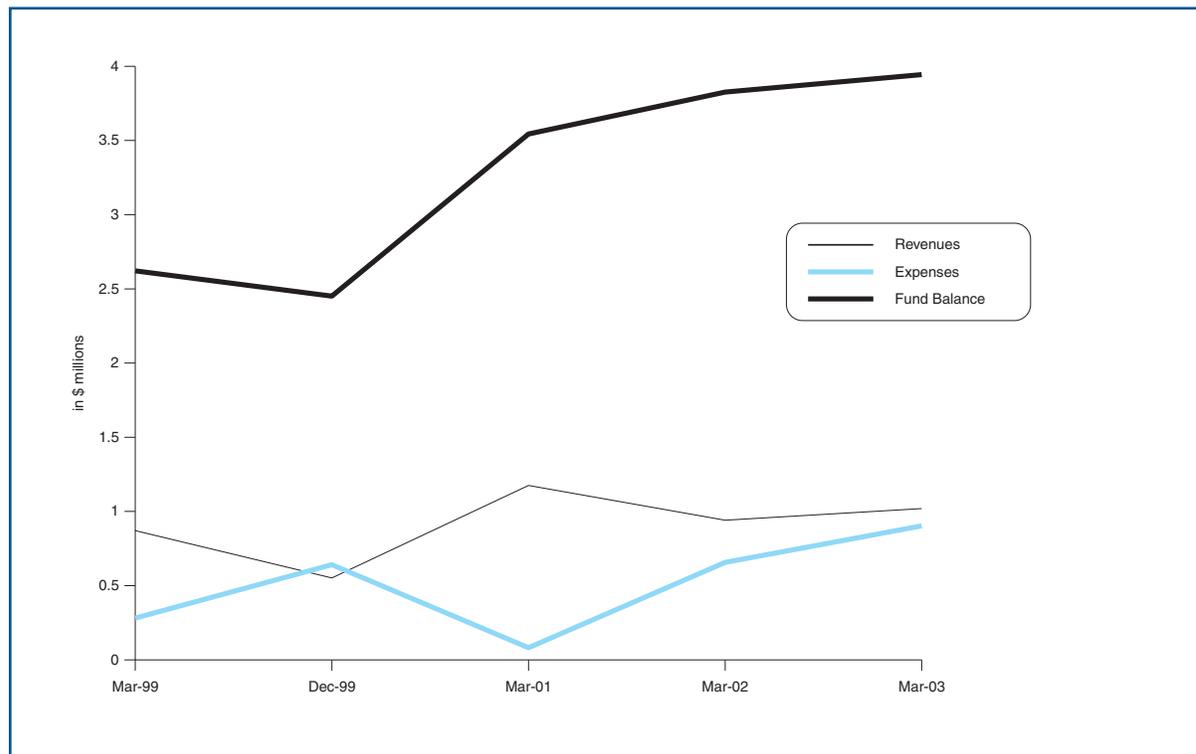
## Project Types and Funding Levels

Exhibit 12.2

Project Type	Funding Levels
Community Project I	up to \$10,000
Community Project II	\$10,000 to \$60,000 (over 3 years)
Community Project III	up to \$300,000 (over 5 years)
Research Grant I	up to \$60,000 ( over 3 years)
Research Grant II	up to \$300,000 (over 5 years)
Community Group Operational Grants	amounts vary

## Nova Scotia Gaming Foundation Fund - Financial History

Exhibit 12.3



## NOVA SCOTIA GAMING FOUNDATION'S RESPONSE

The Board of Directors of the Nova Scotia Gaming Foundation (NSGF) was pleased to receive the Report of the Broadscope Review of the Foundation's operations conducted earlier this year. In general, the Board found the Report very instructive in helping to clarify issues and to illuminate future directions. The Board devoted a full morning of one of its regular meetings to an initial review of the Report, and, subsequently, carried out a more detailed facilitated review, which resulted in the identification of a number of tasks and directions specific to each recommendation. The developments to date follow:

### **Recommendations 12.1 and 12.5** - Memorandum of Understanding with Office of Health Promotion

The Foundation's Board and the Office of Health Promotion strongly support development of a Memorandum of Understanding (MOU). There was ready agreement to initiate a process to develop the MOU and a small Task Group, consisting of Office of Health Promotion and NSGF representatives, was put in place. It is anticipated that those items noted in the Broadscope Review as being relevant to the content of the MOU will be addressed. The issue of the Foundation's mandate, notably the ambiguity of the mandate, is of particular

interest and, again, will be addressed in the MOU.

### **Recommendation 12.2** - Strategic Plan for NSGF

The Board agrees that the Strategic Plan for the Foundation should be updated and that appropriate stakeholder consultation should [be] an important part of the process for developing the plan. The Board identified that there was also a need for updated Business and Operational Plans as part of a larger planning framework.

It is the Board's sense that in order to properly plan and to communicate with stakeholders there must be clarity regarding the mandate (and mission/vision) of the Foundation. The legislation is vague on this issue, and, accordingly, while the Foundation began with what appeared to be a fairly clear mandate, this has been amended over time as understanding of the role of the Foundation has evolved and as circumstances have appeared to warrant. The result, however, is that, as suggested above, there is currently ambiguity and unclarity with respect to the mandate - which we expect will be cleared up in and through the MOU.

The Board would foresee planning processes flowing from this preliminary work focusing on mandate, roles and relationships.

**Recommendation 12.3 – Board Composition**

Several representations have been made encouraging the appointment of additional Board members and calling attention to the need for greater diversity of membership. The Board has also advised that there have been lengthy delays in appointing/replacing Board Members. We have noted that vacancies on the NSGF Board were included in a recent newspaper ad depicting openings on various provincial Agencies, Boards and Commissions. This issue is somewhat beyond the control of the Foundation, but we will continue to advocate for its resolution to such an extent as seems warranted.

**Recommendation 12.4 - Conflict of Interest Policy and Procedures**

As was noted during the review, this issue has been of special interest to the Board for some time. To some extent, the Board sees 'conflict of interest' as tied to the issue of what it means for the Board to function in an 'arm's length' capacity from government and, more specifically, from the Office of Health Promotion.

The Board has begun to develop written policies and procedures with respect to conflict of interest. Initial work has been

completed regarding conflict of interest pertaining to the review of applications. The next step will be to formalize and approve policies and procedures to guide the activities and decision-making processes of the Board's Directors. The Board regards this as a matter of considerable importance.

While it has been our hope that issues pertaining to accountability and the relationship of the Foundation to the Office of Health Promotion would be addressed within the MOU, I am pleased to advise that events themselves have actually been proceeding somewhat more quickly. All parties agree that there should be, and should be perceived to be, an arm's length relationship between the Foundation and the Office of Health Promotion. To this end, the decision has been taken to relocate the Foundation's operations.

The Board will also be proceeding with plans to restructure its staffing. Specifically, the Board intends to create an Executive Director position, reporting directly to the Board, along with a 60% clerical/administrative support position, reporting to the Executive Director.

These various undertakings should together permit resolution of the outstanding concerns related to conflict of interest.

**Recommendation 12.6** - Communications and Web Site

Continued development and refinement of the Foundation's Web Site is progressing through contracted services. As well, the Foundation has contracted with a third party to evaluate and revise all application forms and reporting forms. The goal of this initiative is to ensure that all our forms are as 'user friendly' as possible, while still maintaining accepted standards related to quality of information and accountability.

**Recommendation 12.7** – Progress Reports from Applicants for Subsequent Funding Disbursements

The Board agrees with and will act on this recommendation. Additionally, the requirement will be included in future contracts between the Foundation and grant recipients.

**Recommendation 12.8** – Investment Policy and Financial Plan

After a number of unsuccessful attempts to obtain investment advice and assistance in developing a long-term financial plan, from external sources, the Board will be attempting to deal with this need with the assistance of the Chief Financial Officer for

the Department of Health/Office of Health Promotion.

The foregoing summarizes the Nova Scotia Gaming Foundation's response to the Broadscope Review.

# Crown Agencies and Corporations