

# Chapter 5

## Department of Economic Development and Tourism Financial Assistance to Business and Performance Reporting

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# Department of Economic Development and Tourism Financial Assistance to Business and Performance Reporting

## Background

**5.1** During the 1996-97 audit year, we reviewed government assistance provided to the Centre Plein Air de Kegwick project. Results of that audit were presented in our 1997 Report. We indicated that we intended, during the 1997-98 audit year, to review “certain government programs used to encourage economic development in the Province.”

**5.2** We selected the Department of Economic Development and Tourism, and specifically financial assistance to business, for audit for two main reasons. First, as can be seen in Exhibit 5.1, direct financial assistance provided to business over the past five years has grown substantially. This is, in effect, discretionary departmental spending. Second, the actual number of clients dealt with by the Department has also grown dramatically in recent years without commensurate increases in the number of staff available to handle them. Thus, there is an increased risk that important control procedures may not be properly completed.

### *Exhibit 5.1*

#### *Financial assistance to business cash outlays*

	1997	1996	1995	1994	1993
New loans	\$ 17,182,229	\$ 25,132,134	\$ 24,645,486	\$ 2,478,398	\$ 6,160,133
Loan recoveries	(5,128,611)	(6,702,542)	(2,927,630)	(2,053,081)	(678,408)
Payouts on guarantees	1,168,758	621,693	2,060,760	8,678,652	435,601
Recoveries of payouts on guarantees	-	-	(55,329)	(84)	(401)
Strategic assistance	17,177,000	21,515,712	10,803,930	1,200,000	9,162,192
<b>Total cash outlays</b>	<b>\$ 30,399,376</b>	<b>\$ 40,566,997</b>	<b>\$ 34,527,217</b>	<b>\$ 10,303,885</b>	<b>\$ 15,079,117</b>

**5.3** We decided to focus on the involvement of the Financial Services section in providing direct financial assistance to business. The objective of the Financial Services section is stated as follows in the 1997-98 provincial Main Estimates:

*Evaluate and make recommendations on financial assistance requests for guaranteed loans, bonds and debentures, direct loans, strategic assistance and equity under the Economic Development Act as well as assistance via Provincial Holdings Ltd. Provide ongoing monitoring of firms which have received financial assistance. Provide staff support to the New Brunswick Industrial Development Board and the New Brunswick Industrial Development Appeal Board.*

**5.4** The types of assistance specified cover the great majority of departmental expenditures for direct financial assistance to business. This indicates that the Financial Services section is primarily responsible for controlling the process of providing direct assistance to business. Growth in activity levels in that section over the past ten years has been remarkable. During that period total submissions processed have increased by four hundred and thirty-eight percent. Additionally, the portfolio of clients for which the section is responsible on an ongoing basis has more than tripled. This has resulted from the strong emphasis placed by the current government on job creation and related attempts to encourage business growth in the Province.

*Exhibit 5.2  
Financial programs section  
activity level*

<b>Fiscal Year</b>	<b>Total Submissions Coordinated and Recommendations Made (Approval/Assessment Process)</b>	<b>Portfolio of Clients Monitored and Advised (Monitoring Process)</b>
1986-87	58	95
1987-88	67	96
1988-89	72	102
1989-90	106	113
1990-91	108	132
1991-92	142	143
1992-93	128	192
1993-94	114	200
1994-95	162	210
1995-96	149	276
1996-97	254	299
<b>10-year growth</b>	<b>438%</b>	<b>315%</b>

**Note:** Information from departmental annual reports.

**5.5** In planning our audit in the Department of Economic Development and Tourism, we decided it would also be a good

opportunity to look at departmental performance reporting. A major focus of our work in recent years has been accountability. This is reflected in the mission statement of the Office of the Auditor General which states the following.

*We promote accountability by providing objective information to the people of New Brunswick through the Legislative Assembly.*

**5.6** Government departments and Crown agencies are currently grappling with issues surrounding performance reporting in order to improve accountability. While we recognize that the process is ongoing at the Department of Economic Development and Tourism, we felt it was appropriate for us to make a “status report” on the progress to date in establishing performance reporting in the Department.

### ***New Brunswick economic situation***

**5.7** At 31 December 1987 there were a total of 282,300 people working in the province. The total number of registered unemployed was 42,700. This meant that the unemployment rate was 13.1%. At 31 December 1997 there were 322,000 people working and 46,400 were registered as unemployed. This meant that the unemployment rate at 31 December 1997 was 12.6%. The province was tied for eighth best among Canadian provinces in 1987 and was also eighth in 1997. The percentage that New Brunswick’s unemployment rate was over the national average was 47.2% at the end of 1987 and 37.0% at the end of 1997. There were approximately 40,000 more people working at the end of 1997 than ten years earlier.

### **Scope**

**5.8** Our objective for this audit project was to report under Section 13 of the Auditor General Act, whether financial assistance provided to business under the Economic Development Act is appropriately approved and monitored, and whether an appropriate effectiveness reporting system is in place and functioning.

**5.9** Our examination focussed on financial assistance provided in the form of strategic assistance (i.e. forgivable loans and grants), loans, and loan guarantees, and administered by the Financial Services section. It did not look at programs administered outside the Financial Services section (e.g. Self-Start, SECAP). However, in completing our work on performance reporting, it was necessary for us to look beyond the Financial Services section.

**5.10** Our work included interviews with all members of senior management in the Department. We also held discussions with departmental staff and examined various departmental and statistical reports. A significant amount of detailed testing was performed on client files in connection with the approval and monitoring sections of this project. We reviewed project reports prepared by other provincial audit

offices in the area of economic development. We also referred to general performance reporting literature.

**5.11** It is important to note that these findings relate only to financial assistance provided under the Economic Development Act and administered by the Financial Services section. For purposes of this review, financial assistance provided by Provincial Holdings Limited (PHL) has been disregarded, even though that assistance is also administered by the Financial Services section of the Department.

## Results in brief

### *Approvals*

**5.12** There is an application approval process in place that includes several levels of review. The Financial Services section is key in this process.

**5.13** The departmental policy and procedures manual is not consistently adhered to in the application approval process. The policy and procedures manual also requires updating in many areas.

**5.14** Client files do not adequately document the decision-making process for applications. They are neither clearly laid out nor well organized. It is often difficult or impossible to determine why decisions such as the approval of financial assistance were made in light of negative information on file.

**5.15** Criteria have been established for use in evaluating client applications. However, no benchmarks have been set against most of these criteria regarding what constitutes acceptability.

**5.16** Client assertions at the application stage do not appear to be subject to sufficient analysis and review to determine if they are reasonable and achievable.

**5.17** The review and approval of client applications by the Board of Management in routine cases and where moderate amounts of assistance are given does not seem to add any additional control or value to the application approval process.

### *Monitoring*

**5.18** Current monitoring of departmental clients does not appear to be sufficient to safeguard provincial investments, and to meet other objectives of an effective monitoring program.

**5.19** Departmental representatives estimate that only twenty percent of Financial Services available time is spent on monitoring activities.

**5.20** The departmental policy and procedures manual is not consistently adhered to in monitoring existing clients.

**5.21** There are no routine monitoring programs followed for departmental clients. Monitoring activity is generally limited to dealing with clients who have encountered serious problems.

**5.22** Client files do not adequately document the monitoring work that has been performed. They are neither clearly laid out nor well organized. It is often difficult or impossible to determine why decisions such as the forgiveness of forgivable loans were made.

**5.23** Client assertions in the loan forgiveness process do not appear to be subject to sufficient review to determine if they are accurate.

**5.24** Loan agreements do not provide effective remedies for use in cases where clients have not complied with the terms of their agreements.

### *Performance reporting*

**5.25** The Department has made a good start on reporting its performance.

**5.26** There is no formal mission statement for the Department.

**5.27** The Department has not identified measurable strategic objectives against which performance indicators should be set.

**5.28** The Department has set some performance indicators and has established targets for them. Actual results are compared with the targets in the 1996-97 departmental annual report. Additional performance indicators were developed for the 1997-98 fiscal year.

**5.29** The 1996-97 performance indicators do not allow for an objective assessment of all mission-critical aspects of the Department's performance. New performance indicators developed for 1997-98 partially address this deficiency.

**5.30** The Department does not comply with significant aspects of the Province of New Brunswick Annual Report Policy.

### **Detailed findings**

**5.31** We recognise that there have been a number of accomplishments in terms of job creation and successes in attracting businesses to the Province. There are jobs in New Brunswick that would not be here without departmental initiatives. We have also observed that staff is very committed to the task of actively seeking out opportunities for economic development and working to create a climate for development initiatives to succeed. However, we would like to make the following observations relating to the approval and monitoring of financial assistance to business, and performance reporting in the Department. We believe that implementing our recommendations should help ensure the Department provides staff with the tools and direction to build upon past success. They

should also ensure that an appropriate environment of accountability exists.

## **Approvals**

### **Application approval process**

**5.32** Once a company has indicated an interest in receiving financial assistance from the Province the account is assigned to an individual in Financial Services. Usually this is a project executive, but in some situations a more senior staff member may be assigned. The responsible individual will gather information and perform analysis as required in order to decide if the assistance is warranted. The staff member then prepares a report presenting their approval or rejection of the financial assistance and the reasons for their recommendation.

**5.33** A supervisor, either the Director of Financial Services or a project coordinator, will then review the work and decide if sufficient analysis has been done to support the recommendation. The file is passed on to the Director of Financial Services (if applicable) and the Assistant Deputy Minister of Finance, Infrastructure and Policy for approval. If they approve the project it is presented to the New Brunswick Industrial Development Board (NBIDB) for their review. The NBIDB is made up of senior managers from the Department. The NBIDB will either accept or reject the recommendation.

**5.34** If the NBIDB approves the recommendation and the assistance request is more than \$100,000, a submission is made to the Board of Management (BOM). If the BOM approves the project it goes to the Executive Council for final approval. If assistance is granted, it is documented in an Order in Council. For assistance amounts under \$100,000 the Minister of Economic Development and Tourism gives final approval.

### **Policies for application evaluation**

**5.35** Policies covering the approval process, including the assessment of financial risk, assistance conditions, and appeal processes for clients have been documented by the Department. Most of these policies are included in the departmental policy and procedures manual. We did note that recently developed economic payback and risk evaluation methodologies have not yet been included in that manual.

**5.36** It is our understanding that the policies documented in the policies and procedures manual are intended to be basic approaches taken by the Financial Services section in reviewing projects and not firm departmental policy that must be complied with. This was confirmed by departmental project executives who said they use it more as a reference book than a policy and procedures manual. The Department places a strong emphasis on the professional judgement of the project executives, coordinators, and Director of the Financial Services section in developing recommendations to accept or reject client applications. Our testing of specific client files also indicated that aspects of the documented policy are not complied with in the review of applications and that the procedures applied to applications vary from file to file. Project executives gather evidence on a

file until they are comfortable making a recommendation to accept or reject the project. There are no consistently followed standards in evaluating an application.

**5.37** We feel that this degree of flexibility in interpreting application approval policies may not be appropriate. We do not discourage flexibility, but there must be some framework within which decisions are made or there can be no accountability for decision-making, and mistakes made are more likely to be repeated. Additionally, applicants for assistance should be treated consistently in the interest of fairness. Only through consistent application of departmental policies is this likely to be achieved. Having clearly stated policies in certain critical areas would also provide guidance for new staff members, thereby improving their effectiveness. We feel it would be appropriate to update the policy and procedures manual identifying policies that must be followed and areas where discretion on the part of financial programs staff is allowed.

#### **Recommendation**

**5.38** **The policy and procedures manual should be updated for the application evaluation area to reflect current practice, including guidance on the current economic payback and risk evaluation methodologies that are in use. Areas of discretionary judgement in application evaluation should be identified as such, and areas where a particular procedure must be followed should also be highlighted. The Department should assess applications consistent with the departmental policy and procedures manual or file sufficient explanations as to why the process was not followed in specific cases. This will ensure consistent evaluation of applications by staff.**

#### **Selection criteria - departmental policy**

**5.39** Because of the day-to-day timing of project applications, it is very difficult to effectively prioritize competing projects in comparison with each other. Therefore we feel that selection criteria and benchmark acceptance levels are necessary to allow for an objective comparison of competing projects as applications are received. Applications should be assessed against these selection criteria and benchmarks.

**5.40** Economic payback (i.e. the estimated number of years it will take for the Department to recover a particular investment through direct taxation), overall project risk, and relative fit into the departmental development strategy are three specific decision-making criteria used in the existing process to determine project acceptability. These policies are not covered in the policy and procedures manual. The economic payback factor has had benchmarks set for it for use in rating client applications.

**5.41** The policy and procedures manual identifies certain other information to be looked at in evaluating an application. This information includes the results of credit checks, and analyses dealing with such areas as potential market for the product, financial viability of the business, equity investment available, management ability, marketing plans, financial plans, ability to meet the payment terms, and other areas. We



note, however, that the policy and procedures manual does not define acceptability “benchmarks” or provide any other guidance on how to evaluate information once it has been obtained.

## **Recommendation**

**5.42 The policy and procedures manual should define benchmark acceptance levels for each selection criterion, as well as guidelines for use in evaluating client information.**

## **Selection criteria – practical application**

**5.43** We looked at a number of approved client files and held discussions with various departmental representatives to try to determine if selection criteria and information identified in the policy and procedures manual was used in evaluating client applications. Economic payback and overall project risk were always considered. However, it was difficult, given the deficiencies in documentation in many files, to determine what other information was obtained and how that information was assessed. This made it difficult to determine if the overall decision was adequately supported. We feel that it would be appropriate to clearly document the decision-making process by providing documented conclusions for each key analysis completed and for each criterion evaluated. A rationale for each assessment should also be provided including reasons why certain information has not been considered.

**5.44** In the paragraphs that follow, we will give examples of some of the problems we noted in reviewing a sample of seventeen client files. Each of the clients we selected was approved for financial assistance between 1994 and 1997.

**5.45** In some of the files we examined certain selection criteria and information were not considered, but other evidence such as the history and reputation of the company was relied upon. This seems appropriate for well-established, successful companies, although we still feel that some minimal level of analysis would be appropriate. Also, we would have expected to see a rationale on file as to why regular evaluation procedures were not applied. This was not present in the files that we examined.

**5.46** Under the Economic Development Act, the Minister has the authority to make an assistance decision contrary to a recommendation from his professional staff. We are not questioning this authority. However, in the file we reviewed where this had happened, there was no documented rationale for the Minister’s decision. We suggest that in the future it would be appropriate to have the rationale for such decisions documented in the file.

**5.47** In the case of another application, overall risk was judged to be high, equity input from the client was very low, and economic payback to the Province was extremely long. Thus, the ultimate recommendation to provide financial assistance to this company did not seem to be adequately supported and we were unable to find adequate explanations on file as to

why funding was approved. This company ultimately had to come back to the Department for more funding to avoid insolvency.

**5.48** Other approved applications indicated other serious weaknesses in criteria evaluations. The analysis of one company indicated that it had questionable management ability. Another had an unproven product and no financial or marketing expertise. A third file indicated the client had no financial expertise, a poor relationship with its commercial bank, and a poor history with the Department. None of these files documented a rationale for the decision to go ahead and provide assistance. Two of these ventures subsequently failed. We feel that where serious shortcomings exist in criteria or key analyses, as in the cases discussed above, and the application is approved, the rationale for approval in light of these negative findings should be documented.

**5.49** Departmental clients are usually companies expanding into new markets and/or creating new products. In many cases they approach the Department as a lender of last resort since the banks have already rejected funding requests. Thus, financial assistance is often approved even when criteria evaluations are not all satisfactory. We feel that this may, in fact, be appropriate in some cases. As lender of last resort for many of their clients, the Department must expect some weaknesses. The difficulty comes in determining how much of an impact that identified weaknesses will have on the viability of the operation, and thus on the public investment made by the Department. While some business failures among departmental financial assistance clients should be expected, we have observed that applicants with few identified deficiencies seem to stand a better chance of success. As commercial banks often do, it may be appropriate for the Department to require the applicant to address weaknesses before assistance is approved. Not advancing any monies until these deficiencies are addressed may better safeguard the public investment, while at the same time providing the company with a better opportunity to be successful.

**5.50** We also have a concern with the overall risk analyses being done. As has already been discussed, many departmental clients have significant weaknesses. We would, therefore, expect that most of these companies would be evaluated as having high or very high risk. However, we noted in our testing that many such companies were evaluated as being low risk. A lower risk evaluation improves the chance of a client application being accepted under current departmental methodology.

**5.51** Clearly documenting the steps in the decision-making process as we have discussed in this section would have several benefits. It would ensure that key criteria and other important information were considered in making the decision. It would also establish clear accountability for decisions that were made. Additionally, it would provide information to facilitate file review, monitoring, and follow-up activities. We also feel that one of the Financial Services coordinators should review all files to

ensure that appropriate procedures have been completed in evaluating the application. This review should occur prior to the proposal being taken to the NBIDB.

## Recommendations

**5.52 Each client file should document each of the selection criteria considered and show whether it meets the established benchmark. Information and analyses supporting the evaluation and a conclusion regarding each criterion and key analysis should be present.**

**5.53 In cases where approval of the application has been recommended even though one or more benchmarks have not been met, a rationale for the approval should be documented.**

**5.54 Where not all selection criteria and key information have been considered for a specific client, the rationale for the omissions should be documented.**

**5.55 Where it would increase the chance of success of the applicant the Department should tie corrective action on the part of the applicant to approval of the assistance.**

**5.56 One of the Financial Services coordinators should review all client files to ensure all applicable procedures have been completed prior to sending the proposal to the NBIDB.**

## Verification of client's assertions

**5.57** As part of the application process, clients are required to provide certain pertinent information to the Department. This information includes business plans, audited or non-audited financial statements, job-creation forecasts, and other information as required by the Department to analyze the selection criteria. We feel that it is important that this information be assessed for reasonableness by departmental staff to the greatest extent possible. It is to no one's benefit if the Department accepts overly optimistic figures from an applicant. This will generally lead to the applicant being under-funded, thereby putting the Department's investment at greater risk. It may also lead to an additional departmental investment being necessary at a later date, or failure of the enterprise.

**5.58** Our discussions with departmental staff led us to believe that some verification of client information is done. Again, due to problems of file organization and incomplete documentation, we were not able to conclude that client assertions had been subjected to sufficient analysis and review in all cases. Also, in some cases we were unsure whether certain key information had been received from the client at all.

**5.59** We did note that in several files the clients' forecasts as shown in their business plans, and used in the application evaluation process, were not met. For example, markets were not penetrated or were not penetrated as fast as the client anticipated in business plans. Jobs were not created or not created as fast as forecasts indicated. Construction of facilities was

slower than represented in information provided to the Department. Profit margins were not as high as projected. These findings seemed to indicate a tendency on the part of applicants to present an overly optimistic picture of the companies' prospects in order to secure departmental funding.

**5.60** While we admit that hindsight is 20/20, we feel that these findings are an indication that more should be done to assess the reasonableness of applicant assertions during the approval process. We believe that an appropriate client analysis would include a review of the client's business plan, financial statements and projections, marketing plans, and other significant representations to ensure the clients' plans are reasonable and achievable. Requirements with regard to the verification of client information should be documented in the departmental policy and procedures manual. It was not clear to us in our review that departmental analysis covered these critical areas in all cases. In certain cases, where specific industry expertise is not available inside the department it might be useful to seek the aid of outside experts.

## Recommendations

**5.61 Client assertions should be subjected to sufficient analysis and review to determine, within reasonable limits, that plans are reasonable and achievable.**

**5.62 Requirements to verify client assertions should be documented in the policy and procedures manual.**

**5.63 Documentation showing the analysis and review performed by the Department in determining the validity of client assertions, along with client backup documents, should be placed in the client files.**

**5.64 Consideration should be given to using outside experts in evaluating assertions made by applicants where specific industry expertise is not available in-house.**

## Final approval of assistance

**5.65** In general, applications for government assistance we examined were processed in a timely manner. However, we noted that there is one area of duplication of effort built into the approval process. The Industrial Development Board, which is made up of senior civil servants from within the Department, and the Board of Management must both approve financial assistance for most files. Both groups appear to base their decisions on similar analyses prepared by project executives. In our opinion, the Board of Management review adds little incremental control benefit to the approval process, and it does slow down the process by a few weeks as well as adding to the workload of departmental staff. Currently the Board of Management must approve every application for funding that exceeds \$100,000 in total. With the large increase in activity in the Department, this has significantly increased the number of files that have to go to the Board of Management for final approval. In our opinion, raising the approval limit to a higher figure would not significantly increase the control risk to the Province. However, it would speed up the

approval process by approximately two weeks for many files and would also reduce the work required of departmental staff.

**Recommendation**

**5.66 Consideration should be given to increasing the cut-off for assistance applications that must go to the Board of Management for approval from \$100,000 to a higher limit.**

**Monitoring****Staff assignment**

**5.67** From the discussions we held with departmental personnel, we learned that over 80% of the time available to loan officers is directed toward the processing and approval of applications for assistance. The balance of just 20% is devoted to monitoring. So, most of the efforts of project executives have been focused on job creation. As job creation is currently the key focus of the Department and one of the most important areas in the evaluation of the individual performance of project executives, this is not surprising. However we feel that monitoring activities are also very important. There are five important outcomes that can be achieved by performing monitoring activities. Those outcomes include safeguarding the provincial financial investment, contributing to the success of the client by identifying problems early enough to correct them and avoid failure, generating performance reporting information, obtaining information to ensure compliance with agreements, and providing a learning tool for financial officers. We feel that the workload and staff requirements should be examined and modified as required to allow time for essential monitoring activities.

**Recommendation**

**5.68 The workload and staff requirements should be examined and modified as required to allow time for essential monitoring activities.**

**Monitoring program**

**5.69** In preliminary discussions with departmental staff, we were told that there is no regular schedule or program of monitoring activities that is followed for assistance clients. Project executives told us that most monitoring time is currently spent dealing with clients experiencing serious problems. When such a client is identified, project executives are in frequent contact with that client to try to resolve the situation. Otherwise, monitoring activity is minimal. In files we examined, we were unable to find much indication that monitoring work had been performed. Clients only complied partially with the terms and conditions contained in their letters of offer and their agreements. There was usually no indication that this non-compliance had been identified or dealt with by loan officers.

**5.70** We also found that file documentation, where monitoring activity had been undertaken, was very limited. Often, the only way to determine what monitoring activity had been completed was to talk with the responsible project executives. There are currently no policies in the departmental policy and procedures manual or elsewhere establishing how monitoring activities should be documented.

**5.71** The departmental policy and procedures manual does include some required procedures related to monitoring called "*Account*

*Management Procedures.*” However, several of the project executives we talked to were not familiar with them and none followed them. Some stated that since project executives are primarily evaluated on their job creation activities (i.e. processing client applications for assistance), monitoring is not considered a priority. In our opinion, the current level of monitoring activity performed on financial assistance clients is not sufficient to meet the objectives of an effective monitoring program.

**5.72** During 1997, the Office of the Comptroller performed a review of the strategic assistance program. In their subsequent report, they recommended that client risk level be assessed in determining appropriate monitoring procedures to perform. We agree with this recommendation, and would suggest that the risk evaluation developed during the application evaluation process be used. We also feel that it would be most appropriate to develop a monitoring program for each client as part of the application approval process. This would allow the involved loan officer to determine what information would be required from the client and to document those requirements in the loan agreement. The suggested monitoring program for each client should be presented to the Industrial Development Board for review and approval. Further, for all clients identified as high risk, required monitoring and performance reporting information should include audited financial statements, and audited job creation and payroll information.

**5.73** In general, we feel that each client should be subject to routine monitoring on an ongoing and timely basis as documented in their approved monitoring program. Additional, non-routine monitoring activities should also be performed when exception reports indicate client arrears, upcoming forgiveness dates, or where other problems have been encountered. All requirements relating to monitoring programs and file documentation for assistance clients should be documented in the departmental policy and procedures manual.

## Recommendations

**5.74 A monitoring program should be developed for each client as part of the application approval process. The extent and nature of monitoring procedures in that program should be based upon a risk evaluation of the client. The program should be presented to the Industrial Development Board for approval as part of the assistance approval process. Each client should be subject to routine monitoring on an ongoing and timely basis as documented in their approved monitoring program.**

**5.75 Monitoring and performance reporting information to be provided by the client should be specified in the formal agreement(s). For all clients identified as high risk, this information should include audited financial statements and audited job creation and payroll information.**

**5.76 All requirements relating to monitoring programs and file documentation for assistance clients should be included in the departmental policy and procedures manual.**

**Action taken relating to identified client problems**

**5.77** As already discussed, due to the limited attention paid to monitoring activities by the Department, client problems are usually not identified until they become serious. It is at that point that most of the monitoring effort takes place. Often, the clients and project executives come up with a solution, which is then forwarded to the Board of Management for consideration and approval. Because of the timing, such solutions often involve additional assistance or other concessions being provided to the client by the Department.

**5.78** Actions currently being taken by project executives seem appropriate in the circumstances. However, a regular program of monitoring could give the Department the opportunity to identify client problems before they become serious, thereby allowing for a wider range of possible solutions in many cases.

**5.79** There are no documented policies to be followed in cases where clients experience problems. We feel that it would be appropriate to add guidance to the departmental policy and procedures manual in this area.

**Recommendation**

**5.80 Policies should be added to the departmental policy and procedures manual to cover actions to be taken in cases when monitoring activities have indicated client problems. Such policies would be most effectively applied if there was also a regular monitoring regime in place, as this would allow for the early identification of client problems.**

**Loan forgiveness procedures**

**5.81** A forgivable loan is advanced to assistance recipients by the Department on the understanding that it will be repayable if certain terms are not met by a specified date. It is important that the Department evaluate compliance by the client on or near that date in order to determine if the client has satisfied those terms, for example that certain levels of job creation have been met, allowing the loan to be forgiven.

**5.82** In our review, we noted that forgiveness procedures are often initiated as a result of client contact, rather than as part of regular departmental procedures. Because they are so busy processing applications for assistance, project executives do not deal proactively with this aspect of monitoring.

**5.83** There are no policies in place concerning the loan forgiveness process. We were told that project executives use their own judgement in verifying compliance with a loan agreement prior to recommending forgiveness. In files we examined, there was very little or no evidence indicating that a review had taken place. In general, file documentation did not adequately support the contention that the client had met all terms

for forgiveness. We feel that compliance with forgiveness clauses should be fully documented and supported with evidence before a loan is forgiven.

**5.84** The Office of the Comptroller made many of the same observations relating to the forgiveness of loans in their 1997 review.

## Recommendations

**5.85 Policies for loan forgiveness should be clearly defined in the departmental policy and procedures manual. These policies should clarify what steps must be taken to verify a client's assertions. They should also clearly indicate under what conditions loan forgiveness may be recommended, and when other actions must be taken.**

**5.86 These policies should be followed in determining whether to forgive the loan, or whether to take some other action.**

**5.87 Documentation of steps taken to verify a client's assertions and evidence supporting those assertions should be in the client's file. This documentation should support the action taken.**

## Action taken when client has not met terms of their agreement

**5.88** Each financial assistance client must sign a loan agreement(s) with the Department in which certain terms are specified. We feel it is important that the terms of the agreements signed between the client and the Department be honoured. Timely and appropriate action should be taken when clients have not met the terms of their agreements. This would include cases where the client has not met the terms of a forgivable loan, where a repayable loan client is in principal or interest arrears, or where loan guarantee fees are in arrears.

**5.89** In discussions with departmental representatives, we determined that there is no policy in place giving guidance as to actions to take when clients have not met terms of their assistance agreements. Unlike a commercial bank, the Department does not often have the option of quickly seizing assets or taking other actions to recover as much of the initial investment as possible when a client falls into significant arrears. The Department must also assess the impact of possible losses of employment and other economic benefits to the particular region. Therefore, it often delays collection activities. We feel that the effect of this inaction is to put full recovery at risk.

**5.90** We understand that in serious cases of non-compliance frequent contact with the client usually takes place. Often the result is a proposal for restructuring the funding arrangement between the Department and the client. Collection of outstanding amounts is rarely considered unless the company has gone into receivership or bankruptcy, and recoveries by that point are often insignificant.

**5.91** We feel that a departmental policy covering action to take in cases of client non-compliance with loan terms should be developed. While the



policy should consider the effect on clients of enforcing agreements, it should also consider the Department's duty to safeguard public investments to the greatest extent possible. The opportunity cost of not recovering these funds, which would otherwise be available for public use, should be taken into account.

**5.92** We also determined, in our discussions with project executives, that effective remedies to deal with client non-compliance with loan agreement terms may not exist. Project executives noted that once funds are advanced to the client, they have little recourse when the terms of loan agreements are not complied with. The Department does not usually have a first claim on client assets and assistance advanced is often completely unsecured.

**5.93** We feel that effective remedies should be identified and clearly documented in the terms of loan agreements. In addition, use of these remedies in cases of non-compliance should be supported by the Department. In our opinion, the Province, and therefore the public, has provided funds to clients in good faith. In cases where the client has been unwilling or unable to meet their end of the agreement, the Department is quite justified in taking action to recover as much of the investment as is practical. We feel that it is very important to give project executives the tools necessary to recover public investment in cases where non-compliance occurs. This is simply good risk management.

## Recommendations

**5.94** **Effective remedies should be included in loan agreements to cover cases of client non-compliance with agreement terms.**

**5.95** **Policies should be documented in the departmental policy and procedures manual to cover actions to be taken when a client has not met the terms of their agreement.**

## Performance reporting

### Section introduction

**5.96** Performance reporting is an important facet of modern public accountability. During the last few years, the Province has taken steps to introduce performance reporting in the public sector in New Brunswick. Our audit work in the Department of Economic Development and Tourism gave us the opportunity to complete a review of performance reporting by the Department. This is the first such review we have performed since the Province introduced performance reporting. We plan to complete additional reviews of performance reporting in other departments in the coming years.

**5.97** There is a particular process that needs to be followed to ensure that there is effective reporting of performance. Departments and agencies need to clearly define their strategic objectives, identify performance indicators that will allow for the evaluation of those objectives, set targets for those indicators, and report actual performance against those targets. Variances between targeted and actual performance need to be explained.

**5.98** We agree with the provincial annual report policy that indicates that the most appropriate means of conveying performance reporting information is through the annual report. Such information should allow the reader of the annual report to determine, in as objective a way as possible, the extent to which a department has achieved its strategic objectives and its mission.

**5.99** Inherent in the process of setting performance targets, and then reporting achievements against those targets, is that targets will sometimes not be met. In performance reporting, this should not automatically be considered as “failure.” An important part of performance reporting is considering explanations as to why targets were or were not reached. Equally important is the identification as to what will be done differently in the following year as a result of experience gained. It is crucial to the success of performance reporting that all parties recognize this and use performance reporting information as a method of improving the organization, and not simply as a source of information in assessing individual or workgroup performance.

**5.100 In our opinion, the Department has made a good start on reporting its performance.** However, we feel that by making the improvements we have recommended, the Department would enhance the effectiveness of its performance reporting.

#### **Performance reporting process**

**5.101** There are a number of steps in the performance reporting process.

**5.102** The first step is to develop a mission statement and strategic objectives for the organization. The mission statement will explain the reason for the existence of the organization. The strategic objectives will identify, in clear, measurable terms, what is required to satisfy that mission.

**5.103** The second step is to identify one or more performance indicators for each strategic objective identified for the organization. These performance indicators will identify how success in achieving each strategic goal is to be evaluated.

**5.104** The third step is to set targets for departmental performance indicators. These targets should be the levels of performance at which the related strategic objective can be considered to have been achieved for the period covered by the target. Targets should normally be set annually.

**5.105** The fourth step is to capture and report on actual achievement against target by performance indicator. Reporting this information would facilitate an objective evaluation of the organization’s performance for the year by annual report readers. In cases where targets have not been met, explanations should be provided and corrective action to be taken should be reported. Departmental performance reporting is required in the Province’s annual report policy.

**Strategic and work planning**

**5.106** There is currently no up-to-date strategic plan in place for the Department. However, a departmental representative told us that, in keeping with the spirit of the 1993 document, *“Toward Self-Sufficiency – Strategy for Economic Development”*, the informal “mission” of the Department is as follows:

*To stimulate and maintain sustainable growth in wealth and employment for the well being of the citizens of New Brunswick.*

**5.107** This statement also appears in the government document *“Performance Measurement – Supplement to the Main Estimates”* for 1998-99 where it is identified as the departmental goal.

**5.108** The vision statements and key results areas reported in the Department’s 1996-97 annual report were first reported in the annual report of 1991-92. The vision of the Department, as documented in the 1996-97 annual report, includes the following three statements.

- Help create jobs for New Brunswickers
- Serve the customer’s needs first
- Do things well or not at all

**5.109** The key results areas reported in the 1996-97 annual report were developed in 1991, and were intended to identify the key areas for which the Department had responsibility at that time. It has been a number of years since the list of key results areas was developed, and they have not been updated to reflect organizational and other changes in the Department. For example, there are no key results areas which address the role of the Tourism and Parks Directorate. Also, they may not adequately address the current departmental focus on direct job creation through the provision of financial assistance to business. We feel that the key results areas identified in 1991 should be reviewed and modified as necessary to bring them up to date.

**5.110** As previously noted, strategic objectives are simply the goals that an organization must continuously strive to meet in order to achieve its mission. The Department did discuss some strategies for economic development in the 1993 document, *“Toward Self-Sufficiency – Strategy for Economic Development.”* However, it has never gone through the exercise of clearly documenting departmental strategic objectives. A departmental representative informed us that the key results areas were not intended to be strategic objectives.

**5.111** One obvious strategic objective of the Department is “to create jobs through the provision of direct financial assistance.” This can be derived by considering the existing performance indicators for the Department. Also, departmental representatives we talked to identified this as a key objective of the Department. However, we do not feel it should be considered the only strategic objective of the Department. The

Department is involved in some economic development activities that cannot be linked directly to job creation, for example its work in trade and in providing technical support services to industry. So, other strategic objectives should be developed. One objective that would address this area might be “to maintain provincial jobs through the provision of technical support to New Brunswick businesses.” Given the limited resources available to the Department, another objective might be “to ensure that Departmental resources are used effectively.” Strategic objectives addressing other mission-critical areas should be considered as well. The important thing is that these strategic objectives be measurable, and that in total they allow for an objective evaluation of the success of the Department in achieving its mission.

## Recommendations

**5.112 The mission statement of the Department should be formalized.**

**5.113 Measurable strategic objectives should be developed for the Department. These strategic objectives should allow for an objective evaluation of the success of the Department in achieving its mission.**

## Existing performance indicators

**5.114** The Department developed and monitored two performance indicators for the 1996-97 fiscal year. One relates to tourism and is beyond the scope of this chapter. The other was job creation through strategic investment from the period 1995 to 1999. Both these indicators are defined in the 1996-97 document, “*Performance Measurement - Supplement to the Main Estimates*.” The “jobs” performance indicator as defined is measurable and verifiable. However, we feel that the definition of job creation in that document was not precise enough to allow for consistent measurement of jobs by the departmental staff. Through discussions with loan officers, we determined that actual job creation was interpreted somewhat differently by different staff and for different industries. We feel that a precise definition would have allowed for a more accurate measurement of the effect of departmental activity on this indicator.

**5.115** We were pleased to note that the Department expanded the number of performance indicators in the “*Performance Measurement - Supplement to the Main Estimates*” document for 1997-98. Performance indicators now cover “job creation”, “incremental wealth creation” and related tax generation, as well as specific measurements relating to the Information Highway Secretariat and Tourism sections. The method of measuring these indicators had not been finalized at the time of our audit. We also noted that the job creation indicator has been expanded and that an additional target has been set for jobs maintained through the provision of financial assistance. Four-year targets have been set for each of these indicators covering the period from 1995 to 1999.

**5.116** We understand that the development of appropriate performance indicators for the Department is ongoing. We also understand that

performance indicators developed are subject to the approval of the Department of Finance and the Board of Management. However, we would like to take this opportunity to make a suggestion for improvement.

**5.117** We note that all current performance indicators, besides those developed for Tourism and Parks and the Information Highway Secretariat, appear to address the results of the provision of direct financial assistance to business. We understand that the current departmental focus is mainly on identifying and developing new opportunities for job creation through direct financial assistance. However, as we discussed in the previous section, we feel that more than direct job creation must be accomplished if the Department is to be successful in achieving its mission. Current performance indicators do not measure the contribution of more support-oriented sections like Industry Services or Trade, thereby ignoring their achievements when reporting departmental performance. This again points to the need for the Department to identify its strategic objectives. Performance indicators could then be developed as necessary to allow for an evaluation of the degree of achievement of each of these strategic objectives.

## Recommendations

**5.118** The Department should develop more precise definitions for existing departmental performance indicators relating to jobs created and wealth generation.

**5.119** The Department should develop performance indicators to report against all strategic objectives. This would allow for an evaluation of the degree of success of the Department in achieving its strategic objectives and therefore its mission.

## Targets for performance indicators

**5.120** Targets were set for each of the official departmental performance indicators for the 1996-97 and 1997-98 fiscal years. These were reported in the annual document, "*Performance Measurement – Supplement to the Main Estimates.*" The targets for each of these performance indicators covered the four-year period from 1995 to 1999. Annual targets were not given in this report. However, we understand from our discussions with departmental representatives that annual targets have been set for internal use.

**5.121** Reporting only four-year targets in the departmental annual report gives the indication that these performance indicators are not so much measurements of departmental effectiveness, but rather a measure of the government's job creation success during its political mandate. We feel that one-year targets should be reported in the departmental annual report for existing performance indicators to allow for an effective evaluation of the Department's performance for the year under review. One-year targets should also be created for any new performance indicators that are developed.

**Recommendation**

**5.122** The Department should show annual targets for all departmental performance indicators that are reported in the departmental annual report. Reporting against these annual targets should allow for a yearly evaluation of the Department's achievement in meeting strategic objectives. Such annual targets could be part of longer-term targets established in the Performance Measurement supplement to the Main Estimates for particular performance indicators.

**Compliance with the Province of New Brunswick Annual Report Policy**

**5.123** In 1994, the Province of New Brunswick adopted an annual report policy for all government Departments and Crown agencies. It establishes certain requirements regarding the form and content of annual reports. The policy defines the prime function of an annual report to be "*the major accountability document by departments and agencies for the Legislative Assembly and the general public. It serves as the key public link between the objectives and plans of a government entity and the results obtained.*"

**5.124** The policy goes on to state, "*To the degree possible, departments and agencies should give a clear account of goals, objectives and performance indicators. The report should show the extent to which a program continues to be relevant, how well the organization performed in achieving its plans and how well a program was accepted by its client groups.*"

**5.125** The 1996-97 departmental annual report includes the vision statements and the thirteen departmental key results areas as previously discussed. The report also showed the two existing departmental performance indicators at the time along with the four-year targets for each. It also reported the actual achievement levels against targeted performance levels. However, the report did not discuss the continued relevance of departmental programs, nor did it cover client acceptance of those programs.

**5.126** The annual report policy also states, "*Actual and budget financial information in summary form and a narrative explaining major variances as well as other aspects of financial performance are to be included in all annual reports.*" The policy provides a model for presenting this information. The 1996-97 departmental annual report did not present summary actual and budget financial information, nor did it give a narrative explanation of major budget variances.

**5.127** We note that the current departmental annual report is laid out by work group. Structuring the annual report in this way may be of more interest to departmental staff than external readers of the report. Once departmental strategic objectives have been defined, it would be useful to have performance indicators and narrative descriptions of achievements presented by strategic objective in the annual report. This would make it much easier for a reader to evaluate the degree of success of the Department in achieving its strategic objectives, and therefore its

departmental mission. It would also ensure the relevance of information included in the annual report.

## Recommendations

**5.128 The Department should comply fully with the provincial annual report policy in future departmental annual reports. Specifically, the following content should be added to the annual report:**

- a discussion of the continued relevance of key departmental programs;
- a discussion of the level of client acceptance of key departmental programs;
- an actual versus budget presentation of key financial information; and
- an explanation of any significant variances from budget.

**5.129 Additionally, once departmental strategic objectives have been defined, it would be useful to have performance indicators and narrative descriptions of achievements presented by strategic objective in the annual report. This would make it much easier for a reader to evaluate the degree of success of the Department in achieving its strategic objectives.**

## Departmental response

**5.130** The Department of Economic Development, Tourism and Culture provided the following comments in response to our report.

**5.131** ... *Government financial assistance, to a large degree, is the result of our banks not taking risks. We believe our programs are filling this gap at acceptable risk levels.*

**5.132** ... *You commented on the decision making process and how some clients receive financial assistance where there is negative information on file. Our process requires that we clearly document all factors, including negative factors, so that the Board can make balanced decisions. Corporate lending requires good judgement and cannot be done by strictly segmenting information. We believe that risk assessment and decision making is reasonable in view of the loss rates of the Department.*

**5.133** *Certainly we always can make improvements as the result of your recommendations. In this regard, we are immediately*

- *Enhancing our model to measure all risk business elements and summarize overall risk.*
- *Putting procedures in place to benchmark applications.*
- *Including a monitoring plan in our approval process.*
- *Have created a staff position to monitor client compliance material like financial statements, client employment, etc.*
- *Strengthening performance indicator systems.*

- *Requesting 2 increased staff positions in the 1999 – 2000 Budget process.*