

Office of the

Provincial Auditor

Spring 1998

Value-for-Money Audits



Manitoba

VISION

As a leader in promoting enhanced accountability of government to the citizens of Manitoba, the Office of the Provincial Auditor will contribute to greater public trust and confidence in the institutions of government.

MISSION

To contribute to effective governance by the Manitoba Legislature, we provide the Members of the Legislative Assembly with independent assurance and advice on:

- government accountability information;
- compliance with legislative authorities; and
- the operational performance of government.

VALUES

In Interpersonal Relationships

Respect

Honesty

Integrity

Openness

In Achieving Our Vision and Mission

Teamwork

Independence

Balanced perspectives

Professional excellence

OFFICE OF THE PROVINCIAL AUDITOR



Office of the Provincial Auditor

1230 - 405 Broadway
Winnipeg, Manitoba
CANADA R3C 3L6

June 1998

The Honourable W. Yvon Dumont
Lieutenant Governor of Manitoba
Room 235, Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Sir:

I have the honour to submit herewith our Spring 1998, Report on Value-for-Money Audits to be laid before Members of the Legislative Assembly in accordance with the provisions of Section 13 of the Provincial Auditor's Act.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Jon W. Singleton', is written in a cursive style.

Jon W. Singleton, CA, CISA
Provincial Auditor

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**Reflections of the
Provincial Auditor**



REFLECTIONS OF THE PROVINCIAL AUDITOR

Most of the chapters in this report contain a blend of positive and negative findings. Often though, even those findings that might be interpreted as negative, are more in the nature of opportunities to do something better. It is impossible to operate an entity as large as the provincial government without there being room for improvement. Nonetheless, in our work, we are constantly reminded of how dedicated the people in the Manitoba public service are to doing a good job on behalf of citizens.



There is, however, one issue that recurs repeatedly in this report: the issue of documenting the basis for decisions taken. Documentation is not just an exercise in paperwork. It is fundamental to management being able to demonstrate that an effective and equitable process was followed in arriving at a decision. In a few cases, as noted in this report, the ability of my staff to conduct an audit and reach firm conclusions was compromised by the lack of appropriate documentation. I am taking this opportunity to remind all public servants of the importance of maintaining clear and transparent documentation of all significant decisions. This will provide needed assurance to legislators and senior officials that decisions are being made on the basis of appropriate criteria.

I would like to thank all those people who were the subject of one or more of our audits for their cooperation and assistance. I would also like to thank my staff of the Value-for-Money Audit Division for their fine efforts in producing this document.

A handwritten signature in black ink, appearing to read 'Jon W. Singleton'.

Jon W. Singleton, CA, CISA
Provincial Auditor
June 1998

Better Methods Initiative



BETTER METHODS INITIATIVE

REPORT OVERVIEW

INTRODUCTION

The Manitoba government established the Service 1st Initiatives with the mandate to fundamentally transform government through application of new and innovative approaches. The overall goal of Service 1st Initiatives is to improve the working of government, providing public services in a more responsive and effective manner. Better Methods, a project under the Service 1st Initiatives mandate, was initiated to improve internal business practices in three key areas:

- Revenue collection
- Procurement and payables management
- Employee pay and benefits

Better Methods is intended to improve these areas by streamlining and simplifying corporate management processes, employing technology that would provide better information for decision making, and addressing Year 2000 compliance issues.

Commencing in June 1995, Better Methods was organized in three phases. In Phase I, a business case for change was developed. In Phase II, completed between September 1996 and June 1997, processes were redesigned in the three key areas mentioned above. Phase III, now underway, is dedicated to implementation of processes designed in Phase II.

REASON FOR THE AUDIT

We support the need for the Better Methods Initiative because the new processes and technology will help the government address a number of long standing concerns. This includes the need for:

- more timely reporting;
- full cost accounting information;
- efficient and effective use of technology for better decision-making; and
- strengthening financial management.

We conducted an audit of this project “in process” because it represents a significant change to the way in which the government will do business and because it is a major component of the government’s strategy to deal with the Year 2000.

BETTER METHODS INITIATIVE

AUDIT PURPOSE AND SCOPE

The purpose of our audit was to answer the following four questions:

1. Is the Initiative currently meeting its financial and time line targets and is it in a position to achieve its overall targets?
2. Is the Initiative aware of the significant risks associated with implementing a project of this magnitude and are these risks being effectively managed?
3. Are project resources being adequately managed (people, time and money)?
4. Will the Province know if the Initiative is achieving the expected benefits?

Our audit was performed from January 1998 to April 1998.

To assist us in this review we engaged two consulting firms with expertise in the implementation of information system projects.

Our examination was performed in accordance with value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

CONCLUSIONS AND KEY FINDINGS

- 1. Is the Initiative currently meeting its financial and time line targets and is it in a position to achieve its overall targets?*

We concluded that although the Initiative will exceed its original estimated costs, there exists within the Initiative appropriate concern for cost containment and control.

We also concluded that although the target completion dates for the first two phases were not met, management is responding to the challenge of meeting its future scheduled milestone dates.

By meeting its milestones the government can avoid the administrative complexities of converting its systems several months into the fiscal year. This timeframe will also ensure Year 2000 compliance, for systems included in the Initiative, well in advance of the calendar year end.

BETTER METHODS INITIATIVE

We note that the decision was made to temporarily scope out certain functions due to the realization that the initial scope would be too demanding within the timeframe required to address the Year 2000 issue. We support the government's decision to stage the implementation of the Initiative in this manner.

Ultimately, the success of the Initiative will depend on the civil service's ability or willingness to change the way in which it delivers its services. In March 1998, the Initiative prepared a report on the results of an extensive survey that was conducted to gauge "change readiness." Taking immediate action to address the findings in the report will ensure the civil service is given a reasonable opportunity to understand and prepare itself for the changes to come.

Management advises that a number of actions are being taken to address the findings in the report.

2. *Is the Initiative aware of the significant risks associated with implementing a project of this magnitude and are these risks being effectively managed?*

We concluded that management has developed an effective risk identification and analysis process and, as a result, is aware of many significant risks. It is important to note that this is a subjective area. As a result, there is no way of knowing whether all risks have been identified.

We also concluded that improvements should be made to the action planning process to better ensure risks are being mitigated or their impact minimized.

Our findings are as follows:

- We found that management has developed an extensive list of significant risks and has assessed the level of impact and probability of occurrence for each of these risks. In the course of our audit, we identified several risks that are not explicitly included in the Initiative's analysis. These risks deal with the control environment, unresolved technology issues, and stand alone systems within departments.
- We found that although management has prepared action plans to deal with the identified risks, they are not sufficiently detailed with respect to related tasks, level of effort required and time lines to complete. Such detail would provide greater assurance that the risk management plans receive the attention they deserve at the work stream level.

BETTER METHODS INITIATIVE

The ability of the market to supply sufficient and appropriate IT personnel is an ongoing concern. The Initiative is at risk of losing and then not being able to replace its skilled IT resources. The risk is heightened by the government's limited ability to provide competitive salaries. We note that on January 1, 1998 all IT professionals employed by the Province of Manitoba were awarded an increase in compensation of 10%.

3. *Are project resources being adequately managed (people, time and money)?*

We concluded that project resources are being adequately managed. Nevertheless, we identified several opportunities to strengthen project management processes.

Our findings are as follows:

- With respect to the project planning process:
 - We found that certain activities and tasks in the project plan span several weeks. In our view, such timeframes are too long to effect sufficient management control. While we recognize that a balance must be struck between time spent planning and time spent doing, we encourage management to reconsider the risks of potentially over planning versus those of under planning.
 - We found that the critical path technique is not used by the project management office to track progress and manage project resources. Rather, a process that focuses on completing deliverables one phase at a time is used. In our opinion, however, incorporating critical path methods can further enhance this approach.
- We found that the Better Methods Steering Committee has committed to a 48 hour turnaround on issues brought to their attention. This ensures that the progress of the work teams will not be impeded because of long unresolved issues.

Although we did not conduct a work load analysis on the project management office, we believe that the significance and volume of responsibilities bestowed upon the project manager is not conducive to the effective discharge of these responsibilities. Despite the project manager's best efforts, we believe this places the project at risk because a key function such as risk management may not receive the attention it requires.

BETTER METHODS INITIATIVE

4. *Will the Province know if the Initiative is achieving the expected benefits?*

The Initiative is currently focussing on identifying and developing tracking processes for benefits related to efficiencies gained and cost savings incurred. This is useful information. However, we believe that measuring service delivery outcomes would be of most use to the Province as indicators of benefits resulting from this considerable expenditure of public funds.

- We agree with the government that it would be advantageous to track the achievement of certain benefits, although we encourage the government to revisit the nature of the benefits it plans to track. We are, however, of the view that given all of the challenges currently faced by the Better Methods team, benefit identification and tracking should not be allowed to consume considerable resources or to detract from other, more pressing project deliverables.
- We found that while departments will be held responsible for realising the potential benefits of the new processes and technology, a benefit accountability framework has not been developed to ensure departments understand their responsibilities for benefits realization.

KEY RECOMMENDATIONS

This report includes nine recommendations. The following is a list of what we believe are the key recommendations.

We recommend that:

- project management include the risks identified in our report in their risk management process.
- management prepare risk management action plans that are sufficiently detailed at the activity and task levels and that specify who is responsible, the resources assigned and the required time lines.
- Management ensure the project plans reflect appropriately detailed activities and related tasks.
- management incorporate critical path analysis as part of their project management processes.

BETTER METHODS INITIATIVE

- management revisit the adequacy of resources that support the project management function.
- a benefit accountability framework be established to ensure departments understand their responsibilities for benefit realization.

PROGRESS SINCE THE END OF OUR FIELD WORK

Comments from the Better Methods management team:

The Provincial Auditor's Report covered a period of time from January 1998 to the beginning of April 1998. Subsequent to the conclusion of their research, project activities were in progress or planned to be initiated which address some of the items raised in the Report. The following provides a summary of some of the key activities/outcomes that have occurred.

- *Project status at the end of Redesign indicates the project is on schedule.*
- *A revised risk assessment is in draft and incorporates some of the risks identified in the Auditor's Report.*
- *Department Implementation teams have been created in response to the Change Readiness Survey.*
- *A resizing of the overall technology platform was initiated and concluded in an end-to-end strategy.*
- *A departmental interface analysis was effected and resulted in a definitive list of interface requirements.*

This list serves to demonstrate that the passage of time has brought on project activities that have mitigated many of the more significant areas of risk identified in the Report.

BETTER METHODS INITIATIVE

ABOUT THE BETTER METHODS INITIATIVE

The Manitoba government established the Service 1st Initiatives with the mandate to fundamentally transform government through application of new and innovative approaches. The overall goal of Service 1st Initiatives is to improve the working of government, providing public services in a more responsive and effective manner.

The Better Methods Initiative (the Initiative) is a project under the Service 1st Initiatives mandate. It was initiated to improve internal business practices in three key areas:

- Revenue collection.
- Procurement and payables management.
- Employee pay and benefits.

Better Method's Vision:

Better Methods will change business processes and systems to enable us to provide improved services to the citizens of Manitoba. Better Methods will position our province for the demands of the future by:

- *delivering integrated and responsive management processes;*
- *providing information to those who need it when they need it; and*
- *allowing government to deliver results and be accountable.*

Source: Scoping and Planning Report

Better Methods is intended to improve these areas by streamlining and simplifying corporate management processes, employing technology that would provide better information for decision making, and addressing Year 2000 compliance issues.

Better Method's Goal:

The Goal of Better Methods is to deliver more responsive, effective and efficient government, enabling scarce resources to be focused on program delivery rather than on administration and bureaucracy.

Achieving this goal will introduce an environment in which:

- *integrated information systems provide relevant measurements to allow accurate assessments of goal accomplishments;*
- *managers will be able to exercise real discretion in achieving results based on current information;*
- *employees will be motivated and be able to undertake meaningful, value-added activities; and*
- *technology will be exploited to simplify work and eliminate low value activities.*

Source: Scoping and Planning Report

Commencing in June 1995, Better Methods was organized in three phases. In Phase I, a business case for change was developed. In Phase II, completed between September 1996 and June 1997, processes were redesigned in the three key areas mentioned above. Phase III, now underway, is dedicated to implementation of processes designed in Phase II.

Specifically, the objectives of Better Methods Phase III are as follows:

- *to develop and implement redesigned business processes together with supporting organization structures and enabling technology for each of the areas defined as being in scope for Finance, Procurement and Human Resources/Payroll;*
- *to deliver all aspects of the defined project scope on time, on budget and on-quality; and*

BETTER METHODS INITIATIVE

- *to facilitate the introduction of new processes, structures and technology through effective application of change management and communication.*

SAP has been selected as the enabling technology and Deloitte & Touche Consulting as systems implementation support.

There are five phases to the Better Methods implementation. These are scoping and planning; vision and targeting; redesign; configuration; testing and delivery. At the date of this report the first three phases have been completed. Core SAP functions that will replace the current systems are scheduled to be completed by March 31, 1999. Other system enhancements will occur subsequent to this date but detailed implementation schedules have not yet been developed.

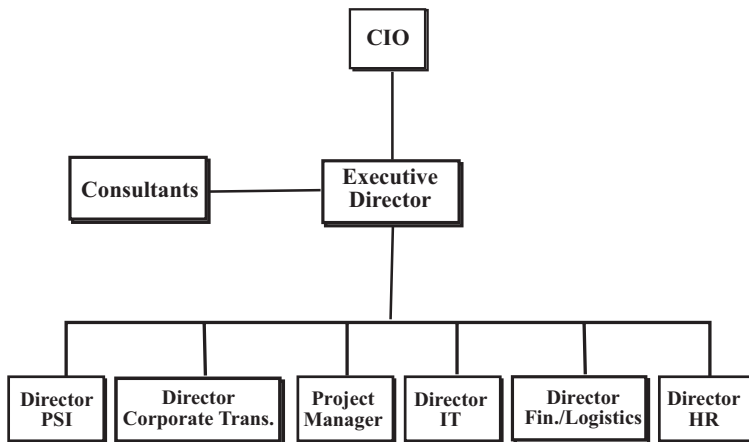
The Initiative is resourced in part by 85 government employees who have been seconded, for a defined period of time, to the project, and in part by Deloitte & Touche Consulting. As illustrated in the organization chart, the Initiative is organized into five process teams and a project

Table 1

APPROVED BUDGET - APRIL 1998	
Item	\$(000)
SYSTEM DEVELOPMENT COSTS	
SAP Software and Oracle Database	11,349.3
Hewlett Packard Hardware	1,798.9
System Implementation Services	13,800.0
Project Advisory Services	1,120.0
Subtotal	28,068.2
OTHER COSTS (Oct.1/97 to Mar.31/99)	
Staffing - Salaries and Employee Benefits	6,627.2
Project Operating Costs:	
Accommodations/renovations	981.3
Operating	1,168.7
Local Area Network/Workstations	750.0
Software and Hardware Maintenance	458.1
Subtotal	9,985.3
TOTAL	38,053.5

manager. These process teams are further composed of work stream teams, there are approximately 30 of these. Better Methods is led by an Executive Director who reports directly to the Province's Chief Information Officer. A Steering Committee of senior government officials has been established to oversee the Initiative.

**Better Methods
Organizational Chart**



BETTER METHODS INITIATIVE

DETAILED FINDINGS AND RECOMMENDATIONS

INTRODUCTORY COMMENTS

We support the need for the Better Methods Initiative because the new processes and technology will help the government address a number of long standing concerns of our Office. This includes the need for:

- more timely reporting;
- full cost accounting information;
- efficient and effective use of technology for better decision-making; and
- strengthening financial management.

The Initiative has identified several critical success factors in its Scoping and Planning Report. These are illustrated below. In our view two factors stand out from the rest in terms of their impact on project success. These are “strong project management” and “managing risk.” As a result, we have devoted a section within this report to each of these factors. Also important to project success is the need to manage scope and the need to ensure the civil service is adequately prepared to embrace the changes that lie ahead.

CRITICAL SUCCESS FACTORS

- strong leadership
- effective governance
- adequate resources
- strong project management
- performance measurement
- effective change management
- maintaining momentum
- balancing process and people managing risk
- capability transfer

Source: Scoping and Planning Report

With respect to scope, we note that the decision was made to temporarily scope out certain

functions due to the realization that the initial scope would be too demanding within the timeframe required to address the Year 2000 issue. The major areas rescheduled for implementation after April 1999 are:

- electronic data interchange.
- electronic funds transfer.
- accounts receivable/payable offsets.

Also planned for implementation after April 1999, although not included in the original scope is the re-engineered provincial detailed estimates process.

In the Scoping and Planning Report management states: “these activities while not as ‘urgent’ as the Year 2000 dependent activities are equally and in some cases more important when viewed in relation to benefits achievement, business transformation and Vision realization.”

We support the government’s decision to stage the implementation of the Initiative in this manner.

Ultimately, the success of the Initiative will depend on the civil service’s ability or willingness to change the way in which it delivers its services. For any project of this magnitude, change readiness is a significant management challenge. In March 1998, the Initiative prepared a report on the results of an extensive survey that was conducted in December 1997 and January 1998 to gauge “change readiness.” Preparing this report was an appropriate and important step for the management team to take. The results of the survey indicate that considerable progress has been made to pave the way for change. In particular, survey results indicate that there is wide spread acceptance of the Better Methods Initiative and that there is general satisfaction with the Province’s re-deployment efforts (a process of finding new employment opportunities within the civil service for displaced employees).

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The report also identified several challenges for the Better Methods Initiative. These include:

- the belief among some provincial employees that the focus of the Initiative is to reduce jobs;
- the existence of strong departmental cultures with a range of support exhibited by senior management;
- concerns regarding the ability of the Initiative to meet its deadlines;
- a lack of understanding among provincial employees about how the Initiative will impact their jobs, the related benefits and how transition issues will be managed;
- that seconded staff are leaving large holes unfilled in the Departments;
- training plans are not being well communicated.

Taking immediate action to address the findings in the report will ensure the civil service is given a reasonable opportunity to understand and prepare itself for the changes to come.

Management advises that a number of actions are being taken to address the findings in the report.

Comments of Officials

The project initiated the Change Readiness Assessment to help guide and tailor our overall implementation approach to the realities of our environment. Project management and our external implementers view the results of this assessment as positive. The assessment results have generated immediate actions. Departmental Implementation Teams have been established in all departments, SAP demonstrations have been provided to over 1,000 government staff and the misconception of major job loss is being corrected through our communication approaches which focus on skill assessments, retraining and internal redeployment.

AUDIT PURPOSE, SCOPE AND APPROACH

The purpose of our audit was to answer the following questions:

1. Is the Initiative currently meeting its financial and time line targets and is it in a position to achieve its overall targets?
2. Is the Initiative aware of the significant risks associated with implementing a project of this magnitude and are these risks being effectively managed?
3. Are project resources being effectively managed (people, time and money)?
4. Will the Province know if the Initiative is achieving the expected benefits?

Our audit was performed from January 1998 to April 1998.

To assist us in this review we engaged two consulting firms with expertise in the implementation of information system projects.

Our examination was performed in accordance with value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

1. IS THE INITIATIVE CURRENTLY MEETING ITS FINANCIAL AND TIME LINE TARGETS AND IS IT IN A POSITION TO ACHIEVE ITS OVERALL TARGETS?

What We Concluded

We concluded that although the Initiative will exceed its original estimated costs, there exists within the Initiative appropriate concern for cost

BETTER METHODS INITIATIVE

containment and control.

We also concluded that although the target completion dates for the first two phases were not met, management is responding to the challenge of meeting its future scheduled milestone dates.

We based this conclusion on the following criteria:

- the Initiative’s ability to meet its scheduled milestones,
- the Initiative’s performance against the approved budget.

What We Found

The Initiative Is Responding To The Challenge Of Meeting Its Milestone Dates

As of the date of this report three phases of the project are considered complete. These are the Scoping and Planning Phase, the Visioning and Targeting Phase and the Redesign Phase. Internal documents indicate that the first two phases were completed beyond the scheduled completion dates. Of particular note is that certain tasks in both phases were deferred to the subsequent phase. However, the Redesign Phase was started as scheduled and management has advised us that the targeted completion date was achieved. We commend management for its efforts in bringing the project back on schedule.

The above history indicates that the Initiative is responding to the challenge of meeting its scheduled milestone dates.

Table 2

PHASES	SCOPING & PLANNING REPORT		PROJECT PLAN AS AT MARCH 5, 1998		ACTUAL RESULTS	
	Start	Finish	Start	Finish	Start	Finish
Scoping & Planning	-	-	-	-	10/1/97	1/16/98
Vision & Targeting	12/8/97	2/13/98	12/12/97	2/13/98	12/12/97	2/27/98
Redesign	2/16/98	5/29/98	2/16/98	5/29/98	2/16/98	5/29/98
Configuration	6/1/98	11/6/98	6/1/98	11/6/98	-	-
Testing & Delivery	11/9/98	3/29/99	11/9/98	3/29/99	-	-

We recognize the magnitude of this task and the many variables that must be managed in an effort to meet the targets. The Initiative has set March 29, 1999 as the target completion date for the project as it is currently scoped. By meeting this date the government can avoid the administrative complexities of converting its systems several months into the fiscal year. This timeframe will also ensure Year 2000 compliance for the systems included in the Initiative well in advance of the calendar year end. Management should carefully review current plans to ensure that all essential activities will be delivered by March 29, 1999.

Comments of Officials

Project timeframes are a key issue and challenge. We concur with the Auditor’s recommendation and project plans will be subject to continual review and revision as required.

The Original Budgeted Costs Will Be Exceeded

In September, 1997 Treasury Board approved the Better Methods Phase III implementation plan. A budget figure of \$33.0 million was also approved

BETTER METHODS INITIATIVE

for the period October 1, 1997 to March 31, 1999. In April 1998 Treasury Board approved a revised budget of \$38.0 million for an overall increase of \$5.0 million. The bulk of this increase is due to a change in accounting policy. The original budget included only 50% of the salary costs of individuals seconded to the project, whereas now the decision was made to go to full cost accounting and thus record the 100% of salary costs.

Because the project will continue beyond March 31, 1999 further budget increases will likely occur.

Given the magnitude of the project and the inherent difficulty in predicting the level of effort required, we believe that it is reasonable to expect a degree of “softness” in the original budget estimates. As a result, budget increases need to be reviewed in this context. Management advises us that they are monitoring project costs closely and are committed to containing project costs to the extent possible without unduly sacrificing the quality of project deliverables. We note that nothing came to our attention during the course of our audit that would suggest otherwise.

2. IS THE INITIATIVE AWARE OF THE SIGNIFICANT RISKS ASSOCIATED WITH IMPLEMENTING A PROJECT OF THIS MAGNITUDE AND ARE THESE RISKS BEING EFFECTIVELY MANAGED?

What We Concluded

We concluded that management has developed an effective risk identification and analysis process and, as a result, is aware of many significant risks. It is important to note that this is a subjective area. As a result, there is no way of knowing whether all risks have been identified.

We also concluded that improvements should be made to the action planning process to better

ensure risks are being mitigated or their impact minimized.

We reached these conclusions by comparing the Initiative’s practices against reasonable standards. We believe that key elements of an effective risk management process would include:

- a risk identification and analysis process, and
- action plans to mitigate the identified risks.

An effective risk management process is important because the occurrence of an adverse event could disrupt or even derail a project. Risk management provides reasonable assurance that potential events that can put a project at risk are avoided or are addressed early in their life cycle.

What we mean by...

Risk - the probability of occurrence of an adverse event and action.

Risk Analysis - a process of determining those activities that could go wrong on a project, assessing their significance and prioritizing them.

Risk Management - developing and executing action and contingency plans to minimize the probability of occurrence of these risks.

What We Found

A Risk Identification And Analysis Process Has Been Established

An effective risk identification and analysis process would identify broad risk categories to help focus the analysis and would then identify risks within each of these categories. Once risks are identified, the probability of occurrence would be assessed as would their potential impact on the project. Finally, risks would be ranked according

BETTER METHODS INITIATIVE

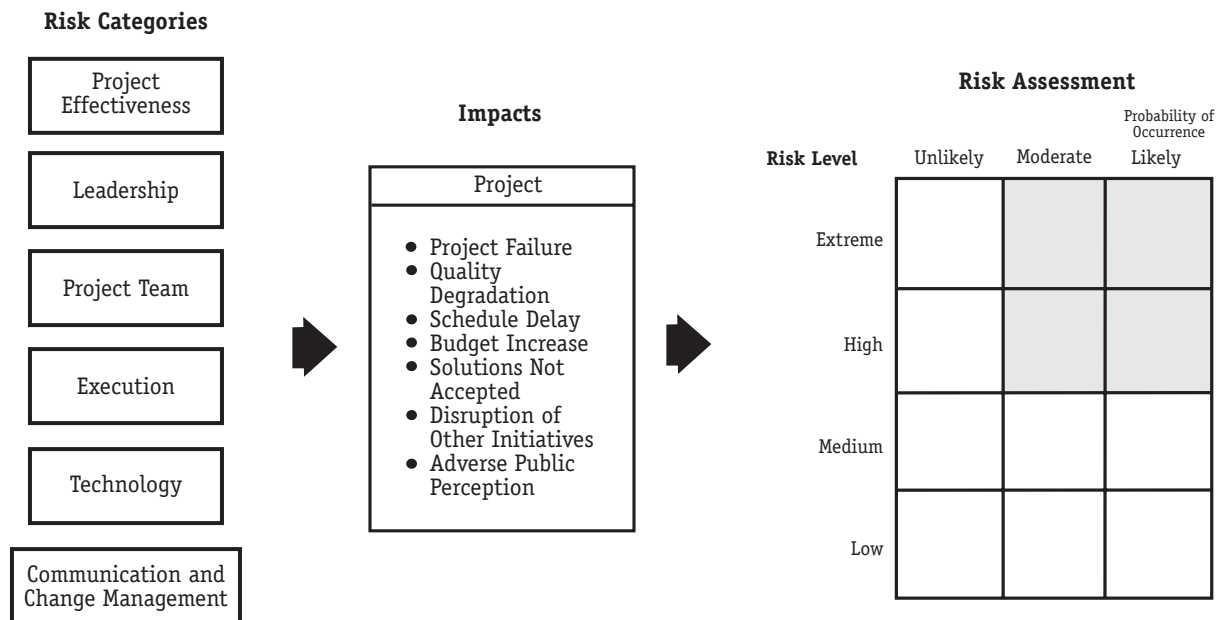
to the level of impact on the project and probability of occurrence. This is a subjective process that relies heavily on the knowledge, skills and experience of the project team.

We found that management has developed an extensive list of significant risks by major category and has assessed the level of impact and probability of occurrence for each of these risks. This analysis is documented in the Initiative’s Risk Management Plan, as well as, in a more abbreviated form, in the Scoping and Planning Report. In identifying risks, management advises that it has taken full advantage of the project management experience of the Deloitte & Touche Consulting team as well as the experience of its staff and members of the Steering Committee. The Initiative’s process is illustrated below.

While we did not consider it practical to assess the completeness of the identified risks, we did

observe that certain of the identified risks are very broad statements and as a result may not adequately communicate the risks being managed. This may result in deficient action plans. For example, we identified the following significant risks that are not explicitly included in the Initiative’s prior or current risk lists.

- We were unable to find a risk statement dealing with the need for an appropriate control environment. Such a statement would include the following risks:
 - that adequate controls and audit trails will not be built into “system scripts”.
 - that a comprehensive security framework and policy will not be implemented in time to guide the work in the redesign and configuration phases. A security framework would deal with operating



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system and database security, network controls, change controls, operations controls and backup and recovery processes.

- Management has identified as a risk “Unresolved technology issues (ie. data conversion, desktop) cause delays.” In our view, significant related risks are as follows:
 - the network and hardware design capacity will not be adequate.
 - the data conversion effort will be underestimated.

We note that the related action plans do not address these risks.

- We were unable to find a risk statement dealing with the multitude of stand alone systems within departments. Such a statement would include the following risks:
 - That a clear plan for integrating the various SAP sub-systems and peripheral departmental interfaces into a complete functional system will not be prepared.
 - That the impact that assigning responsibility for developing interfaces to SAP and for addressing related Year 2000 compliance issues to various government departments will be underestimated, especially if these departments do not have the human resources or the funds to be ready on time.
 - That all significant stand alone systems will not be identified. This in turn would impact the development of interfaces and data conversion efforts.

We recommend that project management include the risks identified in our report in their risk management process.

Comments of Officials

We agree with the Auditor’s conclusions and our Risk Management Framework has been revised accordingly. We also note that a specific activity stream “Process and Systems Integrity” is an integral part of the project and will in all respects address the issues identified concerning a comprehensive security framework.

The Need For More Detailed Action Plans To Mitigate The Risks

Upon the identification of high priority risks, an effective risk management process would require that detailed action plans be developed to avoid the occurrence of the risk or to mitigate its impact. These plans would identify the risk in question, the actions necessary to manage the risk, the person responsible for the action, and the time line for executing the action. In addition, contingency plans would be an integral and corollary deliverable of developing each risk mitigation action plan.

We found that the Scoping and Planning Report includes a risk management plan which outlines action steps for addressing each high priority risk. This risk analysis and management plan were subsequently updated in the Visioning and Targeting Report. However, the plan does not detail the related tasks, indicate who is responsible, estimate the level of effort to complete and the time lines for executing the action. Because these action steps impact potentially all work streams (there are 30 of them) the link between these action steps and the detailed work stream’s work plans should be very

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clear. In essence this is how the plans are converted into action. While the risk management plan does not clearly make this link, we examined in detail the work plan of one work stream. We did not see tasks that could be specifically attributed as risk management functions or any references to the risk management plan. We are concerned, therefore, that the risk management action plans may not be receiving the attention they deserve at the work stream level.

We found that broad time lines for the risk management function are identified in the activity level project plan maintained by the project management office. This plan includes, for each phase of the Initiative, a set of activities to review and update the list of risks and the risk management plan. These activities, however, are scheduled on a periodic rather than on an ongoing basis and tend to be towards the start or end of the phase. In our view, risk management activities should occur throughout the phase and be reflected in the phase's detailed activity and task plans. It is important that management be apprised frequently on the progress made in addressing the high priority risks identified.

In addition, we found that contingency plans for each of the high priority risk action plans have not been developed.

Management has identified two specific risks related to project human resources as follows. The "inability to obtain and retain the required resources for the project teams" is assessed as a high risk with a moderate probability of occurrence. The "inability to retain skilled technology resources in Manitoba" is assessed as a medium risk with a likely probability of occurrence. For both of these risks we were unable to find related action plans. We believe that the mitigation of these risks will have a significant impact on the success of the Initiative. Staff that have been seconded to the Initiative will, upon their return to their departments, effect

a considerable knowledge transfer, as well as, exhibit enthusiastic support for the new systems and processes.

The ability of the market to supply sufficient and appropriate IT personnel is an ongoing concern. The Initiative is at risk of losing and then not being able to replace its skilled IT resources. The risk is heightened by the government's limited ability to provide competitive salaries. We note that on January 1, 1998 all IT professional employed by the Province of Manitoba were awarded a 10% bonus applied bi-weekly, indefinitely.

We recommend that management prepare risk management action plans that are sufficiently detailed at the activity and task levels and that specify who is responsible, the resources assigned and the required time lines.

Comments of Officials

We agree and detailed risk mitigation activities will be integrated with the overall project plan.

3. ARE PROJECT RESOURCES BEING ADEQUATELY MANAGED?

What We Concluded

We concluded that project resources are being adequately managed. Nevertheless, we identified several opportunities to strengthen project management processes.

We reached this conclusion by comparing the Initiative's practices against project management standards. We believe that the effective management of project resources would require:

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- an appropriate project planning process;
- an appropriate progress monitoring process;
- a quick problem and issue resolution process;
- and
- adequate resourcing for the project management function.

The project management process for the Initiative is still evolving. Decisions are still being made as to how to best manage this project, and what kind of work plan and reporting forms and processes are best suited to the staff and the activity environment at hand. Management has indicated that the evolution of a work planning and tracking mechanism has been a real learning experience for most government staff on the project. The majority have never seen or taken part in this size and complexity of a project in their working careers. Many have never participated in a structured project before. Management has expressed the need to “give people time to learn and adjust.” We acknowledge the unique nature of the environment under which the Initiative is operating and as a result conducted our audit and prepared our conclusions with this context in mind. However, because of the high stakes, the considerable public resources being committed to this project and the very tight time lines as a result of the year 2000, there is very little time to learn and adjust.

What We Found

An Appropriate Project Planning Process

An effective project planning process would require that documented project plans be prepared, that activities and tasks be defined in sufficient detail to facilitate progress management and staffing decisions, that milestones and a critical path be identified and, finally, that the plan be maintained up to date.

The creation of a project plan is fundamental to effective project management. Done properly, the plan documents the tasks that will carry the project through to completion, it articulates what to do and when to act. A plan is essential in order to evaluate progress, to communicate and manage expectations, to pay attention to details, to reallocate staff as needed and to help mitigate project risks.

To be useful, a project plan must include an accurate estimate of the level of effort required to complete each task, the resources assigned to the tasks and the regular points at which time project progress will be checked and appropriate remedial action taken, if required.

We found that detailed project plans are being prepared, for each phase, at the activity and task levels. The project management office maintains the detailed project plans at the activity level from information provided by the individual work stream teams who maintain the plans at the task level. We found that numerous well defined milestones have been identified within each phase to help track progress. Because project management is a discipline not common within the civil service, management has appointed a counterpart Deloitte & Touche consultant for the project management office, as well as for each work stream team, to coach the teams and to maintain the detailed plan. In addition, Deloitte & Touche project managers conduct independent reviews of each of the teams project plans.

However, we also found four opportunities to improve the planning process as follows:

- a single project management software package should be used;
- project plans could be more detailed;
- parallel tracking could be exploited further; and
- a critical path should be identified.

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A Single Project Management Software Package Should Be Used

The project management offices uses project management software to develop and maintain the project plan. In order to get the functionality desired by the project management office, two different software packages are used. The results from one software package are manually entered into the other software package. This approach, however, is time consuming as it requires additional administrative and interpretive effort. In addition it creates two versions of a detailed work plan which adds complexity to communications with teams and within the project management office.

It is not clear to us that the added functionality achieved by using two separate software packages is worth the extra effort and complexity.

We recommend that the project management office standardize on a single project management software package.

Comments of Officials

We agree with the Auditor's recommendation and we have consolidated our project management recording and reporting processes with our Implementor.

Project Plan Could Be More Detailed

To maximize its usefulness, the project plan must include appropriately detailed activities and tasks. This ensures that sufficient attention is paid by the work team to the details and facilitates the management of the function.

We found that while the project plan identifies many activities and tasks, there are opportunities

to improve the plan's usefulness by defining activities and tasks in greater detail.

We found that certain activities and tasks on the project plans span several weeks. In the Detailed Project Roadmap (the activity level plan) we note that approximately a quarter of the listed activities reflect a duration in excess of three weeks and on occasion spanning two or more months. We reviewed one of the detailed task plans and found a similar pattern. In our view, these activities and tasks are not defined at a small enough level to ensure project managers and team leaders are in control of their work.

We believe, as a general rule of thumb, that activities should not show a time span of greater than two weeks and, for tasks, a time span no greater than one week. The Initiative's definitions of activities and tasks, included in the Scoping and Planning Report, appear to support this rule of thumb.

Definitions Included In The Scoping And Planning Report

Activities:
 Within each phase, each work stream will be comprised of discrete activities. These activities will be defined as groups of tasks related to the production of a deliverable or a milestone that, on average, have a **two week duration**. The number of activities per phase and work stream will depend on the duration of the phase.

Tasks:
 Each activity may be comprised of several tasks. The number of tasks required within each activity will be at the discretion of the Project Team Directors.

Such timeframes would enable managers and their team leaders to be more certain of the work

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segments making up an activity or task and be better able to communicate these activities and tasks to their staff, find it easier to articulate the criteria that indicates successful completion of each activity and task, have more control over scheduling and allocation of resources, have a better basis for measuring work performed and be better positioned to take corrective action, earlier, where and when necessary.

We recognize that a balance must be struck between spending time planning and spending time doing work. In our view, activities in excess of four weeks and tasks in excess of two weeks are too long to be a meaningful control mechanism. We encourage management to reconsider the risks in potentially over planning versus those of under planning. In our view, planning to this finer level of detail helps to reduce uncertainty and therefore mitigate risk. Mitigating risk offers greater control over the project and plays a fundamental role in keeping a project on, or even ahead of, schedule.

We also found that there is a need, in certain instances, to specify the tasks that would be necessary to respond to an earlier task. For example, the task “review quality assurance reports” should be followed by the task to “respond to the quality assurance report” or to “amend action plan to reflect quality assurance findings.” These follow-on tasks are not always obvious and can be time consuming. Specifically identifying them ensures that the required resources and time lines are accounted for.

In addition we found that while the level of activity detail for the current redesign phase is fairly well developed, there is a lack of activity detail for the subsequent phases, being configuration and of test and delivery. In our view, building detail would help avoid surprises and thus reduce risk.

We recommend that Management ensure the project plans reflect appropriately detailed activities and related tasks.

Comments of Officials

We review our project planning and management practices on an ongoing basis and we will examine the adequacy and level of detailed information that is submitted to the Project Management Office from the project teams.

Parallel Tracking Could Be Exploited Further

Parallel tracking is the scheduling of two or more unrelated activities to be conducted concurrently in order to smooth work flows or to shorten timeliness.

We found that activities and tasks in the project plans are logically organized and follow a reasonable sequence. We note that management has used, on several occasions, parallel tracking of activities and tasks within project phases. However we believe that parallel tracking could be exploited further by scheduling certain activities from other project phases to begin earlier. For example, activities related to developing contingency plans and defining SAP security currently scheduled for the Configuration phase could be conducted in the Redesign phase, resources allowing.

We recommend that management revisit their activity work plans to identify opportunities for moving additional activities and tasks forward.

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Comments of Officials

Moving key activities forward and completing them on a concurrent basis is desirable. We will examine opportunities to maximize this practice to the extent that project resources permit.

A Critical Path Should Be Identified

A critical path is the chain of activities within a project that must be conducted in sequential order and that in total take the longest time to complete. As a result, the critical path defines the project's shortest possible timeframe. It is essential, therefore, that management effort focus on activities along this path if the project is to be completed on schedule

We found that the critical path technique is not used by the project management office to track progress and manage project resources. The Deloitte & Touche project managers advise that they prefer to manage the project by focussing on completing project deliverables one phase at a time and by relying on their experience to identify critical tasks. We appreciate the discipline, logical sequencing, structure and focus of the Deloitte & Touche approach. In our opinion, however, incorporating critical path methods can further enhance this approach.

In our view, project risk is increased significantly unless a project manager is able to devote concerted attention to those activities that reside on the critical path, notwithstanding the level of experience the project manager may have. Each project possesses very unique scope, organizational, geographic, functional, transactional, technical and stakeholder characteristics. Applying the critical path technique provides a project manager with the ability to secure a clearer view of those activities that could be vulnerable, within the context of the

unique characteristics of the project at hand. By not applying the critical path technique to the suite of project management processes, the Initiative is missing a significant opportunity to mitigate project risk of deviating from schedule. This may have contributed to the Initiative's inability to complete any of the earlier phases on schedule.

We recommend that management incorporate critical path analysis as part of their project management processes.

Comments of Officials

Management will further consider this recommendation in consultation with our Implementor.

Progress Monitoring Process Should Be Enhanced

The project management office monitors progress by keeping track of accomplishments on three dimensions namely, percent complete, percent of effort and deliverables status. Each work stream team reports weekly on these dimensions. However we note that the project management office does not always verify the reasonableness of this status information. In effect, the reports are taken at face value.

We recommend that management periodically assess the reasonableness of status information.

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Comments of Officials

Our project management procedures include frequent and detailed progress monitoring from several vantage points. When circumstances warrant, tangible evidence to support team directors' representations is sought. We believe this verification process should be used on an exception basis.

An Effective Problem And Issue Resolution Process Has Been Established

An essential component of effective project management is the ability to obtain guidance or decisions from senior management and the governing body within a reasonable timeframe. This ensures that the progress of the work teams is not impeded because of long unresolved issues.

We note that the Better Methods Steering Committee has committed to a 48 hour turnaround on issues brought to their attention. Our review of internal documentation indicates that this process is working well.

The Project Management Office May Not Be Adequately Resourced

The project management office is responsible for providing administrative support to the Initiative, such as accounting, production and logistics. The office is also responsible for the project management function. This would include the management of risks, issues, change requests, and project deliverables. In addition the office is responsible for conducting quality assurance reviews.

We did not conduct a work load analysis on the project management office but believe that the significance and volume of responsibilities bestowed to the office in relation to the available resources is not conducive to the effective

discharge of these responsibilities. We believe that the administrative support component of the office's responsibilities is adequately resourced. However, we note that the project manager alone is responsible for conducting all the project management responsibilities of the office. Despite the projects manager's best efforts, we believe this places the project at risk because a key function such as risk management may not receive the attention it requires.

We recommend that management revisit the adequacy of resources that support the project management function.

Comments of Officials

While we are mindful of the management challenge of this project, and agree that our management resources are taxed, we consider the combined management resources brought to bear by the Province of Manitoba and Deloitte & Touche Consulting are adequate for current and projected circumstances. We will monitor this situation carefully.

4. WILL THE PROVINCE KNOW IF THE INITIATIVE IS ACHIEVING THE EXPECTED BENEFITS?**What We Concluded**

The Initiative is currently focussing on identifying and developing tracking processes for benefits related to efficiencies gained and cost savings incurred. This is useful information. However, we believe that measuring service delivery outcomes would be of most use to the Province as indicators of benefits resulting from this considerable expenditure of public funds.

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We based this conclusion by assessing whether the Initiative was:

- focussing on the important measures, and
- whether a process was in place to ensure departments fully understood their benefit realization responsibilities.

We agree with the government that it would be advantageous to track the achievement of certain benefits, although as noted in our conclusion and in the section below, we encourage the government to revisit the nature of the benefits it plans to track. We are, however, of the view that given all of the challenges currently faced by the Better Methods team, benefit identification and tracking should not be allowed to consume considerable resources or to detract from other, more pressing project deliverables.

What We Found

The Need To Focus On The Important Measures

The business case for proceeding with the implementation of Better Methods was built on a fairly clear description of benefits that would be realized and that would ultimately defray the costs. The business case identified both qualitative and quantitative benefits that could be realized subsequent to the implementation of the redesigned processes.

Estimating benefits is a valuable exercise in developing a business case and as a tool to assist in making decisions concerning scope and particular redesign elements. However, in our view, its usefulness in the post-implementation phase is largely dependent on the nature of benefits tracked.

Stakeholders in the project believe that tracking benefits is important, albeit a consensus has not

been reached on what should be measured and how to measure it.

The Scoping and Planning Report identifies two reasons for tracking the benefits related to implementing Better Methods as follows:

The benefits of the project represent significant “value-added” to the Province in terms of improved support information, actual process cost savings, decreases in cycle times for critical activities, and increases and enhancements to service delivery and customer satisfaction. There is a need to be able to track and establish where these benefits will be coming from and confirm the extent to which these benefits are actually captured.

Secondarily, the actual tracking of the benefits supports the successful completion of the project. A robust benefits tracking program will aid in focussing resources and effort on the areas where the potential benefit is greatest. It will also build commitment and buy in to the project objectives and act as a key communication medium for reporting progress and defining the impact of key project decisions.

At the time of our review, the benefit measurement and tracking objectives were geared toward measuring the administrative benefits, being efficiencies, cost savings and staff offsets, that could be realized by implementing the new system. These formed the foundation of the business case in support of the Better Methods vision. Regarding service enhancements, only qualitative benefits have been addressed.

We question, however, the usefulness of tracking such benefits. One can argue that a new information system was necessary because of technological innovations generally and because the existing systems were not year 2000 compliant.

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This argument makes the current benefits tracking efforts redundant, in that new systems were necessary regardless of whether significant benefits could be realized.

In our view, however, tracking benefits related to outcomes would be a useful tool in assessing whether the full potential of the redesigned processes and the new technology are being realized (cost savings notwithstanding). Benefits related to outcomes would include better management decisions and improved client service. Such benefits are clearly distinguishable from accomplishments. For example, reduced cycle time is an accomplishment, whereas the outcome achieved through reduced cycle times is the benefit. Tracking such benefits would assist in determining whether post implementation actions are required within particular departments to ensure the capacity of the new processes are understood and taken advantage of.

We have been advised that identifying potential benefits in a business case is a common practice among public sector entities that have implemented SAP. However, very little, if any, subsequent effort has been made by these public sector entities to track the achievement of benefits noted in their business cases. In this regard, Manitoba may be leading the way.

In our view, management needs to balance:
 (1) what is realistic in terms of what is able to be tracked, with (2) the level of effort that would be required to track the benefit, and with (3) the value the Government is going to get out of the effort.

A Benefits Accountability Framework Should Be Established

The Scoping and Planning Report states that the Initiative is responsible for tracking benefits and that the operating departments are responsible for realising the benefits. Tracking the benefits

independently, outside of the department where the benefits are generated provides a desirable segregation of duties and ensures the objectivity of benefits tracking and measurement. However this segregation also means that considerable departmental buy in will be necessary if benefits are to be realized. Departments may need incentives to take advantage of SAP functionality to maximize productivity and effectiveness returns. The realization of productivity and effectiveness returns is a significant responsibility. As such it should be supported by a benefit accountability framework.

We recommend that a benefit accountability framework be established to ensure departments understand their responsibilities for benefit realization.

Comments of Officials

We agree, a benefit accountability framework will be developed.

Canada-Manitoba Communications Agreement

Department of Industry, Trade and Tourism



CANADA-MANITOBA COMMUNICATIONS AGREEMENT
Department of Industry, Trade and Tourism

REPORT OVERVIEW

INTRODUCTION

In 1989 the federal Department of Communications approached the Department of Industry, Trade and Tourism to initiate discussions on establishing an agreement regarding communications technology. The Canada-Manitoba Agreement in Communications Technology Research and Development was signed November 9, 1992. The purpose of the Agreement was to facilitate cooperation between Canada and Manitoba in undertaking programs and projects that would foster research and development initiatives in communications technologies and applications, thereby stimulating economic development and sustainable, high quality employment.

As a result of concerns brought to our attention by a Member of the Legislative Assembly, we decided to examine the awarding of grants to Iris Systems Inc. (Iris) and Manglobe Virtual Corporation (Manglobe) under the November 9, 1992 Canada-Manitoba Communications Agreement (Agreement).

AUDIT PURPOSE AND SCOPE

The purpose of our audit was to answer the following question:

- Did the Department of Industry, Trade and Tourism (Department) exercise due diligence in approving and monitoring the grants awarded under the Agreement to Iris Systems Inc. and Manglobe Virtual Corporation?

The documentation that we examined covered the time period August 28, 1991 to December 20, 1997. The examination was performed in accordance with the value-for-money auditing standards for the public sector recommended by the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances.

CONCLUSIONS AND KEY FINDINGS

Did the Department of Industry, Trade and Tourism (Department) exercise due diligence in approving and monitoring the grants awarded under the Agreement to Iris Systems Inc. and Manglobe Virtual Corporation?

Because of the lack of documented support for Departmental representations made regarding the due diligence procedures performed, we are unable to

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express an opinion on whether the Department exercised due diligence in approving and monitoring the grants awarded to Iris and Manglobe.

In our view, ensuring that the basis for decisions is appropriately documented is a critical management responsibility. Documenting procedures, rationale, assumptions, decisions and conclusions promotes common understanding among parties now and in the future. It also provides assurance that management will be in a position to explain its actions. Properly documented files are essential in ensuring appropriately “transparent” government decisions. In our view it is not sufficient for management to say they exercised due diligence, they must be able to demonstrate it.

Our key findings are as follows:

Selection Criteria

Selection criteria were developed to assess proposals for projects to be funded under the terms of the Agreement. However, these criteria were incomplete in that there were no guidelines on assessing risk either quantitatively or qualitatively.

Iris Systems Inc. (Iris)

The Department prepared an evaluation of Iris’s proposal and concluded that most criteria were met. However, the Department’s evaluation did not document how it determined the reasonableness of Iris’ sales forecasts, financial projections and descriptions of its competitive and strategic advantages. Department officials advise that reliance was placed on judgements made by the Vision Capital Fund, an investor in Iris. In our view, the Department should have conducted independent analyses of Iris’ assertions.

The terms and conditions of Iris’s Contribution Agreement required that Iris achieve certain milestones prior to receiving installment payments on the approved grant. We found that the Department conducted a number of monitoring activities, however, there was no documentation available to indicate whether the Department conducted an appropriate review of the milestone reports submitted by Iris to determine whether these milestones were achieved.

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Manglobe Virtual Corporation (Manglobe)

We found that the Manglobe proposal was treated as a feasibility study and market test by the Department. However, no criteria were developed to assess such proposals. As a result, there is no objective way to tell whether the Manglobe proposal was appropriate under the terms of the Agreement.

The Contribution Agreement required that Manglobe achieve certain milestones prior to the release of grant funds by the Department. These milestones included the successful completion of the activities and work described in the project plan. We were unable to find any documented Departmental assessment of whether milestones were appropriately met or of the quality of the feasibility study, business plan and market analysis that were required by the Contribution Agreement.

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ABOUT THE AGREEMENT**HISTORY**

In 1989 the federal Department of Communications (Canada) approached the Department of Industry, Trade and Tourism (Department) to initiate discussions on establishing an agreement regarding communications technology. Starting in 1989, the Department assembled a multi-departmental task force to formulate a Manitoba communications industry development strategy. In 1990 presentations and briefings were conducted with senior government officials and key private sector individuals to validate the strategy. The strategy had the following mission:

To position Manitoba as a recognized and substantive player in the international communications industry, capturing new opportunities to build a high technology industry sector to serve the growing global market.

On April 30, 1991 Treasury Board authorized the Minister of Industry, Trade and Tourism to commence negotiations with Canada for an agreement to foster communications technology development in accordance with the Manitoba strategy. On September 30, 1991, Treasury Board authorized the Minister to conclude negotiations and sign, on behalf of the Province, a five year agreement with Canada to equally share costs of \$10 million for the development of communications technology in Manitoba. The Canada-Manitoba Agreement in Communications Technology Research and Industry Development (Agreement) was signed November 9, 1992. The purpose of the Agreement was to:

...facilitate cooperation between the governments of Canada and Manitoba, in undertaking Programs and Projects which

will foster the development of communications technologies and applications, thereby stimulating economic development and sustainable high quality employment...

In accordance with the Agreement, representatives from Canada and the Department formed an Agreement Management Committee to implement the Agreement.

Subsequently in 1994 Canada reduced its commitment from \$5,000,000 to \$4,490,000 due to budgetary restraints. The Province agreed to reduce its commitment to match that of the federal government. On May 8, 1995 the Agreement was amended by changing the final date for approval of projects under the Agreement from March 31, 1995 to March 31, 1996.

ORGANIZATION OF AGREEMENT AND SERVICES PROVIDED

The Agreement was implemented with four programs:

- Communications Technology (\$5,800,000) - Canada contributed \$4,400,000 and the Department \$1,400,000 to support research, innovation and product development in communications technology.
- Communications Business Development and Opportunity Identification (\$2,890,000) - funded solely by the Department to foster the development of innovative private sector investments by:
 - contracting for consulting services to investigate market and business feasibility to prove new opportunities in communications technology.

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- investing with private sector and other partners in specific communications technology business development projects.
- Communications Industry, Development (\$150,000) - funded solely by the Department to support promotional activities to make Manitoba's communications industry and technological capabilities known to potential markets across Canada and internationally.
- Management (\$140,000) - Canada contributed \$90,000 and the Department \$50,000 to manage Agreement activities.

Overall the Agreement was anticipated to generate from 60 to 125 high value jobs and from 100 to 300 lower level jobs.

STATISTICAL INFORMATION

The Department reported expenditures for the Communications Agreement as follows:

Table 1

92/93	93/94	94/95	95/96	96/97	TOTAL
\$46,000	\$1,257,200	\$523,600	\$757,900	\$815,000	\$3,399,700

Source: Department of Industry, Trade and Tourism

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DETAILED FINDINGS**AUDIT PURPOSE AND SCOPE**

As a result of concerns brought to our attention by a Member of the Legislative Assembly, we examined two grants awarded under the Communications Business Development and Opportunity Identification program of the Canada-Manitoba Communications Agreement. One grant was to Iris Systems Inc. (Iris) for \$924,155. The second grant was to Manglobe Virtual Corporation (Manglobe) for \$500,000.

The purpose of our audit was to answer the following question:

- Did the Department of Industry, Trade and Tourism (Department) exercise due diligence in approving and monitoring the grants awarded under the Agreement to Iris Systems Inc. and Manglobe Virtual Corporation?

The documentation that we examined covered the time period August 28, 1991 to December 20, 1997. The examination was performed in accordance with the value-for-money auditing standards for the public sector recommended by the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances.

DID THE DEPARTMENT EXERCISE DUE DILIGENCE IN APPROVING AND MONITORING THE GRANTS AWARDED UNDER THE AGREEMENT TO IRIS AND MANGLOBE?

What We Concluded

Because of the lack of documented support for Departmental representations made regarding the due diligence procedures performed, we are unable to express an opinion on whether the Department exercised due diligence in approving and monitoring the grants awarded to Iris and Manglobe.

In our view, ensuring that the basis for decisions is appropriately documented is a critical management responsibility. Documenting procedures, rationale, assumptions, decisions and conclusions promotes common understanding among parties now and in the future. It also provides assurance that management will be in a position to explain its actions. Properly documented files are essential in ensuring appropriately “transparent” government decisions. In our view it is not sufficient for management to say they exercised due diligence, they must be able to demonstrate it.

We attempted to assess the following criteria:

- the Agreement should clearly describe the nature of the projects that would be eligible and the acceptable associated risk;
- the Agreement should clearly describe the Department’s reporting obligations;

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- the Department should independently research, analyse and verify the information provided by grant applicants to assess eligibility and desirability; and
- the Department should only make grant payments when it is satisfied that the specified terms and conditions of the grant have been met.

What We Found

We have organized our findings by criteria and then by grant recipient.

The Agreement Should Clearly Describe The Nature Of The Projects That Would Be Eligible And The Acceptable Associated Risk

In describing the nature of eligible projects, formal selection criteria would be required. These criteria would include the desired risk profile of grant recipients. Where necessary, guidelines would be provided to help apply and interpret the selection criteria. Formal selection criteria ensure equitable opportunities for potential applicants. In addition, they promote impartial and consistent assessment of proposals against the requirements of the Agreement. This ensures realization of Agreement objectives and benefits.

We found that the available selection criteria included the following:

- Communications Agreement objectives, which related to fostering the development and use of communications technologies and services in Manitoba;
- project criteria per the Communications Agreement, being generally the level of financial and in-kind resource contributions by private sector partners;

- project selection criteria developed by the Department of Industry, Trade and Tourism:
 - the project selection criteria specified that technical and commercial risk were to be important factors in the selection of projects.

However, these criteria are incomplete as they do not specify the risk profile desired. In addition, no guidelines were prepared to help the Department in assessing risk either quantitatively or qualitatively. We noted that file documentation did not include formal analyses of risk.

Grants under the Agreement were for proposals that, except for the receipt of monies from government, may not have been viable. Assessing the risk of a proposal not achieving its objectives and identifying whether the level of such risk was acceptable were important considerations to ensure grants were awarded with an acceptable expectation that objectives and benefits would be realized.

Without such guidelines the Province may have assumed greater risk than necessary in awarding grants under the Agreement.

The Agreement Should Clearly Describe The Department's Reporting Obligations

For any agreement, clarity in reporting obligations between the parties is essential. This would require that such obligations be clearly documented in the agreements.

We examined the Canada-Manitoba Communications Agreement for reporting requirements. We found that the Agreement Management Committee was required to submit progress reports to both the federal and provincial Ministers annually and to provide information to

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other concerned agencies as deemed necessary, including a cash flow plan and financial information at regular intervals.

In this regard, we found that Treasury Board for Manitoba directed the Department to report on the Agreement to Treasury Board quarterly. The Department submitted four reports to Treasury Board covering the period March 23, 1993 to September 30, 1995. These reports included background information on the Agreement and individual projects. The status of each project in meeting the conditions of its funding was disclosed. Also, for each project the reports showed the total funding, actual and forecast funding by fiscal year for five years and quarterly funding for the current fiscal year.

During the above time period the Department should have reported ten times instead of four times to meet the Treasury Board requirement. Furthermore, we noted that the Department did not issue reports for periods after September 1995 although the Agreement did not expire until March 31, 1996.

Memorandums regarding the status of grants were sent to Treasury Board Secretariat officials on occasion but not after 1995. The effect of the failure by the Department to report as required to Treasury Board may have compromised Treasury Board's ability to exercise good governance.

Management believes that Treasury Board was kept fully informed of the status of the Agreement and of projects under the Agreement through the provision of the periodic reports, the annual estimates process, quarterly cash flow reports and oral briefings.

The Department Should Independently Research, Analyse And Verify The Information Provided By Grant Applicants To Assess Eligibility And Desirability

A proposal should be assessed for the following:

- compliance with selection criteria;
- technical, commercial and financial feasibility;
- abilities of management; and
- credit ratings of applicants.

Assessing Proposals Against Selection Criteria

We looked for evidence that the Department evaluated whether the proposal met the selection criteria. For the Iris proposal, the Department prepared a summary evaluation and concluded that the proposal met most criteria.

We found that the Manglobe proposal was treated as a feasibility study and market test by the Department. However, no criteria were developed to assess such proposals. As a result, there is no objective way to tell whether the Manglobe proposal was appropriate under the terms of the Agreement.

The Need To Independently Assess The Reasonableness Of Iris's Assertions About Its Technical, Commercial And Financial Feasibility

Past performance is a good indicator of future performance for people and organizations. Evaluating past performance and plans as well as confirming the reasonableness of financial projections are important factors in assessing the likelihood that a proposal will be successful.

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The Department assessed the sales forecasts for Iris as aggressive. This conclusion was based on the following:

- an assessment by Communications Canada of the technical and commercial feasibility of the Iris proposal.
- a review of Iris's audited financial statements for five years by a staff member of the Financial Services section of the Department, who assessed Iris's capacity to maintain operations based on this review.
- a cost benefit analysis, developed by the Department and from the Province's viewpoint, that showed the Provincial break even point would not be reached until year four if the project was successful.
- the Department's assessment of Iris's operational and financial viability. This assessment was limited to obtaining written responses from Iris to the Department's questions about Iris's competitive and strategic advantages, its sales forecast, and its financial projections. However, the Department did not document how it determined the reasonableness of Iris's assertions. Department officials advise that reliance was placed on judgements made by the Vision Capital Fund, an investor in Iris. In our view, the Department should have conducted independent analyses of Iris's assertions.

This criterion was not applicable to the Manglobe proposal because it was approved as a feasibility study and market test.

Abilities Of Management Were Assessed

Management has ultimate responsibility for an organization so that the more competent the management, the more likely the proposal will be successful. Thus evaluating management would be an important factor in awarding a grant to an organization.

We examined file documentation for evidence of analyses of management abilities. We found that the Department assessed Iris as having the engineering and management capabilities to undertake the project. The principals of Iris were assessed by the Department as having demonstrated their capabilities in managing the research and development business. In addition, Department officials advise that they regarded the chairman of Iris as having substantial venture capital experience and knowledge of the industry. Also, they took into account the management skills and knowledge of the Vision Capital Fund, an investor in Iris.

The Department initially assessed Manglobe management as lacking experience. As a result the grant agreement with Manglobe required the establishment of a project management team of senior business and professional persons, acceptable to Manitoba, prior to the Department paying the second installment of the grant.

Credit Ratings Of Applicants, Including Principal Individuals, Not Checked

Checking credit ratings of corporate applicants, including principal individuals involved with the corporate applicants, is a prudent process to assess risks associated with a particular applicant.

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We found that the file documentation did not indicate whether credit ratings were checked.

Officials from the Department advise that they would use their professional judgement to determine whether credit checks were appropriate in the circumstance. We believe that, for significant grants, this approach increases the risk of making grants under inappropriate circumstances.

The Department Should Only Make Grant Payments When It Is Satisfied That The Specified Terms And Conditions Of The Grant Have Been Met

A properly functioning payment process would require that grants be appropriately approved, that signed grant agreements be in place, and that documented evidence be gathered to show that the terms and conditions of the grant have been met.

On May 11, 1993, Treasury Board approved the grant to Iris.

On December 20, 1994, Treasury Board conditionally approved the grant to Manglobe. The condition was that \$200,000 in cash and \$1,275,000 in goods and services had to be committed to Manglobe from the private sector prior to the release of the first grant payment by the Department.

We found that the Department chose to interpret commitments from the Manitoba Telephone System to provide \$100,000 in cash and \$385,000 in services to Manglobe as a commitment from the private sector. Since Manitoba Telephone System was a Crown corporation at the time, wholly owned by the Province, this interpretation may have been inappropriate and should have been clarified with Treasury Board.

With respect to Iris, we found that a Contribution Agreement was prepared, signed by the Minister and a co-President of Iris and included clauses to protect the interests of the Province.

The Contribution Agreement with Manglobe required that Manglobe strengthen its management team. No specifics were provided in the agreement as to what was meant by this requirement. Similarly, the agreement called upon Manglobe to produce a feasibility study, a business plan and a market analysis, but did not include criteria to assess the quality of these documents, thereby making it difficult for anyone to assess whether these requirements had been effectively met.

The terms and conditions of Iris's Contribution Agreement required that Iris achieve certain milestones prior to receiving installment payments on the approved grant. In this regard, we determined that the Department received periodic reports from Iris. Included among these periodic reports were milestone reports, a final product report and a "Statement of Eligible Expenditures" supported by an auditor's report. We found that the Department conducted the following monitoring activities:

- the Department obtained a technical review of the project from Industry Canada which concluded that Iris was in compliance with the technical criteria of its Contribution Agreement for stage two of the four stages of the project. Management advised us that independent assessments were not performed for stages 3 and 4 because the technical issues at these stages were less complex. As a result, the Department was able to satisfy itself that the required technical progress had been made.
- the Department arranged for an internal auditor to examine the cost claims submitted.

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We found, however, that there was no documentation available to indicate whether the Department conducted an appropriate review of Iris's milestone reports to determine whether these milestones were achieved.

Management advised that the Department did review the Iris milestone reports and that payments were authorized following these reviews. They indicated that reviews were conducted on progress towards technology development and marketing activities and that they believed sufficient progress was being made to warrant progress payments to Iris.

A summary of key milestones to be met by Iris is shown in Table 2.

Agreement to entitle Manglobe to the full \$500,000 grant.

The Contribution Agreement required that audited financial statements be submitted within 90 days of the completion of the project. Audited financial statements, however, were not submitted.

In addition, the Contribution Agreement required that Manglobe achieve certain milestones prior to the release of grant funds by the Department. These milestones included the successful completion of the activities and work described in the project plan. The agreement provided no guidance on how the achievement of the milestones was to be measured. This was particularly problematic in the case of certain

Table 2

Key Milestones per Contribution Agreement	Progress Reported by Iris	Action Taken by Department
April 1993 - basic demonstration of product that uses two way radio communication to control two household appliances.	Product demonstrated to Department official on August 23, 1993.	File documentation does not include Department's evaluation of demonstration.
August 1993 - Iris accepts delivery of radio circuits that will reduce manufacturing costs of product by 20% and provides Manitoba with verifiable information as to current and estimated reduced manufacturing costs.	As at September 24, 1993 Iris is testing three new circuits, two of which meet performance criteria. Also, Iris provides cost data that indicates that new circuits will reduce current manufacturing costs by 34%.	File documentation does not include Department's evaluation of cost information. Department received letter dated August 18, 1994 from Industry Canada indicating that Iris is making good progress in redesigning and enhancing products system capabilities.
October 1993 - Demonstrate pre-production switch acceptable to Manitoba.	As at October 1, 1993 Iris reports that it will conduct field tests.	File documentation does not include Department's evaluation of field tests.

Manglobe submitted written reports and made oral presentations to the Department. A staff member of the Financial Services section of the Department examined the documented support for eligible costs. We note that these costs exceeded the \$2.4 million required under the Contribution

recurring activities set out in the project plan. For example, the project plan showed the following milestones for each month of the last half of the project schedule:

- the technical team was to:

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- maintain the Manglobe system,
- continue development and implementation of the virtual shopping mall.
- the sales and marketing team was assigned “heavy public relations and advertising on-line and off-line”.

We were unable to find any documented Departmental assessment of whether milestones were appropriately met or of the quality of the feasibility study, business plan and market analysis that were required by the Contribution Agreement.

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DEPARTMENTAL RESPONSE

In regards to Communications Agreement projects, the Department acted as a catalyst to encourage and facilitate projects which would not otherwise have taken place. The Department accepted that many of the projects were inherently risky since they involved emerging and unproven technologies. In these circumstances, the Department relied heavily on the involvement and expertise of other funding partners in the projects. The Department believes that, in the circumstances, such reliance was justified.

The Department believes that it does undertake comprehensive due diligence, but accepts the auditor's observations that improved documentation should have been in evidence and will take the necessary steps to address these concerns.

Based on an assessment of the Agreement in 1995/96, a decision was taken by the Department not to approve any additional projects under the Agreement, but, to the extent possible, to honour existing commitments. As a consequence of this decision, the budget for the Agreement dropped dramatically in 1996/97 and the actual expenditures under the Agreement, originally budgeted at \$4.5 million were capped at just under \$3.4 million. It should be noted that of this \$3.4 million, \$1.4 million or over 40% was provided to TRILabs which continues to operate, as a vital and dynamic research and development presence, in the province of Manitoba.

Planning for Highway Construction, Rehabilitation and Maintenance

Department of Highways and
Transportation



PLANNING FOR HIGHWAY CONSTRUCTION, REHABILITATION AND MAINTENANCE
Department of Highways and Transportation

REPORT OVERVIEW

The Department of Highways and Transportation is responsible for the planning, design, construction, rehabilitation and maintenance of the provincial highway system as well as the air and marine facilities in the northern part of the Province. The provincial highway system consists of 19,039 of equivalent 2 lane kms of roads (7,945 kms of bituminous paved highways, 5,106 kms of asphalt surface treated roads and 5,988 kms of gravel roads) and approximately 2,400 bridges.

The role and mission of the Department of Highways and Transportation is:

To provide the citizens of Manitoba with safe, efficient and environmentally compatible transportation systems that contribute to the sustainable economic growth and social well-being of the Province.

The large inventory of roads, the large number of multi-million dollar, multi-year projects and competing demands make highways a complex system to manage. Good management of these assets means accomplishing the Department's strategic objectives by assigning appropriate priorities to the needs of the various parts of the system, while at the same time balancing the level and timing of new construction, rehabilitation and maintenance and striving to maximize the benefits and minimize the lifetime costs of highways.

In our 1996 Report to the Legislative Assembly, we included a chapter entitled "Highways Planning, Strategic and Long-Range". The primary conclusion we reached in that report was that the Department's information systems required extensive revision or replacement in order to support the decision-making requirements of effective strategic and long-range planning. Management concurred with this finding and indicated that a high priority has been given to the development of the required information systems.

For this report, we examined the mid-range and annual highway planning activities of the Department. It is important that the new processes and information systems being developed by the Department address the needs of mid-range and annual planning as well as strategic and long-range planning.

AUDIT PURPOSE AND SCOPE

The purpose of our audit was to answer the following question.

- Are appropriate mid-range and annual planning processes and information in place to ensure that the resulting highway construction, rehabilitation and

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maintenance plans contribute toward accomplishing the Department's strategic objectives?

We performed our audit with assistance from highway planning and transportation consultants. We conducted our audit from January to June 1997.

We performed our audit in accordance with value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly our audit included such tests and other procedures as we considered necessary in the circumstances.

CONCLUSION AND KEY FINDINGS

Are appropriate mid-range and annual planning processes and information in place to ensure that the resulting highway construction, rehabilitation and maintenance plans contribute toward accomplishing the Department's strategic objectives?

We concluded that while projects are prioritized, effective processes and sufficient information are not in place to ensure that the projects selected will contribute, to the fullest practical extent, toward the accomplishment of the Department's strategic objectives.

Our key findings are:

- Annual expenditures on the rehabilitation of bituminous paved highways are not sufficient to appropriately apply a least lifetime cost methodology to preserve the highway network. The Department's expenditures on the rehabilitation of bituminous paved highways for fiscal year 1998 amounted to \$35.2 million and is consistent with prior year expenditure levels (Table 4). This level of expenditure, however, only permits a 41 year rehabilitation cycle; this is well beyond the acceptable industry standard of 20 years. The impact of this level of rehabilitation is that many bituminous paved highways have not been rehabilitated within the optimal 20 year time frame. As a result, the average age of the bituminous paved highway network is 18 - 20 years; well beyond the desired average age of 10 years. It is important to note that least lifetime cost methodology can only be effectively applied on a highway system with an average age of approximately 10 years. We estimate that the resources allocated to bituminous paved highway rehabilitation would have to approximately double, in each of the next 20 years, to return

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the bituminous paved highway system to a condition where least lifetime cost methodology could be effectively applied.

We are also concerned, therefore, that the citizens of Manitoba have been incurring greater overall costs for bituminous paved highway rehabilitation than would have been incurred had historical funding levels been sufficient to allow least lifetime cost methodology to be applied. Management's current estimate of \$180,000 to rehabilitate a kilometre of bituminous paved highway is likely greater than would be necessary if rehabilitation occurred in 20 year intervals. This is because road deterioration accelerates dramatically after 20 years, resulting in rapidly increasing costs to rehabilitate. Unfortunately, information is not available to allow us to determine the extent of these unnecessary costs.

Management advises that they concur with the benefits of applying a least lifetime cost methodology for managing rehabilitation and maintenance activities and that the Asset Management System they are in the process of implementing will support this methodology. They also advise that the Asset Management System is capable of identifying an optimum budget to achieve least lifetime cost and when only limited budgets are available, it can identify which rehabilitation and maintenance projects should be carried out to get best value for money (recognizing that, in this situation, least lifetime cost will not be achieved).

- The Department has recently developed the capability to conduct benefit/cost analyses and has performed this analysis on a lengthy list of candidate projects, representing several years of future budget dollars. Management advises that the results of these benefit/cost analyses as well as socio-economic factors are available for consideration in determining project priorities. However, an analysis that links the results of the highway needs analyses, the benefit/cost analyses and identified socio-economic factors has not been developed. It is not clear, therefore, that the benefit/cost analyses and socio-economic factors have been adopted as significant planning inputs. Such an analysis would promote transparency in decision-making.
- The Department is in the process of implementing systems that will improve the accuracy of the pavement surface condition information, as well as, truck volume and weight information. Good quality information of this nature will contribute to improved decision making regarding project priorities.
- The Department has appropriate processes in place to manage the delivery of its construction and rehabilitation activities.

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- The Department does not conduct post-implementation reviews of completed construction and rehabilitation projects to determine whether anticipated benefits were achieved.

RECOMMENDATIONS

We recommend that the Department:

- adopt a least lifetime cost methodology in determining rehabilitation and maintenance strategies, priorities and budgets;
- develop a comprehensive documented analysis of the relative emphasis of the various planning inputs (being highway needs, benefit/cost analysis and socio-economic factors for each project) to demonstrate the rationale for construction and rehabilitation project priorities;
- establish a process to conduct post-implementation reviews of a sample of completed construction and rehabilitation projects to determine whether anticipated benefits were achieved. The Department should use the results of these reviews to enhance the planning and delivery of future projects.

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BACKGROUND**INTRODUCTION**

In our 1996 Report to the Legislature, we included a chapter entitled "Highways Planning, Strategic and Long-Range". The primary conclusion we reached in that report was that the Department's information systems required extensive revision or replacement in order to support the decision making requirements of effective strategic and long-range planning. Management concurred with this finding and indicated that a high priority had been given to the development of the required information systems.

For this report, we examined the mid-range and annual highway planning activities of the Department. It is important that the new processes and information systems being developed by the Department address the needs of mid-range and annual planning as well as strategic and long-range planning.

ORGANIZATION OF PROGRAM AND SERVICES PROVIDED

The Department of Highways and Transportation is responsible for the planning, design, construction, rehabilitation and maintenance of the provincial highway system as well as the air and marine facilities in the northern part of the Province.

The provincial highway system consists of 19,039 of equivalent 2 lane kms of roads (7,945 kms of bituminous paved highways, 5,106 kms of asphalt surface treated roads and 5,988 kms of gravel roads) and approximately 2,400 bridges.

The role and mission of the Department of Highways and Transportation is:

To provide the citizens of Manitoba with safe, efficient and environmentally compatible transportation systems that contribute to the sustainable economic growth and social well-being of the Province.

The planning for construction, rehabilitation and maintenance is a shared responsibility among three divisions of the Department. The Transportation Policy, Planning and Development Division carries out several activities that are supportive of longer-range planning, such as assessing future travel demands, identifying and assessing future system enhancements and conducting benefit/cost analyses. The Engineering and Technical Services Division is responsible for highway operational planning, design and programming. The Construction and Maintenance Division is responsible for a preliminary assessment of proposed construction, rehabilitation and maintenance projects and for the actual delivery of the projects.

The benefits of effective construction, rehabilitation and maintenance programs include:

- planning and designing highway systems based on a comprehensive and integrated approach to the economy and environment; and
- constructing, rehabilitating and maintaining the highway infrastructure to a standard that provides for the safe, efficient and convenient movement of people, goods and services.

Table 1 describes relevant terms and Table 2 provides historical information on estimates of expenditure.

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Table 1

Glossary of Terms	
Construction (capital)	An "improvement" function, which typically involves major activities that add capacity to the system, such as increasing the number of lanes or adding an interchange.
Rehabilitation (capital)	A "preservation" function, which consists of major activities that bring the road or structure back to "nearly new" condition. Examples are pavement overlays or bridge deck replacements.
Maintenance (operating)	A "preservation" function, which consists of activities that help to prevent the infrastructure from deteriorating. Such activities include crack sealing, patching and seal coating.

Estimates of Expenditure			
	1997/98	1996/97	1995/96
	\$(000's)	\$(000's)	\$(000's)
Administration and Finance	5,369.1	5,328.6	5,492.7
Highways and Transportation Programs	57,861.6	54,488.5	55,307.1
Infrastructure Works:			
Operating	54,993.5	54,532.2	
Capital	106,660.0	107,860.0	
Total Infrastructure Works	161,653.5	162,392.2	164,484.9
Total Appropriations for Highways and Transportation	224,884.2	222,209.3	225,284.7

Source: Manitoba Estimates of Expenditure for fiscal years 1996, 1997, 1998

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DETAILED FINDINGS AND RECOMMENDATIONS

ARE APPROPRIATE MID-RANGE AND ANNUAL PLANNING PROCESSES AND INFORMATION IN PLACE TO ENSURE THAT THE RESULTING HIGHWAY CONSTRUCTION, REHABILITATION AND MAINTENANCE PLANS CONTRIBUTE TOWARD ACCOMPLISHING THE DEPARTMENT'S STRATEGIC OBJECTIVES?

What We Concluded

We concluded that while projects are prioritized, effective processes and sufficient information are not in place to ensure that the projects selected will contribute, to the fullest practical extent, toward the accomplishment of the Department's strategic objectives.

We reached this conclusion by examining the following criteria related to construction, rehabilitation and maintenance planning:

- Are project priorities based on appropriate information and analysis?
- Are appropriate standards, specifications and project management processes in place for construction and rehabilitation?
- Are results monitored against expected benefits?
- Is ongoing research conducted?
- Are pavement performance models used?

What We Found

Need To Base Project Priorities On Appropriate Information And Analysis

Basing project priorities on appropriate information and analysis provides greater assurance that projects selected contribute toward accomplishing the Department's strategic objectives within resources available, while striving to maximize the benefits and minimize the lifetime costs of highways. An effective process for determining priorities requires:

- complete and accurate information on needs such as the state of the infrastructure (age and condition) and its usage (traffic statistics and projections for volumes and weights);
- selection criteria for construction and rehabilitation projects that appropriately weighs needs, desired benefits and socio-economic factors;
- selection criteria for rehabilitation and maintenance projects that are based on achieving the least lifetime cost.

Complete And Accurate Information On Certain Needs Is Required

We assessed the completeness and accuracy of the information supporting the priority setting process in 2 key areas: pavement surface condition; truck volumes and weights.

Pavement Surface Condition Should Be Accurately And Objectively Described

We found that the Department has developed a process to assign a "pavement condition rating" to existing highways. This rating is assigned by a panel of 4 individuals who assess ride quality and

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make visual observations while travelling in a vehicle over the highway. In our view, a rating obtained in this fashion may be too general and subjective to serve as consistent and reliable information for setting priorities for the rehabilitation and maintenance of highways, particularly when more technically advanced methods are currently available. Such technically advanced methods would provide more complete, detailed and objective information in areas such as the type and degree of cracking, rutting and roughness, as well as the seasonal pavement deflection (an indicator of pavement strength) and the condition of the asphalt binder.

Management advises that the surface condition rating component of the Asset Management System that they are in the process of implementing will collect objective, detailed pavement condition information. Management also advises that staff are currently being trained to collect this information.

Truck Volumes And Weights Should Be More Accurately Described

Efficient pavement designs require accurate information on truck volumes and weights. Underestimating volumes and weights could lead to road designs that fail prematurely, while overestimating volumes and weights could lead to unnecessary expenditures by building stronger roads than are required.

We found that the Department utilizes Automatic Traffic Counters and some Automatic Vehicle Classifiers and Weigh in Motion equipment at various sites throughout the Province to collect traffic data. We reviewed sample data from these sites and, in our opinion, irregularities in the data indicate that the equipment is not accurately recording truck volumes and weights.

Management has recognized this problem and

advise that a contract was executed with the University of Manitoba on May 14, 1998, which will enable the Department to obtain more accurate data on truck volumes and weights.

Rationale For Construction And Rehabilitation Project Priorities Should Be Clearly Documented

Properly establishing project priorities would require the balancing of the results of the needs assessments with benefit/cost analyses and socio-economic factors.

We found that in order to determine the annual schedule of construction and rehabilitation projects, the Department first categorizes projects according to their degree of importance based on the identified needs or urgency to improve the highway network (category 1 being very important and category 5 being not important). Secondly, the Department uses an Adequacy/Project Rating Model for assessing which of the category 1 projects will form the annual project priorities. The Adequacy/Project Rating Model focuses on prioritizing projects based on the need to improve the highway network, but does not assess benefits in relation to anticipated costs. In the case of highway construction projects, anticipated benefits can include such things as a reduction in road user costs (i.e., vehicle operating costs and time spent travelling) and a reduction in the frequency or severity of accidents. Similarly, for rehabilitation projects, an anticipated benefit is likely to be the extension of the life of the road for a given period of time with an accompanying reduction in maintenance costs.

The Department has recently developed the capability to conduct benefit/cost analyses and has performed this analysis on a lengthy list of candidate projects, representing several years of future budget dollars. Management advises that the results of these benefit/cost analyses as well as

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socio-economic factors are available for consideration in determining project priorities. However, an analysis that links the results of the highway needs analyses, the benefit/cost analyses and identified socio-economic factors has not been developed. It is not clear, therefore, that the benefit/cost analyses and socio-economic factors have been adopted as significant planning inputs. Such an analysis would promote transparency in decision-making.

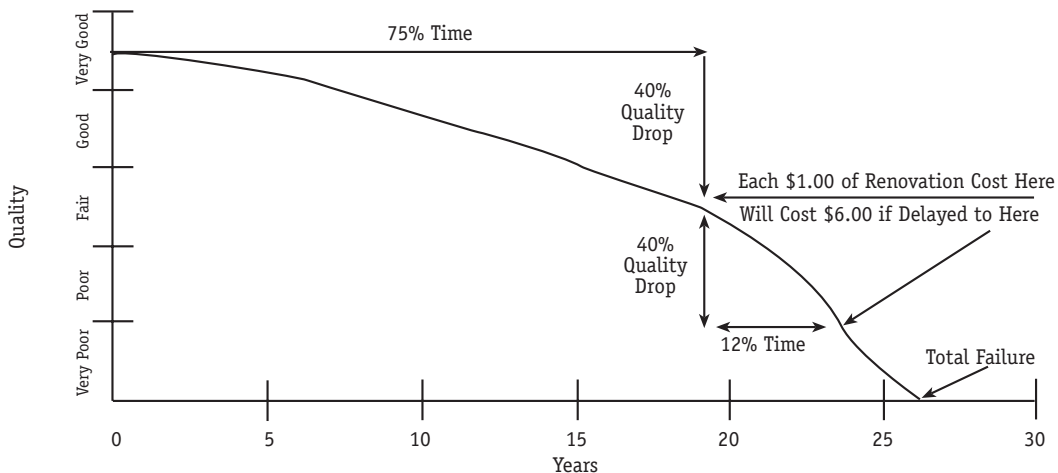
We recommend that the Department develop a comprehensive documented analysis of the relative emphasis of the various planning inputs (being highway needs, benefit/cost analysis and socio-economic factors for each project) to demonstrate the rationale for construction and rehabilitation project priorities.

Rehabilitation And Maintenance Strategies, Priorities And Budgets Should Be Based On A Least Lifetime Cost Methodology

Once a road has been constructed, periodic rehabilitation and annual maintenance activities

are required to preserve the system at the least lifetime cost. To achieve least lifetime cost requires an appropriate mix of rehabilitation and maintenance strategies that are based on good quality information on road condition and usage, as well as appropriate standards and specifications. Timing of rehabilitation and maintenance activities is also critical to minimizing costs. Intuitively, one can understand that the deferral of needed rehabilitation and maintenance activities is likely to result in higher overall lifetime costs of a physical asset. This is because when an asset is allowed to deteriorate too far, significant expenditures can be required to bring the asset back to an acceptable condition. There is a wealth of empirical evidence showing that this intuitive understanding holds true for highways.

The road deterioration vs. time chart above has been reproduced from a 1994 report on the subject areas of planning, administration, pavement design, management and performance prepared under the U.S. National Cooperative Highway Research Program. The research was sponsored by the American Association of State Highway and Transportation Officials in cooperation with the Federal Highway Administration. This chart shows (for illustrative purposes only) that if



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rehabilitation and maintenance activities for a particular highway are deferred until the highway is approximately 23 years old, it will cost 6 times as much as if the activities had been carried out when the highway was approximately 18 years old. (i.e., a 6 fold increase for a 5 year delay). While the actual numbers may be somewhat different for Manitoba highways, the concept that undue delay of rehabilitation and maintenance activities costs the citizens of Manitoba more than is necessary holds true.

Generally, the acceptable industry standard is that the optimum time to rehabilitate roads in order to minimize their lifetime costs is approximately once every 20 years resulting in a highway system with an average age of 10 years.

We conducted a review of the adequacy of the Department's rehabilitation cycle for bituminous paved highways. Management advises that there are 7,945 of equivalent 2 lane kms of bituminous paved highways in Manitoba (Table 3). If we use

Manitoba needs to rehabilitate approximately 400 equivalent 2 lane kms of highways each year.

Management estimates the cost for rehabilitating a 2 lane bituminous paved highway at \$180,000 per kilometre based on current material and construction costs. This suggests, therefore, that an annual budget of approximately \$72 million would be required to achieve a 20 year rehabilitation cycle.

The Department's expenditures on the rehabilitation of bituminous paved highways for fiscal year 1998 amounted to \$35.2 million and is consistent with prior year expenditure levels (Table 4). This level of expenditure, however, only permits a 41 year rehabilitation cycle; this is well beyond the acceptable industry standard of 20 years. The impact of this level of rehabilitation is that many bituminous paved highways have not been rehabilitated within the optimal 20 year time frame. As a result, the average age of the bituminous paved highway network is 18 - 20 years; well beyond the desired average age of 10 years. It is important to note that least lifetime cost methodology can only be effectively applied on a highway system with an average age of approximately 10 years. We estimate that the resources allocated to bituminous paved highway rehabilitation would have to approximately double, in each of the next 20 years, to return the bituminous paved highway system to a condition where least lifetime cost methodology could be effectively applied.

We are also concerned, therefore, that the citizens of Manitoba have been incurring greater overall costs for bituminous paved highway rehabilitation than would have been incurred had historical funding levels been sufficient to allow least lifetime cost methodology to be applied. The current estimate of \$180,000 to rehabilitate a kilometre of bituminous paved highway is likely greater than would be necessary if rehabilitation

Table 3

Summary of Bituminous Pavement Lengths and Age		
Age Range	Length (equivalent 2 lane kms)	% of Total
20 years and under	4,683.4 kms	58.9
21 to 30 years	2,176.3 kms	27.4
31 to 40 years	912.4 kms	11.5
over 40 years	173.4 kms	2.2
over 20 years	3,262.1 kms	41.1
Total	7,945.5 kms	100.0

the acceptable industry standard of 20 years as the optimum time to rehabilitate a highway, then

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occurred in 20 year intervals. This is because road deterioration accelerates dramatically after 20 years, resulting in rapidly increasing costs to

Table 4

	1997/98	1996/97	1995/96
Actual Expenditures On Bituminous Pavement Rehabilitation	\$35,155,027	\$30,557,808	\$40,776,709
Estimate of Kilometres Rehabilitated	195	170	227
Rehabilitation Cycle	41 yrs.	47 yrs.	35 yrs.

rehabilitate. Unfortunately, information is not available to allow us to determine the extent of these unnecessary costs.

Management advises that they concur with the benefits of applying a least lifetime cost methodology for managing rehabilitation and maintenance activities and that the Asset Management System they are in the process of implementing will support this methodology. They also advise that the Asset Management System is capable of identifying an optimum budget to achieve least lifetime cost and when only limited budgets are available, it can identify which rehabilitation and maintenance projects should be carried out to get best value-for-money (recognizing that, in this situation, least lifetime cost will not be achieved).

We recommend that the Department adopt a least lifetime cost methodology in determining rehabilitation and maintenance strategies, priorities and budgets.

Appropriate Standards, Specifications And Project Management Processes Are In Place

Appropriate standards, specifications and project management processes support efficient, economic and effective delivery of construction and rehabilitation activities.

The majority of construction and rehabilitation projects undertaken by the Department are carried out by private contractors. Good management of construction and rehabilitation would require a clear definition of what is to be built or rehabilitated and processes to ensure compliance to the standards and specifications in the plan.

We reviewed the standards and specifications that the Department uses and has in place, and also met with engineering and technical staff in the Department’s Head Office and Regional offices responsible for construction and rehabilitation.

We found that the Department has over the years developed standards and specifications that are part of contract documents with the contractor. The Department has employed qualified and trained field staff, both professional and technical, for contract administration and supervision. Field inspectors conduct quality control by monitoring adherence to standards and specifications at the job site.

The administration of several hundred contracts, totalling many millions of dollars is a complex task. The Department uses an information technology system that is capable of tracking a project from its initial identification to completion. The system provides very good information to estimate the costs of construction and rehabilitation projects. It is capable of tracking and providing current information on project expenditures compared to budget.

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We noted that one of the Regions in the Department has embarked on Partnering Agreements in an effort to improve communication between the Department and the contractor. The Partnering Agreement identifies the partners' objectives, a process to resolve problems and a process for audit after the project is completed to determine what was done well and what can be improved.

In summary, we conclude that the Department has appropriate processes in place to manage its construction and rehabilitation activities.

Need To Monitor Results Against Expected Benefits

It is useful after completing any project to make an assessment as to whether the anticipated benefits have actually been achieved. An assessment can identify opportunities to improve the design of future similar projects and, in some cases, can identify remedial work necessary on the project to achieve the planned benefits. If a benefit/cost analysis was used to justify the project, a subsequent analysis of the actual results for comparison to the benefit/cost analysis can provide useful information to improve the accuracy and completeness of future benefit/cost analyses.

We found that the Department does not conduct post-implementation reviews of completed construction and rehabilitation projects to determine whether anticipated benefits were achieved.

We recommend that the Department establish a process to conduct post-implementation reviews of a sample of completed construction and rehabilitation projects to determine whether anticipated benefits were achieved. The Department should use the results of these reviews to enhance the planning and delivery of future projects.

Ongoing Research Is Conducted

The design of highway systems that maximize the benefits to the travelling public, that last as long as possible and that are optimized from a cost perspective is a complex task. It is an area for which there is no formula that provides the "right" answer.

Ongoing research into design alternatives that takes into account the unique conditions of particular geographic areas and changes in the environment and in technology (both for road construction materials and techniques and for the vehicles using the road system) is essential. Research can lead to innovations that lead to safer, longer lasting and more cost effective highways.

We found that the Department has been involved in various research activities. They are participants in the Canadian Strategic Highway Research Programs (C-SHRP), which is being conducted in conjunction and coordination with a similar program in the United States. Manitoba is providing several sites for long-term monitoring of pavement performance.

The Department has also participated in research work related to "super pave" binders with the University of Manitoba.

PLANNING FOR HIGHWAY CONSTRUCTION, REHABILITATION AND MAINTENANCE
Department of Highways and Transportation

Need For Pavement Performance Models

Pavement performance models can be very useful, especially when they can be used as a predictive tool to determine the expected future deterioration of a pavement structure, given existing or changed truck volumes and weights. Information such as this can be invaluable input to the process of setting priorities, conducting benefit/cost analyses and monitoring the effectiveness of rehabilitation activities.

We found that the Department does not currently use pavement performance models. However, management advises that the Asset Management System they are in the process of implementing will use local pavement performance models in determining remaining life of existing pavements and in predicting system condition in future years using “what if” scenarios.

PLANNING FOR HIGHWAY CONSTRUCTION, REHABILITATION AND MAINTENANCE
Department of Highways and Transportation

DEPARTMENTAL RESPONSE

The Department accepts the recommendations of the Provincial Auditor's Report with some reservations, and will continue its progress toward their full implementation, subject only to the constraints of its current and reasonably achievable resources.

The Department believes that Manitoba compares favourably with other jurisdictions relative to its investment in these infrastructure projects. However, it is an accepted fact that the national highways system should be a joint Federal-Provincial responsibility and, to date, the Federal commitment has been modest.

Tendering of the Home Oxygen Therapy Services Contract

Department of Health



TENDERING OF THE HOME OXYGEN THERAPY SERVICES CONTRACT
Department of Health

REPORT OVERVIEW

The Home Oxygen Therapy Program is a part of the Provincial Home Care Program of the Manitoba Department of Health and has been in operation for about 16 years. Approximately 700 persons in Manitoba are living in homes sustained by oxygen produced by compact, home oxygen concentrators. Cylinder oxygen is also provided as a back up in case of power failure or malfunction.

Prior to the awarding of this contract, Manitoba Health was responsible for purchasing, installing and servicing of the oxygen concentrators as well as providing training to clients and others in the use of the equipment.

In 1996, the Department decided to seek proposals through a public tendering process to have a private sector firm take over delivery of the service. In December 1996, Treasury Board approved the awarding of the contract to Rimer Alco North America Inc. (Rimer Alco). The two year contract has an estimated value of \$1,400,000.

We chose to audit the tendering process because of concerns brought to our attention by a Member of the Legislative Assembly.

AUDIT PURPOSE AND SCOPE

The purpose of our audit was to answer the following question:

- Did the final rankings of the Evaluation Committee (Committee) for the Home Oxygen contract result from an appropriate tendering process?

We did not audit the adequacy of the Request for Proposal (RFP) Document, the Evaluation Criteria, or the thoroughness of the evaluations performed against each of the criteria.

Our examination was performed in accordance with value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

TENDERING OF THE HOME OXYGEN THERAPY SERVICES CONTRACT
Department of Health

CONCLUSION AND KEY FINDINGS

Did the final rankings of the Evaluation Committee (Committee) for the Home Oxygen contract result from an appropriate tendering process?

We concluded that the final rankings of the Evaluation Committee resulted from a tendering process that was flawed.

Our key findings are as follows:

- Nothing came to our attention that would suggest any members of the Committee were in a conflict of interest situation.
- We found that potential suppliers were advised of the contract opportunity at the same time through a public notice placed in the Winnipeg Free Press. However, Rimer Alco had a distinct advantage. Rimer Alco had approached the Department of Health to contract out the home oxygen services and had forwarded a proposal in February 1996. The effect of this advantage could have been mitigated by providing other potential suppliers with ample time to prepare and submit a proposal. We believe that four weeks would have been a reasonable amount of time. However, the Department chose to allow only two weeks from the release of the RFP on September 21, 1996 to the date of closing at noon on October 4, 1996.
- We were advised that, during the proposal evaluation process, the Committee received direction from the Department of Health that no bidder should be eliminated from consideration solely on their inability to obtain a performance bond. This changed the performance bond requirement from an essential criteria to a preferred criteria. This was inconsistent with the RFP that stated:

“Each Proponent **shall submit** a letter from a surety, which guarantees that if selected as the Contractor, the Proponent will secure and maintain during the entire term of the Agreement a Performance Bond valued in the principal sum of ONE MILLION SEVEN HUNDRED AND FIFTY THOUSAND (\$1.75 million).” [emphasis added]

It is important to note that of the three proposals that the Evaluation Committee reviewed in detail, only Rimer Alco was unable to secure the performance bond by the closing date of the RFP. As a result of the direction from the Department of Health, Rimer Alco was not eliminated from further consideration.

TENDERING OF THE HOME OXYGEN THERAPY SERVICES CONTRACT
Department of Health

- An element of the pricing structure set out in the RFP was not clearly understood by the Committee or the bidders. The Committee, however, chose not to be informed on how the bidders had interpreted the pricing requirements. As a result, the Committee was not in a position to determine the need to provide the bidders with an opportunity to change their pricing proposals to the correct basis or to be assured of the validity of its own pricing analysis.
- The Committee did not prepare a “final” documented evaluation on each of the proposals received.
- The operating rules and procedures under which the Committee was to operate were not clearly defined and communicated.

TENDERING OF THE HOME OXYGEN THERAPY SERVICES CONTRACT
Department of Health

ABOUT THE PROGRAM AND TENDERING PROCESS

The Home Oxygen Therapy Program is a part of the Provincial Home Care Program of the Manitoba Department of Health and has been in operation for about 16 years. Approximately 700 persons in Manitoba are living in homes sustained by oxygen produced by compact, home oxygen concentrators. Cylinder oxygen is also provided as a back up in case of power failure or concentrator malfunction.

Prior to the awarding of this contract, Manitoba Health was responsible for purchasing, installing and servicing of the oxygen concentrators as well as training clients and others in the use of the equipment.

In 1996, the Department decided to seek proposals through a public tendering process to have a private sector firm take over delivery of the service.

An Evaluation Committee was established to review the proposals. The Committee was composed of nine members. Six members were employees of the Manitoba Government, of which two were non-voting members, and three were from the private sector. Table 1 describes the composition of the Committee.

Table 1

Committee Role	Department or Private Sector	Committee Participation	Area of Expertise
Chair	Government Services	voting	materials acquisition and distribution
Member	Health	voting	home oxygen equipment and supplies
Member	Health	voting	health facility development
Member	Rural Development	voting	economic development
Member	Private Sector	voting	financial
Member	Private Sector	voting	health care
Member	Private Sector	voting	consumer
Member	Government Services	non-voting	secretarial support
Member	Health	non-voting	administrative support

TENDERING OF THE HOME OXYGEN THERAPY SERVICES CONTRACT
Department of Health

Table 2 below presents a brief chronology of events:

Table 2

Date	Event
Sep.16/96	Treasury Board approval to issue a Request for Proposal
Sep.21/96	Issue of the Request for Proposal
Sep.23-25/96	Evaluation Committee selected
Sep.30/96	Suppliers Briefing Conference
Oct.4/96	Submission Close Date (12:00 noon) and opening of proposals
Oct.11/96	Committee meeting -evaluation criteria distributed
Oct.24/96	Committee meeting -evaluation criteria accepted -proposals distributed
Nov.7/96	Committee meeting -two bidders eliminated
Nov.15/96	Committee meeting -Medigas proposal evaluated
Nov.21/96	Committee meeting -Rimer Alco proposal evaluated
Nov.29/96	Committee meeting -Vital Aire proposal evaluated
Dec.9/96	Committee meeting -bidder presentations -opening of price envelopes
Dec.13/96	Committee meeting -recommendation issued

TENDERING OF THE HOME OXYGEN THERAPY SERVICES CONTRACT
Department of Health

DETAILED FINDINGS

The purpose of the audit was to answer the following question.

DID THE FINAL RANKINGS OF THE EVALUATION COMMITTEE (COMMITTEE) FOR THE HOME OXYGEN CONTRACT RESULT FROM AN APPROPRIATE TENDERING PROCESS?

What We Concluded

We concluded that the final rankings of the Evaluation Committee resulted from a tendering process that was flawed.

We reached this conclusion by examining the following criteria:

- all potential suppliers should be advised of the contract opportunity at the same time and be given an equivalent and appropriate time to respond.
- all proposals should be evaluated against predetermined evaluation criteria.
- changes in the evaluation criteria should be communicated to all potential suppliers.
- members of the Committee should be free of any conflict or interest with any of the providers of home oxygen service.
- the rules and procedures under which the Committee operates should be clearly defined and communicated.

What We Found

The Department Allowed Potential Suppliers Only Two Weeks To Respond To The RFP

An effective communication process would require that the government advise the public at large of its intent to out source the service and that the contract opportunity be advertised. In order to ensure the fair treatment of all potential suppliers, it is important that they be given an equivalent and appropriate time to respond.

We found that potential suppliers were advised of the contract opportunity at the same time through a public notice placed in the Winnipeg Free Press. However, Rimer Alco had a distinct advantage. Rimer Alco had approached the Department of Health to contract out the home oxygen services and had forwarded a proposal in February 1996. The effect of this advantage could have been mitigated by providing other potential suppliers with ample time to prepare and submit a proposal. We believe that four weeks would have been a reasonable amount of time. However, the Department chose to allow only two weeks from the release of the RFP on September 21, 1996 to the date of closing at noon on October 4, 1996.

We find this to be a particularly short period of time for suppliers to respond to an opportunity which the Province had not previously provided to the private sector. We note that the Province routinely allows public accounting firms three weeks to prepare a proposal to conduct an audit of a set of financial statements.

TENDERING OF THE HOME OXYGEN THERAPY SERVICES CONTRACT
Department of Health

All Proposals Were Evaluated Against Predetermined Evaluation Criteria

An effective evaluation process would require that proposals be evaluated against predetermined criteria to ensure the equitable and objective evaluation of proposals. Such evaluation criteria would be based on requirements described in an RFP. In addition, the evaluation criteria would be prioritized to define which are critical requirements of the proposal and those which are not.

Furthermore, an effective evaluation process would require that a systematic elimination process be used. A systematic process would provide for the orderly assessment of the proposals, the documentation of the assessments and the elimination of those which are not considered worthy of further consideration. Such a systematic process would assist in demonstrating the reasons for elimination and provide the basis for a recommendation.

To review this criteria we reviewed committee minutes and interviewed committee members.

We found that, prior to appointing the Evaluation Committee, the Department of Health had developed a systematic elimination process to evaluate proposals. The process included evaluation criteria and a rating scale to assess how well the proposals met each of the criteria. The criteria were also grouped into essential or preferred criteria. We note that the criteria were not reviewed by the Evaluation Committee until after the RFP was released. However the review by the Evaluation Committee resulted in only minor adjustments to the criteria and accordingly was not of concern with this particular tender. Guidance was provided to all committee members that bidders must meet all essential criteria to be considered "qualified."

We also found that the Evaluation Committee evaluated the proposals against the evaluation criteria, met with the bidders to obtain more information as needed and opened up the pricing proposals for only those bidders considered "qualified."

However, we identified the following items of concern:

- the need to prepare final proposal evaluations.
- the need to seek clarification from bidders on their interpretations to the pricing structure.

Need To Prepare Final Proposal Evaluations

We noted that the committee evaluated and eliminated two proposals at the November 7, 1996 meeting as they were lacking in sufficient substance for further consideration.

The remaining three proposals were examined in detail on November 15, 21 and 29, 1996. A preliminary documented evaluation was prepared for each proposal and attached to the committee minutes. These evaluations documented the degree to which bidders met the essential and preferred criteria. Additional information was required from all bidders.

We noted that after meeting with the bidders on December 9, 1996 the Committee documented in the minutes a summary evaluation of the three bidders as follows:

"Vital Aire was a clear front runner in ability to provide the required services, with Rimer Alco a clear second choice. Medi Gas was eliminated from the running"

TENDERING OF THE HOME OXYGEN THERAPY SERVICES CONTRACT
Department of Health

The committee however, did not prepare “final” evaluations for each proposal to reflect the results of the additional information. This documentation would have more clearly demonstrated the basis of the committee’s recommendation. The recommendation that went forward from the Committee to officials of the Department of Health does not make any reference to the degree to which the essential and preferred criteria were met by the bidders. In particular, the recommendation does not identify the fact that Rimer Alco had not met the performance bond criteria.

The committee’s final meeting was held on December 13, 1996. Their recommendation to officials of the Department of Health was:

“Although Rimer Alco’s two year bid was minimally (\$4,760.00) lower, due to the quality of care that Vital Aire is able to provide and a lower cost (\$72,976.00) in a two year plus one year option contract, the committee recommends Manitoba enter into a contract with Vital Aire at a rate of \$104 per client per month for two years with the option for a further one year extension at a rate of \$96 per client per month for the option year. Due to the comfort level established by Vital Aire in currently providing backup service to one half of the existing clients, and the lower price available, the committee further recommends Manitoba exercise its option soon after the completion of the first year of the contract, provided that Vital Aire demonstrates satisfactory performance.”

Need To Seek Clarification From Bidders On Their Interpretations To The Pricing Structure

We found that the pricing structure set out in the RFP was not understood by the Committee or the bidders. The pricing structure described in the

RFP required a “monthly rate, per client for a two year term” and a “monthly rate, per client for a two year term with a one year extension.”

In each of the bidders’ pricing proposal, the rate quoted “for a two year term with one year extension” was different from the rate “for a two year term.” In both cases, the monthly rate for the option year was lower than for a two year term.

The Committee was unsure whether the option year price was for the third year only or whether the option year price applied to all three years.

The Committee sought clarification from legal council who indicated that the price should be for a two year price at one bid price with another price for the third year option year. (i.e., 24 months at “x” price plus 12 months at “y” price).

A non-voting member of the Committee went back to the two finalists to determine how they had interpreted “for a two year term with one year extension.” It was determined that each bidder had interpreted the requirement differently. However, the non-voting member did not inform the Committee of his findings because the Committee chose not to be informed on how the bidders had interpreted the pricing requirements.

In our opinion, this invalidated the Committee’s price comparison for the “two year with one year extension” option. Given its own uncertainty with how to interpret the pricing structure, in our view, the Committee should have been informed of the non-voting member’s findings so that it could be assured of the validity of its pricing analysis and to determine the need to provide the bidders with an opportunity to change their pricing proposals to the correct basis.

We also noted that the Department concluded that due to the lack of clarity on the intent and interpretation of the pricing provided for the “two

TENDERING OF THE HOME OXYGEN THERAPY SERVICES CONTRACT
Department of Health

year term with a one year extension”, only the pricing provided for “two year term” should be considered in its decision. As a result, in our view, the Department lost an opportunity to realize significant cost savings in the option year.

Changes In The Evaluation Criteria Were Not Communicated To All Potential Suppliers

The whole purpose of a competitive process is to provide a fair and open process by providing the same information and opportunity to all potential suppliers. This establishes a “level playing field,” and enables the bidders to submit proposals based on the same information. This also enables an evaluation committee to evaluate proposals fairly.

We were advised that, during the proposal evaluation process, the Committee received direction from the Department of Health that no bidder should be eliminated from consideration solely on their inability to obtain a performance bond. This changed the Performance Bond requirement from an essential criteria to a preferred criteria. This was inconsistent with the RFP that stated:

“Each Proponent **shall submit** a letter from a surety, which guarantees that if selected as the Contractor, the Proponent will secure and maintain during the entire term of the Agreement a Performance Bond valued in the principal sum of ONE MILLION SEVEN HUNDRED AND FIFTY THOUSAND (\$1.75 million).” [emphasis added]

It is important to note that, of the three proposals the Evaluation Committee reviewed in detail, only Rimer Alco was unable to secure the performance bond by the closing date of the RFP. As a result of the direction from the Department of Health, Rimer Alco was not eliminated from further consideration.

We also found that this change to the evaluation criteria, which was made after the RFP had been issued, was not communicated to all bidders so that they would have an opportunity to amend their proposal. In this particular case it would have been appropriate to also notify potential suppliers who did not submit a proposal. This is because a potential supplier may have decided not to submit a proposal because they knew that they could not meet the requirement to provide a performance bond.

A further inequity was caused by this action. Those bidders who had arranged a performance bond may have incurred a cost in doing so as well as recognized the future costs to maintain it. Such costs would be considered as part of the costs in providing the service and would have been reflected in their pricing proposal. As a result, if they had known that a performance bond was not an essential criteria their pricing proposal may have been different.

Committee Members Were Not Required To Disclose That They Were Free Of Any Conflict Of Interest

To protect the public interest, high standards of honesty, integrity, impartiality and conduct must be maintained.

During the course of our audit nothing came to our attention that would suggest any committee members were in a conflict of interest situation.

We did note however, there was no formal discussion of conflict of interest by committee members. In our view, the committee process could be improved through formal discussion and disclosure in the committee minutes of the results of the discussion.

TENDERING OF THE HOME OXYGEN THERAPY SERVICES CONTRACT
Department of Health

The Rules And Procedures Under Which The Committee Operates Should Have Been Clearly Defined And Communicated

A committee's role and responsibilities and reporting relationships should be clearly defined and communicated to its members and key stakeholders. This would include a committee's terms of reference, the required expertise, conflict of interest disclosure procedures, and specific operating procedures such as handling of proposals received, evaluation process, record keeping and file maintenance.

In short, a formally defined framework clarifies expectations and assists a committee to operate effectively.

We identified areas of concern earlier in the report which may have benefitted from having documented operating procedures and rules. These areas include the evaluation process, particularly with respect to the documentation of final proposal evaluations, seeking clarification from bidders and changes to criteria. In addition, we also noted another area where documented operating procedures and rules may have helped. That being the proposal receipt and opening process.

We found that the process for the receipt and opening of proposals was not documented. Examples of procedures that could be documented include a requirement for the sealed proposals to be opened in the presence of at least two individuals and to immediately document certain key information from the proposal.

Perhaps as a result of not having documented procedures in place, inappropriate procedures were followed. The proposals were opened by one individual with no one else present. No documentation was prepared at the time of the opening of the proposals.

We did not identify any impropriety arising or as a result of the flawed proposal opening procedure. However, it is of concern that the process followed was not as transparent as it should have been.

TENDERING OF THE HOME OXYGEN THERAPY SERVICES CONTRACT
Department of Health

DEPARTMENTAL RESPONSE

The department agrees that certain procedures utilized during this tendering process could have been improved. In fact, process improvements have already been implemented by the department related to its standard tendering process.

However, the department does not agree that these procedures resulted in an inappropriate tendering process. All potential suppliers were advised of the contract opportunity at the same time and were given an equivalent time to respond. A bidders' conference was held to clarify any concerns suppliers may have had, and while the time available for response to the RFP was two weeks, five responses were received and no requests for substantive extension of time was received from suppliers. All proposals were evaluated against the same criteria, and no member of the evaluation committee had a conflict of interest with any of the suppliers. The department does not agree to the assertion that the Evaluation Committee received direction from the department on the supplier security issue, and the department believes its position is supported by the minutes of the evaluation committee. In fact, the requirement for a performance bond remained a fundamental element of this tendering process, and was required from the successful bidder. With regard to the pricing issue, the department agrees that the uncertainty related to the option year pricing invalidated the three year price comparison. Therefore, to ensure a fair process, the department limited the evaluation of the pricing to the basic two year option. The department maintains that while there may have been some unusual circumstances, the essential elements of an appropriate tendering process were adhered to in this instance.

The Office of the Public Trustee

Department of Justice



THE OFFICE OF THE PUBLIC TRUSTEE
Department of Justice

REPORT OVERVIEW

ROLE OF PUBLIC TRUSTEE

The Office of the Public Trustee was created by The Public Trustee Act on February 1, 1973. The mandate of The Office of the Public Trustee is *“to protect the interests of Manitobans by providing professional and cost-effective trustee services of last resort that meet the needs of its clients”*.

On April 1, 1996 The Office of the Public Trustee became a Special Operating Agency (SOA). As an SOA the Public Trustee has more administrative authority and flexibility. In return the Public Trustee must demonstrate the value of these administrative freedoms by accomplishing performance objectives. Performance objectives are approved by the Department of Justice and Treasury Board and are documented in the Public Trustee business plan. Actual performance is discussed in the Public Trustee annual report. The Public Trustee is directly accountable to the Associate Deputy Minister of Justice.

The Public Trustee charges its clients an administration fee for its services. These fees are drawn from the client’s trust account.

REASON FOR THE AUDIT

We conducted this value-for-money audit as a follow up to an investigation we performed at the request of the Public Trustee.

The Public Trustee contacted my Office in April 1997 and informed us of concerns regarding the administration and use of funds pertaining to certain trust accounts for a group of clients designated as “clients living in the community”. Our investigation was performed from April to August of 1997 and covered the 10 year period from 1986 to 1996.

We noted irregularities during the investigation which suggested that a private company offering Companion services was engaged in possible criminal fraud against certain clients of the Public Trustee. All of these client trust accounts were administered by the same Client Administration Officer. The relevant information was turned over to the City of Winnipeg Police Department for further investigation. Their investigation is ongoing

During our investigation, we also noted certain inadequate internal control practices. Examples included, inadequate support obtained for discretionary expenditures made by client Companions and for hours worked by those Companions. We discussed

THE OFFICE OF THE PUBLIC TRUSTEE
Department of Justice

these internal control deficiencies with the Public Trustee. This value-for-money audit was designed to determine whether these internal control practices have been strengthened.

AUDIT PURPOSE AND SCOPE

The purpose of our audit was to answer the following question.

- Are the internal control practices of the Public Trustee, for the trust accounts of “clients living in the community”, adequate to ensure the validity and appropriateness of expenditures?

Our audit focused on the Client Administration Section of The Office of the Public Trustee. Within this section, we focussed on trust accounts of the “clients living in the community” in room and board and private residences. There are 940 such clients with assets totalling \$24.7 million; 91% of these assets are owned by 25% of these clients. Because of the discretionary nature of certain of their expenditures and the client’s inability to scrutinize these expenditures themselves, these clients are exceptionally vulnerable. It is on this smaller group of clients, the 25% with significant account balances, that we focussed our audit efforts.

The audit covered file activities from January 1996 to January 1998. The audit was performed from October 1997 to January 1998.

Our examination was performed in accordance with value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

CONCLUSIONS AND KEY FINDINGS

Are the internal control practices of the Public Trustee, for the trust accounts of “clients living in the community”, adequate to ensure the validity and appropriateness of expenditures?

We concluded that while the Public Trustee has taken some specific actions which have improved internal control practices, certain of the controls over the management of these trust accounts should be further strengthened to provide adequate assurance of the validity and appropriateness of trust account expenditures.

THE OFFICE OF THE PUBLIC TRUSTEE
Department of Justice

Our key findings are as follows:

- During our investigation we raised concerns with management regarding the adequacy of documentation obtained to support expenditures made to the Companion in question. These expenditures related to the reimbursement of discretionary expenditures made by the Companion on behalf of the client and to services provided by the Companion.

With respect to discretionary expenditures, management responded to our concerns by issuing a directive to staff providing detailed guidance on the types of documented support required. We found, in examining a sample of expenditures made subsequent to this directive, that all selected expenditures were appropriately supported.

With respect to the payment of fees for Companion services provided, we found that the Client Administration Officers (CAOs) generally do a good job of obtaining the required time sheets. We did not find the problem identified in our investigation in the files we reviewed during this audit.

- We found that while the responsibilities for organizations who are delegated the personal supervision of clients are well defined and communicated, they currently do not have any reporting obligations. This deficiency has resulted in the Public Trustee not being provided with pertinent documented information on how well a client's care, as delegated, has been managed.
- We found that initial client budgets are prepared but that they are not updated annually or used to monitor actual expenditure levels. As a result the effectiveness of the original budgets as a tool in managing client funds may be significantly diminished.
- We found that the Public Trustee has developed an effective file review process. However, the benefits to the office of performing such reviews could be enhanced by summarizing and analyzing the results of individual file reviews. Such an analytical process could help identify new policies, procedures and training needs.

THE OFFICE OF THE PUBLIC TRUSTEE
Department of Justice

KEY RECOMMENDATIONS

This report includes seven recommendations. The following is a list of what we believe are the key recommendations.

We recommend that:

- Management determine the reporting requirements of those who have been delegated personal supervision of clients. These requirements should be clearly stated in the Manual and should be clearly communicated in the delegation letter.
- CAOs annually review and update the budgets for all clients with funds in excess of basic living requirements, and that actual expenditure levels be monitored against these budgets.
- Management summarize and analyse the results of the file review process.

THE OFFICE OF THE PUBLIC TRUSTEE
Department of Justice

ABOUT THE OFFICE OF THE PUBLIC TRUSTEE

HISTORY

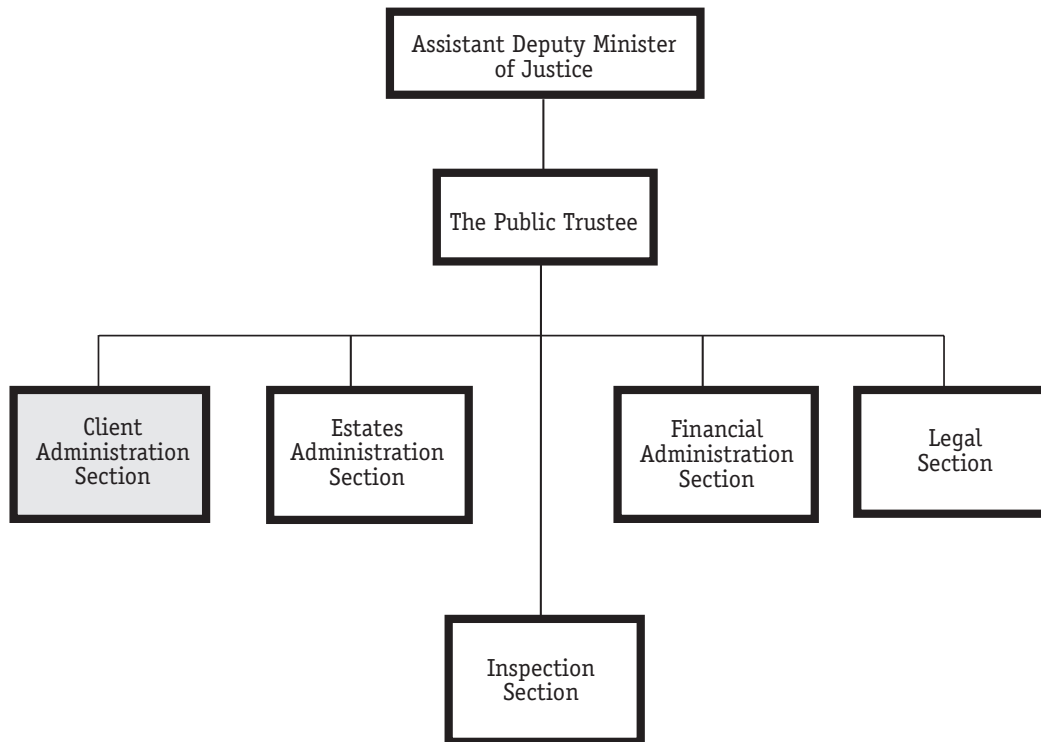
The Office of the Public Trustee was created by The Public Trustee Act on February 1, 1973. The mandate of The Office of the Public Trustee is *“to protect the interests of Manitobans by providing professional and cost-effective trustee services of last resort that meet the needs of its clients”*.

On April 1, 1996 The Office of the Public Trustee became a Special Operating Agency (SOA). As an SOA the Public Trustee has more administrative authority and flexibility. In return the Public Trustee must demonstrate the value of these administrative freedoms by accomplishing

performance objectives. Performance objectives are approved by the Department of Justice and Treasury Board and are documented in the Public Trustee business plan. Actual performance is discussed in the Public Trustee annual report. The Public Trustee is directly accountable to the Assistant Deputy Minister of Justice.

The role of the Public Trustee is:

- to administer estates of deceased people who have no one willing or able to administer their estates.
- to manage the financial and personal affairs of people who have been legally declared mentally incompetent.



THE OFFICE OF THE PUBLIC TRUSTEE
Department of Justice

- to administer trusts on behalf of infants.

The Public Trustee charges its clients an administration fee for its services. These fees are drawn from the client’s trust account.

To effectively deliver the services required by the clients, The Office of the Public Trustee is divided into five distinct sections as outlined in the organization chart above. Each section reports directly to the Public Trustee.

For this value-for-money audit, we focussed only on the Client Administration Section.

CLIENT ADMINISTRATION SECTION

The Public Trustee has a statutory mandate to act on behalf of mentally incompetent persons under the provisions of The Mental Health Act. When a doctor deems a person to be mentally incompetent, the Director of Psychiatric Service from the Department of Health may appoint the Public Trustee and that person becomes a client of the Public Trustee. As a result, all of the person’s assets are transferred to the stewardship of the Public Trustee. A client trust account is then set up to hold those assets and to receive any subsequent income or discharge any subsequent

obligations which accrue to the client.

The Public Trustee manages the affairs of clients through a staff of Client Administration Officers (CAOs). Each client is assigned to a CAO who acts on behalf of the client to make all personal and financial decisions for the client. These decisions range from deciding where to live, approving personal and clothing allowances and major asset purchases to entering into contracts such as marriage or sale of property.

The CAOs are responsible for approximately 3,700 clients. Clients live in either “institutional care” or “in the community”. Table 1 outlines the distribution of clients by type of residence.

For the purpose of this audit, we further refined our scope to the management control practices of the Public Trustee for the trust accounts of “clients living in the community”.

Some of these clients are not able to live independently and have to reside with a care provider who gives the client room and board. The care provider normally receives regular fees, paid out of the client’s trust account, for providing this service to the client.

The Public Trustee may also engage paid

Table 1

Type of residence	Number of clients	%	Assets under administration	%
Clients living in institutional care	2,760	75	\$ 79.1 million	76
Clients living in the community	940	25	\$ 24.7 million	24
Total clients in care	3,700		\$ 103.8 million	

THE OFFICE OF THE PUBLIC TRUSTEE
Department of Justice

Companions to provide services and enhance the quality of life for the clients. The functions of the Companion range from spending time with the client, to taking the client on social outings and to running errands. The Companion charges the Public Trustee for the hours spent with the client, and for all expenses incurred on behalf of the client, such as groceries, meals or clothing.

The distribution of assets within this group of clients is indicated in Table 2.

Table 2

# of Clients	%	Assets under Administration	%
235	25%	\$ 22.4 million	91%
705	75%	\$ 2.3 million	9%
940		\$ 24.7 million	

We further limited our scope to the 235 clients (25% of total clients) whose assets formed the largest dollar value under administration.

THE OFFICE OF THE PUBLIC TRUSTEE
Department of Justice

DETAILED FINDINGS AND RECOMMENDATIONS

ARE THE INTERNAL CONTROL PRACTICES OF THE PUBLIC TRUSTEE, FOR THE TRUST ACCOUNTS OF “CLIENTS LIVING IN THE COMMUNITY”, ADEQUATE TO ENSURE THE VALIDITY AND APPROPRIATENESS OF EXPENDITURES?

What We Concluded

We concluded that while the Public Trustee has taken some specific actions which have improved internal control practices, certain of the controls over the management of these trust accounts should be further strengthened to provide adequate assurance of the validity and appropriateness of trust account expenditures.

We reached this conclusion by examining the following criteria:

- The responsibilities and reporting requirements of organizations who are delegated the personal supervision of clients should be clearly defined and communicated
- Budgets should be prepared and subsequently reviewed and updated annually for clients with funds in excess of their basic living requirements.
- Reimbursements of discretionary expenditures made by Companions should be supported by appropriate documentation.
- Disbursements for Companion services should be supported by appropriate documentation.
- Major decisions should be adequately documented on client files.

- An effective quality control review process of client files should be in place.

The time period covered by our audit was January 1996 to January 1998. The audit was performed from October 1997 to January 1998.

Our examination was performed in accordance with value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In the conduct of our audit we made enquiries of and had discussions with client administration staff and Public Trustee management. In addition we reviewed the Office’s Policy and Procedures Manual. We also examined other documents as considered necessary. Our audit procedures were applied to a sample of 18 files, (two files for each of the nine CAOs), known to have used Companion services.

What We Found

Reporting Requirements, For Organizations Who Are Delegated The Personal Supervision Of Clients, Should Be Clearly Defined And Communicated To Those Organizations

An effective accountability relationship requires that roles and responsibilities be clearly defined and reporting requirements specified. Organizations that are delegated the personal supervision of Public Trustee clients should know their responsibilities for personal supervision and for reporting their care plans and the results achieved against that care plan.

Clearly defining roles, responsibilities and reporting requirements is important because it helps ensure that there is a common understanding

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between the Public Trustee and the delegated party regarding their roles and the related reporting requirements. This clarity should in turn better ensure that the Public Trustee is provided with pertinent documented information on how well a client's care, as delegated, is being managed. This process is important because, in our view, delegating personal supervision does not absolve the Public Trustee of responsibility for her client's well being.

Under Section 18.1 of The Public Trustee Act, the Public Trustee "...may in writing authorize any person to perform or carry out any act, duty or thing." Under this section, a client's personal supervision can be delegated to the Department of Family Services or to a Regional Health authority. We found that the Policy and Procedure Manual outlines the responsibilities of the Public Trustee and the responsibilities of the designated organization for personal supervision. This section of the Manual requires that a letter be sent to the organization indicating the delegated responsibilities.

We found that a delegation letter was used in all files examined. The letters specifically stated that the delegated party is responsible to provide personal supervision to the client.

However, we found that there are no reporting requirements for those who have been delegated personal supervision of Public Trustee clients. Although CAOs advised us that they have regular contact with the social/health care worker and consult with them on important decisions, there is little documented evidence of this contact on file. In particular, for the files we reviewed, we noted that there were no client care plans on file. Such a plan would provide the Public Trustee with documented evidence that a client's care had been appropriately planned and managed.

We recommend that management determine the reporting requirements of those organizations who have been delegated personal supervision of clients to include the provision of documented care plans and results against the care plans. These requirements should be clearly stated in the Manual and should be clearly communicated in the delegation letter.

Note:

We recognize that the Public Trustee's ability to fully implement our recommendation will require the cooperation of the organizations to whom she has delegated the personal supervision of clients. As a result we encourage the Department of Justice to begin a dialogue with those organizations to articulate the issue and to negotiate reasonable reporting requirements.

Budgets Should Be Prepared And Subsequently Reviewed And Updated Annually For Clients With Funds In Excess Of Their Basic Living Requirements

Appropriate financial management includes the preparation of annual revenue and expenditure budgets. Budgets for clients with significant account balances should reflect current care plan requirements and reasonable discretionary expenditures based on the client's lifestyle. These budgets should also comply with the Public Trustee's capital encroachment policy which requires capital erosions in excess of \$2,000 annually be approved by the Manager of Client Administration. Additionally, these budgets should be used by CAOs to monitor and control actual expenditure levels.

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Budgets are an important expenditure management tool because they help determine the adequacy of income needed to meet the requirements recommended in the care plan. They also help ensure that client priority needs are not overlooked. In addition, comparing actual expenditures to budget identifies variances which help to prevent or control inappropriate expenditures and unreasonable allowances or advances.

As noted previously in this report, 25% of the “clients living in the community” have assets totalling \$22.4 million. Accordingly, these clients have funds in excess of their basic living requirements. As a result, some of these clients require, and can afford, Companion services and other discretionary purchases. In our view, these clients are financially vulnerable. Their assets must, therefore, be carefully managed.

In each of the 18 files we reviewed, the CAOs prepared a budget when the client first entered care. CAOs advised us that these budgets were based on input from the social/health care worker and the related care plan. However, these budgets have not been subsequently reviewed and updated annually. We also found that actual expenditures have not been monitored against the budget.

Consequently, there is a risk that original budgets may no longer reflect current income and expenditure requirements. Accordingly, the original budgets may no longer be effective control tools.

We recommend that CAOs annually review and update the budgets for all clients with funds in excess of basic living requirements, and that actual expenditure levels be monitored against these budgets.

Reimbursements Of Discretionary Expenditures Made By Companions Should Be Appropriately Supported

With respect to the reimbursement of discretionary expenditures made by Companions, an essential expenditure control would be the requirement that expenditures be supported by original, unaltered receipts.

Appropriate support is important because it minimizes the Public Trustee’s risk of making inappropriate payments, including duplicate payments, from client accounts. It also provides documentary evidence of the disbursement of funds.

The Public Trustee contracts for Companion services with individuals that specialize in Companion services and with home care agencies that either provide this service directly or subcontract it out. The policy regarding reimbursements from a client’s account states “..the officer may, if funds permit, utilize the services of private companies to make the necessary purchases for the client...”. It is common for individuals to incur discretionary expenditures on behalf of the client and then request reimbursement from the Public Trustee. In the case of home care agencies, management advised us that these agencies do not allow their staff to pay for discretionary purchases for the clients. If a client needs anything, the purchase is made and the store bills the Public Trustee directly.

At the January 1997 Client Administration Officer monthly meeting, in an effort to reduce the volume of expense reimbursements to Companions, the Manager of Client Administration requested that “..wherever possible, agencies ... should be contacted for Companion services...”. Management advised us that this approach has resulted in reduced usage of

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individuals as Companions. Accordingly, management also advised us that the volume of reimbursements for discretionary spending made by these Companions has also decreased.

During our investigation, which preceded this value-for-money audit, we noted that a CAO allowed the Companion being investigated to be reimbursed for expenditures made on behalf of the client even though appropriate documentation was frequently not provided. In designing this Value-for-Money audit we were particularly interested in determining whether this problem was prevalent among other CAOs.

We found that the Public Trustee's Policy and Procedures Manual does not provide guidance on the type of receipts required to support the reimbursements to Companions. However, in recognition of this lack of guidance, the Public Trustee issued a memo to CAOs on June 27, 1997 which stated "*... effective immediately...a person must submit to you an original bill ...the bill cannot be altered in any way. Visa, MasterCard and American Express charge slips will not be acceptable...*". From our sample of 18 files and for the period January 1996 to August 1997, we reviewed all Companion reimbursements for a total of 52 disbursements. In addition we examined all reimbursements that occurred during the week of January 8, 1998. As a result of management action noted above, there was only a total of eight reimbursements made during that week. We found that most of the reimbursements made prior to the June 27th memo were not adequately supported. However, all of the reimbursements we examined, which were made subsequent to the issuance of this memo, had sufficient support.

We recommend that management develop a formal policy on the documented support required for reimbursements of discretionary expenditures made by Companions.

Disbursements For Companion Services Should Be Supported By Appropriate Documentation

An essential expenditure control over disbursements for Companion services would be the requirement that payments be supported by time sheets providing details of the dates of service, the services performed, and the costs of the service. Such support minimizes the Public Trustee's risk of making payments from client accounts for services not received.

During our investigation we noted that a CAO allowed the Companion being investigated to be paid for services even though she generally had not provided adequate documentation to support her claims for hours worked. In designing this value-for-money audit we were particularly interested in determining whether this problem was prevalent among other CAOs.

The policy for the required support for Companion service hours states "*...the officer will agree to the hourly wage, ask the person to keep track of all time spent on outings with the client, and submit the account to the officer for payment...*". A standard time sheet has been designed to obtain this information.

We found that CAOs generally do a good job of obtaining the required time sheets. Our sample of 18 files included 84 payments for Companion services. Of this total, 11 time sheets (13%) were missing or did not provide the details to backup

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the payment. However, all of these related to the files of three CAOs and three clients. While the files did not contain explanations as to why time sheets were not obtained, these CAOs advised us that when time sheets are not available they may attempt to verify the validity of the hours submitted by alternate means such as activity reports or observations from neighbours, friends, family, or the social/health care workers.

In our view, when time sheets are not obtained the Public Trustee is exposed to greater risk of making inappropriate payments from client accounts.

We recommend that CAOs ensure time sheets are obtained as required by the Policy and Procedure Manual.

We further recommend that where such time sheets are not considered necessary, the reasons should be clearly documented in the client's file.

Major Decisions Should Be Adequately Documented On Client Files

An appropriately documented client file would include the documentation of major decisions, including the rationale behind each decision.

Adequately documenting major decisions and the related rationale in the client files is important because it provides assurance that decisions or judgements can subsequently be supported or explained despite the passage of time and a change in CAO. Where this is done, files can stand alone so that they can be reviewed or transferred to another CAO with little or no additional work.

We found that policy requires documentation of decisions only when CAO approval limits of \$2,500 a month are exceeded. As a result there is

no requirement to document decisions relating to care such as hiring Companion services or not requiring detailed time sheets. In our view, this may result in major decisions not being documented.

For example, in two out of the 18 files examined, we noted that the Companion was made an employee of the Public Trustee. No documentation of the decision, the rationale or contracts of employment were on file. Good business practice dictates that documentation to support these employment issues should be on file.

In addition, in these same two files, we found two examples where documentation of the rationale and approval for two financial arrangements was required by policy, but still not documented. One client had a bank account in excess of the Public Trustee policy limit of \$1,000 and the other client had a visa account. Both situations require the approval of the Manager of Client Administration.

CAOs advised us that they have very heavy work loads and that they do try to document major decisions. The Public Trustee is attempting to deal with the heavy work loads by increasing staff and reorganizing file assignments.

We recommend that management ensure that CAOs document significant decisions regarding client care.

An Effective Quality Control Review Process Of Client Files Should Be In Place

An effective quality control review process would include file selection based on risk, clear review objectives, adequate documentation of issues and discussions, and the preparation of an overall summary and analysis of results.

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An effective review process provides assurance that files comply with established policies and procedures and that appropriate decisions are being made. The process can also identify policy, procedure and training needs.

Policy requires the Manager of Client Administration to review each file after it has been open for six months. Additionally, policy also requires the legal section to review 5% of the client administration files annually. These files are selected on a random basis.

The purpose of both reviews is to provide assurance that all files are current, problems and issues have been properly dealt with, all assets and debts are properly recorded, and all legal issues are identified and dealt with. It is this process that identified the concerns which lead to our investigation.

We believe that the nature and extent of file reviews required by policy is appropriate.

Management advised us that these requirements are being complied with, although there currently is a backlog in the six month review. This backlog is primarily due, we were told, to additional work done by the Manager of Client Administration in dealing with the subject matter of our investigation.

The Manager of Client Administration advised us that she diarises, on the file, issues and discussions. Items requiring follow up are also documented in a bring forward file which the Manager uses to reassess issues at a later date as required.

We found, however, that the overall results of the files reviews are not summarized and analysed. As a result, we believe the Public Trustee is missing an opportunity to increase the level of learning that occurs from performing file reviews.

Such analysis would provide management with insight on the need to develop or clarify certain policies and procedures and to identify training needs.

We recommend that management summarize and analyse the results of the file review process.

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DEPARTMENTAL RESPONSE

An internal review process was established in the Public Trustee's office which required that the Manager, Client Administration and the Legal Section provide ongoing reviews of the files in the Client Administration Section.

Through this process certain irregularities were found in one officer's files. An intensive internal review was conducted. As a result of that review, I asked the Provincial Auditor to conduct a full audit of that officer's files. I wish to thank the Provincial Auditor for his swift response to these concerns and for the cooperation of his auditors in working with my office.

It should also be noted that because of the flexibility in staffing afforded by the Special Operating Agency status, I was able to create an internal auditor position, which has ongoing responsibility for the administrative reviews.

I agree with the recommendations of the Provincial Auditor and have taken action in accordance with them. My responses to the recommendations follow the order in which they appear in the audit report, and are:

- *The policy manual has been amended to require that the delegation letters ask for annual reporting against care plans for clients in the community. The delegation letter now also clearly requests that reporting. The Public Trustee will request a meeting with the Chief Executive Officers of the Regional Health Authorities to discuss the policy and ask for their agreement with submitting annual reports.*
- *To ensure consistency and the inclusion of appropriate information, an automated system will be established for annual budgeting and variance reporting for those clients with other*

than basic pension or social allowances income. The system will be run on the mainframe accounting system. This system will be phased in for the clients affected (approximately 1,500) with a planned implementation on April 1, 1999. It is anticipated that additional staff may be required during the phase in period.

- *All officers were advised by memorandum of the requirements for original documentation in support of disbursement requests, in June 1997. This memorandum has been formalized in policy.*
- *The policy manual currently requires that time sheets be obtained from service providers. The policy has been revised to add a requirement that if time sheets cannot be obtained in accordance with policy, this must be documented and approved by the Manager, Client Administration.*
- *A policy has been issued requiring that major decisions be documented on client files with a rationale provided for each decision. It is anticipated that this policy will be amended in the future to reflect the automated budgeting process and the decisions which are required by that system.*
- *A standard file review report has been developed and will be used to ensure that an analysis of the file reviews can be made, based upon file information being recorded during the review process.*

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EXHIBIT 1

RESPONSIBILITIES OF EACH SECTION

Client Administration	Manages the personal and financial affairs of vulnerable persons and mentally incompetent adults.
Estates Administration	Administers deceased estates, adult and infant trusts.
Financial Administration	Manages the accounting for all clients, estates and trusts and manages the Common Fund. It also manages the revenues and operating budget of the office.
Legal	Provides the necessary legal representation for the estates, trusts and clients, ensures the protection of rights and assets, provides assistance to the Court as requested and provides advice to the Public Trustee.
Inspection	Provides services for estates and trusts, and client administration by investigating matters as required in estates, trusts and client files and records and secures properties owned by clients and estates.

DEFINITIONS USED IN THIS REPORT

Care Provider	The person with whom or the location where the client resides.
Clients "living in the community"	Clients who live in private, group home and room and board residences.
Companion services	Private company/individual or Agency who provide services and enhance the quality of life for the clients. The functions of the Companion range from spending time with the client, to taking the client on social outings.
Trust account	A client's money held in trust for them by the Public Trustee.

**Sustainable Development
Innovations Fund**



SUSTAINABLE DEVELOPMENT INNOVATIONS FUND

REPORT OVERVIEW

The Sustainable Development Innovations Fund (Fund), formerly the Environmental Innovations Fund, was approved by Cabinet in October 1989. The Fund was enacted under section 45.1 of The Environment Act. In 1993, the name was changed from Environmental Innovations to Sustainable Development Innovations in response to an expanded purpose for the Fund, to now include sustainable development projects.

The expanded purpose of the Fund is:

“to provide grants in support of innovative projects, activities, research and developments that further the sustainability of Manitoba’s economy, environment, human health and social well-being and support environmentally sustainable economic growth”.

Fund management has itemized the expected benefits of Fund activities to include:

- creating an awareness of sustainable development issues among individuals, households, businesses and institutions seeking financial assistance for innovative projects;
- encouraging consideration of environmental and economic implications associated with new projects;
- providing increased flexibility for the types of initiatives qualifying for funding; and
- providing a mechanism for the promotion of environmentally sound economic development.

We chose to audit this program mainly because of an issue brought to our attention by a Member of the Legislative Assembly regarding concern in the awarding of grants.

We structured our audit to focus on whether the process ensures grants are awarded based on Fund objectives and merit.

We also considered this to be an appropriate time to follow up on our 1993 audit recommendations regarding the Fund.

SUSTAINABLE DEVELOPMENT INNOVATIONS FUND

AUDIT PURPOSE AND SCOPE

The purpose of our audit was to answer the following six questions.

1. Is the Fund's purpose clearly defined and are annual objectives results-oriented and measurable?
2. Does the grant application assessment and approval process ensure that the best projects are funded?
3. Has an appropriate grant accountability process been developed to provide Fund management with assurance that grants are being expended for the purposes intended?
4. Does the management information system gather data that is useful to management and the government in assessing whether the Fund is achieving its intended purpose?
5. Is information about the Fund adequately and equitably made available to the public?
6. Is sufficient, appropriate and timely program planning and performance information provided to the Legislative Assembly?

We focused our audit on practices in use during the period April 1996 to December 1997. Our audit included a review and analysis of policy and procedure, the information data base and a sample of applications with related project files. We also reviewed reports along with Committee of Cabinet minutes, and analysed other pertinent information. As well, we conducted interviews with Fund officials and officials of two departments involved with application assessment and project monitoring.

Our examination was performed in accordance with value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

SUSTAINABLE DEVELOPMENT INNOVATIONS FUND

CONCLUSIONS AND KEY FINDINGS*1. Is the Fund's purpose clearly defined and are annual objectives results-oriented and measurable?*

We concluded that while a purpose statement is articulated, its meaning is not clear because key terms contained within it are not defined. We also concluded that there is a need to develop annual objectives that are results-oriented and measurable.

The Fund's purpose is articulated in The Sustainable Development Act and an annual objective is stated in the 1997/98 estimates supplement. However, we found that:

- certain terms within the purpose statement may be subject to significantly different interpretations;
- The Sustainable Development Act has not been proclaimed; and
- the annual objective is in essence a restatement and simplification of the Fund's purpose statement. It does not explicitly describe what the Fund plans to accomplish in 1997/98.

2. Does the grant application assessment and approval process ensure that the best projects are funded?

Although eligibility guidelines have been developed and department expertise is used for assessing the quality of projects, we concluded that the process for assessing and approving grants should be improved in order to provide greater assurance that the best projects are funded.

We found that:

- Fund management have documented eligibility guidelines and these guidelines are consistent with the Fund's purpose. However, we found that guidance to Fund and department staff on the application and interpretation of the guidelines is not available.
- Fund management use department expertise in assessing project quality and value. However, the assessment process should be strengthened. In particular, we found that:
 - projects do not receive an initial review by Fund management and are not explicitly assessed against the eligibility guidelines;

SUSTAINABLE DEVELOPMENT INNOVATIONS FUND

- the criteria to be used by departments in assessing project quality and value have not been developed; and
- in situations where more than one department assesses a project, and they have conflicting opinions on the project's value, a general recommendation is not developed by Fund management.
- Workloads of the Committee of Cabinet, the Fund and the assessing departments are increased because all project proposals must be forwarded to the Committee for approval or denial of funding regardless of the project's assessed quality and value.
- Fund management use a continuous intake process where applications are assessed and approved for funding throughout the year as applications are received. We believe that an application intake process that imposes deadlines for receipt of applications by key performance area would facilitate comparison and ranking of similar projects. This would significantly improve the evaluation process, facilitate linkage to annual objectives and improve Fund management's ability to effectively manage Fund resources.

3. Has an appropriate grant accountability process been developed to provide Fund management with assurance that grants are being expended for the purpose intended?

We concluded that Fund management have developed an appropriate process to provide assurance that grants are expended for the approved amount and for the purposes intended.

4. Does the management information system gather data that is useful to management and the government in assessing whether the Fund is achieving its intended purpose?

We concluded that while valuable data is gathered with respect to certain inputs and outputs, it is collectively not sufficient to allow management or the government to assess whether the Fund is achieving its intended purpose.

We found that Fund management have recently made significant strides in developing an information system data base. However, until annual objectives that are results-oriented and measurable are in place, the information system cannot be designed to capture sufficient and appropriate performance information.

SUSTAINABLE DEVELOPMENT INNOVATIONS FUND

5. Is information about the Fund adequately and equitably made available to the public?

We concluded that Fund management's communication techniques are adequate and equitable regarding the availability of information about the program to the public.

6. Is sufficient, appropriate and timely program planning and performance information provided to the Legislative Assembly?

We concluded that while the Fund's estimate supplement and annual report were provided on a timely basis to the Legislative Assembly, the Legislative Assembly should be better informed about the Fund's plans and its performance in relation to its plans.

We found that the information presented in the Fund's 1997/98 estimates supplement and 1996/97 annual report does not provide information on the Fund's planned achievements and the actual results compared to its plans.

Follow-up Of 1993 Audit

In our Report to the Legislative Assembly issued in December 1993, we made a number of recommendations regarding the adequacy of the grant payment and accountability systems of the Fund and applicable departments. We are generally pleased that Fund management have taken action on our recommendations. For details of the results of our follow up, see Exhibit 1.

Other Matters

Full Program Costing Reports

In the course of conducting our audit we noted that, while Fund management reports on the dollar value of grants issued, it does not reflect and report on the full cost of its operations. Developing a reporting process to reflect total costs related to the Fund would permit Fund management, the Members of the Legislative Assembly, and the public to be aware of the costs of administering the Fund.

SUSTAINABLE DEVELOPMENT INNOVATIONS FUND

KEY RECOMMENDATIONS

This report contains ten recommendations. The following list outlines what we believe are the key recommendations. We recommend that Fund management:

- clearly define the key terms in the Fund's stated purpose;
- develop annual objectives for each key performance area that are results-oriented and measurable;
- develop and communicate clear definitions for the key terms in the eligibility guidelines and clear instructions on how the guidelines are to be used in assessing projects;
- assess all projects against the eligibility guidelines. We further recommend that only those applications that meet the guidelines be forwarded to departments for detailed assessment of project quality and value;
- review and approve the criteria to be used by departments in performing their assessments and require that departmental officials document their assessments against the approved criteria;
- forward only applications recommended by departments to the Sustainable Development Committee of Cabinet for final funding decisions. We further recommend that, in cases where multiple assessing departments present conflicting recommendations, Fund management develop and provide a recommendation along with the departmental recommendations to the Committee of Cabinet; and
- review the effectiveness of the current application intake process.

SUSTAINABLE DEVELOPMENT INNOVATIONS FUND

ABOUT THE PROGRAM

HISTORY

The Sustainable Development Innovations Fund (Fund), formerly the Environmental Innovations Fund, was approved by Cabinet in October 1989. The Fund was enacted under section 45.1 of The Environment Act. In 1993, the name was changed from Environmental Innovations to Sustainable Development Innovations to coincide with an expansion of the purpose of the Fund, to include sustainable development projects.

The expanded purpose of the Fund is:

“ to provide grants in support of innovative projects, activities, research and developments that further the sustainability of Manitoba’s economy, environment, human health and social well-being and support environmentally sustainable economic growth.”

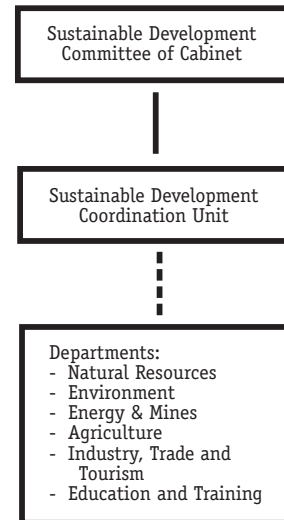
Fund management has itemized the expected benefits of Fund activities to include:

- creating an awareness of sustainable development issues among individuals, households, businesses and institutions seeking financial assistance for innovative projects;
- encouraging consideration of environmental and economic implications associated with new projects;
- providing increased flexibility for the types of initiatives qualifying for funding; and
- providing a mechanism for the promotion of environmentally sound economic development.

ORGANIZATION OF PROGRAM AND SERVICES PROVIDED

As illustrated below, the Sustainable Development Committee of Cabinet (Committee) is responsible for the Fund.

**SUSTAINABLE DEVELOPMENT INNOVATIONS FUND
Organization Chart**



The Sustainable Development Coordination Unit (Unit) processes applications received for grant funding on behalf of the Fund. The Unit records all applications received and then forwards the application to one or more of the departments who have expertise relative to the project. As shown in the flowchart illustrated below, six departments are currently involved in performing project reviews in relation to Fund applications. The departments review the merits of each project and provide the results and recommendations of their reviews to the Unit.

Staff at the Unit summarize all of the project assessments performed by the departments and

SUSTAINABLE DEVELOPMENT INNOVATIONS FUND

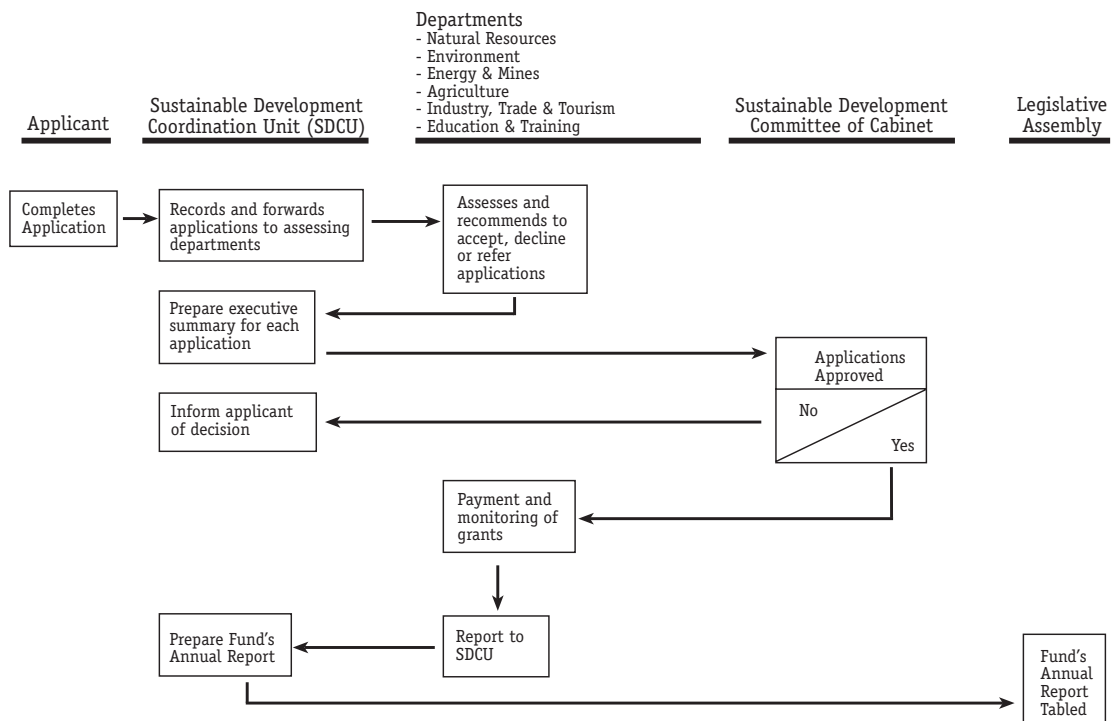
present them to the Committee of Cabinet for funding decisions. The Committee reviews the project summaries and, if necessary, the detailed project applications. The Committee makes the decision whether to approve, decline or refer the application to another funding body. Once a project has been approved by the Committee of Cabinet, the Committee designates a department with responsibility for monitoring the project and that department notifies the successful applicants by letter.

Grant payments are made by the department that monitors the project for satisfactory completion. The department reports to the Unit on the results of their project monitoring, and subsequently recovers grant payments from the Fund's appropriation through interdepartmental transaction vouchers.

Currently, the monies allocated to the Fund are determined annually by the government based on monies estimated to be raised by environmental protection taxes on glass liquor bottles and disposable diapers. This determination of funds is set through the government estimates process which allows for discussion and debate by Members of the Legislative Assembly.

The Fund's expenditures only cover financial assistance in the form of project grants. Program administration costs such as Unit and departmental staff salaries, employee benefits and other program costs are not reflected in the Fund's accounts. These program administration costs are included in the accounts of the Sustainable Development Coordination Unit and the other six departments who provide administrative, assessment, payment and monitoring services on behalf of the Fund.

**SUSTAINABLE DEVELOPMENT INNOVATIONS FUND
Grant Approval and Monitoring Process**



SUSTAINABLE DEVELOPMENT INNOVATIONS FUND

STATISTICAL INFORMATION

Tables 1 and 2 provide information on the Fund's 1996/97 financial assistance requests and payments.

Table 1

ANALYSIS OF GRANTS APPROVED					
Fiscal Year 1996 - 1997					
	Amounts (\$000s)		%	# of Grants	%
	Requested	Approved*			
Tax equivalency grants:					
Manitoba Product Stewardship Program	\$ 364.7	\$ 364.7	15.8	1	1.3
Tire Stewardship Program	135.3	135.3	5.8	1	1.3
Total Tax Equivalency Grants	\$500.0	\$ 500.0	21.6	2	2.6
Broad allocations:					
Environmental Youth Corps	\$ 200.0	\$ 200.0	8.6	1	1.3
Environmental Industries Development Initiative	250.0	250.0	10.8	1	1.3
Total Broad Allocations	\$ 450.0	\$ 450.0	19.5	2	2.6
Individual grants by monitoring department:					
Agriculture	\$ 298.6	\$ 186.6	8.1	10	13.2
Energy and Mines	125.0	112.5	4.9	2	2.6
Environment	338.2	187.9	8.1	17	22.4
Natural Resources	1,058.2	715.1	30.9	41	54.0
Sustainable Development Coordination Unit	161.3	161.3	7.0	2	2.6
Total Individual Grants Monitored by Departments	\$1,981.3	\$1,363.4	59.0	72	94.8
Total Grants	\$2,931.3	\$2,313.4	100.0	76	100.0

Source: 1996/97 Fund internal records

* Amounts reflected on a commitment basis - 1996-97 annual report reflects amounts on an expenditure basis (\$2,309.7)

SUSTAINABLE DEVELOPMENT INNOVATIONS FUND

Table 2

SUMMARY OF GRANTS AND APPLICATIONS BY SIGNIFICANT AREAS FUNDED				
Fiscal Year 1996 - 1997				
Significant Areas Funded	Total Applications Received			
	Funds Requested (\$000s)	Share %	# of Applic.	Share %
Environmental Industries	\$1,240.7	18.8	14	7.4
Education	1,139.1	17.3	38	20.2
Recycling	999.7	15.2	23	12.2
Endangered Spaces and Species	833.7	12.6	27	14.4
Urban Environment	615.8	9.3	23	12.2
Agriculture	562.6	8.5	21	11.2
Recreation	436.6	6.6	26	11.7
Environmental Youth Corps	236.3	3.6	2	1.1
Energy Conservation	200.0	3.0	2	1.1
Water Conservation	190.8	2.9	13	6.9
Policy Development	144.5	2.2	3	1.6
Total	\$6,599.8	100.0	188	100.0
Disposition of Applications	Funds Requested	Share %	# of Applic.	Share %
Applications Approved*	\$2,931.3	44.4	76	40.4
Applications Declined	2,985.2	45.3	87	46.3
Applications Deferred	140.2	2.1	3	1.6
Applications Referred	543.1	8.2	22	11.7
Total Applications	\$6,599.8	100.0	188	100.0

Source: 1996/97 Fund internal records

* Actual amount of grants approved - \$2 313.4

SUSTAINABLE DEVELOPMENT INNOVATIONS FUND

DETAILED FINDINGS AND RECOMMENDATIONS**1. IS THE FUND'S PURPOSE CLEARLY DEFINED AND ARE ANNUAL OBJECTIVES RESULTS-ORIENTED AND MEASURABLE?****What We Concluded**

We concluded that while a purpose statement is articulated, its meaning is not clear because key terms contained within it are not defined. We also concluded that there is a need to develop annual objectives that are results-oriented and measurable.

We reached this conclusion by examining the following criteria:

- the terms used in a purpose statement should be clearly defined and not open to interpretation; and
- annual objectives should be tied to clearly stated results and those results should be measurable.

To assess this criteria, we reviewed the Fund's purpose and objectives as outlined in The Sustainable Development Act and in the Fund's application form, annual report and estimates supplement. We also discussed the Fund's purpose and objectives with officials of the Fund and two of the assessing departments.

What We Found**The Need For A Well-Defined Purpose Statement**

An organization's purpose should be communicated to its key stakeholders and the terms used within the statement of purpose should be clearly defined. A clearly defined and communicated purpose assists in setting the

strategic direction for the organization and ensures that the intent of the organization is understood by its key stakeholders. Also, it is preferable that the organization's purpose be communicated through, and supported by, legislation.

We found that the Fund's purpose is articulated in The Sustainable Development Act, as follows:

“to provide grants in support of innovative projects, activities, research and developments that further the sustainability of Manitoba's economy, environment, human health and social well-being and support environmentally sustainable economic growth”.

However, we observed that:

- certain terms within the purpose statement should be more clearly defined; and
- The Sustainable Development Act has not been proclaimed.

Certain Terms Within The Purpose Statement Should Be More Clearly Defined

We observed that Fund's purpose is stated in The Sustainable Development Act and is further communicated in key documents, such as the application, the annual report and estimates supplement. The statement contains five key terms. Very broad definitions are provided for two of these terms and no definitions are provided for the other three. Table 3 illustrates the key terms.

As a result, the Fund's purpose may be subject to wide and differing interpretation of its intent by its key stakeholders. This situation presents a significant challenge for Fund management and the Committee of Cabinet in developing strategic directions, annual objectives and related performance measures.

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We recommend that Fund management clearly define the key terms in the Fund’s stated purpose.

“the object of the Fund is to provide financial support for the development, implementation and promotion of environmental innovation projects”.

We encourage management to seek legal advice on this matter.

Table 3

Key Terms Open to Interpretation in Purpose Statement	Defined?
- innovative	no
- sustainability	yes
- human health	yes
- social well-being	no
- environmentally sustainable economic growth	no

The Need For Annual Objectives That Are Results-Oriented And Measurable

Annual objectives that are clearly linked to an organization’s purpose and its expected benefits and that are results-oriented and measurable help ensure the organization is being managed to maximize the effective use of the organization’s limited resources. Clear objectives should be defined for each of the organization’s key performance areas and should identify the expected results to be achieved, the time frame for achievement and the anticipated cost.

We found Fund management have developed an annual objective which is stated in the 1997/98 estimates supplement as follows:

“to promote the development and implementation of innovative projects which support the principles and guidelines of sustainable development”.

However, this objective is, in essence, a restatement and simplification of the Fund’s purpose statement. It does not explicitly describe what the Fund plans to accomplish in 1997/98. Because the objective is not specifically tied to defined results, there is limited means for measuring if the objective has been achieved. In addition, we observed that key performance areas have not been identified. We noted that eight significant areas of funding are discussed in

The Sustainable Development Act Has Not Been Proclaimed

Although The Sustainable Development Act has not yet been proclaimed, management advises that the Fund is operating under the intent of The Sustainable Development Act.

We are advised by Fund officials that The Sustainable Development Act broadens the Fund’s purpose, but it has not yet been proclaimed due to the significant impact of the provisions of the new Act on departments and agencies. For example, the new Act requires departments and agencies to demonstrate their contribution to sustainable development in their annual plans.

Consequently, the Fund may be operating outside of its legislated purpose. This is because the purpose of the Fund as stated in the Environment Act is narrower in scope, and reads as follows:

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various Fund publications. In our analysis of the project descriptions included in the project data base, as illustrated in Table 4, we identified three additional significant areas of funding in 1996/97. Also, four expected benefits are noted in the 1996/97 estimates supplement. However, we noted that Fund management has not identified these as key performance areas, and, therefore, has not developed objectives for what it hopes to accomplish for each of these key areas. Such planning is essential if the Fund is to maximize the impact of the limited dollars it has at its disposal.

We recommend that Fund management develop annual objectives for each key performance area and that these objectives be results-oriented and measurable.

2. DOES THE GRANT APPLICATION ASSESSMENT AND APPROVAL PROCESS ENSURE THAT THE BEST PROJECTS ARE FUNDED?

What We Concluded

Although eligibility guidelines have been developed and department expertise is used for assessing the quality of projects, we concluded that the process for assessing and approving grants should be improved in order to provide greater assurance that the best projects are funded.

We reached this conclusion by examining the following criteria that characterize an effective assessment and approval process:

Table 4

Analysis of 1996/97 Grants by Significant Area Funded			
Significant Area Funded*	Total Value (\$000s)	%	# of Grants
Discussed in Fund publications:			
Recycling	\$ 592.5	25.6	8
Urban Environment	289.1	12.5	16
Environmental Industries	262.5	11.3	2
Environmental Youth Corps	236.3	10.2	2
Education	212.1	9.2	15
Endangered Spaces and Species	174.7	7.6	13
Agriculture	147.6	6.4	7
Water Conservation	140.0	6.0	4
Sub-total	2,054.8	88.8	67
Identified in our analysis:			
Policy Development	118.3	5.1	2
Recreation	100.0	4.3	6
Energy Conservation	40.3	1.8	1
Sub-total	258.6	11.2	9
Total	\$2,313.4	100.0	76

Source: 1996/97 Fund internal records

* Projects classified in the 11 significant areas as determined from our review of the Fund's database and discussion with Fund officials.

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- eligibility guidelines would be developed and their terms and use clearly defined and communicated;
- projects would be assessed against eligibility guidelines;
- management would have a process for ranking the projects by type; and
- decisions and the rationale for the decision on whether to fund the project would be documented and communicated to applicants.

To assess these criteria, we reviewed legislation, the Fund's policies and procedures manual and discussed the application assessment and approval processes with Fund and assessing department officials.

What We Found

The Need For Eligibility Guidelines To Be Defined And Communicated

Useful eligibility guidelines would be consistent with the organization's purpose and critical terms would be defined. Also, the guidelines would be included in the regulations to the organization's enabling act. Clear eligibility guidelines contribute toward meeting the organization's purpose and assist in a consistent understanding and interpretation of the guidelines by key stakeholders.

We observed that Fund management have documented eligibility guidelines and that these guidelines are consistent with the Fund's purpose.

However, we found that guidance to Fund and department staff on the application and interpretation of the guidelines is not available.

Fund policies do not offer any guidance regarding how the eligibility guidelines should be applied. For example, it is not clear if a project has to meet all, some, or one of the guidelines.

In addition, terms such as "financial self-sufficiency", "environmental benefits", "unique and innovative" and "one-time assistance" are not defined and therefore are subject to wide interpretation. Both the Fund and departmental officials informed us that they were not sure of the meaning of these terms. For example, "unique" could be interpreted to mean:

- the project is original and never tried by anyone before;
- some of the aspects of a project are unique, but the project itself is not; and
- the project is unique to a specific community but has been done in many other communities.

As a result, projects may not be uniformly assessed for eligibility because of possible widely varying interpretations of the terms used in the guidelines. For example, while we do not dispute the general value of the following projects, it is not clear to us how they are innovative or support the principles of sustainable development.

- the Fund approved a grant for \$8,000 to the Melita School to implement a pilot project to extend computer technology from the school into the home for grade 6 and 9 students. Students can take home a computer and modem for four weeks with the intent to make students and parents more aware of the current potential of technology in the process of learning and information retrieval.
- the Fund approved a grant for \$160,000 to Manitoba Natural Resources to plant trees and shrubs on provincially owned land at key entrances leading into the City of Winnipeg.
- the Fund approved a grant for \$300 to the Manitoba Forestry Association Inc. to produce placemats featuring the White Spruce to celebrate the 1996 National Forest Week.

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We recommend Fund management develop and communicate clear definitions for the key terms in the eligibility guidelines and clear instructions on how the guidelines are to be used in assessing projects.

We also recommend that the eligibility guidelines be included in future regulations to The Sustainable Development Act.

The Need To Assess Projects Against The Fund's Eligibility Guidelines

Assessing projects against the Fund's eligibility guidelines ensures that projects considered for funding support the Fund's objectives and are of appropriate quality.

An effective assessment process should require that:

- only projects that meet the eligibility guidelines be forwarded to assessing departments for detailed review;
- criteria be developed for use by departments in assessing project quality and value;
- only projects considered by the assessing department to be of sufficient quality and value be forwarded to the Committee of Cabinet for approval or denial of funding.

We reviewed the Fund's assessment procedures as outlined in the policy and procedures manual. We discussed these procedures and how the eligibility guidelines are used with officials of the Fund and two of the assessing departments. In addition, we followed a sample of six grant files through the system.

We observed that department expertise is used in assessing project quality and value. However, as a result of our review, we determined that the

assessment process should be strengthened. In particular, we found that:

- projects do not receive an initial review by Fund management and are not explicitly assessed against the eligibility guidelines;
- the criteria to be used by departments in assessing project quality and value have not been developed; and
- all project proposals are forwarded to the Committee for approval or denial of funding regardless of the department's recommendation.

Projects Should Receive An Initial Review And Should Be Assessed Against Eligibility Guidelines

Fund officials advised us that the current policy requires that all applications received be forwarded to departments for detailed assessment. In 1997/98 Fund management began to send the same application to more than one department when they felt the nature of the project warranted a broader view. We also found that neither Fund management nor assessing department officials assess projects against specific eligibility guidelines.

As a result, projects that may not meet the basic eligibility requirements are still reviewed for quality and value by the assessing departments. This process places a needless administrative burden on the assessing departments. Unfortunately, because of limitations in the nature of the information gathered by the Fund, we were unable to assess the extent of the administrative effort.

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We recommend that Fund officials assess all projects against the eligibility guidelines. We further recommend that only those applications that meet the guidelines be forwarded to departments for detailed assessment of project quality and value.

Criteria Should Be Developed And Used By Departments In Assessing Project Quality And Value

We observed that the departmental officials document their assessments using a standard format which describes the nature of the project, its strengths and weaknesses, any financial considerations and the departmental officials comments and recommendations. In performing their assessments, departmental officials use their own area of expertise to assess the value of the project. For example, regarding a waste reduction project, officials of the Department of Environment would use their expertise in assessing the value of a waste reduction project.

However, we found that the Fund and the assessing department officials have not jointly developed criteria to be used in assessing the quality and value of projects. As a result, Fund management have little assurance as to the nature and consistency of the assessments performed by the departments.

We recommend that Fund management review and approve the criteria to be used by departments in performing their assessments and require that departmental officials document their assessments against the approved criteria.

Fund Officials Should Only Forward To The Committee Of Cabinet Those Applications Recommended By Departments

We noted that all project proposals are forwarded to the Committee for approval or denial of funding regardless of the department's recommendation. This process increases the work load of the Committee members since they review documentation on project proposals that have not been recommended for funding.

In our review of the data for 1996/97, we found that 188 applications for funding had been received, as illustrated in Table 2. Eighty-seven applications were not approved for funding by the Committee of Cabinet. Because of limitations in the Fund's database, we could not determine which of those 87 had actually not been recommended by the assessing department. The question raised by this situation concerns the effectiveness of the Committee approval process. In our view, more reliance should be placed on the recommendations of the assessing departments.

In addition, work loads for both Fund and department officials are increased. Beginning in 1997/98 Fund officials are required to prepare, for each project, an executive summary that is then forwarded to Committee. These summaries are based on detailed reports developed by assessing departments even when funding is not recommended. Again, the process raises a question concerning the effective use of Fund and department resources.

As well, our review of 128 1997/98 executive summaries disclosed 25 instances where several departments assessed the same project and provided conflicting recommendations. The Executive Summary prepared by the Fund simply repeated these recommendations. As a result, the Committee was required to evaluate the conflicting recommendations.

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For example, one executive summary contained the following conflicting recommendations:

“Manitoba Environment does not recommend that this project be funded. There is only a very marginal link to sustainable development and recycling and waste management are only incidental to this proposal.

Manitoba Education and Training recommends that this project be funded. The value to be gained from the proposed project in terms of human and capital resources is a good bargain for the price. The real, practical and relevant experience will help instill the principles of sustainable development.”

In our view, the approval process would be improved if Fund management provided the Committee with a clear recommendation when multiple departments review a project and provide conflicting recommendations.

We recommend that only applications recommended by departments be forwarded to the Sustainable Development Committee of Cabinet for final funding decisions. It may be appropriate to provide the Committee with a listing of those applications not being recommended.

We further recommend, in situations where more than one department assesses a project, and they have conflicting opinions on the project’s value, that Fund management also provide the Committee with its recommendation.

The Need For A Process To Rank Projects By Type

A grant application process that schedules the assessment of similar types of projects would allow for ranking projects according to their relative merit. Selecting projects on the basis of highest merit contributes to the effective use of an organization’s resources.

Currently, Fund management use a continuous intake process where applications are assessed and approved for funding throughout the year as applications are received. While this process may be convenient for the applicant, it does not facilitate comparison and ranking of similar projects by type to identify the “best” projects within an area.

We believe that a periodic application intake process that imposes deadlines for receipt of applications by type would significantly improve the evaluation process, facilitate linkage to annual objectives and improve Fund management’s ability to effectively manage Fund resources.

We recommend Fund management review the effectiveness of the current application intake process.

The Need To Communicate Decisions And The Rationale For The Decision To Applicants

In our view, the approval process for any government grant program should be very “transparent”. That is, the evaluation criteria and the assessments against these criteria should be communicated to those directly impacted. This approach is particularly critical when funding is denied. A transparent process fosters public trust in the system.

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We found that applicants are only informed of the decision on their grant application. For example, they are told if their application is approved, rejected, deferred or referred to another funding department or agency. They are not provided with an explanation for why funding was denied. We believe the current weaknesses in the assessment and approval process, as discussed earlier, make it difficult for Fund management to provide unsuccessful applicants with a meaningful explanation for the funding denial. Upon initiating improvements to its assessment and approval process, we encourage management to enhance its communication processes with unsuccessful applicants.

3. HAS AN APPROPRIATE GRANT ACCOUNTABILITY PROCESS BEEN DEVELOPED TO PROVIDE FUND MANAGEMENT WITH ASSURANCE THAT GRANTS ARE BEING EXPENDED FOR THE PURPOSES INTENDED?

What We Concluded

We concluded that Fund management have developed an appropriate process to provide assurance that grants are expended for the approved amount and for the purposes intended.

We reached this conclusion by examining the following criteria:

- appropriate terms and conditions for grants should be established, communicated and formally accepted by the grant recipient; and
- there should be an appropriate monitoring process.

To assess the criteria, we reviewed Fund management assessment procedures as outlined in their policy and procedures manual. We discussed

these procedures and how the eligibility guidelines are used with officials of the Fund and with officials of two assessing departments. In addition, we followed a sample of six grant files through the system.

What We Found

The Need To Establish And Communicate Appropriate Terms And Conditions And Require Formal Acceptance By Grant Recipients Prior To Disbursing Grants

It is important that terms and conditions be established for each grant. Establishing appropriate terms and conditions prior to disbursing grants ensures grant recipients are aware of and agree with any terms and conditions before receiving grant funds. This process also assists in reducing any potential misunderstandings regarding accountability requirements between grant recipients and the Fund.

These terms and conditions would include:

- reporting on project expenditures through documents such as expense summaries or invoices; and
- providing appropriate evidence that the project, as reflected in the proposal, has been completed.

We noted from our discussions with officials of the Fund and monitoring departments, as well as from reviews of the Fund's policy manual and our sample of file, that the Fund's policies do outline reporting and holdback terms for the project. We also noted that when the minister of the funding department advises applicants by letter that their proposal has been approved, as well as advising them of the reporting requirement. A grant

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payment cheque is also enclosed with this letter.

We found that while the funding departments provide the applicant with a letter outlining the amount approved and terms of the grant, the grant approval letter does not clearly inform recipients that, by cashing the cheque, they are accepting the terms and conditions of the grant.

We recommend Fund management amend their grant approval letter to clearly inform recipients that cashing the cheque constitutes acceptance of the terms and conditions of the grant.

An Appropriate Monitoring Process Has Been Developed

An appropriate monitoring process would provide the organization with assurance that terms and conditions of the grant have been met.

An appropriate monitoring process should ensure that the documents and reports required by the terms and conditions of the grant are received, analysed and followed-up. In addition, the process should ensure progress payments, if applicable, are made only when appropriate and only after assessing whether funds are in fact being disbursed for the purposes intended.

We reviewed the Fund's assessment procedures as outlined in their policy and procedures manual. We discussed these procedures and how the eligibility guidelines are used with officials of the Fund and with two of the assessing departments. In addition, we followed a sample of six grant files through the system. We observed that the Fund's policies and procedures outline an appropriate project monitoring process. Our follow through of a sample of six grant files indicated that the departments obtain and provide

Fund management with evidence that projects are completed and funds expended as intended.

4. DOES THE MANAGEMENT INFORMATION SYSTEM GATHER DATA THAT IS USEFUL TO MANAGEMENT AND THE GOVERNMENT IN ASSESSING WHETHER THE FUND IS ACHIEVING ITS INTENDED PURPOSE?

What We Concluded

We concluded that while valuable data is gathered with respect to certain inputs and outputs, it is collectively not sufficient to allow management or the government to assess whether the Fund is achieving its intended purpose.

We reached this conclusion by examining the following criteria:

- an organization should gather performance information related to its annual objectives; and
- performance information should be analysed.

To assess these criteria, we reviewed grant application data included in the Fund's information systems from April 1996 to December 1997. We also discussed the Fund's information systems and reporting with Fund officials.

What We Found

The Need To Gather Performance Information Related To Annual Objectives

Performance information related to results-based, measurable objectives and performance targets enables management to measure, evaluate and manage performance.

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We found that Fund management have recently made significant strides in developing an information system data base. However, the data base accumulates information that is limited to input and output data.

For example:

- **input** data, such as the number of project applications received, key contact people, the assessing department, key dates for document tracking and a description of each project; and
- **output** data, such as the number and dollar value of projects approved, declined, deferred, or referred.

While this is valuable information, it is not sufficient to enable management to assess whether the Fund is achieving its intended purpose. As discussed previously, annual objectives that are results-oriented and measurable are not in place. Such objectives determine what measures would constitute useful performance information. As a result, the information system cannot be designed to capture sufficient and appropriate performance information.

Performance Information Should Be Analysed

Appropriate analysis and summary reporting of performance information would enable Fund management to demonstrate that Fund resources have been effectively managed.

We found that Fund officials do prepare periodic reports such as grant expenditure commitment reports for the Committee and grant expenditure reports that provide information on the total grant expenditures and numbers of grants received and approved by provincial riding. However, we also found that Fund officials generally do not analyse or summarize data gathered in the data base.

We identified an opportunity to make better use of this data.

We analysed the Fund's 1996/97 grants information in the database and summarized key input and output information by the eleven key areas funded. The results of our analysis as outlined in Tables 2 and 4, illustrates that useful information by grant type could be obtained from the Fund systems if minor enhancements were made to the data base. We were told that Fund management is reviewing its current information collection and reporting processes with the intention of improving its results information.

We recommend that Fund management explore opportunities to make greater use of their database analysis capabilities.

5. IS INFORMATION ABOUT THE FUND ADEQUATELY AND EQUITABLY MADE AVAILABLE TO THE PUBLIC?

What We Concluded

We concluded that Fund management's communication techniques are adequate and equitable regarding the availability of information about the program to the public.

What We Found

Reasonable Access To The Fund

All potential applicants have reasonable access to the Fund. To help ensure that potential applicants are aware of the Fund, Fund management uses a number of communication methods:

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- a wide distribution network of departmental offices that provide information about the Fund;
- a large number of major government grant directories such as Culture, Heritage and Citizenship, Government of Canada, and Department of Natural Resources, that provide information about the Fund; and
- a web site home page that provides information regarding the application process and Fund activities.

6. IS SUFFICIENT, APPROPRIATE AND TIMELY PROGRAM PLANNING AND PERFORMANCE INFORMATION PROVIDED TO THE LEGISLATIVE ASSEMBLY?

What We Concluded

We concluded that while the Fund's estimate supplement and annual report were provided on a timely basis to the Legislative Assembly, the Legislative Assembly should be better informed about the Fund's plans and its performance in relation to its plans. We acknowledge that Fund management's ability to adequately inform the Legislative Assembly is dependent on improvements to planning processes and to information systems as discussed earlier.

We reached this conclusion by examining the following criteria:

- the organization would prepare results-based planning and performance information reports; and
- planning and performance information reports would be provided to the Legislative Assembly on a timely basis.

To assess the criteria we examined the Fund's:

- 1997/98 estimates supplement; and
- 1996/97 annual report.

What We Found

The Need For Results-Based Planning And Performance Information Reports

Appropriately prepared results-based planning and performance information reports would provide a description of what the organization is all about, what it plans to achieve and what it has achieved in relations to its plans.

Without sufficient and appropriate planning and performance information, the Members of the Legislative Assembly and the public are unable to:

- assess and debate the Fund's resource allocation plans;
- review and assess the Fund's performance in relation to its plans; and
- assess the Fund's contribution to the Province's sustainable development objectives.

As a result of limitations in the Fund's current planning processes and in the adequacy of information gathered as discussed earlier, much of the above noted information is not available.

Not surprisingly, therefore, we observed that the Fund's 1997/98 estimates supplement only provided information on its mandate, legislative authorities and the total estimated grants on a comparative basis. The Fund's 1996/97 annual report only provided information on its:

- objectives, eligibility guidelines and funding processes;

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- current year actual expenditures by department; and
- the total actual expenditures for the last 5 years.

In addition, the annual report provided information on each funded project such as the amount funded, a description of the project and the name of the recipient.

However, this information does not adequately inform Members of the Legislative Assembly on the Fund's planned achievements and the actual results compared to its plans. As a result, the Members of the Legislative Assembly are unable to effectively assess and debate the merits of Fund's resource allocations plans and what it hopes to achieve, nor can the Members effectively evaluate the Fund's performance against its plans.

We encourage management to improve the nature of information provided to the Legislative Assembly as the Fund improves its planning process and the nature of performance information gathered.

The Need For Providing Planning And Performance Information Reports On A Timely Basis

For planning and performance information to be relevant, it should be presented to the Legislative Assembly on a timely basis. We consider timely to be:

- the estimates supplement within a week of the Fund's detailed estimates review in the Legislative Assembly; and
- the annual report within six months of the Fund's year end.

We observed that Fund management provided the Fund's reports to the Legislative Assembly on a

timely basis. The 1997/98 estimates supplement was provided to the Legislative Assembly approximately ten days prior to the review of the Fund's 1997/98 expenditure estimates. The Fund's 1996/97 annual report was provided on an inter-sessional basis to the Clerk of the Assembly for distribution to the Members in September 1997.

Other Matter

The Need For Full Program Costing Reports

We concluded that while the Fund reports on the dollar value of grants issued, it does not reflect and report on the full cost of its operations.

Full program costing would allow Fund management to identify, evaluate and report on the costs of administering the Fund. This would assist in the proper management of the Fund's resources and permit the Members of the Legislative Assembly to understand the impact of the Fund's programs.

We observed that all operating costs related to the Fund are not identified and reported. Operating costs would include costs such as staff salaries and benefits, office accommodation, utilities and office supplies. The Fund only records and reports on its grant expenditures. No information is recorded and reported on the salaries and other costs incurred by The Sustainable Development Fund, the Sustainable Development Coordination Unit or the departments involved in the assessment, payment and monitoring of the Fund's grants.

Currently, all of the Fund's operating costs are absorbed by the Sustainable Development Coordination Unit of the Department of Natural Resources and by the departments involved in the assessment, payment and monitoring of the Fund's grants.

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As a result, Fund management, the Members of the Legislative Assembly and the public are not aware of the costs of administering the Fund.

We recommend Fund management develop a process for gathering the necessary information to be able to report on the full cost of operating the Fund.

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DEPARTMENTAL RESPONSE

The announcement of the Provincial Auditor in January, 1997, of the intention to conduct the second audit of the Sustainable Development Innovations Fund (the Fund) since 1993 provides an excellent opportunity for objective assessment of the effectiveness of the Fund in providing Manitobans with equitable and efficient access and service. We have had the opportunity of sharing the draft report with the Clerk of the Executive Council and the Deputy Ministers of Natural Resources and Environment, and can assure of their interest in studying your recommendations and providing guidance to the Sustainable Development Coordination Unit (Unit) in our response to your audit findings.

The Government is committed to providing quality service, equality of access and accountability for its actions with regard to the Fund, and this audit provides useful advice in this regard.

The staff of the Unit who are charged with the responsibility of administering the Fund and providing client service commend the officials of the Auditor's Office for their professionalism in conducting themselves in a forthright and cooperative manner throughout all stages of the audit.

In the 1993 audit of the Fund, several recommendations were made regarding clear articulation of Fund policies and procedures and more stringent record-keeping and follow-up scrutiny of files and grant monies. The audit also called for more comprehensive reporting on Fund activities to Manitobans through the Legislature. The Unit is pleased to note the general satisfaction of the Auditor in reviewing the measures taken by the Unit to implement the 1993 audit recommendations.

The 1998 audit makes several useful recommendations regarding need for articulation of defined and measurable program objectives which can then be evaluated for assessment of their effectiveness. Such recommendations are consistent with provincial policies with respect to corporate planning and measurement of performance and the Unit accepts these audit findings as instructive as to how Fund outcome planning should continue to be developed and more clearly articulated. Specifically, recommendations dealing with annual program area allocations and policy area priority identification will be of assistance to both Fund administrators and Fund clients in their formulation of reasonable expectations of outcomes of project application reviews.

It must be noted, however, in light of the audit findings regarding definitions and criteria that "sustainable development" is described in Manitoba's Sustainable Development Strategy as "a general philosophy, ethic and approach to guide individual and collective behaviour..." and as such, will always defy precise and universal definition in an abstract manner that will be of complete satisfaction to all. By its very essence as a philosophy and guiding ethic, some element of subjectivity or relativity to particular circumstances will always be present in policy discussions and Fund applications based upon subject matter pertaining to sustainable development.

Audit recommendations regarding application assessment and approval processes are helpful in that significant improvements in the area of information collection and uniformity of process since the 1993 audit are noted and direction is given to ensure this information and process is used in an objective and measurable manner.

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The use of Sustainable Development guidelines and assessment criteria is one of the matters that is being addressed by interdepartmental work to implement administration of The Sustainable Development Act. Familiarity and application of principles to departmental objectives and achieved through this effort will enhance Fund application assessment. In our efforts to continually improve our interdepartmental assessment of Fund applications, it is noted that the recommendations of the audit speak to the transparency and integrity of our assessment process rather than necessarily improving the outcome of the process. Implicit in this, however, is the obvious implication that a better process of application assessment can only enhance the outcome.

Specifically, those recommendations calling for more objective and clearly defined interdepartmental methodology and criteria for assessment will be closely examined. Caution will be taken in addressing those matters of the Fund management providing initial assessment of projects and effectively acting as an arbiter of opinion when conflicting departmental assessments are provided, as this could risk biasing the review process and taking valuable information out of the hands of the Committee of Cabinet who often benefit from the multi-disciplinary technical review provided by the various departments.

The recommendations dealing with acceptance of Fund applications, periodic application deadlines, and the rejection of some applications at the staff level based upon Fund criteria compliance, are all useful in potentially enhancing efficiency of staff and Committee use of time and also may provide more predictability of timeliness. The same matters also raise concerns of Fund client access and as such, will be considered very carefully prior to referral to the selection committee for consideration. Caution

will be used in considering the "once a year" application opportunities for designated program areas. Due to the diversity of Fund applicants, any such restricted application opportunities could effectively deny some citizens or groups access to the Fund. As many of our applicants are volunteer-based, their planning horizons vary widely and occasionally fall into the "last minute" category. Such applications are often not able to be accommodated; however, some worthy projects have been processed on this basis and any obstacle to this type of access would detract from the equality of access citizens currently enjoy.

As the Government is committed to ensuring easy and equitable access to the Fund for all Manitobans, we are pleased to note the audit finding that existing Fund communication and access measures are "adequate and equitable". The Fund will continue to provide this level of quality and equal service to all Manitobans and will give careful consideration to all recommendations in this audit report.

In conclusion, the Fund management very much believes that support should not be provided on a competitive basis, as suggested, but more importantly the awards should focus on worthwhile initiatives.

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EXHIBIT 1

**FOLLOW UP OF RECOMMENDATIONS
FROM REPORT TO THE LEGISLATIVE ASSEMBLY
FOR THE FISCAL YEAR ENDED MARCH 31, 1993
SUSTAINABLE DEVELOPMENT INNOVATIONS FUND AND
ENVIRONMENTAL PROTECTION TAXES**

RECOMMENDATION	ACTION TAKEN
<p>Documentation of Grant Funding Policies and Procedures: Recommend that the Fund document the policies and procedure for assessing, approving, disbursing and monitoring grant funding in a manual. This manual should be distributed to all departments paying the grants. Finally, the Fund should update the manual on a regular basis and communicate changes to the departments.</p>	<p>Fund management documented policies and procedures for assessment, approval, disbursement and monitoring of projects in a manual. The policies and procedures were updated in a revised draft manual in Oct/97. These revisions were discussed with departmental officials but have not been finalized pending completion of our audit of the Fund. - Recommendations fully implemented.</p>
<p>Monitoring of Grants: Recommend that departments: - document the monitoring done; - formally communicate the terms of the grants in the grant approval letters to the recipients; - monitor the receipt of the final activity and financial reports; and - review grant recipients' audited financial statements or invoices on a predetermined basis.</p>	<p>Department officials indicate that they do monitor grants for receipt of reports from grant recipients. In addition, hold back provisions are also communicated in grant approval letters. - Recommendations fully implemented.</p>
<p>Control Over Applications Received: Recommend that the Fund document applications received on a schedule or log. This schedule should include: - a description of the proposed project; - when it was received; - where it is sent for evaluation; - when it was sent to the Committee for a decision; - the decision reached; and - the date of the decision.</p>	<p>The Fund established a computerized data base for all grant applications that includes the recommended elements. - Recommendations fully implemented.</p>
<p>Interpretation of the Legislative Requirements: Recommend that the Fund have their legal counsel review this section of the Environment Act and to determine if orders-in-council are required for payments from the Fund to the departments for reimbursement of expenditures. If orders-in-council are required, the department should start preparing them. It may be sufficient to include the Fund's appropriation number on the orders-in-council for the initial payment by the departments. Also, the Fund would probably need to prepare an order-in-council for the total of the payments previously issued from the Fund.</p>	<p>Orders-in-council are now prepared for all grants as required by legislation. - Recommendation fully implemented.</p>

SUSTAINABLE DEVELOPMENT INNOVATIONS FUND

RECOMMENDATION	ACTION TAKEN
<p>Applications for Grants: Recommend that the Fund have their legal counsel review this section of The Environment Act to determine if there is a requirement for a regulation.</p>	<p>The acting Executive Director concluded there was no need for development of a regulation under The Environment Act as the new Sustainable Development Act makes provision for the development of regulations. The Sustainable Development Act has been passed but not yet proclaimed.</p> <ul style="list-style-type: none"> - Matter considered resolved, pending proclamation of The Sustainable Development Act.
<p>Central Responsibility for the Environmental Protection Taxes Recommend that the Committee assume overall responsibility for control and monitoring of the various sources of the environmental protection taxes. The Committee's responsibilities should include:</p> <ul style="list-style-type: none"> - preliminary approval of all new environmental protection taxes and their linkages to the Fund. Cabinet and Treasury Board have final approval; - ensuring that the specific notional linkages between environmental protection taxes collected and the payments from the Fund are maintained; and - receiving and reviewing regular reports on the taxes collected to ensure that the taxes collected are accounted for and are consistent with the payment from the Fund. <p>The responsibility for ensuring the adequacy of the detailed system for calculating, collecting, remitting and recording of each tax should remain with the individual departments and agencies.</p>	<p>The acting Executive Director advised that Finance and Treasury Board continue to handle the review of the taxes. He did not believe there was a need for the Committee to also perform the same review.</p> <ul style="list-style-type: none"> - Recommendation considered by management. Further follow up not considered necessary.
<p>Central Responsibility for the Environmental Protection Taxes: Recommend that the beverage container fees be recorded with the other environmental protection taxes in the Consolidated Fund.</p>	<p>Beverage container fees are now recorded with other environmental protection taxes</p> <ul style="list-style-type: none"> - Recommendation fully implemented.
<p>Enforcement of the Beverage Container and Packaging Regulation: Recommend that the department develop an enforcement policy for the Beverage Container and Packaging Regulation.</p>	<p>Environment officials advised the Act was revised to assist in enforcement. In addition, all outstanding fees have now been collected.</p> <ul style="list-style-type: none"> - Recommendation fully implemented.
<p>Determining the Taxes Applicable to Disposable Diaper and Tires: Recommend that the tire taxes be separately reported as soon as practical.</p>	<p>Finance Taxation officials advised the forms were revised effective April 1, 1995 and that now the tire tax is reported separately.</p> <ul style="list-style-type: none"> - Recommendation fully implemented.
<p>Determining the Taxes Applicable to Disposable Diaper and Tires: Also recommend that the Department of Finance review the estimate of the diaper tax revenue on an annual basis.</p>	<p>Finance Taxation officials advised that the estimate of diaper tax revenue was performed a few years ago.</p> <ul style="list-style-type: none"> - Not considered significant - further follow up not considered necessary.

SUSTAINABLE DEVELOPMENT INNOVATIONS FUND

RECOMMENDATION	ACTION TAKEN
<p>Annual Report and Expenditure Estimates Supplement: Recommend that the Fund prepare an annual report and an expenditure estimates supplement. The Department of Finance has guidelines for preparation of these documents. The annual report would include information on both the expenditures and the environmental protection taxes.</p>	<p>The Fund is now preparing an annual Estimates Supplement and Annual Report as set out in the Department of Finance guidelines. - Recommendations fully implemented.</p>

Year 2000, A Challenge for Government Computing

An Update to June, 1998



YEAR 2000, A CHALLENGE FOR GOVERNMENT COMPUTING
An Update To June 1998

In our Autumn 1997 Report to the Legislative Assembly, we reported the results of a survey of 71 government organizations with respect to the Year 2000 computing issue. The purpose of the survey was to help us assess whether these organizations were undertaking appropriate efforts to ensure that their information systems will be able to process date values beyond 1999.

The results of the survey gave us concern that several government organizations were not progressing as fast as they should. We recommended that the governing body of each organization take proactive steps to ensure that management is responding on an urgent basis to the Year 2000 computing issue.

Because of the pervasiveness of this issue and the large number of systems involved, it is not practical for my Office to conduct an audit for the purpose of providing assurance as to whether the government organizations will be Year 2000 compliant. However, we have taken a number of steps to keep ourselves apprised of the processes being used to achieve Year 2000 compliancy and the progress being made.

We have written to the Chairs and CEOs of every Crown agency in the Government Reporting Entity. We provided them with a copy of the publication, "Guidance for Directors- The Millennium Bug", issued by the Canadian Institute of Chartered Accountants. We advised the Chairs that we would be using this document as a checklist to assess management's plans to become Year 2000 compliant and to assess the disclosure that will be appropriate in their organization's financial statements. For those organizations with government appointed auditors, we plan to meet with the auditors to review their assessment of Year 2000 issues.

We conducted an audit of the Better Methods Initiative. This is a major initiative to implement a

new information system for government accounting and transaction processing. The initiative is also intended to resolve a number of Year 2000 issues in existing systems. Part of the scope of our audit was to assess the risks of this project not effectively resolving Year 2000 issues. We concluded that the project, while high risk, is being effectively managed to meet its time lines. The results of this work are reported in the chapter entitled, "Better Methods Initiative".

In June, 1998, we met with the Chief Information Officer (CIO) for the Manitoba government and the Project Director of the Year 2000 Project for government departments to review the processes in place and progress to date. Some of the key processes that we were advised of include:

- an assessment has been made of all known systems to determine:
 - whether they are Year 2000 compliant;
 - the effort required to make them Year 2000 compliant; and
 - the risks to government and citizens if the system is not made Year 2000 compliant.
- all departments are actively involved in the actual conversion phase with several departments already indicating compliancy.
- all departments provide the Project Director with monthly status reports on their progress against the plan.
- the Project Director follows up with any department which has significant deviations from the plan and corrective actions are identified.

We plan to meet regularly with the CIO and Project Director to review progress against plans.

The table below shows the status of the Year 2000

**YEAR 2000, A CHALLENGE FOR GOVERNMENT COMPUTING
An Update To June 1998**

Project for government departments as of April 1, 1998. We intend to provide an update of this status report in each of our upcoming reports to the Legislative Assembly as it provides a useful overview of the initiative.

We did not conduct an audit of these processes and therefore cannot express an opinion on the effectiveness with which they are being implemented. However, the information provided to us indicates that appropriate steps are being taken to mitigate the risks, including timing, associated with the Year 2000 issue. In an endeavour as complex as this there are, however, no guarantees. We will continue to monitor progress on this issue and update the legislative assembly regularly.

Year 2000 Project Status - Government Departments as of April 1, 1998				
	Total	Compliant	Remaining Applications	% of Effort Completed on Remaining Applications
Number of applications without which service delivery would fail	78	22	56	41%
Number of applications without which service delivery would be seriously impaired	165	45	120	27%
Number of applications required for service delivery that could be duplicated with a manual process	339	199	140	10%
Number of applications that do not directly impact day-to-day business and the absence of which would not cause a disruption in service delivery	34	19	15	21%
Total	616	285	331	

Note: Modified from a Province of Manitoba Year 2000 Project Status Report dated June 4, 1998.

The report consolidates systems that are to be replaced by the major projects with those that are currently being refurbished by the various departments. The "% of effort completed" to date column reflects the effort expended to date on those applications not yet compliant only, and is not reflective of where the project is, as a whole.

Follow-Up of Previously Issued Audit Recommendations



FOLLOW-UP OF PREVIOUSLY ISSUED AUDIT RECOMMENDATIONS

REPORT OVERVIEW**INTRODUCTION**

It has long been the tradition of this Office to include in our reports recommendations to help management deal with issues reported. In addition, we believe it is important that the Members of the Legislative Assembly be advised of management's perspective on the recommendations made, specifically whether they agree with the recommendations, and what actions they have taken or plan to take to resolve the reported issues. As a result, our reports also include a departmental response.

Our recommendations deal with issues that we believe are of significance to the Members. As a result we believe that it is important that members be apprised of the progress made in resolving the reported issues. For this reason we periodically follow-up on recommendations made.

Prior to 1993, audit recommendations were followed up annually. However, this process did not always provide management with sufficient time to appropriately deal with the identified issues. As a result, we chose to follow-up on our recommendations on a less frequent basis. This report is the first since 1992 in which the Members are informed of the progress management, in select entities, has made in addressing the identified issues.

REVIEW OBJECTIVE

Our objective is to provide information to the Members of the Legislative Assembly on the progress departments have made in implementing our recommendations.

REVIEW APPROACH

We believe that management is in the best position to inform the Legislative Assembly of their actions in dealing with our recommendations. As a result, beginning with this report, we have asked management to prepare brief progress reports on the status of their implementation efforts. We have reproduced these progress reports herein and provide our comments regarding the fairness of the contents of the reports. To ensure management's comments can be clearly distinguished from our comments, they have been printed in italics.

FOLLOW-UP OF PREVIOUSLY ISSUED AUDIT RECOMMENDATIONS

SCOPE

In this Chapter we focus on the efforts of four departments in addressing the recommendations made after 1992. Also, in a separate Chapter of this Report, we update the progress made by the Sustainable Development Innovations Fund in addressing the recommendations we made in our 1993 Report on the Fund. To complete our update process, in a forthcoming report, we will discuss the efforts of a further five departments in addressing our recommendations as well as following up on our ministry-wide audit recommendations.

IMPORTANT NOTICE

It is important to note that our review of management progress reports does not constitute an audit. The nature and extent of our review procedures are only designed to determine whether management's comments are fairly stated. An audit would require testing to determine whether the noted issue has been satisfactorily resolved. Consequently, we do not express an audit opinion on the information contained in the progress reports.

REVIEW COMMENTS

We reviewed the information provided by the following departments regarding their progress in implementing the recommendations included in the noted value-for-money audit reports, to assess whether the information is fairly stated in all significant respects:

- Department of Family Services (1994/95 - Volume 1)
 - Winnipeg Child and Family Services
- Department of Finance (1993 Report)
 - Financial and Management Information Systems
 - Central Management Information Technology
 - Untendered Contracts
 - Insurance and Risk Management Branch
- Department of Health (1993 Report and 1994/95 - Volume 3)
 - Pharmacare Program
 - Department of Health and the Manitoba Health Services Insurance Plan
- Department of Rural Development (1993 Report and 1996 Special Audit Report)
 - Decentralization Initiative
 - Special Audit of Woodstone Foods Corporation Grow Bonds

FOLLOW-UP OF PREVIOUSLY ISSUED AUDIT RECOMMENDATIONS

We carried out the review during March and April 1998. The review was made in accordance with standards for assurance engagements established by the Canadian Institute of Chartered Accountants, and accordingly consisted primarily of enquiry, document review and discussion.

We considered the information to be fairly stated if :

- all aspects of the recommendations were discussed;
- all statements of fact were appropriately supported;
- all significant and relevant facts or issues were included in the progress reports;
and
- evaluative comments were consistent with the factual statements.

Based on our review, nothing has come to our attention to cause us to believe that the departments' progress reports do not present fairly, in all significant respects, the progress made in implementing the recommendations included in our value-for-money audit reports.

FOLLOW-UP OF PREVIOUSLY ISSUED AUDIT RECOMMENDATIONS

DEPARTMENT OF FAMILY SERVICES**Winnipeg Child And Family Services****SUMMARY OF THE ORIGINAL AUDIT REPORT****Background**

On June 25, 1991, the government of the province of Manitoba initiated a consolidation of Winnipeg's six child and family service agencies. Under this restructuring, the responsibilities of the six separate agencies were transferred to a single agency: Winnipeg Child and Family Services (WCFS), incorporated under the Child and Family Services Act.

WCFS is a duly established child and family services agency mandated to provide services to children and families. The Agency is governed by a 13 member board; 9 directors are appointed by the government by order-in-council (the appointed directors) and four directors are elected by the residents in each of the service areas (the elected directors). Funding is provided by the government and services are performed by the Agency in accordance with a service and funding agreement.

In June 1994, we reported on our audit of the Winnipeg Child and Family Services.

Audit Purpose

We conducted this audit to assess the effectiveness of management practices in the following areas:

- Management Direction - the extent to which the objectives of an organization are clear, well-integrated and understood, and appropriately reflected in the organization's

plans, structures, delegation of authority and decision-making processes.

- Achievement of Intended Results - the extent to which the organization's goals and objectives have been realized.
- Monitoring and Reporting - the extent to which the key matters pertaining to performance and organizational strength are identified, reported and carefully monitored.

We compared WCFS's management practices with the effectiveness attributes developed by the Canadian Comprehensive Auditing Foundation (CCAF). CCAF is a national, non-profit foundation created to help strengthen management, accountability and audit in the public sector. Its work concentrates on the ways in which public sector managers can ensure that good value-for-money is obtained from their administrative practices and the manner in which they report their accountability for achieving economy, efficiency and effectiveness. CCAF has developed a framework to measure effectiveness in the public sector. This framework has gained considerable acceptance throughout the public sector in Canada.

Overall Conclusion

We concluded that WCFS's management practices needed to be improved and we identified several opportunities for strengthening management practices:

- In regards to management direction, the Agency should develop objectives, priorities and key results statements that embrace the mission and values statement to ensure that everyone understands what they are meant to be doing.

FOLLOW-UP OF PREVIOUSLY ISSUED AUDIT RECOMMENDATIONS

- In regards to achievement of intended results, the Agency should develop meaningful outcome measurements so that it can measure performance to ensure that everyone understands what succeeded, what failed, and how challenging were the goals.
- In regards to monitoring and reporting, the Agency should complete the implementation of its management information system to provide the information necessary to support the Agency's decisions and accountability requirements.

Audit Action Plan. As a result, this process was concluded as of March 31, 1996.

Since the conclusion of the process, the Agency hired a new Chief Executive Officer in August 1997. The new Chief Executive Officer is currently working on some of the outstanding issues identified in the Provincial Auditor's Report. With the successful completion of those activities, the Agency will have addressed the majority of issues identified by the Provincial Auditor's Office.

**DEPARTMENT OF FAMILY SERVICES -
PROGRESS REPORT**
General Comments

The Provincial Auditor's Report to the Legislative Assembly for the year ended March 31, 1994 included a detailed review of the operations of Winnipeg Child and Family Services. The conclusions of this review embodied a number of concerns and recommendations for improvement in the Agency's management and operations. In response to the Report, the Child and Family Support Branch and Winnipeg Child and Family Services jointly agreed to the development of a Management Audit Action Plan. The Management Audit Action Plan identified the Provincial Auditor's Concern, the Action Plan, the Status of Activities, the Completion Date, and the Date Completed. Representatives met on a regular basis to discuss the status of activities and to update the quarterly report provided to the Provincial Auditor's Office.

After proceeding with this activity for an extended period of time, the Child and Family Support Branch concluded that Winnipeg Child and Family Services had sufficiently completed a number of activities identified in the Management

**Management Direction - Establishing
Objectives, Priorities And Key Results
Statements**

We recommended that WCFS develop specific objectives, priorities and key results statements that embrace the Agency's established mission and values. We also recommended that, in order to promote consistency throughout the Agency, the objectives, priorities and key results statements be formally communicated to staff through staff job descriptions and the development of a policy and procedures manual.

In response to the Auditor's report, the Agency committed to consider the re-articulation of the Agency's guiding principles and the development of specific objectives and key results as part of a strategic planning process tentatively scheduled for the fall of 1994. As part of the joint Management Audit Action Plan, the Department and Agency identified the following activities that would address the Provincial Auditor's concern:

FOLLOW-UP OF PREVIOUSLY ISSUED AUDIT RECOMMENDATIONS

- *Strategic Plan*
- *Mission Statement and Guiding Principles*
- *Joint Management Union Committee Review*
- *Executive Job Descriptions*
- *Human Resources Policy Manual*
- *Financial Reporting System*
- *Competency-Based Training*
- *Operational Review*

The Agency made a decision to defer this activity. The new Chief Executive Officer recently initiated a strategic planning process that along with an organizational renewal process will be completed by January 1999.

The Agency's mission statement and guiding principles were forwarded to the Child and Family Support Branch in June 1995. These statements could change through the strategic planning process.

The Joint Management Union Committee Review completed its evaluation of all job descriptions for line functions, and submitted the job descriptions to the Child and Family Support Branch in June 1995.

The Agency received a draft report from Deloitte and Touche regarding executive job descriptions and the succession plan for the Executive Director. This activity was never completed as part of the Management Audit Action Plan. It is anticipated that the Agency's organization renewal process will result in changes to the executive structure and perhaps the development of executive job descriptions.

The Agency completed a Human Resources Policy Manual in the latter stages of 1995. The manual was viewed on site by the Child and Family Support Branch in December 1995.

The Agency implemented a new Financial Reporting System on April 1, 1995. This system

has assisted the Agency in developing more detailed financial reports, but based on continued operating deficits, it is difficult to comment on how effectively results have been monitored.

The Agency has made an ongoing commitment to the Competency-Based Training Model. This model consists of a curriculum specifically designed for caseworkers and supervisors that includes a vision and mission statement, and performance measures.

Due to the persistent financial difficulties of the Agency, the Department and Agency jointly agreed to commission a consultant to undertake an operational review, commencing in July 1996. The terms of reference for the review were designed to address administration/organization, service delivery and financial issues. The consultant submitted the Final Report on March 26, 1997. The recommendations contained in the report reflect some of the same concerns identified by the Provincial Auditor's Office, as well as other issues. This report is being used by the Department and Agency for the reform of child and family services in the City of Winnipeg. Six priority initiatives have been identified for implementation by Joint Department/Agency Working Groups.

Management Direction - Budget Process

We recommended that WCFS strengthen the budget process to respond to the funding levels in a more constructive manner and on a more timely basis.

The Provincial Auditor's Office identified the budget process for the Agency needs to be improved. In addressing this concern, the Department acknowledged that it is difficult for

FOLLOW-UP OF PREVIOUSLY ISSUED AUDIT RECOMMENDATIONS

the Agency to adjust spending patterns due to delayed notification of approved funding levels. A number of activities were identified to improve this process, however, success has been limited.

The implementation of the Financial Reporting System on April 1, 1995 has assisted with the reporting of financial information, but requires further refinement. It is anticipated that improvements will occur in 1998/99 with the implementation of a Consultative Budgeting Process.

Although the Consultative Budgeting Process was not completed as part of the Management Audit Action Plan, the Department and Agency jointly worked on the 1998/99 budget, a priority initiative identified from the Operational Review. The 1998/99 budget was agreed to by both parties and 1998/99 funding was approved accordingly. It is anticipated that this process will be continued in the future.

The development of a Service Purchase Agreement continues to be an outstanding activity. The Department and Agency have initiated discussions regarding the negotiation of a Service Purchase Agreement on several occasions, but this activity has always been deferred due to emerging issues. As it now stands, this activity has been deferred until the agency completes its organizational renewal process, expected by January 1999.

While a Service Purchase Agreement has not been established, the Agency is providing the Department with financial reports as required by the Department's "Agency Reporting Requirements". It is anticipated that reporting requirements would be modified to reflect outcomes in a Service Purchase Agreement.

Strategic Planning

We recommended that WCFS adopt a formal strategic plan.

As reflected in the Management Audit Action Plan, the Agency had started a strategic planning process, but due to the fiscal crisis, it was deferred. Accordingly, this activity was not completed as of March 31, 1996.

The new Chief Executive Officer of the Agency initiated a strategic planning and organizational renewal process in January 1998. To commence with this process, the Agency secured the services of a facilitator, and also plans to conduct a retreat in the Spring of 1998. Representatives of the Child and Family Support Branch will be invited to attend the retreat. The Agency is anticipating that the strategic planning and organizational renewal process will be completed by January 1999.

Mid-term Planning

We recommended that WCFS develop a three to five year mid-term plan.

The mid-term plan was previously deferred along with the strategic planning process. The development of the mid-term plan is part of the current strategic planning process.

FOLLOW-UP OF PREVIOUSLY ISSUED AUDIT RECOMMENDATIONS

Human Resource Planning

We recommended that:

- WCFS adopt a human resource plan that is compatible with the objectives set out in the strategic plan and the financial resources included in the Agency's operating budget;
- WCFS implement an annual performance appraisal procedure for staff, the executive director complete an annual performance appraisal on the management team and the Board of Directors complete an appraisal on the executive director; and
- The Board of Directors consider a succession plan for the agency as the position of executive director is critical to the management team and the day to day operation of WCFS.

The Agency and Department identified activities to be undertaken to respond to the comments of the Provincial Auditor. The activities identified in the Management Audit Action Plan included the development of a Human Resource Plan, the commencement of performance appraisals, the establishment of a succession plan for the Chief Executive Officer, and the implementation of the Competency-Based Training program.

The Agency forwarded its Human Resource Plan to the Child and Family Support Branch in June 1995. This plan, however, was not linked to a strategic plan, as recommended by the Provincial Auditor. It is expected that the Agency will formally link these documents with the completion of a strategic planning process.

As of March 31, 1996, the Agency had not conducted performance appraisals of staff, but had indicated that it was working on an instrument to complete this task. Little progress has been made in this area since April, 1996.

The Agency had retained the services of Deloitte and Touche to work towards a succession plan for the Chief Executive Officer. This activity was not completed at the time the Management Audit Action Plan was concluded. With the retirement of the former Chief Executive Officer in 1997/98, the Agency's Board of Directors recruited a new Chief Executive Officer, who was hired in August 1997.

The Agency has made an ongoing commitment to the Competency-Based Training Model, with training for field staff beginning in October 1993. This model consists of a curriculum specifically designed for caseworkers and supervisors that includes a vision and mission statement, and performance measures.

Achievement Of Intended Results

We recommended that WCFS work towards developing and implementing meaningful outcome measurements. This will provide the Agency with the means to be able to demonstrate to its governing bodies and its stakeholders that its fundamental goals and objectives are being realized.

A number of activities were identified to address this concern:

The implementation of the Child and Family Services Information System commenced in 1990/91. This system was anticipated to assist the

FOLLOW-UP OF PREVIOUSLY ISSUED AUDIT RECOMMENDATIONS

Agency in developing meaningful performance indicators. Numerous delays in the implementation of this system were experienced. At this time while the Agency is using the system throughout it's delivery area, the need still exists to improve direct service worker access to hardware to enable further utilization. In addition, reporting capability for the system needs to be further developed. The new Integrated Case Management process will assist in this area.

The Financial Reporting System was implemented on April 1, 1995. The Agency has been able to generate more meaningful financial information with this system.

In 1994/95, the Department approved the implementation of several policy and funding initiatives designed to support a strategic shift in the delivery of child and family services in Manitoba. Along with the new policies was expanded reporting requirements that included specific outcome measures.

The Family Support Innovations Fund was one of the initiatives approved in 1994/95. The Fund supports projects which have as their objective reducing the number of children coming into care and/or their length of stay, or returning children to the care of their natural families or an alternative permanent home. The projects are required to demonstrate an impact on the Agency's day care volume, a specific outcome measure. The Agency provides the Department with quarterly reports on these projects which identify specific outcomes.

Monitoring And Reporting - Management Information System

We recommended that WCFS continue its efforts to implement an appropriate management information system that will provide the information necessary to support internal decisions and reporting requirements and enhance the Agency's annual reporting to the Public.

The Child and Family Services Information System and the Financial Reporting System are designed to provide the Agency with the capacity to facilitate decision-making processes and enhance reporting requirements. Both systems have been implemented by the Agency.

The Agency and Department had previously identified the Service Purchase Agreement as a mechanism to assist with monitoring and compliance issues. While discussions have been initiated a number of times, a successful conclusion has not been reached. As it now stands, this activity has been deferred until the Agency completes its organizational renewal process, expected by January 1999.

Monitoring And Reporting - Annual Reporting

We recommended that WCFS review the annual report guidelines to enhance the quality of its annual report.

During the Management Audit Action Plan meetings, the Agency informed the Department that the Board of Directors will determine the

FOLLOW-UP OF PREVIOUSLY ISSUED AUDIT RECOMMENDATIONS

nature of its Annual Report. The Child and Family Support Branch provided the Agency with the Department of Finance's Annual Report Guidelines. The Agency has made some modifications to its Annual Report, but has not incorporated the Department of Finance's Annual Report Guidelines.

FOLLOW-UP OF PREVIOUSLY ISSUED AUDIT RECOMMENDATIONS

DEPARTMENT OF FINANCE**Background**

For a number of years, during our annual audit of the government's Public Accounts, we have identified several issues regarding the government's Central Management System.

In December 1994, we provided an update to the Legislative Assembly on the following items of significance arising from those previous audits:

- Financial Management Information Systems
- Central Management of Information Technology
- Untendered Contracts
- Insurance and Risk Management Branch

Financial Management Information Systems

In previous reports to the Legislative Assembly we stressed the need to develop an integrated financial and management information system for the government.

A meaningful information system is critical to assist both managers and frontline employees in providing quality service to the public. Managers need to know how well their program is achieving its key objectives. Information on financial commitments compared to budget, cash flows, personnel and payroll information must all be available on a current basis. Without a meaningful information system, decisions are made either without appropriate analysis or with ad hoc analysis prepared in a time consuming manner. An effective management information system is also critical to generate the financial

information required for timely accountability reports for the Legislature.

We recommended that the government resolve this matter with a sense of urgency and devote the appropriate financial and human resources to the task.

DEPARTMENT OF FINANCE - PROGRESS REPORT

The development of an Integrated Financial and Management System for the government is being addressed by the government's Better Methods Initiative. A three phase approach has been taken for the development and implementation of the required systems:

- ***Phase 1** of the initiative was implemented during the fiscal year 1995/96. This was the identification of the business case for the replacement of the government's financial systems and processes.*
- ***Phase 2** was completed during 1996/97 fiscal year, whereby all the government's major business processes were subject to conceptual design and selection was made of the needed software.*
- ***Phase 3** is currently underway. This is the implementation of new hardware and software to drive the government's business systems and the concurrent implementation of business process re-engineering identified under Phase 2.*

Included in the business process redesign are the purchasing process, the government's financial systems, including general ledger, accounts payable and accounts receivable and asset

FOLLOW-UP OF PREVIOUSLY ISSUED AUDIT RECOMMENDATIONS

management, as well as the government's human resource information system, including payroll. All necessary financial and human resources are being dedicated to the completion of this project. Implementation of all of the new systems is scheduled to take place on or before April 1, 1999.

Central Management Information Technology

Audit Purpose

We conducted a review of the processes used by government to provide central direction over the development and management of computerized information systems.

Overall Conclusion

We concluded that the processes in place provided reasonable direction but we also identified several opportunities for improvement. Specifically, we concluded the Information Technology Strategic Plan needed to be completed and distributed as soon as possible.

We recommended that the government formally approve the Information Technology Strategic Plan and communicate it to the information technology community and to the Legislature.

DEPARTMENT OF FINANCE - PROGRESS REPORT

Several strategic changes were made in conjunction with the information technology community around the time that this

recommendation was made in the Report to the Legislative Assembly. The government communicated to all departments new Open Systems Standards to be applied to all systems activity in government. The System Guide was revised to reflect this new policy direction and distributed to all systems coordinators. In addition, a Strategic Planning Guide and a Project Management Guide were developed and distributed to departments to facilitate the orderly development and management of systems within the government. As part of the continued effort to foster a corporate approach towards systems activity, a Coordinators' Forum was developed. This consists of all departmental systems coordinators and meets regularly to discuss issues related to information technology. Also, a Provincial Security Officer was established and an Information Technology Security Strategy was developed and distributed to all departments.

Since that time, there have been other significant changes in the thrust of information systems development within the province of Manitoba. Major information technology strategies have been undertaken under the auspices of Better Methods, Better Systems and Desktop Management.

These initiatives were developed to not only address the business needs of the various areas in government but also to address the potential problems which the government might have otherwise faced related to the year 2000 issue. In addition, a committee of information technology directors has been struck specifically to deal with year 2000 compliance issues which might not be covered by the major technology initiatives listed above. Finally, a Chief Information Officer was been engaged by the government to oversee the orderly implementation of all information technology initiatives within government.

FOLLOW-UP OF PREVIOUSLY ISSUED AUDIT RECOMMENDATIONS

Untendered Contracts**Audit Purpose**

We conducted this audit to assess whether untendered contracts had been reported in compliance with the applicable Legislation.

Overall Conclusion

We concluded that the Legislation required clarification.

We recommended that the government clarify in the Financial Administration Act the term “public tender” and the reference to any department or agency for which a minister is responsible.

DEPARTMENT OF FINANCE - PROGRESS REPORT

It was indicated, at the time of the recommendation, that clarification of the contracts to be reported would have to await amendment of the Financial Administration Act.

The new Financial Administration Act, which was proclaimed effective April 1, 1997, contains revised wording covering the definition of a contract [(Section 80(1))] and clarification of its application to both the government departments and government agencies [Section 80(2)(a)].

Insurance And Risk Management Branch**Background**

In today’s society, instances of fraud or illegal acts are becoming more and more common. Environmental pressures, increased pressure on employees to do more with less, and current economic conditions are some of the reasons for the increase in fraudulent activity. With the ever increasing demand for enhanced accountability regarding public funds, there is a particular need to have an established policy in place to deal with all allegations of fraud.

In December 1993, we reported on our audit to assess the adequacy of government’s policies and procedures regarding suspected fraud and other illegal activities.

Audit Purpose

We conducted an audit to determine whether there was an appropriate policy in place regarding the managing and reporting of cases of allegations of fraud and other illegal activities committed against the Province of Manitoba.

Overall Conclusion

We concluded that the Province needs to develop a comprehensive risk management policy with regards to fraud.

FOLLOW-UP OF PREVIOUSLY ISSUED AUDIT RECOMMENDATIONS

We recommended that a policy be established defining procedures to be followed in cases of suspected fraud and other illegal activities. We also recommended this policy be communicated to all departments, boards, agencies and commissions through the Province's Financial Administration Manual.

DEPARTMENT OF FINANCE - PROGRESS REPORT

The recommendation has been implemented. The Insurance and Risk Management Branch developed a government wide policy establishing financial and administrative procedures and practices regarding the investigation and reporting of all incidents of suspected fraud and other illegal activities.

The policy sets out minimum measures all Manitoba government entities should take to minimize the risks of fraudulent activity and provides procedures to be followed whenever a loss occurs due to a fraudulent act. The policy also provides a standardized reporting format whereby each instance is reported on an incident report and all instances are summarized annually on a summary report to The Insurance and Risk Management Branch.

The policy, The Fraud Prevention and Reporting policy, was approved by Treasury Board in 1995 and issued as a new policy in the Financial Administration Manual in January 1996.

FOLLOW-UP OF PREVIOUSLY ISSUED AUDIT RECOMMENDATIONS

DEPARTMENT OF HEALTH

We included in our 1993 and 1994/95 Volume 3 Reports to the Legislative Assembly certain audit recommendations relating to the Pharmacare Program:

- Pharmacare Program
- Accountability Reporting
- Manitoba Health Services Insurance Plan
- Hospital Inspections

Pharmacare Program

For a number of years we had been reporting to management about our concern that Pharmacare staff did not carry out an effective check to ensure that the prices charged for formulary drugs were correct. Under the Pharmacare Program the prices charged for formulary drugs, should be in accordance with the prices set by legislation. Management had indicated to us that their plans included a Drug Program Information Network (DPIN) which, when implemented, would address our concern.

DEPARTMENT OF HEALTH - PROGRESS REPORT

We recommended that the Pharmacare claims processing system be reviewed to determine the most appropriate method to improve controls in this area.

The Department has addressed this recommendation by implementing the Drug

Programs Information Network (DPIN) and by amending its legislation.

Implemented on July 18, 1994, the DPIN allowed Manitoba Health to monitor all drug costs for appropriate pricing. The DPIN only allows the price set by Manitoba Health for a specified drug to be paid to the pharmacist. If a pharmacist submits to Pharmacare a drug price that is more than the price approved by Manitoba Health, the DPIN system will automatically use the approved price.

Effective April 1, 1996 The Prescription Drugs Payment of Benefits Regulation was amended so that the DPIN ensures that Pharmacare pays the lowest prices for drugs listed on the interchangeable formulary. Formulary drugs are all the drugs that have been approved as eligible benefits under the Pharmacare program. The Pharmaceutical Act defines an interchangeable product as one that (a) contains a drug or drugs in the same or similar amounts of the same or similar active ingredients in the same or similar dosage form as another product, or (b) is designated in the formulary as interchangeable with that other product directed by the prescription. The DPIN allows only for the lowest generic drug prices, even if the doctor indicated a "do not substitute" instruction on a prescription. Additionally, the DPIN does not allow a pharmacist to charge more than the prices approved by Manitoba Health for interchangeable formulary drugs.

The DPIN also ensures that the drugs listed on the formulary that are not interchangeable, are regulated by placing a maximum cost, which is usually the wholesale drug price plus a percentage upcharge, on the DPIN drug price database.

FOLLOW-UP OF PREVIOUSLY ISSUED AUDIT RECOMMENDATIONS

Accountability Reporting

We noted a concern about the Department's accountability reporting. In May 1992, the Minister of Health introduced "Quality Health for Manitobans - The Action Plan" which set out the vision, the foundations, and the major elements of the actions being taken to implement the strategy to assure the future of Manitoba's health services system. The Minister welcomed readers' comments and suggestions and asked for advice and support in the implementation of the Action Plan. The Action Plan is a major directional planning document for the future of the health services system, and of interest to many stakeholders. The Minister reinforced the Action Plan's importance in his preface to the 1994/95 Supplementary Information for Legislative Review. He stated "The 1994/95 Printed Main Estimates continues to reflect the implementation of "Quality Health for Manitobans - The Action Plan". The Action Plan is organized into three parts and is to be addressed over a number of years.

However, as of 1995, almost three years had passed since the Action Plan was introduced and stakeholders did not have a report on the status and results of the implementation of the strategies.

DEPARTMENT OF HEALTH - PROGRESS REPORT

We recommended that the Department should establish an appropriate reporting time frame to provide Members of the Legislative Assembly with a report on the status and results of the implementation of "Quality Health For Manitobans - The Action Plan".

The Department has fully implemented this recommendation. A report on the status and results of "The Action Plan" was prepared and included in the Department's 1994/95 Annual Report. This Report detailed the progress achieved and projected plans in the implementation process.

Manitoba Health Services Insurance Plan

The accounting records for the Manitoba Health Services Insurance Plan are produced from information processed through several information technology (IT) systems, including the medical claims system, facility payment system, Pharmacare claims system and prosthetic and orthotic claims system. These systems process payments and other transactions which are automatically entered into the general ledger system. The facility payment system processes about \$1.2 billion per year and the medical claims system processes about \$250 million per year. The general ledger is used to prepare financial reports for management and the Plan's annual financial statements.

Reconciling the records generated by the IT systems to the general ledger is a critical control procedure. During our financial statement audit of the Plan for the year ended March 31, 1994, we had identified certain reconciliations which were not completed on a timely basis or reviewed by senior management. We also had noted that some variances were not followed up and that supporting documentation for some variance explanations was not retained.

FOLLOW-UP OF PREVIOUSLY ISSUED AUDIT RECOMMENDATIONS

We recommended that the Department take action to ensure that the records generated by the IT systems are reconciled to the general ledger on a timely basis. We also recommended that these reconciliations be reviewed and approved by management.

DEPARTMENT OF HEALTH - PROGRESS REPORT

The Department has fully implemented this recommendation. The Department reconciles the information entered in the general ledger to the information processed through the IT systems. The Department also maintains a control list of all reconciliations completed. This control list is reviewed and approved by a senior staff person on a monthly basis.

Hospital Inspections

In our audit observation report for the fiscal year ended March 31, 1989 we reported to management that hospital inspections as directed by section 10 (1) of the Hospitals Act were not being performed by the Department. The Minister of Health is responsible for the Hospitals Act, Chapter H120 of the Continuing Consolidation of the Statutes of Manitoba. The Act directs the Minister to cause annual hospital inspections to be performed, but we found that all hospitals were not being visited annually by Department of Health inspectors or consultants. In 1991 we were advised that this matter would be addressed through the Regulatory Reform Initiative, with a March 1992 anticipated completion date.

We recommended that the Department review the need to conduct annual hospital inspections and initiate action if appropriate, or amend the legislation.

DEPARTMENT OF HEALTH - PROGRESS REPORT

The Department no longer considers the recommendation relevant because of changes in legislation that excludes all hospitals in health regions from annual hospital inspections.

The Regional Health Authorities Act (RHA Act) received Royal Assent in November, 1996. Except for part 6, the labour provisions, which came into effect on Royal Assent, the Act came into force on April 1, 1997. Included in The RHA Act was a consequential amendment to The Hospitals Act to add the following subsection after subsection 10(2):

“10(3) Subsections (1) and (2) do not apply to a hospital in a health region, which shall be inspected in accordance with the provisions of The Regional Health Authorities Act, and the regulations and any agreements under the Act.”

The RHA Act deals partially with inspections of hospitals or personal care homes located in a health region. Subsection 56(1) provides that the Minister may appoint inspectors for the purposes of the Act. The provision is enabling and does not require the Minister to appoint inspectors. Subsection 56(2) gives inspectors appointed by the Minister wide powers of inspection (e.g., to examine, audit or copy any records, documents and things relating to its business and activities, including the provision of health services), but does not require inspections to be undertaken on any set timetable (e.g., annually). Thus, in the Department's opinion, if other methods of ensuring that hospital compliance with legislation and agreements are working (e.g., accreditation of facilities, inspection and monitoring by RHAs pursuant to service purchase agreements), there may

FOLLOW-UP OF PREVIOUSLY ISSUED AUDIT RECOMMENDATIONS

not be any need to carry out inspections.

Effective April 1, 1998, the Winnipeg Health Region was established under The RHA Act. With the establishment of the Winnipeg Health Region, all hospitals in Manitoba are now located in health regions. This being the case, pursuant to subsection 10(3) of The Hospitals Act, the requirement for mandatory annual inspections contained in subsection 10(1) of the Act is no longer applicable to any hospital in Manitoba.

FOLLOW-UP OF PREVIOUSLY ISSUED AUDIT RECOMMENDATIONS

DEPARTMENT OF RURAL DEVELOPMENT

Since 1992 we conducted two audits in the Department of Rural Development as follows:

1. Decentralization Initiative
2. Special Audit of Woodstone Foods Corporation Grow Bonds

Decentralization Initiative**SUMMARY OF THE ORIGINAL AUDIT REPORT****Background**

In 1989, the government of the Province of Manitoba announced initiatives to strengthen the rural economy and improve delivery of government programs and services to rural areas. As a result a Decentralization Task Force was established to identify opportunities to decentralize public services they thought could be delivered equally effectively from locations outside of Winnipeg.

On March 9, 1990 the government announced its plan to relocate 692 public service positions from Winnipeg to rural Manitoba. A Decentralization Committee was established to coordinate this task.

In December 1993, we reported on our audit of the decentralization initiative.

Audit Purpose

We conducted this audit to assess the adequacy of the Department's reporting on the objectives and results of the decentralization initiative to the Members of the Legislative Assembly.

Overall Conclusion

We concluded that the activities and results of the decentralization initiative were not adequately reported to the Members of the Legislative Assembly.

We also concluded that insufficient information was being gathered and analysed in order to properly measure the success and effectiveness of the decentralization initiative.

DEPARTMENT OF RURAL DEVELOPMENT - PROGRESS REPORT**General Comments**

In December 1993 the Office of the Provincial Auditor of Manitoba reported on their audit of the government's decentralization initiative. The objective of the audit was to determine if the accountability reports provided to the Legislature on the decentralization initiative were timely, sufficient and appropriate. The conclusion of the audit was that activities and results were not adequately reported and that insufficient information was being gathered and analysed in order to properly measure the success and effectiveness of the decentralization initiative.

Also reported were the comments of departmental officials who, in the report, committed to providing the necessary and appropriate information to the Legislature for the year ending March 31, 1994. A commitment was also made to prepare Annual Reports and estimate supplements on the decentralization initiative. As discussed in more detail below these commitments to provide timely and accurate information to the Members of the Legislative Assembly on the decentralization initiative have been, and continue to be met.

FOLLOW-UP OF PREVIOUSLY ISSUED AUDIT RECOMMENDATIONS

Reporting On The Activities And Results Of The Decentralization Initiative

We recommended that the Minister responsible for the decentralization initiative prioritize efforts to provide an analysis of the aggregate costs and benefits and an evaluation of the overall effectiveness of this program. This work should be summarized in a format similar to departmental annual reports and tabled with the Legislative Assembly for the year ending March 31, 1994.

In January 1994 the Department assigned one individual to compile and analyse information to measure and report on the success and effectiveness of the decentralization initiative. As a result of this work, an annual report (prepared in the format of departmental reports) on the decentralization initiative covering the period April 1, 1990 to March 31, 1994 was tabled with the Legislative Assembly on June 8, 1994. This annual report outlined the objective of the decentralization initiative, costs, in relocating positions in the fiscal years 1990/91 through 1993/94 and an analysis of the ongoing cost savings and economic benefits as a result of decentralization. Summaries of the number of positions decentralized, by community and by government department, are included. Comments by managers of relocated programs which are operating effectively and efficiently in rural Manitoba are attached as an appendix to the report.

Adequacy Of The Information To Measure The Effectiveness Of The Decentralization Initiative

We recommended that, if activities relating to the decentralization initiative continue beyond March 31, 1994, the Decentralization Committee comply with the government guidelines for estimates supplements as well as update the annual report on decentralization each fiscal year for the duration of the program.

Supplementary Information for Legislative Review (Estimates Supplement) has been prepared for the decentralization initiative for the 1994/95 to 1997/98 fiscal years, inclusive. These supplements follow the government guidelines, outlining program objectives, activity identification, expected results and comparative financial information. As well, information on economic benefits and summaries of relocated positions are included. Annual Reports for the decentralization initiative have been prepared for the 1994/95 to 1996/97 fiscal years, inclusive.

Special Audit Of Woodstone Foods Corporation Grow Bonds
SUMMARY OF THE ORIGINAL AUDIT REPORT
Introduction

On March 15, 1996, the Minister of Finance requested that we undertake a special audit of the Grow Bonds initiative as it relates to the Woodstone Foods Corporation. In 1994 we also conducted an audit of the approval and monitoring processes of the Grow Bond Initiative and issued

FOLLOW-UP OF PREVIOUSLY ISSUED AUDIT RECOMMENDATIONS

to management a report identifying opportunities to improve the processes audited.

Background

The Rural Development Bonds Program was established under the Rural Development Bonds Act (Act) in July 1991. The objectives of the program are stated in the 1993/94 Supplementary Estimates for the Department of Rural Development. The first objective is to act as a catalyst in strengthening local communities, diversifying the economy and creating employment and other opportunities through a new source of equity financing. The other stated objective is to place the responsibility for economic management and control directly in the hands of communities, allowing them to define and pursue their own economic goals and objectives.

The program is designed to let Manitobans invest in their own community. Under the program, communities sell bond offerings called Grow Bonds to members of the public through Rural Development Bond Corporations (Bond Corporations) which the communities set up under the Act and the Corporations Act. Grow Bond holders earn income on their investment and have the assurance of a government of Manitoba guarantee on their invested capital. The proceeds from the sale of the Grow Bonds are used to finance eligible new businesses and expansions in the community. The government of Manitoba guarantees the principal amount of all approved Grow Bonds issued to eligible bond holders.

Audit Objective And Approach

Our objective was to determine whether the approval, issuance and monitoring of the Woodstone Foods Corporation Grow Bonds was

appropriately managed and conducted by the relevant stakeholders.

To address our audit objective we developed three audit questions as follows:

Approval and Issuance Processes

Was appropriate due diligence exercised with respect to approving and issuing the Woodstone Grow Bonds? This would minimize the Province's exposure to risk from the bond guarantee and provide reasonable assurance that private investors were appropriately informed of the nature of the eligible business and the project requiring financing.

Monitoring Process

Was appropriate due diligence exercised with respect to the monitoring of the Woodstone Foods Corporation (Woodstone)? This would include determining compliance to the covenants of the Financing Agreement and obtaining reasonable assurance that increases in the level of risk would be identified in a timely manner and appropriate actions taken.

Compliance to the Financing Agreement

Did Woodstone comply with the terms of its Financing Agreement with the Woodstone Rural Development Bond Corporation (Bond Corporation), and specifically, were the proceeds expended in accordance with the terms of the Offering Memorandum as required by the Financing Agreement?

In order to fully answer the audit questions we also updated our 1994 audit of the approval and monitoring processes of the Grow Bond Initiative.

FOLLOW-UP OF PREVIOUSLY ISSUED AUDIT RECOMMENDATIONS

Overall Conclusions

With respect to the bond approval and issuance processes we concluded that more due diligence should have been exercised.

With respect to the monitoring process, we concluded that Woodstone's ongoing operations and their compliance to the Financing Agreement covenants should have been better monitored. We also concluded that the Grow Bonds Office should have better monitored the activities of the Bond Corporation.

With respect to Woodstone's compliance to the Financing Agreement we concluded that Woodstone did not comply with certain critical terms of the Financing Agreement.

**DEPARTMENT OF RURAL
DEVELOPMENT - PROGRESS REPORT**
Introductory Comments

The Rural Development Bonds Program (Grow Bonds) was initiated in July 1991 as a new approach to community development and economic diversification. The intent of the program was to provide a vehicle that would assist rural entrepreneurs in attracting local investment capital to their businesses while protecting the local investor with a Provincial Guarantee for every dollar invested. In 1994 the Department requested that the Provincial Auditor undertake an audit of the control systems of the program and recommend improvements. This was completed and the recommendations were implemented. In March 1996 the Department and the Minister of Finance requested that the Provincial Auditor undertake a special audit of the Woodstone Grow Bond initiative to address the appropriateness of the practices and procedures in place during the tenure of the Bond.

This report was issued in December 1996. It made certain recommendations which have since been instituted and/or are in the process of being put into place.

We recommended that the Department define, in conjunction with the Review Committee, the minimum information requirements for the Executive Summary (a document presented to the Review Committee and the government to aid them in making a decision as to whether to approve the proposal).

The Grow Bonds Office, in consultation with the Review Committee has, since September 1996, revised its policies and procedures to improve the information included in Executive Summaries and to better analyse and document project proposals. These policies and procedures include an improved content reporting format for all Executive Summaries as well as the requirement to complete certain new standardized forms when processing project proposals.

All Executive Summaries must now include very detailed information on the key aspects of the eligible business, such as its history, nature of operations, and funding details, including information on the Grow Bonds Office assessment of the eligible business financial and market conditions as well as its management abilities.

The Grow Bonds Office is also using certain new forms and guidelines to support its analyses and decisions when processing a project proposal. These include a "Management Assessment Guide", a "Market Evaluation Guide", a "Project Application form", an "Environmental Checklist" and a "Personal Net Worth Statement". By completing these documents, the Grow Bonds Office is better able to assess and

FOLLOW-UP OF PREVIOUSLY ISSUED AUDIT RECOMMENDATIONS

document the strengths, weaknesses, opportunities and threats of a project proposal. The use of these documents also ensure that a standard process is followed by the Grow Bonds Office in processing project proposals.

We recommended that the Department develop a better process for ensuring that conditional approvals are clearly and consistently stated and understood by all stakeholders.

The Grow Bonds Office has established a quality assurance review process to ensure that conditional approvals are clearly documented, understood and processed in a consistent manner. The Grow Bonds Office has introduced a new document called, a “Letter of Commitment”, stating the terms and conditions of the guarantee to be provided by the Province and requiring the signatures of the Rural Development Bond Corporation and the Eligible Business. Also, the Department of Justice is now authorized to act on behalf of the Grow Bonds Office and the Bond Corporation in completing the legal requirements for a Grow Bond issue thereby eliminating the involvement of a second lawyer in the process. In addition, the Grow Bonds Office has finalized arrangements with the Department of Justice to standardize the legal documents being used in the program.

We recommended that the Grow Bonds Office develop a better process for ensuring that Financing Agreements reflect all conditions set by the Review Committee and the government and that the Grow Bonds Office and Bond Corporation ensure that these condition are met.

The Grow Bonds Office has established a formal process to ensure that all terms and conditions, set by the Review Committee and the government, are appropriately monitored and are included in Financing Agreements. The process is described as follows:

- *Immediately after a Grow Bonds Project receives approval from the Review Committee and the government, the Director of the Grow Bonds Program prepares and sends a formal “Letter of Commitment” to the Eligible Business and the Rural Development Bond Corporation. This “Letter of Commitment” includes the terms and conditions of the Provincial Guarantee. The Department of Justice receives the “Letter of Commitment”, after it is signed by the appropriate parties, together with a copy of the official Provincial Guarantee minute. The Department of Justice prepares the necessary Security Documentation, which includes a Financing Agreement with the terms and conditions stipulated by the Review Committee and the government. The Department of Justice ensures that the Security Document is appropriately executed and registered. The Department of Justice also sends a copy of the official Security Documentation to the Grow Bonds Office.*
- *The Grow Bonds Office project advisers and administrative staff monitor the eligible business and the Bond Corporation for compliance with all terms and conditions set by the Provincial Guarantee. The monitoring is tailored to ensure full compliance with the terms and conditions of the Provincial Guarantee. The Grow Bonds Office maintains a documentation checklist for each bond issue. This checklist identifies all the terms and conditions for compliance, the extent to which they are monitored and the results of the monitoring.*

A Study of the Implementation of Manitoba Measures

Business Planning and Performance Measurement in the Manitoba Government



A STUDY OF THE IMPLEMENTATION OF MANITOBA MEASURES
Business Planning and Performance Measurement in the Manitoba Government

REPORT OVERVIEW

MANITOBA MEASURES WELL SUPPORTED BY DEPUTY MINISTERS; SETTING MILESTONES AND TARGETS FOR COMPLETION OF MANITOBA MEASURES IS REQUIRED

Manitoba Measures, the business planning and performance measurement strategy of the government, was introduced in fiscal 1996/97. It is an evolutionary initiative that represents a substantial investment of time, energy, talent and departmental resources. As Manitoba Measures is a significant initiative for the government, and as implementation is a critical, albeit often under-recognized stage, we undertook an assessment to identify challenges and opportunities in its implementation.

Assessed against our framework of critical factors for implementation, and based on our interviews with Deputy Ministers, departmental business planning coordinators, and representatives of Treasury Board Secretariat, we conclude:

- that the design of Manitoba Measures is well supported and incorporates the elements to help shift the way government does its business;
- that the initial planning for the initiative focused on the introduction of business planning and performance measurement in the departments of the government. A plan has yet to be communicated to Deputy Ministers for other elements originally identified as integral to Manitoba Measures;
- that the phased deployment, being directed by Treasury Board Secretariat and managed at the departmental level by Deputy Ministers, has resulted in a significant beginning in business planning and performance measurement within departments;
- that there is a need for enhanced leadership at many levels of the government to demonstrate commitment and to further the Manitoba Measures initiative;
- that Manitoba Measures, when fully implemented, will enhance the way government operates.

In order to benefit from the learnings of our study and to increase the likelihood of successful implementation of Manitoba Measures, we recommend that:

- A medium-term plan for next steps by Manitoba Measures be formally communicated to all departments. The major next steps include reviews to:
 - ensure that the level of delegation of authority supports the effective accomplishment of objectives set out in the business plans;

A STUDY OF THE IMPLEMENTATION OF MANITOBA MEASURES
Business Planning and Performance Measurement in the Manitoba Government

- design the appropriate linkages between the estimates process and the business planning process;
 - assess the implications and options for instituting multi-year fiscal planning at the department level;
 - plan for publication of summary business plans;
 - design an appropriate accountability framework between Deputies and the government.
- A strategy for involving selected Deputy Ministers (on behalf of their peers) in setting future directions for Manitoba Measures be outlined. It is clear that Deputy Ministers carry much of the implementation responsibility for the initiative.
 - A process for periodic review and renewal of the Corporate Framework be developed. As the Framework sets out and communicates government's overarching priorities and goals, it provides needed direction to departments in ensuring that their plans align with government priorities.

We are encouraged that both the Secretary to Treasury Board and the Clerk of Executive Council strongly endorse this initiative.

A STUDY OF THE IMPLEMENTATION OF MANITOBA MEASURES
Business Planning and Performance Measurement in the Manitoba Government

INTRODUCTION

What is the purpose of government? Societies throughout the world are grappling with this fundamental question. While legislative auditors do not take a position in this ongoing discussion, they can and should encourage openness and transparency in the dialogue between citizens and their government. This openness is facilitated by government providing its citizens with information on government activities that is meaningful, reliable and timely. This kind of information provides citizens with tools to have constructive input into government priorities, and can assist them in making independent assessments of government activities.

In a national study, the item most often cited by citizens for improving the quality of governance is accountability for measured results and effectiveness (Ekos Research Associates Inc.: Rethinking Government 1995) This is closely followed by the perceived need for greater consultation with stakeholders and greater transparency in decision-making. The study goes on to suggest that, in this new era of “show me” politics, governments who can demonstrate performance will secure higher levels of public confidence.

In my Autumn 1997 Report to the Legislature, I commended the government for starting on a path that has, as one of its possible outcomes, the fostering of a more effective dialogue between the government and its citizens. Manitoba Measures is that path.

In my 1997 report, I provided an overview of the initiative. I noted that, in its first seven months of

operation, significant progress had been made and that feedback from departments suggested that they viewed Manitoba Measures as a positive opportunity for public sector reform and improvement. Because I view this initiative as a critical part of current government activity, I decided to assess the ongoing implementation of Manitoba Measures.

ABOUT MANITOBA MEASURES

Manitoba Measures is a balanced approach designed to provide a comprehensive picture of the services of the Manitoba government. It begins with the government’s vision: “to

continue to make Manitoba a better place to live, work and invest by ongoing development of an environment committed to improving our high quality of life”, and introduces new notions of planning, measurement and accountability that link the government’s long-term goals with its short-term actions.

The three components of Manitoba Measures are:

- **The Corporate Framework** which outlines the strategic direction for the Manitoba Government, and its goals and priorities. As this Framework provides a corporate perspective for government, all departments are asked to demonstrate how their departmental priorities align with, and advance, overall government goals.
- **Business Plans**, in which departments specify their goals and priorities, and their alignment with the Corporate Framework. The business plan outlines the department’s background, the key components of the department’s work,

I appreciate the support of the Deputy Ministers and business planning coordinators of the government departments who contributed their perspectives and comments to this study. Their commitment to improved planning, measurement and accountability is evident.

Jon W. Singleton, CA, CISA
 Provincial Auditor

A STUDY OF THE IMPLEMENTATION OF MANITOBA MEASURES
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the proposed resources and strategies to be used, and the expected results over a specific period of time. The **Performance Measures** selected are to be results-based, focusing on the efficiency with which resources are transformed into goods and services (outputs); the quality of those outputs; and the effectiveness of government operations in meeting the goals (outcomes).

- **Performance Contracts**, which outline specific deliverables at the program and activity level (branch and/or line of business).

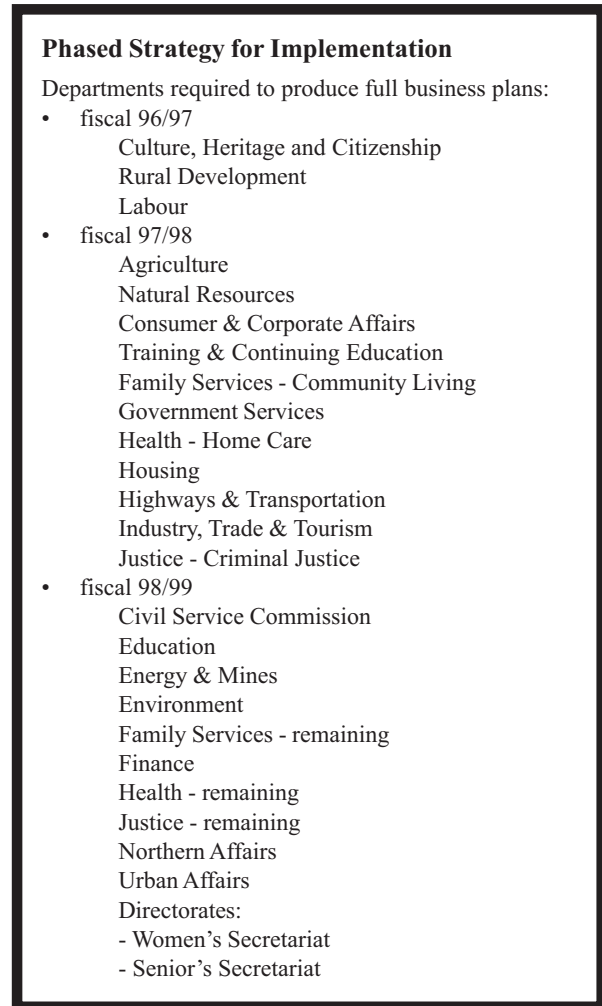
The design of Manitoba Measures was approved by Treasury Board, the Economic Development Board of Cabinet, and Cabinet in the fall of 1996. The initiative was announced by the Premier on October 1, 1996, at the “Measuring Up” Conference of the Institute of Public Administration of Canada, Manitoba Chapter.

Using a staged approach to implementation, business planning and performance measurement was introduced to all departments across the Manitoba Government in fiscal 96/97. The departments not required to prepare full business plans were expected to introduce business planning concepts and generate more limited, initial plans (Figure 1).

Treasury Board Secretariat (TBS), as the central agency directing the initiative, created a working group of three staff to support the introduction of business planning. In fiscal 96/97, this team generated a preliminary implementation strategy for the initiative, developed a guidebook for departments, communicated the initiative through various speeches and presentations to departments, and held workshops on business planning and on program performance measurement. In fiscal 97/98, the team provided feedback on the department’s initial plans, revised the guidebook, and purchased a curriculum to be

adapted for use in Manitoba. A more detailed chronology of implementation milestones is provided in Exhibit 1.

Figure 1



OUR PURPOSE AND APPROACH

Manitoba Measures is a significant initiative for the Manitoba government and one that represents a substantial investment of time, energy, talent and resources on the part of all departments, as well as TBS. The implementation phase of such an initiative is a critical, albeit often under-

**A STUDY OF THE IMPLEMENTATION OF MANITOBA MEASURES
Business Planning and Performance Measurement in the Manitoba Government**

recognized stage. Therefore, this study focuses on the implementation strategy guiding Manitoba Measures in all departments of the Manitoba Government. Our specific purposes are:

- to assess the process of implementation of business planning and performance measurement in the departments of the Manitoba Government;
- to identify the challenges and opportunities associated with the initiative from the perspective of senior managers within the government;
- to identify opportunities to improve the implementation process.

An assessment framework was developed by my Office. We drew on leading practices in program implementation, and the quality award criteria of both Canada (National Quality Institute) and the United States (Malcolm Baldrige Award). The critical success factors are listed in Figure 2. In general, the greater attention to each and all of these elements in the implementation phase, the greater the likelihood of a productive and successful outcome.

Figure 2

Critical Factors for Implementation

- appropriateness of the design
- planning
- deployment
- leadership
- fit within its setting

In order to assure respondents of confidentiality and anonymity, I contracted with an independent research firm, Prairie Research Associates Inc. (PRA), to conduct interviews with Deputy Ministers, departmental business planning

coordinators and representatives of TBS. The departmental interviews were conducted in April, 1998. In all, 39 interviews were conducted. Figure 3 outlines the major steps in conducting this study.

Figure 3

Major Steps in the Study

- assessment framework developed
- interview guide developed based on assessment framework
- letter sent from the Provincial Auditor to each Deputy Minister advising of the review
- letter sent from PRA enclosing the interview guide
- interviews verified by PRA with each respondent
- our use of the report findings verified with PRA

The final report from PRA to my Office provided high-level, aggregated findings. The source interview data is held by PRA, and there is no disclosure of any individual respondent with the views expressed. The following section summarizes PRA's report.

**A STUDY OF THE IMPLEMENTATION OF MANITOBA MEASURES
Business Planning and Performance Measurement in the Manitoba Government**

**STATUS OF MANITOBA MEASURES:
DEPARTMENTAL PERSPECTIVE**

Almost everyone interviewed is committed to the Manitoba Measures initiative and felt that it should continue. The few dissenters qualified their support with concerns about implementation and potential risks. Most respondents believe that Manitoba Measures will have important benefits (Table 1). While it may be too early to expect substantial change, some differences are already apparent from business planning in the departments.

Most respondents (more than three-quarters) reported uncertainty about the fulfilment of Manitoba Measures. In part, this reflected perceived ambiguity about the intentions of Treasury Board. Yet, respondents indicated that, should Manitoba Measures cease, an important opportunity would be missed, leading to a degree of frustration and disillusionment by public servants who had committed energy to the initiative.

Support for Manitoba Measures at the Ministerial level is perceived as varying from strong endorsement, to indifference, to concern. A few Ministers are widely seen as champions of business planning. Others are not so involved.

ABOUT EACH COMPONENT OF THE INITIATIVE

Respondents were asked about each component of the initiative:

- *Corporate Framework*

Strong support exists for the Corporate Framework among department leaders. It has

Table 1

What difference has Manitoba Measures made in the way government/your department does its business?		
Typical Descriptions		# of Responses
Clarify What We Do	Staff know what our department does	30
Improved Performance Monitoring	New measures, better profile of programs, focus on outcomes	15
Better Delivery of Services	Client orientation	10
Too Early to Say	No difference yet, no difference should be expected at this point	10
Increased Effort/Burden	We are duplicating planning	3

Note: PRA coded responses to questions where respondents offered a range of comments. This table, and the others, shows the relative "weight" of opinion. In other cases, respondents offered a consensus or were divided into two groups. Note that since respondents typically offered more than one comment, the column sums often exceed the number of respondents.

been useful as a vision with which to align departmental goals. The emphasis on economic goals was noted.

- *Business Planning*

Most respondents see business planning as a worthwhile endeavour. Respondents generally expect increased coordination and planning to return important benefits in terms of program efficiency and effectiveness. This comment arose in about a third of the interviews and was accompanied by observations that mentioned the value of planning, and its effect on improving the internal communication and coherency of departmental programming.

Clarifying direction and providing better services are two of the most frequently cited incentives for business planning (Table 2).

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Six respondents said the department would do business planning without being required.

- *Performance Measurement*

Everyone interviewed identified the performance measurement component as the major challenge facing Manitoba Measures, particularly given the unique nature of measurement in the public sector. Progress on measurement in departments is variable: some departments reported “good” progress; others reported being “stuck”. Moving from input measures to output and outcome measurement was universally seen as a complex task.

Even in departments that reported progress on performance measurement, coordinators see many remaining challenges. Respondents, especially those in human services and those serving internal clients, remarked that there seems to be a bias toward quantitative performance measures. Several respondents said that more qualitative measures need to be considered especially for policy and regulation activities.

- *Performance Contracts*

Performance contracts are causing considerable concern. In principle, support exists for the idea that all public servants should be accountable to the legislature and to the public. However, many respondents expressed reluctance at signing a contract if they have no authority to shift resources to fulfill the plan.

Table 2

What are the incentives for your department to undertake business planning?		
Typical Descriptions		# of Responses
Clarify Our Direction	Builds the department vision	21
Improve Our Service Delivery	Greater ability to design effective service, creates team spirit	14
Greater Delegation	Integrates estimates and business planning, greater ability to allocate resources	11
It Is a Requirement	Treasury Board requires it	9
Good Idea	Would do it anyway	6

DEPARTMENTAL PROGRESS

Departmental implementation of business planning and performance measurement is fundamentally a Deputy Minister responsibility. This section of the report reviews the progress internal to departments.

- Awareness about Manitoba Measures is both high and consistent. The public sector leaders charged with responsibility to implement this initiative in their respective departments perceive the goals and desired outcomes consistent with the intent of Manitoba Measures (Table 3).

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Table 3

Perception of the objectives of Manitoba Measures		
Typical Descriptions		# of Responses
Increased Long-Range Planning	Framework for goals, better coordination, coherent government-wide vision and goals	39
Accountability	Public and private, better communication with legislators and public, better coordination, client service	28
Change Performance Measures to Outcomes	Results and not input measures	24
Improved Departmental Performance	Staff understands program, better communication, integration of long and short-range planning	12

- Most departments report that they are making good progress with the introduction of business planning and performance measurement.
- Executive support is apparent. There is variability in the extent that the Deputy Minister leads the process. In general, the progress of business planning is improved in those departments in which there is direct involvement of the Deputy Minister.
- Business planning coordinators noted that work remains in penetrating the department and engaging front-line staff in the process.
- Understandably, those departments that are well into the process report more tangible results compared to those in the initial stages. The latter departments have yet to see benefits

from business planning and performance measurement.

- Respondents stated that they would know the process was working when departmental staff understand the ideas, performance measurement is refined and tested, and business planning becomes integrated with estimates and annual reporting (Table 4).
- A consensus exists that Manitoba Measures will increase service to clients (Table 5).
- Everyone interviewed expects the benefits of business planning to exceed the costs. However, the resource costs of business planning, along with the other major initiatives underway (Better Methods, Desktop Management and Year 2000) is causing significant stress in several departments. Deputies and coordinators expressed concern that their staff were under

Table 4

How will you know that the initiative has been successful in your department/in government as a whole?		
Typical Descriptions		# of Responses
Shared Vision	When planning has its own momentum, when vision shared by staff at all levels	17
Measurements that Work	Good performance measures are an indicator of success	13
Integration of Estimates, Planning and Reporting	Estimates that emerge from the Business Plan and are supported by effective measurement	9
Better Service	When we can design services to respond to client need	4

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Table 5

How will Manitoba Measures enhance the service provided by your department to your clients?		
Typical Descriptions		# of Responses
Accountability	Feedback and customer satisfaction	20
Define the Client	Develop priorities, clarify internal/external clients	18
Better Programming	Client orientation to programming, client defines needs	15
Too Soon To Say		4
Integration of Services	Integration of services across departments	2

significant stress. Better coordination among these initiatives was requested by several of these respondents.

- Several coordinators and Deputy Ministers stated that they would like to see more uniformity in business plan presentation.
- Most respondents would also like to see more communication across departments. Apart from the business planning Coordinator's Council that has been meeting informally, little inter-departmental communication on business planning appears to exist. With respect to the Coordinator's Council, respondents stated that the initial meetings were useful since they promoted communication and joint learning about a process that was completely new. The frequency of meetings and the perception of usefulness have decreased.

- Different strategies were used to implement business planning within departments. Most departments relied on internal resources to prepare plans; several (9) used consultants. The experience with consultants ranged from enthusiastic to a degree of disappointment.
- Performance measurement is a critical area where coordinators need more support. Respondents are evenly split on whether they can refine their performance measurement using internal resources or will need to use external consultants. Respondents believe that TBS needs to provide greater resources to assist with developing performance indicators.
- Most who had used consultants expressed the wish that TBS had coordinated this process and trained consultants to provide consistent advice on Manitoba Measures. As well, some respondents doubted that management consultants have the expertise for the difficult and technical task of designing effective measures.

ROLE OF TREASURY BOARD SECRETARIAT

Respondents appreciated the complexity of starting an initiative such as Manitoba Measures and many observed that the staff at TBS had little time to prepare themselves to support this initiative. The following points summarize the comments:

- Support for efforts of TBS; reservations on requisite expertise.
 - There was strong appreciation for the efforts and support of the Manitoba Measures team within TBS. However, it was noted that the team was learning about business planning along with the

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departments. Most respondents observed that the team is too small and that it lacks expertise, especially in the critical area of performance measurement.

- Support for increased clarity on expectations; additional clarity requested.
 - A universal observation made by business planning coordinators is that TBS did not offer a clear framework for Manitoba Measures in the first year. With their own experience and the improved Year 2 guidebook, the team has made progress in communicating what is needed. Yet respondents indicated an ongoing need for additional clarity on the form of the business plan.
- Feedback valued; improvements in content and timeliness requested.
 - The three departments which initiated full business plans in Year 1 (fiscal 96/97) appreciated the detail and positive tone of the feedback, which was typically received within three months. The suggestions for improvement were perceived as valuable.
 - For the other departments, feedback on the Year 1 plans was delayed by 5 - 9 months. All stated that this was too slow. Most respondents in these departments expressed varying degrees of frustration at the form of the feedback and disappointment that the feedback was not more specific and detailed. All stated that they hoped Year 2 commentary would be more prompt and more detailed.

NEXT STEPS

In the design of the initiative, several critical matters were raised which, in the perception of the respondents, have not yet been addressed. A general request made by most respondents was for government to send a clearer message about:

- Integration of estimates with business planning

The integration of estimates with business planning is widely seen as an important incentive to continue with the process. Most respondents (over 80%) see integration of business plans with the budget as a natural outcome of the business planning process. Under this view, the current estimates process would be revised to use the business plan as a basis for setting the resource allocations. At this point, almost everyone interviewed reported that departmental resources are being consumed in essentially duplicate activities in preparing plans and estimates.

Respondents who favour the merging of estimates and business planning believe that additional thought and planning is needed to clarify the timing of business plans and the estimates process.

- Delegation of authority

Almost all respondents strongly support delegation of authority. About half of those who see greater delegations as an incentive for business planning, are emphatic in their view that this is a necessary outcome of the initiative. These respondents also look forward to increased delegation and indicated that operations would be improved.

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- Multi-year fiscal planning

Five respondents projected ahead and argued that better business plans should support multi-year fiscal planning. They acknowledged that this was a complex issue.

- Publication of summary business plans

In principle, respondents (two exceptions) support the idea of publishing summary business plans (Table 6). Increased transparency was cited as a benefit. Some risks are perceived, and standards for publication are desired.

Table 6

Perception on publication of summary plans		
	Typical Descriptions	# of Responses
Report Format	Standardized among departments; shorter plans	19
Increased Transparency	People will get a better idea of what we do; no such thing as too much openness	12
Risks Exist	If we cannot shift resources to meet need, we become exposed; possible tension between ministers and departments	10

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CONCLUSIONS AND RECOMMENDATIONS

Assessed against our framework of critical factors for implementation (Figure 2), and based on our interviews with Deputy Ministers, departmental business planning coordinators and representatives of TBS, we conclude:

that the design of Manitoba Measures is well supported by Deputy Ministers and business planning coordinators, and incorporates elements to help shift the way government does its business -- towards greater innovation and effectiveness in delivering public services;

- that the initial planning for the initiative focused on the introduction of business planning and performance measurement in the departments of the government. A plan has yet to be communicated to Deputy Ministers for other elements originally identified as integral to Manitoba Measures;
- the phased deployment, being directed by TBS and managed at the departmental level by Deputy Ministers, has resulted in a significant beginning in business planning and performance measurement within departments;
- that there is a need for enhanced leadership at many levels of the government to demonstrate commitment and to further the Manitoba Measures initiative. Such leadership is integral to maintaining the momentum of the project and to retaining the trust and commitment of those officials responsible for implementing the initiative;
- that Manitoba Measures, when fully implemented, will enhance the way government operates.

There is significant goodwill and support for business planning and performance measurement

in the Manitoba Government. This goodwill is a priceless commodity, and it is crucial to capitalize on it. It is apparent from the results of our study that more could be done to learn from experience to date to strengthen both the implementation processes and the communication strategies.

In order to benefit from the learnings of our study and to increase the likelihood of successful implementation of Manitoba Measures, we recommend that:

- A medium-term plan for next steps by Manitoba Measures be formally communicated to all departments. The major next steps include reviews to:
 - ensure that the level of delegation of authority supports the effective accomplishment of objectives set out in the business plans;
 - design the appropriate linkages between the estimates process and the business planning process;
 - assess the implications and options for instituting multi-year fiscal planning at the departmental level;
 - plan for publication of summary business plans;
 - design an appropriate accountability framework between Deputies and the government.
- A strategy for involving selected Deputy Ministers (on behalf of their peers) in setting future directions for Manitoba Measures be outlined. It is clear that Deputy Ministers carry much of the implementation responsibility for the initiative.
- A process for periodic review and renewal of the Corporate Framework be developed. As the Framework sets out and communicates government's overarching priorities and goals,

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it provides needed direction to departments in ensuring that their plans align with government priorities.

We believe that adoption of these recommendations will enable government to build on the significant support departments have for Manitoba Measures.

We are encouraged that both the Secretary to Treasury Board and the Clerk of Executive Council strongly endorse this initiative. They advised our Office that the initiative is being deployed as intended, although possibly more slowly than would have been desirable. This is possibly attributable to the need to balance resources amongst several major initiatives (Better Methods, Desktop Management, and Year 2000).

We continue to strongly support the basic premises of Manitoba Measures — planning, measurement and accountability. Fully developed, it will address two long-standing priorities for my Office: clarifying the nature and quality of services provided to the citizens of Manitoba, and ensuring appropriate reporting to the Legislature on programs and services.

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COMMENTS OF OFFICIALS

The commitment to proceed with Manitoba Measures continues. The Provincial Auditor was previously advised that plans have been developed addressing other elements originally identified as integral to Manitoba Measures. Informal discussions with departmental coordinators and Deputy Ministers on most of these elements has occurred. One element of the implementation plan - training - has already been communicated formally to Deputy Ministers and coordinators. This process will continue as other components are finalized.

The implementation of this initiative is based on a number of guiding principles:

- *that the process is developmental in nature;*
- *that it requires time before the process will result in business plans and performance measures that are meaningful to decision makers, departmental staff and the public;*
- *that implementation schedules and time frames must recognize the demand already placed on the civil service for implementation of other major initiatives;*
- *that business planning and performance measurement is complex; over-simplifying could result in an assumption that one formula will work in every case, every time;*
- *that continuation of dual processes is a necessity in the short term until there is assurance that revised processes will produce the expected outcomes;*
- *that there is a need to assess each stage and make adjustments before finalizing plans for the next stage.*

The following summary outlines the stages for implementation of Manitoba Measures. The highlighted portions reflect the components contained in the initial design of the initiative.

In its first stage, business planning and performance measurement was introduced. Departments were asked to prepare business plans, and three pilot departments developed comprehensive plans. A Corporate Framework, summarizing Manitoba's goals and priorities was provided as one of the tools for development of the departmental plans. The business plans of the pilot departments were presented to Treasury Board.

The evaluation of Stage One provided the basis for planning the next stage. The focus of the evaluation was three-fold: (1) to continue to establish the process and systems; (2) to advance the initiative as a whole; and (3) to improve the quality of the product. Also taken into consideration in developing the stage two plan were other demands on departments and Treasury Board Secretariat and new elements that had been identified as critical to the success of the initiative.

In the second stage, the Manitoba Measures Guide was revised and an additional eleven departments were requested to develop comprehensive business plans for 1998/99. Approaches to begin the integration of the business planning and estimates processes are being explored, and the development of a comprehensive Manitoba Measures Training Program is underway.

In the third stage, departments who will be required to develop comprehensive business plans will be identified. Detailed requirements and target dates for the 1999/00 deliverable will be developed once the proposal on integrating business planning and the estimates process has been considered.

*In addition, requirements for **Annual Reports** and **Supplementary Information for Legislative Review** documents will be evaluated and revised.*

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*Detailed plans on **public communication of business plan summaries** will be considered in conjunction with this review. The **performance contract**, identified as a component of business planning will be further developed.*

*In the fourth, or final stage of implementation, the plan is to focus on **improving the quality** of business plans and performance measurement information.*

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EXHIBIT 1

MANITOBA MEASURES - IMPLEMENTATION MILESTONES	
Date	Activity
1996	
July and before	Concept of business planning and performance measurement was articulated across government; Treasury Board Secretariat assumed lead responsibility.
August	Initiative designed.
September	Presentations to Treasury Board, Economic Development Board of Cabinet and Cabinet.
Oct. 1	Announcement of Manitoba Measures by the Premier at the conference of the Institute for Public Administration of Canada, Manitoba Chapter.
Oct. 9	Group Presentation to Deputies.
	Pilots announced (Culture, Heritage and Citizenship, Rural Development and Labour). Other departments participated in a more limited way, and prepared "abridged" business plans.
	Manitoba Measures team met with executive management committees of each pilot department. Guidebook provided.
Oct. - Feb. (97)	Deputies introduced concept to other departmental staff. Manitoba Measures team made presentations to the Executive Committee of most of the non-pilot departments. Guidebook provided. Workshops were conducted by the Manitoba Measures team on both business planning and performance measurement. These were attended by representatives of both pilot and non-pilot departments.
December	Newsletter 1.
1997	
February	Newsletter 2.
Feb.27/98	Year 1 business plans due from pilots and non-pilots.
Feb. - present	Ad hoc group (Coordinator's Council) formed by those charged by their departments to implement business planning.
Mar. - Jun.	Follow-up meetings (management letters) with each pilot department over a 3 - 4 month period.
Oct. 20 - Dec. 1	Management letters on each pilot plan submitted to Treasury Board prior to presentations by Deputy Ministers (Labour October 20; Rural Development November 20; Culture, Heritage and Citizenship, December 1).
Oct. - Dec.	Letter from the Secretary of Treasury Board to the Deputy Minister of each non-pilot providing an assessment and feedback on the plan.
Oct. 15	The Secretary of Treasury Board launched Year 2.
Oct. 29 - Nov. 3	Revised guidebook distributed to pilots at orientation meetings.
Nov. 19	Revised guidebook distributed to non-pilots at orientation meetings.
Dec. 9	Newsletter
1998	
Mar. 31 - Apr.	Year 2 plans due (Financial component submitted as part of estimates). Several departments have been granted extensions to April 30, 1998.

A Study of Investment Disclosure Practices - Risk Capital Funds

**Department of Industry, Trade and
Tourism**



A STUDY OF INVESTMENT DISCLOSURE PRACTICES - RISK CAPITAL FUNDS
Department of Industry, Trade and Tourism

INTRODUCTION

The purpose of our study is to understand the reasons for the current investment disclosure practices of publicly supported risk capital funds delivered by third parties and to assess whether these practices are consistent with the need for transparency in government operations.

We chose to do this study mainly because of a concern raised by a Member of the Legislative Assembly. This Member of the Legislative Assembly expressed concern that information was not available on the investments made by publicly supported risk capital funds delivered by third parties.

Our study included a review of the investment information that is disclosed to the public on third party delivered pools of risk capital that receive provincial government funding. We also reviewed various legal agreements, the Freedom of Information and Protection of Privacy Act, and analysed other pertinent information. As well, we conducted interviews with officials from the Department of Industry, Trade and Tourism, the Manitoba Capital Fund and the Vision Capital Fund.

Important Notice

This report does not result from an audit and consequently we have not expressed an audit opinion concerning the information we gathered.

ABOUT THE PROGRAM

The objective of the Financial Services branch of the Industry Development Division of the Department of Industry, Trade and Tourism is to encourage and facilitate entrepreneurial and employment opportunities within the Province of Manitoba through the establishment of new

businesses or the expansion/retention of existing Manitoba businesses. Financial Services currently monitors three third party delivered pools of risk capital:

- Manitoba Business Expansion Fund,
- Manitoba Capital Fund, and
- Vision Capital Fund.

In addition, Financial Services provides financial support to Crocus Investment Fund and Ensis Growth Fund. These Funds are prescribed labour-sponsored venture capital corporations for the purposes of the Income Tax Act (Canada) and the Income Tax Act (Manitoba).

Financial Services is currently involved in the development of another third party delivered pool of risk capital which will be called the Manitoba Science and Technology Fund. The branch expects that this Fund will become operational during 1998/99. The Province of Manitoba has committed capital of \$5,000,000 to the Fund which will be funded over the current and following two fiscal years. The Manitoba Science and Technology Fund will be a limited partnership involving the Province and a number of private sector investors each as limited partners. This proposed Fund will make equity and debt investments in Manitoba science and technology companies.

The Manitoba Business Expansion Fund is a five year program designed to provide small expanding businesses with access to additional risk capital through third party financial institutions. This program became operational in January 1998 with the maximum annual support by the Province of approximately \$500,000. As at March 31, 1998 no funds have been disbursed by the Province to the financial institutions delivering this program.

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Crocus Investment Fund

The Crocus Investment Fund was incorporated on March 21, 1992 under the provisions of The Manitoba Employee Ownership Fund Corporation Act and The Corporations Act. The Fund has been established to make investments that support Manitoba enterprises with the objective of achieving long-term capital appreciation and promoting and maintaining:

- capital retention and economic stability in Manitoba;
- employee ownership of Manitoba businesses; and
- business continuity, job retention and creation and ownership of Manitoba businesses by Manitobans.

Crocus Investment Fund is a retail fund which raises capital primarily through the sale of common shares to individuals. As at March 31, 1998 the Fund's net assets were approximately \$87,600,000. The Fund makes unsecured debt and equity investments usually in the range of \$100,000-\$5,000,000.

In 1992, the Province of Manitoba invested \$2,000,000 in the Crocus Investment Fund in exchange for 2,000,000 Special Shares. The rights and restrictions attributable to these shares provide that these shares are non-convertible, non-redeemable equity and allow the Crocus Investment Fund to use such equity as a loss reserve to absorb deficits of the Crocus Investment Fund up to \$2,000,000 on a permanent basis.

Ensis Growth Fund

The Ensis Growth Fund was incorporated under the laws of the Province of Manitoba by articles of incorporation dated December 10, 1997. While no investments were made as at the end of May,

1998, the Fund proposes to invest in small and medium-sized eligible Manitoba businesses with the objective of achieving long-term capital appreciation. The Fund will focus its investments in Manitoba businesses in the early-growth, expansion and restructuring stages of development but on occasion will consider prospects in the start-up stage. Ensis Growth Fund is a retail fund which raises capital primarily through the sale of common shares to individuals. As at March 31, 1998 the Fund's net assets were approximately \$4,300,000. The Fund plans to make equity and subordinated debt investments in the range of \$250,000-\$5,000,000.

In 1997, the Province of Manitoba provided a \$350,000 interest bearing loan to Ensis Growth Fund for a seven year term to assist with the financing of their initial start up costs.

Both the Crocus Investment Fund and the Ensis Growth Fund are retail funds which means that they sell their shares to the public. Therefore, information on investments made by these two funds is readily available to the public and is similar to what a mutual fund reports. Our study, therefore, focuses on the disclosure practices of the Manitoba Capital Fund and the Vision Capital Fund.

Manitoba Capital Fund

The Province of Manitoba, through the Manitoba Development Corporation, is a limited partner in the Manitoba Capital Fund and the Vision Capital Fund. Details of the Province's investment in these two funds are summarized in Table 1.

The Manitoba Capital Fund is a limited partnership formed under the laws of the Province of Manitoba on May 6, 1996 for a seven year term expiring May 5, 2003. This term has recently been extended to December 31, 2003. The purpose of the Fund is to provide high yield term

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and subordinated debt financing to small and medium sized Manitoba based businesses and to achieve an overall rate of return commensurate with the risk assumed. The size of the loans made by The Manitoba Capital Fund are between \$250,000-\$2,500,000. Loans between

Subordinated debt financing is that form of funding that ranks behind conventional secured bank lending but ahead of shareholders' equity in terms of risk profile.

\$1,500,000-\$2,500,000 require unanimous approval of the Limited Partners. The Fund targets borrowers that meet certain investment criteria including:

- the potential for significant growth;
- competent and experienced management with significant ownership interest in the borrower;
- established core business with a satisfactory and sustainable cash flow; and

- an adequate collateral coverage.

The Manitoba Capital Fund has retained MCF Management Inc., a private sector fund manager, to be responsible for all matters relating to the operation and administration of the Fund and its investment portfolio. An Advisory Board, comprised of one representative of each of the five Limited Partners in the Fund, advises the fund manager with respect to proposed loans, realization of assets, distributions, and any other matters related to the Fund as delegated by the Limited Partners.

Vision Capital Fund

The Vision Capital Fund is a limited partnership which was originally established in 1987 as the Small Business Growth Fund. Pursuant to the amended and restated Limited Partnership agreement dated March 21, 1990, the Limited Partnership changed its name from Small Business Growth Fund to Vision Capital Fund and

Table 1

BALANCES AS AT MARCH 31, 1998	MANITOBA CAPITAL FUND	VISION CAPITAL FUND
Actual committed capital by the Province	\$5,000,000	\$1,250,000
Total committed capital of the Limited Partnership	\$25,000,000	\$5,100,000
Percentage owned by the Province	20%	24.5%
Distributed to the Fund by the Province	\$3,973,200	\$1,250,000
Capital Distributions by the Fund to the Province	—100,000	—227,450
Net Partner's Capital - Province	\$3,873,200	\$1,022,550
Total amount of Loan Act authority committed by the Province		\$38,500,000
Actual amount of loan distributed by the Province		\$30,000,000
Actual amount of loan returned to the Province by the Fund		—5,668,850
Net Loan Receivable - Province		\$24,331,150

Source: Department of Industry, Trade and Tourism internal records

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the term of the Fund was extended to February 28, 2001. This term has recently been extended to December 31, 2002. The objectives of the Fund are to provide venture capital funding for new and

Venture capital funding means that the Fund will take an equity position in the company and will be actively involved in the management of the company through a seat on the Board of Directors.

expanding Manitoba businesses assisting them to grow and develop into larger, more viable enterprises, to create more jobs for Manitobans and to help maximize value for the shareholders of these companies. The primary objective of a venture capital investment is capital gains and the investment is not secured by assets of the business. The size of the investments made by Vision Capital Fund are between \$100,000-\$3,500,000. The criteria utilized in selecting investments by the Fund are as follows:

- sound management with a proven track record of success;
- possession of a unique product with a comparative advantage;
- the potential to expand markets beyond Manitoba; and
- overall prospects for considerable growth in earnings in a three to five year time frame.

Management of the Fund is provided by Westgate Capital Management Ltd., a Winnipeg-based venture capital management company. Overall strategy and investment decisions are independently administered by an Advisory Board of eight members representing the investors in the Fund.

DISCLOSURE PRACTICES

Currently, information on the specific nature and amount of the underlying investments made by the Manitoba Capital Fund and the Vision Capital Fund are not disclosed in the Public Accounts of the Province of Manitoba or in the financial statements of the Manitoba Development Corporation.

The Province, however, receives considerable information from the two funds as described below.

The Province, through its member on the Advisory Board of the Manitoba Capital Fund, receives annual audited financial statements, unaudited quarterly financial statements, and quarterly reports on the status of companies to which loans have been made and are outstanding and the current status on all continuing negotiations. The Province directly receives annual audited financial statements from the Fund.

The Province, through its member on the Advisory Board of the Vision Capital Fund, receives annual audited financial statements and unaudited quarterly financial statements of the Fund. Also received on a quarterly basis is a report on prospective investees, status of investees in which previous investments have been made, and the current status on all continuing negotiations. The Province directly receives from the Fund annual audited financial statements, monthly unaudited financial statements, and notice of any investment writeoffs per their loan agreement with the Vision Capital Fund. The Province also directly receives from the Fund the quarterly report on investments previously described.

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REASONS FOR NOT DISCLOSING INVESTMENTS MADE BY MANITOBA CAPITAL FUND AND VISION CAPITAL FUND

Based on discussions with officials from the Department of Industry, Trade and Tourism, the Manitoba Capital Fund and the Vision Capital Fund, the following reasons were given for not disclosing investments made by these Funds:

- The Manitoba Capital Fund and the Vision Capital Fund provide financing when conventional sources are not readily accessible. If this information was known to the company's competitors it could place the company at a competitive disadvantage.
- The Funds were established with the intention of attracting private sector investors and highly qualified investment management personnel. For this to occur, the Funds need to demonstrate that disclosure practices would be consistent with that of other similar limited partnerships.
- Companies have entered into agreements with the Manitoba Capital Fund and the Vision Capital Fund assuming confidentiality, just like they would if they entered into a financing agreement with a bank or any other financial institution. The Funds view themselves as financial institutions which means that business principles dictate that they do not disclose, to the public, information on the companies that they have invested in. If the Province were to disclose the names of the companies and amounts of the investments made by the Manitoba Capital Fund and the Vision Capital Fund, the Funds would require consent from the companies involved. Otherwise, these companies could take legal action against the Funds.

Based on discussions with officials from the Department of Industry, Trade and Tourism, requests for information through the Freedom of Information and Protection of Privacy Act on the investments made by the Manitoba Capital Fund or the Vision Capital Fund would be denied. They would be denied based on section 18(1) of the Act which states:

Disclosure harmful to a third party's business interests

18(1) The head of a public body shall refuse to disclose to an applicant information that would reveal

b) commercial, financial, labour relations, scientific or technical information supplied to the public body by a third party, explicitly or implicitly, on a confidential basis and treated consistently as confidential information by the third party.

The Manitoba Capital Fund and the Vision Capital Fund have received legal advice stating that the Funds and the Advisory Boards' of the Funds should not disclose any information on its clients due to the common law duties of confidentiality and secrecy owing to them. This duty of secrecy is not an absolute one and there are instances where disclosure of information would be appropriate. Such an instance might be where the client is involved in unlawful activities wherein the Fund has knowledge.

OUR CONCLUSION

Based on the information gathered in our study, we concur with the current investment disclosure practices of the Province regarding publicly supported risk capital funds delivered by third parties. However, there are opportunities for the Department of Industry, Trade and Tourism to

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improve the planning and performance information reported to the public.

Planning And Performance Information Should Be Improved

Program Objectives Should Be Stated

The Department of Industry, Trade and Tourism's 1997/98 Estimates Supplement and 1996/97 Annual Report state an objective for the Financial Services branch. However, a separate objective for the third party delivered risk capital program was not presented.

Objective of the Financial Services Branch

“To expand entrepreneurial and employment opportunities within the Province by encouraging increased access to capital for Manitoba businesses.”

Source: Department of Industry, Trade and Tourism 1997/98 Estimates Supplement.

Program Information Should Be More Detailed

The Department's 1997/98 Estimates Supplement stated that the branch was increasingly utilizing third party delivered risk capital funds and briefly described two reasons why the Province was using this strategy to provide access to capital for Manitoba businesses. Also, there was a brief description of the Manitoba Capital Fund and the Vision Capital Fund which included the size and type of investments being made. But, the information presented in the 1997/98 Estimates Supplement on each of these Funds was not consistent. For example, the total committed capital, the amount and nature of the Province's

investment in the Fund, and the amount of funding leveraged from pension funds and the private sector was disclosed for the Manitoba Capital Fund. However, this information was not disclosed for the Vision Capital Fund. Another example was that the Estimates Supplement stated that the Vision Capital Fund was privately managed and reported to an independent Advisory Board. This information, however, was not disclosed for the Manitoba Capital Fund. Similar information on the description of the two Funds was presented in the Department's 1996/97 Annual Report. In addition, the investment criteria used in selecting investments was not disclosed for either of the Funds.

Expected Results For The Program As A Whole Should Be Disclosed

The 1997/98 Estimates Supplement did not disclose planned results for the third party delivered risk capital funds program as a whole.

In our view, the Department should discuss the program's short-term output objectives and its longer-term outcome objectives.

In our view short-term outputs would include:

- dollars invested in Manitoba companies;
- risk capital funds created; and
- public and private sector money committed.

Longer-term outcomes would include:

- number of jobs created or saved;
- increased access and availability of venture capital financing to Manitoba companies; and
- incremental economic activity.

This information would help legislators and the public better understand what the Department hopes to achieve with the program.

A STUDY OF INVESTMENT DISCLOSURE PRACTICES - RISK CAPITAL FUNDS
Department of Industry, Trade and Tourism

Planned Results

The Vision Capital Fund's planned result was the amount of dollars expected to be invested in Manitoba companies for the year. The Manitoba Capital Fund's planned result was the number of jobs to be created over the seven year term of the Fund.

Source: Department of Industry, Trade and Tourism 1997/98 Estimates Supplement.

We note that a planned result was included in the 1997/98 Estimates Supplement for each of the Funds. This is valuable information and a step in the right direction.

Performance Reporting

In its 1996/97 Annual Report, the Department does not disclose meaningful information on the performance of the program as a whole. However, we note that with respect to the Manitoba Capital Fund, the Department disclosed the amount of dollars invested in Manitoba companies and the number of jobs being supported as a result of those investments. However, because planned results were not discussed in the Department's 1996/97 Estimates Supplement, the actual results achieved cannot be compared to the planned results for the year. We believe the Department could improve the information on the amount of dollars invested in Manitoba companies by describing the sectors or nature of the businesses where the dollars were invested.

There was no actual result reported on the Vision Capital Fund in the department's 1996/97 Annual

Report despite the fact that a planned result was discussed in the Department's 1996/97 Estimates Supplement.

The above is valuable information but does not, in our view, provide sufficient information to allow legislators and the public to make informed assessments of program performance.

We encourage management to improve the nature of the planning and performance information reported to the Legislative Assembly on the third party delivered risk capital funds program. The more transparent the Department can be, while respecting the need for privacy of investees, the more the Department will assist the Members of the Legislative Assembly in making informed assessments on the activities of the Funds.

Excerpt: PROVINCIAL AUDITOR'S ACT

Content of report

13(2) Each report of the Provincial Auditor under subsection (1) shall call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the assembly, including any cases in which he has observed

(a) that accounts have not been faithfully and properly maintained or public moneys which are required by law to be fully accounted for and paid into the Consolidated Fund have not been so accounted for and paid;

(b) that essential records have not been maintained or that the rules and procedures applied have been insufficient

(i) to safeguard and control public property, or

(ii) to secure an effective check on the assessment, collection and proper allocation of the revenue, or

(iii) to ensure that expenditures have been made only as authorized;

(c) that public moneys have been expended other than for purposes for which it was appropriated by the Legislature.