

Chapter

6

Atlantic Canada Opportunities Agency
Economic Development

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies, and practices of the Office of the Auditor General of Canada. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants.

Table of Contents

| | |
|--|----|
| Main Points | 1 |
| Introduction | 3 |
| The Agency's mandate | 3 |
| What is economic development? | 3 |
| Focus of the audit | 4 |
| Observations and Recommendations | 6 |
| Program design | 6 |
| The Agency's programs reflect its mandate, objectives, and priorities | 6 |
| Project controls | 6 |
| ACOA's framework for controlling grants and contributions is generally appropriate | 6 |
| Letters of offer are missing some required conditions | 8 |
| Environmental assessments are not an integral part of decision making | 9 |
| Disbursement of funds and monitoring of projects generally comply with policies | 10 |
| Managing non-commercial projects | 10 |
| Many activities are eligible for funding or can be made eligible | 10 |
| Many projects are not financially sustainable in the long run | 11 |
| Projects were adequately assessed before approval | 13 |
| Partnerships and alliances are becoming increasingly important | 13 |
| Expected results from partnerships are often vague | 14 |
| The outcomes of most partnerships are not measured | 15 |
| Roles and relationships with partners are sometimes not clear | 16 |
| Partnership arrangements are transparent | 17 |
| Mechanisms exist to protect the public interest | 17 |
| Managing commercial projects | 18 |
| Assistance went to eligible projects | 18 |
| Assessment policies were applied appropriately | 18 |
| Making contributions repayable has helped to improve project management | 19 |

| | |
|---|-----------|
| Measuring and reporting performance | 21 |
| Performance expectations are usually established | 23 |
| The Agency has reasonable evidence to support most results | 23 |
| Measurement of the results of non-commercial projects needs to be re-examined | 24 |
| Reported results are meaningful and relevant | 26 |
| Attribution of results is difficult | 27 |
| Conclusion | 28 |
| About the Audit | 30 |



Atlantic Canada Opportunities Agency

Economic Development

Main Points

6.1 We found that the Agency has used due diligence in approving, assessing, and monitoring commercial projects and in managing its portfolio of repayable contributions. The Agency's assessment of commercial projects has become more rigorous since our last audit in 1995. However, it has not reported publicly on its performance in managing \$400 million of repayable contributions.

6.2 The objectives and expected results of non-commercial projects and federal-provincial agreements are often stated vaguely. In the absence of clear, concrete expected results, it is difficult to determine the rate of progress and the success of these projects.

6.3 Increasingly, the Agency uses partnerships and alliances with other levels of government and not-for-profit organizations to fulfil its mandate for economic development. But it does not have a consistent overall approach to managing these partnerships. Nor has it evaluated the cost effectiveness of partnerships and alliances as a means of delivering its programs.

6.4 Management controls over practices common to both commercial and non-commercial projects were satisfactory, except for the following:

- The Agency has not developed a strategy to implement its policy against providing core funding beyond three years to not-for-profit organizations.
- Its letters of offer to recipients of funding did not include some key provisions required by the Treasury Board and designed to protect the government's interest.
- Potential environmental impacts were not considered as an integral part of decisions to approve projects.

6.5 The Agency reports a great deal of performance information publicly, most of it supported by reasonable evidence. It has established specific results it expects for many objectives. However, the accuracy and relevance of the employment impact it has reported for non-commercial projects are questionable.

Background and other observations

6.6 The Atlantic Canada Opportunities Agency (ACOA) provides financial support to a wide variety of projects. Commercial projects are intended to help businesses increase profits or expand. Assistance for non-commercial projects generally goes to other levels of government or to

not-for-profit organizations for projects intended to assist “enabling” projects that have a long-term or indirect impact.

6.7 ACOA is the federal government’s lead agency for co-ordinating and carrying out activities to support economic development in Atlantic Canada. It works with a variety of organizations, including federal departments, provincial governments, not-for-profit organizations, and businesses.

6.8 ACOA spent \$283 million in 2000–01, \$266.6 million of it on its development business line. The programs in this business line have a range of objectives, provide different types of financial assistance, and are delivered by a variety of methods.

The Agency has responded. The Atlantic Canada Opportunities Agency’s responses to our recommendations are included in this chapter. The Agency agrees with the recommendations and indicates the actions that it is taking or intends to take to address them.

Introduction

The Agency's mandate

6.9 The Atlantic Canada Opportunities Agency (ACOA) was created in 1987 to co-ordinate and carry out the federal government's economic development initiatives in Atlantic Canada.

6.10 The Agency's mandate, set out in the *Atlantic Canada Opportunities Agency Act*, is "to increase opportunity for economic development in Atlantic Canada and, more particularly, to enhance the growth of earned incomes and employment opportunities in the region." In its 2001–02 *Report on Plans and Priorities*, the Agency has translated this mandate into its overall objective:

To support and promote new opportunities for economic development in Atlantic Canada, with particular emphasis on small- and medium-sized enterprises (SMEs) through policy, program and project development and implementation and through advocating the interests of Atlantic Canada in national economic policy, program and project development and implementation.

What is economic development?

6.11 Economic development is the enhancement of one or more of the factors that affect productivity—land, labour, capital, and technology. It can be promoted nationally, provincially, or locally. Governments stimulate economic development by using their resources to reduce risks or costs that limit investment by the private sector; thus, they encourage investment in specific locations or activities they consider desirable.

6.12 Governments can take any number of approaches to economic development, including the following:

- attract industries through recruitment and marketing;
- make local areas more attractive to investors by improving infrastructure;
- focus on specific industrial sectors;
- focus on exporting; and
- promote innovation as a basis of growth.

6.13 Economic development activities take many forms. Examples are direct subsidies to individual businesses; tax policy and incentives; support to cultural, intellectual, or related infrastructure; and government policies that encourage private sector investment or investment in the social well-being and health of a community. Economic development entails a variety of approaches, forms, and potential outcomes. It is important that organizations promoting it set priorities and identify the successful outcomes they expect.

6.14 Economic development is pursued throughout the developed world. Canadian provinces, American states, the European Union, and many municipalities create financial incentives and policies to encourage investment. The Agency's support of economic development in Atlantic Canada is similar to that given by government agencies throughout the world.

6.15 ACOA's approach to economic development encompasses the following:

- different delivery methods (direct federal delivery, shared delivery with other levels of government, delivery with and through other parties);
- different forms of financial assistance (repayable, provisionally repayable, and non-repayable); and
- different program goals (a focus on small and medium-sized enterprises or rural communities, adjustment to address specific industry concerns, or development of community infrastructure).

6.16 This means that the Agency supports a wide variety of projects and activities. The majority of ACOA funding goes to not-for-profit organizations or governments as non-repayable contributions. Businesses that receive assistance are usually expected to repay it. Exhibit 6.1 shows the wide range of activities that ACOA supported in 2000–01.

Focus of the audit

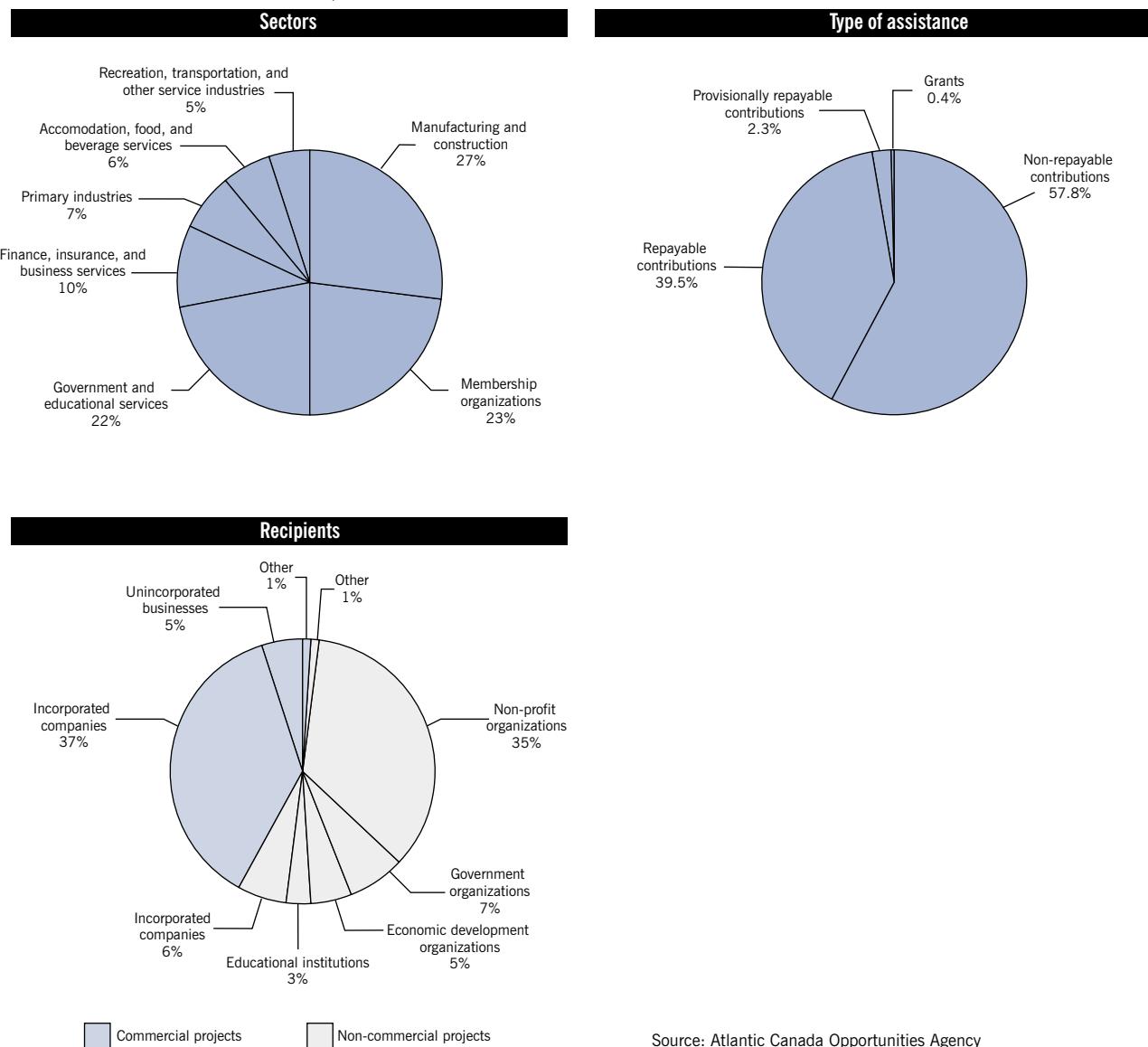
6.17 We undertook this audit to assess how well the Agency's programs reflect its mandate, objectives, and priorities. We also looked at the design and implementation of its framework for controlling its key economic development programs. We looked for compliance with key authorities, such as the *Financial Administration Act*, the *Canadian Environmental Assessment Act*, and Treasury Board policies and guidelines. Finally, we wanted to know how relevant, accurate, balanced, and meaningful its performance information is and to what extent the results it claims can be attributed to the Agency's activities. About the Audit at the end of the chapter has more details.

6.18 Using a sample of projects approved between 1 April 1999 and 31 January 2001, we were able to assess how ACOA managed its activities throughout the project life cycle—assessing and approving applications, monitoring and disbursing funds, and evaluating project results. Our sample included all projects approved under the Business Development Program in this period with authorized funding of over \$500,000. It also included from other programs all projects with funding of over \$2.5 million. And we examined a representative sample of all other projects approved under the Business Development Program and other programs in the same period. The total sample included 40 commercial projects and 68 non-commercial projects.

6.19 We also examined how the Agency measured and reported key information on its performance.

Exhibit 6.1 The Agency supported a wide range of activities in 2000–01

Total assistance authorized in 2000–01 was \$218 million



Source: Atlantic Canada Opportunities Agency

Observations and Recommendations

Program design

The Agency's programs reflect its mandate, objectives, and priorities

6.20 The Agency's mandate is "to increase opportunity for economic development in Atlantic Canada." Its 2001–02 *Report on Plans and Priorities* shows that it plans to do this by achieving key results commitments, focussing on related strategic priorities (Exhibit 6.2).

Exhibit 6.2 The Agency's key results commitments

| To provide Canadians with the following: | Strategic priorities |
|--|---|
| Improved growth and competitiveness of Atlantic small and medium-sized enterprises, leading to increased productivity, earned incomes, and job creation. | Access to capital and information Entrepreneurship and business skills development Innovation Trade, tourism, and investment |
| Economic opportunities for rural Atlantic Canada through community economic development. | Community economic development |
| Greater economic activity in Atlantic Canada through national policies sensitive to the needs of the region. | Policy, advocacy, and co-ordination |

Source: Atlantic Canada Opportunities Agency, 2001–02 *Report on Plans and Priorities*

6.21 ACOA uses its development business line to meet its key results commitments. This business line includes grant and contribution programs, policy development, advocacy of Atlantic Canada's interests, and co-ordination of government activities in the region.

6.22 The Agency's grant and contribution programs are designed to provide direct support to commercial projects and non-commercial organizations that in turn provide support to businesses in Atlantic Canada (Exhibit 6.3). Our audit found that the programs are consistent with the Agency's mandate, objectives, and strategic priorities.

Project controls

ACOA's framework for controlling grants and contributions is generally appropriate

6.23 The Agency's control over its programs and activities is based primarily on the following:

- the requirements of the *Atlantic Canada Opportunities Agency Act*;
- program terms and conditions or federal-provincial agreements approved by the Treasury Board;
- ACOA's internal policies, procedures, and controls;
- internal audits, evaluations, and reviews; and
- internal and external reporting.

6.24 We reviewed this framework against the requirements of the Treasury Board's Policy on Transfer Payments, the *Financial Administration Act*, the *Atlantic Canada Opportunities Agency Act*, and the *Canadian Environmental Assessment Act*. Except for concerns about letters of offer and environmental assessments, we found that the framework for controlling grants and contributions is appropriate. However, as noted in other sections of the chapter, in some areas the Agency has not applied components of this framework adequately.

Exhibit 6.3 The Agency's grant and contribution programs

| Grant and contribution program | Spending (\$ millions) | | Nature of the program |
|--|------------------------|-----------------|---|
| | 2000–01 forecast | 2001–02 planned | |
| Business Development Program | 111.0 | 123.0 | Offers access to capital in the form of interest-free, unsecured, repayable, provisionally repayable, and non-repayable contributions, with a focus on small and medium-sized enterprises. |
| COOPERATION Program | 27.7 | 45.0 | Federal-provincial cost-shared agreements designed to improve the environment for economic growth. Provides non-repayable contributions to commercial and non-commercial projects. |
| Community Futures Program | 10.6 | 10.6 | Annual operating and investment contributions to community business development corporations. |
| Economic development component of the Canadian Fisheries Adjustment and Restructuring Initiative | 33.5 | 41.4 | Contributions to assist affected rural communities become more self-reliant by diversifying and expanding their economies. |
| The Atlantic Groundfish Strategy | 19.7 | 5.1 | Contributions to help communities develop long-term employment opportunities in response to the downturn in the groundfish industry. |
| Infrastructure Canada Program | 8.1 | 30.8 | Federal, provincial, and municipal cost-shared agreements designed to improve community infrastructure. |
| Miscellaneous adjustment programs | 5.9 | 4.4 | Assistance to communities to develop alternative sources of employment where traditional industries have suffered a downturn. |
| Atlantic Investment Partnership | – | 83.5 | Conditionally repayable and non-repayable contributions to assist in building new partnerships that will increase the capacity of Atlantic Canadians to compete in an increasingly global, knowledge-based economy. |
| Total | 216.5 | 343.8 | |

Source: Atlantic Canada Opportunities Agency, 2001–02 Report on Plans and Priorities

Letters of offer are missing some required conditions

6.25 When accepted by a project proponent, the letter of offer is a contribution agreement between ACOA and the proponent. The letter of offer spells out the following:

- the activities both parties are expected to carry out;
- the results expected from the contribution;
- the legislation and government policies the proponent is expected to comply with;
- any limits or special circumstances;
- the type and amount of financial assistance ACOA will provide; and
- the terms of repayment, where applicable.

6.26 We found that the letters of offer we reviewed met most of the requirements for contribution agreements set out in Treasury Board's Policy on Transfer Payments. However, they did not include the following required elements:

- a clause to limit the government's liability if the recipient borrows additional money elsewhere for the project;
- a provision to cancel or reduce transfer payments if Parliament changes departmental funding levels;
- a requirement that the recipient declare any amounts it owes the federal government and recognize that amounts to be paid to the recipient may be used to pay other debts to the government;
- a requirement that no current or former public office holder or public servant shall derive a direct benefit from the agreement, except as provided for in the Conflict of Interest and Post-Employment Code for Public Office Holders and the Conflict of Interest and Post-Employment Code for the Public Service; and
- a requirement that any person lobbying on behalf of the project proponent be registered under the *Lobbyists Registration Act*.

These terms are all required by the Treasury Board Policy on Transfer Payments.

6.27 Further, we noted that the letters of offer for 17 projects in our sample did not describe the results expected in return for the contribution, also a requirement of the Treasury Board Policy on Transfer Payments. The Agency's standard letter of offer does not require a statement of expected results.

6.28 Recommendation. The Agency should amend its standard letter of offer to ensure that it provides for a statement of the specific results the project is expected to achieve and that it includes the provisions required by the Treasury Board and designed to protect the government's interest.

Agency's response. Concur. In recognition of this recommendation and the new Treasury Board Policy on Transfer Payments, the Agency has made several changes to the standard letter of offer. In some instances, we also have undertaken work with the Treasury Board Secretariat to develop wording that

is in compliance with the transfer payment policy and is acceptable to our clients.

Environmental assessments are not an integral part of decision making

6.29 The Canadian Environmental Assessment Act (CEAA) requires federal departments, including ACOA, to carry out an environmental assessment of every project that receives federal funds. This assessment must be done before the funds are approved. In ACOA's experience, a proposal to fund the construction or expansion of a facility or related infrastructure is the kind most likely to trigger an environmental assessment.

6.30 Of the 108 projects in our sample, ACOA officials had identified 26 that required an environmental assessment under the CEAA. We found that the Agency had carried out the assessments that were required. We also reviewed the project files of the 82 other projects in our sample to confirm that they had not required environmental assessments.

6.31 Weaknesses in the way ACOA performs environmental assessments. From our review of the 26 environmental assessments the Agency conducted, we have the following concerns:

- In seven cases, ACOA carried out the environmental assessment after giving effective approval to the project. The CEAA requires that environmental assessments be carried out before a federal department does anything that commits it to a project, such as agreeing to provide financial assistance. In many other cases, the Agency carried out the environmental assessment late in the approval process. In our view, if an environmental assessment is to serve as an effective tool for decision making, it must be an integral part of assessing the project proposal.
- In 12 cases, the letter of offer did not include a condition requiring the applicant to implement all of the mitigation measures identified in the environmental assessment. If ACOA is to meet its obligations under the CEAA, its letters of offer to proponents must include any mitigation measures that are required.
- The environmental assessments of seven projects identified the need for subsequent follow-up. In four of these cases, ACOA did not follow up on the concerns it had identified.

6.32 The 1998 Report of the Commissioner of the Environment and Sustainable Development (Chapter 6) criticized ACOA for tending to conduct environmental assessments only after all other factors in a project's approval had been considered. That this practice continues in 2001 is worrisome.

6.33 The case study on page 10 illustrates some of our concerns about ACOA's approach to environmental assessments. It still does not include as an integral part of its project management process the environmental assessment of the project and subsequent follow-up to ensure that the proponent has taken any required mitigation measures.

6.34 Recommendation. The Agency should ensure that it integrates environmental assessments with the project approval process. Its letters of offer should include mitigation measures identified by environmental

assessments. The Agency should follow up as required to ensure that the project proponent completes the mitigation measures.

Agency's response. Agree. ACOA is committed to environmentally friendly, sustainable development. We will review our project approval process to re-affirm the requirement for more consistent application of environmental assessments. We will ensure that mitigation measures emanating from the environmental assessments are included in 100 percent of letters of offer, and we will ensure appropriate monitoring of their completion by the client.

| Environmental assessments are not an integral part of the Agency's decision making |
|--|
| <p>In April 1998, the Agency received a proposal for the development of a hotel and resort on Prince Edward Island. As part of the approval process, the Agency conducted an environmental assessment of the project. The arrangements with the original proponent did not proceed.</p> <p>Negotiations were subsequently conducted with another proponent who submitted a funding application to the Agency on 30 October 2000. The Agency decided that a new environmental assessment was required because the scope of the project had changed. This assessment started on 7 February 2001 and was completed in March. A letter of offer was sent to the new proponent on 31 March 2001.</p> <p>One of the measures recommended in the environmental assessment was the development of an environmental protection plan for the construction phase. Construction began in November 2000 and the facility was operating in July 2001. The Agency did not receive an environmental protection plan before operations began. The proponent submitted a claim for payment, but the Agency had not disbursed any funds at July 2001.</p> <p>We are concerned that the environmental assessment was completed four months after construction started and that, even though the facility is now operating, the Agency has not received an environmental protection plan covering the construction phase.</p> |

Source: Atlantic Canada Opportunities Agency

Disbursement of funds and monitoring of projects generally comply with policies

6.35 We found that except for advance payments, the Agency disbursed funds in accordance with the Treasury Board's policies and its own policies. It monitored projects adequately to ensure that they complied with the conditions for funding, except the environmental mitigation measures already noted.

6.36 Advance payments. Ten percent of the projects we reviewed did not comply with the advance payment requirements of the Treasury Board Policy on Transfer Payments. In those cases, there was no evidence of the proponent's cash requirements to support the need for advance payment.

Managing non-commercial projects

Many activities are eligible for funding or can be made eligible

6.37 Projects in our sample included non-commercial activities such as developing community infrastructure; planning community-based economic development; holding conferences, workshops, and training; carrying out trade and research studies; and others. This shows the wide range of activities

that fit or can be made to fit the Agency's program terms and conditions, guidelines, agreement objectives, and strategic priorities. Given the range of ACOA's programming and the breadth of its strategic priorities, we question whether eligibility criteria are explicit enough to provide guidance for a decision to approve a project or not.

6.38 All the non-commercial projects in our sample were eligible under the terms and conditions approved by the Treasury Board or the objectives of individual federal-provincial agreements and the Agency's program guidelines. However, we also found that for large non-commercial projects, the Agency or the management committee for a federal-provincial agreement can either override policy requirements or have applicants change their project proposals to conform to existing requirements.

6.39 For example, two multi-purpose centres were approved for funding under the Canada/Nova Scotia COOPERATION Agreement on Economic Diversification. The centres do not fall under any of ACOA's strategic priorities. In fact, the Secretary of State responsible for the Agency originally rejected both proposals because, as basic civic infrastructure, the centres were not eligible for the funding.

6.40 For one of the centres, ACOA did not provide cash but agreed that the total expenditure would be credited to the Province's share of funding under the Agreement. Therefore, ACOA must "make up" the amount elsewhere under the Agreement. The proposal for the other centre was revised with the Agency's help to include additional facilities that put it within the scope of the Agreement.

6.41 We also noted the use of questionable means to make a project eligible for a contribution from the Business Development Program. The activities of this project are normally the responsibility of another federal department. Under the terms and conditions approved by the Treasury Board for the Business Development Program, ACOA is not permitted to provide financial assistance for government services. Agency officials were instrumental in creating a not-for-profit organization, known as Greenwich Development Inc. (GDI), to contract with private sector developers for the complete development of an interpretation centre in Greenwich, PEI, adjacent to the National Park boundary. ACOA officials then acted in management capacities for this organization by entering into contracts, making claims to ACOA, and disbursing funds on behalf of GDI. In our view, these actions circumvented the intent of the terms and conditions of the Business Development Program. The case also illustrates the difficulty of determining how much a project's total funding is from the government when many partners are involved (see case study on page 12).

Many projects are not financially sustainable in the long run

6.42 The Business Development Program has a policy against providing core operating funding beyond three years to not-for-profit organizations, except with the President's approval. The Agency believes that three years should be long enough for an organization to become financially self-sustaining. Of the 28 non-commercial Business Development Program projects we audited, we found 3 that, although properly approved, received

Making a project eligible using questionable means

In 1998 Parks Canada began assembling land near Greenwich, Prince Edward Island to incorporate a sensitive dune area into the Prince Edward Island National Park and to provide opportunities to visitors to learn about its significance. A number of partners then became involved in funding and developing aspects of the new Greenwich component of the park. For example, the Atlantic Canada Opportunities Agency (ACOA), Parks Canada, and Human Resources Development Canada provided about \$1.9 million to the local Community Futures Program group to build park infrastructure such as trails and boardwalks.

In October 1999, ACOA recruited a Board of Directors to form a not-for-profit organization called Greenwich Development Inc. (GDI). This organization was responsible for contracting with private sector developers for the complete development of an interpretation centre in Greenwich, PEI, adjacent to the National Park boundary. The organization has a volunteer Board of Directors but its activities are managed by ACOA officials.

To build the centre and exhibits, Greenwich Development Inc. did the following:

- leased 9.8 hectares of land from Parks Canada;
- selected a builder for the centre;
- sublet the land to the builder;
- received a \$1 million contribution from ACOA's Business Development Program for the design and construction of the exhibits; and
- selected and paid a builder for the exhibits.

Officials of ACOA and Parks Canada participated in the selection of the builders of both the centre and the exhibits. In fact, on behalf of GDI, an ACOA official signed the contract with the builder of the exhibits.

We have the following concerns about this type of arrangement:

- Government services are not eligible for funding under the Business Development Program. Although GDI is established as a not-for-profit organization, it is in substance delivering services normally provided by another federal government organization. Creating and operating GDI to receive the contribution therefore circumvents the intent of the terms and conditions of the Business Development Program.
- Because of the complex structure of these arrangements, it is impossible for Parliament to know the full capital and operating costs of the Greenwich component of the park.
- It is inappropriate for ACOA officials to act as officers of recipient organizations, even if authorized by senior ACOA officials.

Source: Atlantic Canada Opportunities Agency

core funding for longer than three years. In addition, 6 other projects funded through other programs were unlikely to be financially sustainable in the future without continued government assistance. Many of these 9 project recipients have depended for many years on funding from ACOA or other federal sources. The Agency does not have a strategy to limit core funding to not-for-profit organizations. In addition, ACOA has not assessed the benefits of providing such long-term support. Exhibit 6.4 indicates a not-for-profit organization that has been dependent on ACOA since it started up in 1989.

Exhibit 6.4 The Canadian Centre for Fisheries Innovation has depended on the Agency for operational and program funding since it opened in 1989

| Agency program | Funding period | Approved project cost (\$ millions) | Approved assistance (\$ millions) |
|--|----------------|-------------------------------------|-----------------------------------|
| ACOA Action Program | 1989–1994 | 19.1 | 8.5 |
| ACOA Action Program | 1994–2000 | 14.5 | 7.2 |
| Canada/Newfoundland Agreement on Economic Renewal | 2000–02 | 2.5 | 1.5 |
| Canada/Newfoundland Comprehensive Economic Development Agreement | 2000–02 | 2.5 | 1.0 |
| Total | | 38.6 | 18.2 |

Source: Atlantic Canada Opportunities Agency

Projects were adequately assessed before approval

6.43 We found reasonable evidence that the Agency is not funding activities that someone other than the project proponent is already carrying out. The projects it has approved, therefore, likely represented no duplication of demand for the limited resources available for economic development.

6.44 We found that the Agency had adequately assessed the capability of project proponents to deliver projects; it had examined its past experience with an applicant and the applicant's reputation, financial capabilities, and management abilities.

6.45 In all of the projects we reviewed, the Agency had considered the likelihood of an economic benefit to Atlantic Canada.

Partnerships and alliances are becoming increasingly important

6.46 ACOA delivers programs increasingly through others or in co-operation with them. It has partnerships and alliances with other federal departments, provincial governments, regional economic development organizations, community business development corporations, educational institutions, and others.

6.47 The Agency is responsible for six active federal-provincial agreements and two Pan-Atlantic agreements, all cost-shared. In 2000–01, its share of spending under these agreements was \$28 million; it was \$74 million in 1999–2000. The amount is declining because the agreements have been expiring.

6.48 Community business development corporations (CBDCs) are autonomous, not-for-profit corporations that provide technical and financial assistance to local entrepreneurs. Technical assistance is usually information,

counselling, and advice to small businesses; financial assistance is usually an interest-bearing loan but can include equity or loan guarantees. In 2000–01, the Agency provided \$12.2 million under the Community Futures Program to the 41 CBDCs in the Atlantic region.

6.49 ACOA also supports a network of regional economic development organizations that develop strategic plans for local economic development and then carry them out. In 1999–2000, the 51 regional economic development organizations created by the provincial governments in Atlantic Canada received a total of \$6 million from ACOA under federal-provincial agreements.

6.50 We examined the Agency's agreements and relationships with its partners to determine whether they had an effective governing framework, as described in our 1999 Report, Chapter 5, Collaborative Arrangements: Issues for the Federal Government, and Chapter 23, Involving Others in Governing: Accountability at Risk. In particular, we looked for the following:

- credible reporting—including expected and actual results;
- effective accountability mechanisms—including clear roles and responsibilities;
- transparency; and
- protection of the public interest.

6.51 We found the following:

- The results expected from these arrangements were often stated vaguely and not focussed on the longer-term expected outcomes.
- The outcomes of most partnerships were not measured, and the Agency needs to do more to evaluate the reasonableness of claimed results in certain partnerships.
- ACOA has provided little guidance to its staff on managing relationships with partners.
- Partnership arrangements are transparent and include mechanisms to protect the public interest.

Expected results from partnerships are often vague

6.52 All of the active federal-provincial agreements we examined had publicly stated objectives, mostly general statements of intent. The number of agreements has been consolidated from 51 in the early 1990s to 8 today. Consolidating them understandably broadened their objectives. But we expected that each agreement would break down the broad objectives into clear, concrete statements of expected results.

6.53 Each agreement is supposed to have an evaluation framework that sets out expected results in clear, concrete terms. However, we found this in only three of the eight federal-provincial agreements. Exhibit 6.5 summarizes our findings.

6.54 The Agency's agreements with CBDCs and regional economic development organizations did have clearly stated objectives because these organizations provide specific services or carry out specific activities. The

Exhibit 6.5 Our assessment of evaluation frameworks for the eight active federal-provincial agreements

| Evaluation framework elements | Number (out of eight) |
|--|-----------------------|
| Clear, concrete statements of expected results | 3 |
| Indicators with no targets | 2 |
| General statements of intent | 2 |
| No evaluation framework | 1 |

Source: Evaluation frameworks for federal-provincial agreements

CBDCs submit annual plans to support requests for funding. Generally, the plans clearly state the outputs expected (for example, lending activity or numbers of training sessions or consultations) and also specify the expected outcomes (such as number of jobs to be created or maintained).

6.55 Regional economic development organizations submit annual plans and a five-year strategic plan to ACOA. The statements of expected results in these plans vary in quality from region to region. Some organizations set out expected results in clear and concrete terms, while others vaguely state expected outputs. Most other partnership arrangements focus on activities and outputs as the primary measures of expected results.

The outcomes of most partnerships are not measured

6.56 We found little or no collection by ACOA of ongoing performance information on most federal-provincial agreements. Only on the Atlantic Canada Agreement on Tourism is comprehensive performance information regularly collected and reported. Information is collected and reported on activities and some outcomes of the Canada/Newfoundland Agreement on Economic Renewal and the Canada/Atlantic Provinces COOPERATION Agreement on International Business Development. We also found that provincial government Web sites and public reports disclose more information than ACOA does about the activities, projects, and results of the federal-provincial agreements.

6.57 Agreements are evaluated retrospectively near the end of their usual five-year life span. Therefore, only one of the current federal-provincial and Pan-Atlantic agreements has had a formal evaluation.

6.58 We examined a sample of evaluations for agreements predating the current agreements. We found that the evaluations did not demonstrate that the project activities undertaken could be clearly linked to the results claimed for them. We also noted that except for evaluations of the two Pan-Atlantic agreements, the evaluations we reviewed focussed on activities, outputs, and recipients' satisfaction with services rather than on outcomes the agreements had achieved.

6.59 The CBDCs provide ACOA with extensive information on their activities and results. At 1 April 2001, these organizations had an investment portfolio of \$129 million built up over time. In addition, about four percent of ACOA's annual expenditures are contributed to these organizations. The Agency's 1999–2000 *Performance Report* includes as part of its overall employment impact 2,800 jobs that the CBDCs reported they had created or maintained. It also includes about 860 jobs from The Young Entrepreneurs ConneXion—Seed Capital and Counselling Program administered by the CBDCs on behalf of ACOA. Together, these represent 32 percent of all jobs that ACOA reports it created or maintained in 1999–2000. In our view, the contrast between the level of assistance it provided and the level of results it has claimed suggests, when compared with the Business Development Program, that ACOA needs to examine the credibility of these results.

Roles and relationships with partners are sometimes not clear

6.60 We found that the distinction between the Agency's roles and responsibilities and those of its partners is clearer in some agreements than in others. For example, each federal-provincial agreement is administered by a management committee. Operating procedures established by each management committee clearly set out its roles and responsibilities. However, as already noted, management committees have made decisions that are inconsistent with ACOA's strategic priorities.

6.61 ACOA's role was less clear in its relationships with CBDCs and regional economic development organizations. With little formal guidance, ACOA account managers exercised considerable discretion in determining how involved they would be with these entities. However, the Agency's head office recently updated its manual on managing the Community Futures Program, guidance that account managers can use in monitoring these organizations.

6.62 ACOA can adjust the operational funding it provides to the CBDCs but it does not have the power to recover funds provided for investment purposes, unless a CBDC is wound up. At 1 April 2001, 39 of the CBDCs had built up cash balances totalling about \$26 million; the total value of the CBDCs' investment portfolio was \$129 million. ACOA has recognized that the cash balances were excessive. It has worked with the CBDCs to create, effective 1 April 2001, a pooling mechanism to encourage the use of excess cash for community economic development.

6.63 The regional economic development organizations were created by the provinces and are managed by volunteer boards of directors; ACOA is only one of the players with influence. The extent to which the work of these organizations is co-ordinated with ACOA varies from province to province, from full integration in New Brunswick, with a memorandum of understanding supported by work plans, to informal discussions in Prince Edward Island. A major product of each regional organization is a strategic plan for economic development in its region. However, ACOA did not consider the strategic plan consistently when assessing project proposals in the same region.

6.64 All of the agreements we reviewed had clauses giving ACOA the right to conduct audits of underlying documentation. Payments to partners and progress in meeting project objectives are subject to regular review by ACOA. The federal-provincial agreements also provide for an evaluation near the end of the agreement's life. As already noted, however, most federal-provincial agreements have been evaluated only when they end, and the evaluations have not focussed on the results achieved under the agreements.

6.65 As part of our audit of individual projects, we examined mechanisms for resolving disputes with partners and procedures to deal with non-performance. We found that the Agency had adequate provisions in its letters of offer to deal with these issues.

Partnership arrangements are transparent

6.66 We found that ACOA's partners are open in providing information on the eligibility requirements recipients must meet for funding. In addition, the Canada business service centres have public information on the services provided by each of the partnership arrangements we reviewed.

6.67 ACOA also has the right of access to all relevant documents of the ultimate recipients of its funding.

6.68 The partners report performance information publicly and to ACOA. The Agency incorporates that information, primarily numbers of jobs created and maintained, as part of its own overall results. Each partner also appears to take credit for any jobs created and maintained, and this double counting makes the actual numbers difficult to determine.

Mechanisms exist to protect the public interest

6.69 We found that the formal arrangements with partners included clauses to ensure the presence of appropriate controls over public funds and measures for citizens to complain and obtain redress. The arrangements also had clauses stipulating the codes of conduct and conflict-of-interest guidelines, as required by the Treasury Board. However, we did not assess whether partners have complied with these clauses.

6.70 Recommendations. The Agency should establish clear, concrete expectations for non-commercial projects, agreements, and partnerships.

6.71 The Agency should evaluate the cost effectiveness and outcomes of using partnerships and alliances as a means of delivering its programs. It should also review its policy requiring non-commercial projects to become financially self-sustaining within three years.

6.72 The Agency should develop clear guidance on reporting, accountability, transparency, and protecting the public interest for improved management of relationships with partners.

Agency's response. Concur. The Agency will continue to refine its statements of expected outcomes for non-commercial activities, will undertake the suggested analyses, and will review existing guidance with a view to bringing greater clarity and consistency.

Managing commercial projects**Assistance went to eligible projects**

6.73 All 40 of the commercial projects in our sample met the terms and conditions for eligibility approved by the Treasury Board, and they all adhered to the Agency's policies and guidelines. All the projects were linked to one or more of the Agency's strategic priorities.

Assessment policies were applied appropriately

6.74 We found that the Agency's policies on assessing applications for commercial projects were appropriate. The quality of the assessments has improved since our last audit in 1995. We looked for evidence that ACOA had adequately considered the following questions:

- Did the project need the Agency's funding?
- Were other sources of funding available and were they considered?
- Was the project likely to be commercially viable?
- Did it offer a probable benefit to the economy of Atlantic Canada?
- Was the proponent assuming an appropriate share of the risk?
- Would the proponent be able to repay the contribution?

6.75 Assessing the need for government assistance is not easy. Often it is difficult for ACOA to determine whether other funding is available or if government funding is needed to gain access to private capital. We found that the Agency relies on the applicant's signed declaration stating that the assistance is needed. We reviewed the project files to assess the need for government funding. In most of the projects in our sample, there was evidence of the need for government support. For example, applicants with a poor financial history or projects that are not secured by tangible assets have difficulty obtaining financing from other sources.

6.76 The likelihood that an economic development project will become commercially viable is an important consideration. It involves assessing financial projections, market analyses, competitive impact, and technical feasibility. It is important because commercially viable projects provide sustained employment, create wealth, and contribute to the tax base. The files we reviewed had reasonable evidence that the projects would be commercially viable.

6.77 One economic benefit of a project would be a net increase in employment or business activity. A project's potential impact on other segments of the Atlantic economy and the presence of an established market that can support it are also factors to assess. The Agency issues sectoral guidelines for account managers to use in assessing potential economic benefits. All of the project files we reviewed contained evidence that the project was likely to generate an economic benefit to Atlantic Canada.

6.78 The Agency requires applicants to make a minimum investment in their own projects. Except for one isolated case, applicants had made the required investment in the projects we reviewed.

6.79 In 1999, ACOA introduced guidelines on managing risk and monitoring projects. These guidelines set out detailed criteria for assessing risk and assigning a category of risk to a project before it is approved—a rating of low, low-medium, medium, medium-high, or high. The rating is being used to determine how much monitoring is necessary.

Making contributions repayable has helped to improve project management

6.80 One of the key aspects of the Business Development Program is its policy that contributions are to be repaid. The policy is based on the principle that businesses receive a contribution to earn profits or to increase their value. The government should receive back its contribution out of these profits or the increase in value.

6.81 From its introduction in 1995 until 31 March 2001, the Business Development Program provided roughly \$460 million in repayable contributions; \$78 million of this has been repaid and \$12 million written off. Exhibit 6.6 shows the history of repayable contributions in the Business Development Program. The repayment period depends on the nature of the project and of the applicant. For a capital project with a commercial applicant, repayment of the contribution begins not later than three years after the project is completed; full repayment is expected within 10 years.

6.82 The Agency does not take security on the assets of an applicant for a repayable contribution. Applicants can thus retain their borrowing capacity for financing from other sources. Nor does the Agency charge interest on contributions that are repaid on schedule, though it may charge interest when repayment is overdue.

6.83 Risk management. The introduction of repayable contributions in 1995 had a profound effect on the way the Agency did business. It now had to do the following:

- assess the applicant's ability to repay;
- establish terms of repayment;
- monitor the project;
- amend or reprofile the original repayment terms, if necessary; and
- collect money owed to the Crown.

Exhibit 6.6 History of repayable contributions in the Business Development Program (\$ millions)

| | 1995–96 | 1996–97 | 1997–98 | 1998–99 | 1999–2000 | 2000–01 | Total |
|-----------------|---------|---------|---------|---------|-----------|---------|--------|
| Opening balance | — | 15.8 | 77.0 | 169.8 | 267.3 | 322.3 | — |
| Expended | 15.8 | 62.3 | 97.5 | 112.5 | 84.2 | 87.9 | 460.2 |
| Collected | — | (1.1) | (4.7) | (13.2) | (24.0) | (35.5) | (78.5) |
| Written off | — | — | — | (1.8) | (5.2) | (5.2) | (12.2) |
| Closing balance | 15.8 | 77.0 | 169.8 | 267.3 | 322.3 | 369.5 | 369.5 |

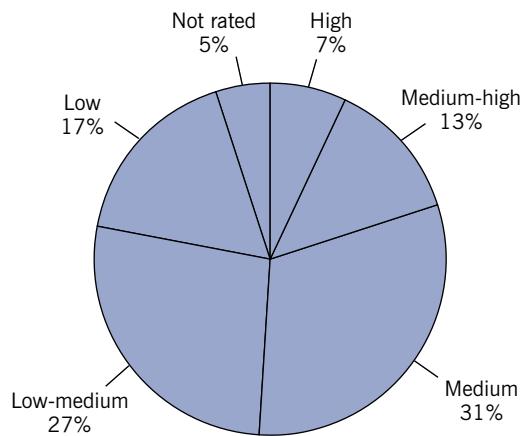
Source: Atlantic Canada Opportunities Agency

6.84 These changes helped to make project approval a more rigorous process than we had found in our 1995 audit. The Agency developed policies, guidelines, and procedures to ensure that repayments were monitored and Treasury Board policies respected.

6.85 Of the contributions in our sample for this audit, 37 were repayable. The Agency had completed risk assessments for all of them. Repayment terms for 36 projects complied with the Treasury Board's transfer payment policy. The repayment period for the other project was one year longer than the policy permits.

6.86 The Agency's rating of project risk allows it to assess the collectable value of its repayable contributions portfolio. The Agency can also analyze the mix of risk to which the portfolio is exposed. The overall risk is reported monthly, both Agency-wide and by region. Exhibit 6.7 shows the mix of assessed risk in the portfolio at 31 March 2001.

Exhibit 6.7 Mix of assessed risk in the repayable contribution portfolio at 31 March 2001



Source: Atlantic Canada Opportunities Agency

6.87 Collections. At the end of the 2000–01 fiscal year, the Agency's portfolio of active repayable contributions (principal amounts) totalled \$424 million; \$281 million of that represented accounts with repayments now scheduled. The first payments on the remaining \$143 million are not yet due. In 2000–01, the Agency had budgeted to receive repayments of about \$40 million and it received about \$48 million.

6.88 The Agency's repayable contributions portfolio includes balances carried over from previous economic development programs in Atlantic Canada. ACOA is responsible for collecting these balances. Exhibit 6.8 shows the active principal outstanding, by program, at 9 July 2001.

Exhibit 6.8 Active principal outstanding in the repayable contribution portfolio at 9 July 2001

| Program | (\$ millions) |
|--|---------------|
| Business Development Program | 328.9 |
| ACOA Action Program | 59.2 |
| COOPERATION agreements | 15.9 |
| Atlantic Investment Fund | 10.0 |
| Fishery Alternative programs | 2.1 |
| <i>Industrial and Regional Development Act</i> | 1.1 |
| Borden/Cape Tormentine redevelopment | 0.6 |
| Industrial and Regional Development Program | 0.4 |
| Economic development component of the Canadian Fisheries Adjustment and Restructuring Initiative | 0.4 |
| Total | 418.6 |

Source: Atlantic Canada Opportunities Agency

6.89 In addition to the portfolio of active repayable contributions, the Agency has a \$60 million portfolio of accounts in substantial arrears owed by insolvent businesses or in other forms of non-compliance. For these accounts, the Agency initiates collection measures, including legal judgments and set-off arrangements with the Canada Customs and Revenue Agency.

6.90 Reporting. Neither ACOA's *Report on Plans and Priorities* nor its *Performance Report* gave information on the balances in the repayable contributions portfolio or the amounts collected, written off, and defaulted. Nor has the Agency established performance targets for the portfolio. We would expect it to set targets for collections, accounts defaulted, write-offs, and the mix of risk in the balance of the portfolio.

6.91 Recommendation. The Agency should establish targets for, and report publicly on, the performance of its repayable contributions portfolio.

Agency's response. Agree. The Agency will include performance information on the repayable contributions portfolio in the annual *Report on Plans and Priorities*, *Performance Report*, and *Financial Statements* in this and subsequent fiscal years.

Measuring and reporting performance

6.92 We audited information the Agency reported on 13 key results that it had achieved in 1999–2000 (Exhibit 6.9). We found the following:

- Results reported in its *Performance Report* were linked to expected results in the related *Report on Plans and Priorities*.
- For half of these actual results, expected results had been stated in clear and concrete terms.

Exhibit 6.9 The Agency reported on 13 key results in 1999–2000

| Key target | Key result |
|---|---|
| Key commitment 1: Improved growth and competitiveness of Atlantic small and medium-sized enterprises (SMEs) | |
| Assist 1,000 SMEs to create jobs. | Target achieved¹ |
| Increase the number of students and youth involved in venturing programs to 1,200 per year by 2000–01. | Target on track¹ 1,100 youths assisted in 1999–2000. |
| Assist 750 new businesses and ensuing jobs for young entrepreneurs from 1997 to 2000. | Target exceeded Over 900 new businesses assisted. |
| Create 15 new Canadian Foundation for Innovation projects. | Target exceeded Over 20 new projects to support research in universities created. |
| Achieve a \$10 economic return on every \$1 spent on Atlantic Canada Tourism Partnership marketing campaign. | Target almost met \$9.40 economic return achieved for the region. |
| Assist every year 80 SMEs as successful first-time entrants into the international market. | Target achieved |
| Key commitment 2: Economic opportunities for rural Atlantic Canada through community economic development | |
| Provide communities with self-development and alternative employment in areas affected by the closure of the Atlantic groundfish fishery. | Target achieved² Canadian Fisheries Adjustment and Restructuring Program provided the following: <ul style="list-style-type: none">• \$19.2 million in projects for Newfoundland;• \$11.2 million in projects for Nova Scotia. Newfoundland's aquaculture industry increased by 400% from 1995 to 1999—a focus of the Agency's support. |
| Maintain a high-level of client satisfaction at the Canada business service centres (CBSCs). | Target achieved Client satisfaction remains above 87%, despite an 86% increase in the number of enquiries. |
| Increase access to CBSCs information. | Target achieved Presence on Web established. Service delivery partnership with CBDCs created. |
| Approve 3,000 loans by the CBDCs from 1997 to 2000. | Target exceeded 4,050 loans approved. |
| Key commitment 3: Greater economic activity in Atlantic Canada through national policies sensitive to the needs of the region | |
| Promote greater understanding of the economic challenges and opportunities facing the region. | Target achieved Provided input for the federal government's \$700 million Atlantic Investment Partnership. |
| Build Atlantic business development opportunities into procurement strategies. | Target achieved \$165 million in industrial and regional benefits. |
| Co-ordinate economic development activities. ³ | Target achieved The Prime Minister, the Minister for International Trade, and the Atlantic premiers participated with over 40 Atlantic exporters in Team Atlantic's 2000 mission to the U.S. |

¹This key result was not supported by reasonable documentary evidence (see paragraph 6.99).²This target was in fact not achieved (see paragraph 6.98).³There was no target for this key result (see paragraph 6.96)

Source: Highlights of the ACOA Performance Report for the period ending March 31, 2000 (pamphlet)

- Eleven of the actual results reported were supported by reasonable evidence.
- The extent to which results are also attributable to other parties is not clear.
- Results claimed were presented in a meaningful, relevant way.

6.93 We audited the accomplishments that ACOA has reported overall for economic development. We found that the overall impact on employment that it attributes to its programs is questionable. It does not take account of the important role played by other economic development organizations in creating and maintaining the same jobs. And the use of a fixed dollar amount to measure jobs created or maintained as a result of assistance to non-commercial projects is questionable.

Performance expectations are usually established

6.94 We found that in the preceding reports on plans and priorities, the Agency had stated in clear and concrete terms its expectations for 6 of the 13 key results it reported in the 1999–2000 *Performance Report*. For example, in the 1999–2000 *Report on Plans and Priorities*, ACOA said it expected to reach specific targets, such as generating a return of \$10 per dollar invested in the Atlantic tourism marketing campaign. The basis for these expectations was usually the targets achieved in the past.

6.95 For six other key results it reported, the Agency had stated its expectations in general terms with no targeted numbers. For example, it expected its annual investment in 1,000 small and medium-sized enterprises to result in new employment, business start-ups, sales, and increased productivity. However, it put no figures on any of these expected results.

6.96 One key result cited in the *Performance Report* had no related expectations established in the earlier *Report on Plans and Priorities*.

6.97 ACOA's performance reports cite results in the following areas:

- overall impact on economic development in terms of job growth;
- earned income;
- overall impact on employment; and
- survival rates of ACOA-assisted firms.

However, we noted that the *Report on Plans and Priorities* included no clear, concrete expected results in these areas. Agency officials have informed us that, in their view, it is not possible to target expected results in these areas.

The Agency has reasonable evidence to support most results

6.98 Measuring results against key results commitments. The Agency's *Performance Report* includes results for each key results commitment in its *Report on Plans and Priorities*. We examined how ACOA had measured the results it reported (Exhibit 6.9). In one instance, while the result reported was accurate, it was in fact less than the target set by the Agency.

6.99 We found that the Agency had reasonable documentary evidence to support 11 of the 13 results it claimed. It was unable to obtain information from its key delivery partners on the number of students and youth involved in venturing programs. The other result it claimed was that it had helped 1,000 SMEs create jobs. We found that the Agency was basing this claim on the 1,000 projects supported by the Business Development Program rather than the number of enterprises. Only 655 of these projects were carried out by small and medium-sized commercial enterprises. The others were carried out by not-for-profit organizations, educational institutions, or other government organizations. ACOA's data show that under all of its programs in 1999–2000, it supported 713 commercial projects of 657 different clients. For 2001–02, ACOA has reduced its target for SMEs assisted from 1,000 to 800.

6.100 Benefits Monitoring Tracking System. The Agency has developed a Benefits Monitoring Tracking System (BMTS). The system should capture key expected results of all large projects and a sample of smaller projects at the time the projects are approved. The information to be entered in the system is tailored to each of the Agency's strategic priorities. The intent is that actual results will be recorded against key expected results. ACOA officials have informed us that the BMTS has been more labour-intensive than originally estimated. Information generated by the system has not yet been used in public reporting.

6.101 Commercial projects. The Agency's reported impact on employment as a result of commercial projects is based on the number of jobs that it estimated the projects would create or maintain when it approved them. These estimated impacts are occasionally validated by external studies. September 1998 was the latest review of assumptions and processes used by the Agency in estimating job creation. The Agency also contracts with Statistics Canada each year to survey businesses it has assisted and collect data to support the figures it has reported for employment growth, payroll increases, and survival rates among business start-ups. Other performance information is obtained from internal ACOA systems, client surveys, internal and external studies, and reports from partners.

Measurement of the results of non-commercial projects needs to be re-examined

6.102 Non-commercial projects. When measuring the employment impact of non-commercial projects, ACOA assumes that each \$25,000 of assistance creates or maintains one full-time-equivalent job for five years. This is based on a study prepared for the 1993 evaluation of the COOPERATION Program, which was updated through reviews in 1997 and 1998.

6.103 We have the following concerns about the use of a fixed dollar amount per job to measure the impact of non-commercial projects:

- Expenditure is a measure of resources used, not a result achieved. This approach will always report better results from higher spending. It is not a direct measure of actual results.

- Employment impact is usually an indirect rather than a direct impact of non-commercial projects. Therefore, the use of jobs created and maintained as a measure of the success of those projects is questionable.
- Finally, there are many variables that would affect any chosen fixed dollar amount per job. Consequently, the accuracy of such results would be questionable.

6.104 An example of the problems with the fixed dollar amount per job is that it is a simple average. However, the non-commercial projects supported by ACOA are not an evenly distributed population. Therefore, use of the \$25,000 per job estimate can yield misleading results or hide important characteristics. For 1999–2000, half of the jobs ACOA estimates were created or maintained by non-commercial projects came from only 16 projects, or only four percent of all non-commercial projects under federal-provincial agreements.

6.105 A closer look at these 16 projects illustrates our concerns. For example, the federal government contributed \$4.5 million under a federal-provincial agreement to build a new apron and associated taxiway at the Moncton Airport prior to the Francophonie Summit. Using the assumption of one job for each \$25,000 of assistance, the impact on employment would be 180 full-time jobs lasting five years. According to ACOA's documentation, however, this project created only 60 jobs that lasted for the 11-month construction phase. In another case, ACOA provided \$2.8 million to the Centre for Advanced Research and Development in Global Information Networking. Again, the assumption of one job for each \$25,000 of assistance would mean that the Centre would create or maintain 112 full-time jobs lasting five years. ACOA's project documentation shows that the project would create 22 full-time jobs.

6.106 Community business development corporations (CBDCs). Of the 11,400 jobs that ACOA's 1999–2000 *Performance Report* estimates it helped create or maintain, 3,666 were associated with CBDCs through their loan portfolios or through the Young Entrepreneurs ConneXion—Seed Capital and Counselling Program, administered by the CBDCs on behalf of the Agency (Exhibit 6.10).

6.107 The reported results are based on quarterly reports from the CBDCs to the Agency. A 1997 study by ACOA concluded that results for 1995 to 1997 were overstated by about 35 percent. In 1998, the Agency surveyed a sample of CBDC clients to again validate the job information they had reported. It concluded that the reports of job creation and maintenance were about 19 percent too low. However, the survey's usable response rate was only 30 percent. The varying results of ACOA's own studies suggest that there is a need for more reliability in the numbers reported as jobs created and maintained by CBDCs.

6.108 We carried out a limited review of the jobs that four CBDCs reported they had created and maintained in 1999–2000. We noted that some CBDC projects also received funding from an ACOA program. The CBDCs and the Agency each reported the same jobs to show their own impact on employment. We identified 46 jobs claimed by the CBDCs and the Agency that were counted more than once. This result cannot be projected to all CBDCs. However, it demonstrates the need for ACOA to carefully review its method of measuring the jobs created and maintained by these organizations.

6.109 The Agency is aware that the CBDCs support many sectors and provide types of financing that ACOA's core programs do not because of policy or regulations—for example, the retail sector, primary fisheries, agriculture, and financing of working capital or cash flow. ACOA does not support these because they yield a limited net economic benefit or are in a sector where overcapacity exists. In fact, ACOA has programs to help individuals adjust out of the fishing industry. Therefore, the community business development corporations support activities that are inconsistent or that even conflict with the Agency's strategic priorities or program policies. However, the Agency includes the results of these activities when it measures and reports its success in meeting its priorities and objectives.

6.110 Recommendation. The Agency should develop and implement alternative methods of measuring the impact of its non-commercial projects.

Agency's response. Concur. The Agency recognizes the importance of reliable estimates of economic impact and is pleased to have been recognized previously for its work in this complex field. Nevertheless, we recognize the desirability of continuing to develop innovative and more refined approaches to measuring economic impacts, particularly for non-commercial projects. We will include this effort in our plans for program evaluation and measurement studies.

Reported results are meaningful and relevant

6.111 Meaningful, relevant and balanced. ACOA's 1999–2000 *Performance Report* received from the Treasury Board Secretariat and CCAF-FCVI Inc. the Award of Excellence in Public Performance Reporting for small departments and agencies. This award judged the quality of ACOA's reporting in comparison with other departments and agencies of similar size. The accuracy and reliability of the underlying information was not judged. The Treasury Board and CCAF-FCVI Inc. judged that ACOA had reported tangible and significant accomplishments toward its objectives.

6.112 The information in ACOA's *Performance Report* is relevant to its mandate and addresses all of its objectives. It relates most of the reported results to ACOA's activities. However, these accomplishments are usually stated in terms of outputs or activities undertaken by recipients, such as the following:

- number of SMEs assisted;
- number of students and youths involved in venturing programs; and
- number of loans made by the CBDCs.

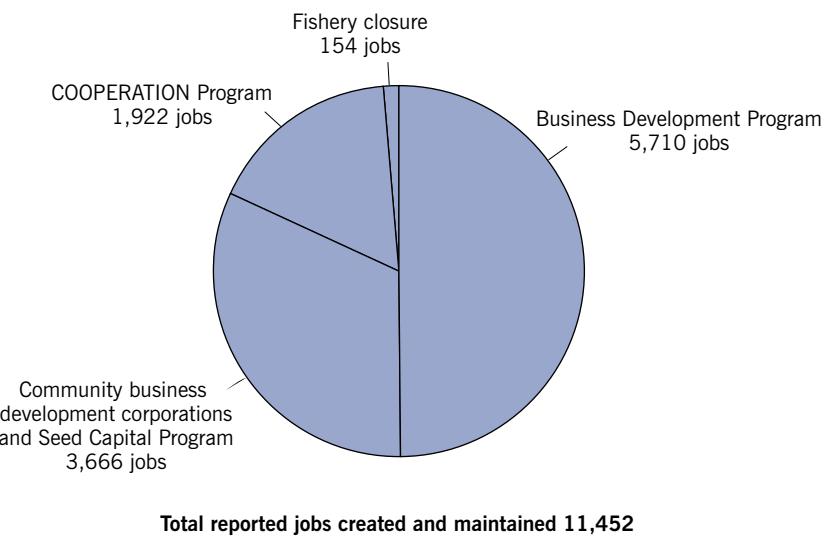
6.113 A major result that ACOA reports, the number of jobs created and maintained, is clearly linked to its mandate. But often it is difficult to relate this result directly to much of the financial assistance ACOA has provided. For example, in 2000–01 about 57 percent of the funding it provided went to non-commercial projects. The Agency has recognized in its own internal studies that these activities are “enabling” projects, usually projects that have a long-term or indirect impact. Therefore, sustainable employment is created only when this infrastructure is used in turn to support commercial activities.

Attribution of results is difficult

6.114 Attributable. It is often difficult to attribute an impact to specific government programs or activities. It is particularly difficult for economic development agencies such as ACOA, because economic development involves many players in Atlantic Canada.

6.115 Exhibit 6.10 shows ACOA's figures for jobs created and maintained, by program, in 1999–2000. Overall, since its beginning, ACOA has claimed the impacts on employment shown in Exhibit 6.11. Total employment in the Atlantic region consisted of about 796,000 full-time and 172,000 part-time jobs in March 2000.

Exhibit 6.10 The Agency's figures for jobs created and maintained, by program, in 1999–2000



Source: Atlantic Canada Opportunities Agency

Exhibit 6.11 Employment impact reported by the Agency since its beginning

| Year reported | Jobs |
|---------------|--------|
| 1987–1993 | 42,000 |
| 1993–94 | 12,200 |
| 1994–95 | 18,000 |
| 1995–96 | 9,800 |
| 1996–97 | 10,500 |
| 1997–98 | 14,000 |
| 1998–99 | 14,800 |
| 1999–2000 | 11,400 |

Source: Atlantic Canada Opportunities Agency, 5-Year Report and performance reports

6.116 Provincial governments, regional economic development organizations, other federal departments, and non-government organizations all report having created and maintained jobs in the Atlantic region. ACOA's *Performance Report* includes a brief description of the other partners and players. In our review of projects and ACOA's internal studies, we observed that most ACOA projects are supported by one or more of these other organizations as well. However, the *Performance Report* contains little discussion of their contributions to the results ACOA has reported.

6.117 Recommendation. The Agency should report more information on the contribution of others to its reported results.

Agency's response. Agree. The precise attribution of economic impacts to each partner in a joint activity can be challenging, at best. Within our overall calculations, the Agency has consistently included a discount factor that attempts to recognize the economic impact that might have occurred without our involvement. However, we will continue to explore ways to ensure that the contributions of our partners in economic development activities are more precisely measured and reported in departmental performance reports and reports on plans and priorities.

Conclusion

6.118 ACOA's programs are consistent with its mandate, objectives, and priorities. The Agency's framework for controlling grants and contributions is appropriate.

6.119 In reviewing the management of both commercial and non-commercial projects, we found that the Agency exercised adequate control over letters of offer and disbursement of funds, with the following two exceptions:

- considering environmental impacts of projects as an integral part of decision making; and
- including in the letters of offer key provisions that state expected results and protect the government's interests.

6.120 The objectives and expected results of non-commercial projects and federal-provincial agreements are often stated in vague terms. We found that in some instances ACOA's practice was not in keeping with an appropriate framework for governing partnerships. In these cases, ACOA circumvented its own control framework and approved projects. We also found that contrary to its own policy, ACOA was providing long-term core funding to organizations that had little or no prospect of becoming self-sustaining. In the absence of clear, concrete expectations of results for non-commercial projects, it is difficult to determine if the Agency is making progress. The Agency does not have a consistent approach to managing its relationships with partners. It has not evaluated the effectiveness of its use of partnerships and alliances to determine if this is a cost-effective means of fulfilling its mandate.

6.121 We found that the Agency has used due diligence in assessing, approving, and monitoring commercial projects. Its assessment of commercial project applications has become more rigorous since our last audit (Auditor General's 1995 Report, Chapter 18). The Agency has developed policies both to assess the project proponents' ability to repay their contributions and subsequently to monitor their repayment. However, it has not publicly reported on its management of its \$400 million repayable contributions portfolio.

6.122 The accuracy and relevance of the employment impact reported for non-commercial projects is questionable. Other performance information is linked well to previously stated expectations and is generally supported by reasonable evidence.

About the Audit

Objectives

The objectives of this audit were to assess the following:

- the extent to which the Agency's programs adequately reflect its mandate, objectives, and priorities;
- the adequacy of the design and implementation of the Agency's control framework for its economic development programs, and its compliance with key authorities such as the *Financial Administration Act*, the *Atlantic Canada Opportunities Agency Act*, the *Canadian Environmental Assessment Act*, and Treasury Board policies and guidelines; and
- the extent to which the Agency's reported results are relevant, accurate, balanced, meaningful, and attributable to Agency activities.

Scope and approach

Our audit focussed on the Agency's core economic development programs for the period 1 April 1999 to 31 March 2001. In particular, we focussed on the Business Development Program, federal-provincial agreements, the Community Futures Program, and the economic development component of the Canadian Fisheries Adjustment and Restructuring Initiative. These programs encompass substantially all of the assistance approved by the Agency during this period.

We examined a sample of projects to ensure that the Agency's activities reflected the government's commitment to the environment and sustainable development and that it has exercised due diligence in managing program delivery. As part of reviewing this sample, we also reviewed the logical links among the Agency's mandate, objectives, priorities, expected and reported results, and program delivery. The audit examined the reliability of selected data underlying reported performance information. We reviewed the Agency's management of its portfolio of repayable contributions to ensure that the Crown's assets are safeguarded, controlled, and properly recorded and reported. As part of our audit we examined the Agency's management of partnerships and alliances.

We did not examine ACOA's participation in the Infrastructure Canada Program or the various adjustment initiatives administered by ACOA to address specific issues such as The Atlantic Groundfish Strategy or Canadian Forces base closures; no assistance was approved under those programs during the period we examined. Nor did we examine the policy, advocacy, and co-ordination activities of the Agency; we focussed on the economic development programs that provide transfer payments.

Criteria

We had the following expectations:

- The Agency would have established clear and measurable objectives, and strategies consistent with achieving opportunities for economic development in Atlantic Canada.
- The Agency's programs would adequately reflect its mandate, objectives, and priorities.
- The projects approved for funding by the Agency would be consistent with its mandate, objectives, and priorities.
- The Agency's management control framework would support the exercise of due diligence in the management of its grant and contribution programs through direct delivery, partnerships, and third-party delivery arrangements.
- The Agency's implementation of economic development would reflect a commitment to the environment and sustainable development.
- The Agency's repayable contributions portfolio would be managed to achieve the economic development objective while ensuring that moneys payable to the Crown were properly collected.

- The Agency's performance information would report tangible and significant accomplishments against objectives, tell a clear performance story, demonstrate the contribution of activities, adequately reflect the facts, and reflect a balanced view of the facts.
- The delivery of economic development activities through partnership arrangements would be co-ordinated and would minimize duplication of effort.

Audit team

Assistant Auditor General: John Wiersema

Principal: John O'Brien

Director: Marilyn Rushton

Nancy Adams

Sophie Boudreau

Glenn Doucette

Don MacNeill

Sandy Manels

Heather McManaman

For information, please contact John O'Brien.