MINISTRY OF ENTERPRISE, OPPORTUNITY AND INNOVATION

3.06–Business and Economic Development Activities

VFM Section 3.06

BACKGROUND

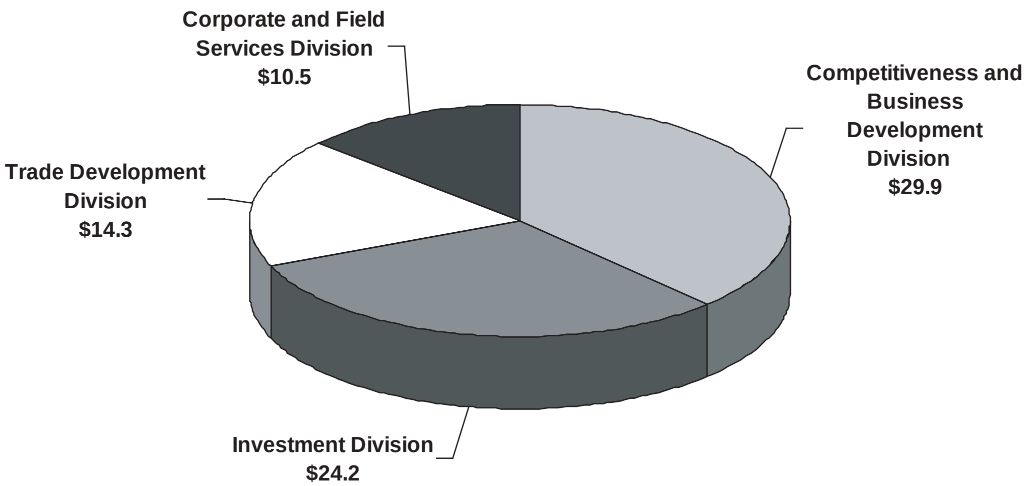
The Ministry of Enterprise, Opportunity and Innovation was created on April 15, 2002 with the amalgamation of the science and technology activities of the former Ministry of Energy, Science and Technology with the business and economic development activities of the former Ministry of Economic Development and Trade. The Ministry's mandate is to foster an Ontario with competitive businesses and a prosperous economy by promoting innovation, economic growth, and job creation.

The Ministry has four divisions employing 300 staff who deliver its business and economic development activities:

- The Competitiveness and Business Development Division supports business development, manages the government's relationship with various industry sectors, and delivers the Strategic Skills Investment program, which provides financial support to training institutions to develop job skills for Ontario's labour market.
- The Investment Division attracts investment to the province, marketing it as a premier investment location using advertising and promotion and by generating business leads and providing investment services.
- The Trade Development Division is responsible for increasing Ontario's global exports by working with Ontario-based firms (mainly small- and medium-sized enterprises) to expand their exports worldwide. A government agency, Ontario Exports Inc., carries out most of the responsibilities of this Division.
- The Corporate and Field Services Division offers financial and management advice to businesses and entrepreneurs and operates a network of field offices and small-business enterprise centres to promote growth, export activity, and job creation.

For the 2002/03 fiscal year, the Ministry's funding for its business and economic development activities was $78.9 million, which was allocated to the four divisions as outlined in the following chart.

Business and Economic Development Expenditures by Ministry Division, 2002/03 ($ million)



Source of data: Ministry of Enterprise, Opportunity and Innovation

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit of the business and economic development activities of the Ministry of Enterprise, Opportunity and Innovation were to assess whether it had adequate procedures in place to:

- measure and report on the activities' effectiveness in promoting competitive businesses and a prosperous economy; and
- ensure that resources are managed with due regard for economy.

The criteria used to conclude on our audit objectives were discussed with and agreed to by ministry management and related to systems, policies, and procedures that the Ministry should have in place.

Our audit was performed in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The scope of our audit fieldwork, which was substantially completed by March 2003, included discussions with relevant staff, as well as a review and analysis of documentation at the head offices of the Ministry and of Ontario Exports Inc. We also visited several training institutions that were recipients of Strategic Skills Investment grants to review their implementation of training programs.

Our audit also included a review of the activities of the Ministry's Internal Audit Services Branch. The Branch had recently carried out audits of the Strategic Skills Investment program, employee travel expenses, and consulting services. We reviewed these audit reports and adjusted the scope of our work where possible.

OVERALL AUDIT CONCLUSIONS

We concluded that the Ministry did not have the necessary strategic planning processes and information systems to support training institutions in addressing skills shortages and to assist Ontario businesses in expanding their export potential. Furthermore, we noted a number of instances where procedures to ensure due regard for economy needed to be improved. For example, we noted the following:

- The Ministry had not evaluated the Strategic Skills Investment (SSI) program to determine whether the program was successful in addressing the current and anticipated skills needed to ensure business competitiveness in Ontario and to ensure that students obtained employment in their respective areas of training. The Ministry had created a database for the intended purpose of measuring the program's success, but we found that the system could not generate reliable information. Furthermore, approximately 75% of ministry SSI funding that we reviewed was used for construction and equipment costs rather than for the direct provision of skills-based training.
- The Ministry had not developed methods to measure the extent to which it had achieved its objective of promoting innovation, economic growth, and job creation. Instead, the Ministry tended to assess its performance by measuring activities. For example, one of the ways the performance of the Trade Development Division was evaluated was by monitoring the number of clients assisted rather than by assessing whether any increases in export trade had actually occurred.
- A key to achieving success with the Investment Division's international marketing campaign is ensuring that adequate analysis of advertising media, target markets, and target sectors is performed before the marketing plan is developed. We found that the advertising and marketing campaign was well planned and that appropriate research was carried out to support the development of a focused marketing plan.

DETAILED AUDIT OBSERVATIONS

COMPETITIVENESS AND BUSINESS DEVELOPMENT

The Competitiveness and Business Development Division supports economic growth and job creation by fostering innovation and business development, negotiating trade agreements, promoting the removal of barriers to business, and providing businesses and entrepreneurs with information and advice relating to economic development and trade policy. The Division also manages the government's interactions with a variety of business sectors, including the aerospace, automotive, manufacturing, and retail sectors.

We reviewed the transfer payments made by the Division to the various sectors it supports and determined that payments were properly supported and appropriately classified in the Ministry's financial records.

Strategic Skills Investment Program

In addition to the activities described above, the Division also manages the Strategic Skills Investment (SSI) program, which supports training programs and courses that accelerate skills development and are offered by training providers in collaboration with businesses. The training providers involved include community colleges and private training institutions. Businesses provide financial and in-kind contributions to training providers in support of specific courses. The main focus of the SSI program is on generating the skills needed to build business competitiveness and enhance the responsiveness of Ontario's training institutions to produce graduates with skills needed by Ontario businesses.

Since 1998, when the SSI program was established, the Ministry has committed a total of $130 million to it. Since that time, the Ministry has spent $82 million on 48 training programs.

We examined SSI program files, reviewed the evaluation process, and visited four training providers. We determined that the Ministry needed to better identify and respond to skills shortages and improve its procedures and processes for evaluating program funding proposals submitted by training providers.

IDENTIFYING AND RESPONDING TO SKILLS SHORTAGES

The primary objective of the SSI program is to address current and anticipated skills needed to ensure business competitiveness in Ontario. In August 1999, the Ministry informed the Management Board of Cabinet that it would measure the SSI program's success by the number of skilled employees available for participating industry sectors. This measure would be determined by the number of students enrolled in SSI training, the number successfully completing the training, and the number obtaining employment in the related line of work.

To accomplish this, the Ministry created a database and required training institutions to annually submit data certifying the number of students enrolled in SSI-funded projects and the graduate placement rate. We reviewed this database for the three years ending March 31, 2002 and found that we could not reconcile the information generated by the database to the information provided by the training institutions. The Ministry attributed these concerns to a number of factors, including a poorly designed database, improper data definition, and incomplete submissions. The Ministry had not followed up on these concerns to ensure that the database was accurate, complete, and useful for the intended purpose of measuring the program's success in addressing strategic skills shortages.

In addition, we reviewed 29 of the 48 training projects funded by the Ministry up to March 2003. The Ministry contributed $48 million towards the total costs of these projects. We noted that 75% of the SSI funding reviewed was used for construction and equipment costs, while only 25% of the funding went to actually providing skills-based training. In addition, we noted six projects where a total of $11.8 million in ministry funding was used for construction and equipment and no funds were allocated to direct training. While some infrastructure costs are necessary, we question whether the Ministry is adequately responding to skills shortages when such a high percentage of program funds is spent on the training institutions' infrastructure instead of on the provision of training.

Recommendation

To ensure that the Strategic Skills Investment program adequately supports the development of the strategic skills necessary to enhance business competitiveness, the Ministry should:

- **resolve its database concerns to determine whether the program is adequately addressing skills shortages and whether graduates are employed in the areas for which they were trained; and**
- **review the reasonableness of the percentage of ministry funding that is used for construction and equipment costs instead of for direct training costs.**

Ministry Response

The Ministry monitors individual projects with regard to student enrolment and completion numbers as part of ensuring that each project is meeting its milestones. The Ministry agrees, however, that database development concerns have significantly hampered its capacity to provide aggregate information about projects collectively. Strategic Skills Investment (SSI) staff are continuing to work with the Ministry's information technology specialists to develop a database to readily summarize data and simplify monitoring of overall results.

The SSI program only supports one-time start-up costs, including those for new space, new equipment, and new curriculum. In light of this

recommendation, the Ministry agrees to review the reasonableness of the percentage of SSI funding that is used for construction and equipment costs instead of for direct training for each project.

EVALUATING AND PROCESSING PROPOSALS

In 1999, the government anticipated that the SSI program's contribution to strategic skills training would amount to approximately 25% of total funding. The remaining funds would be generated from private-sector partners. Although the Ministry stipulated that private-sector contributions should be significant, it did not establish clear funding guidelines or impose limits on its funding percentage for individual projects. We noted that while the Ministry's funding averaged about 25%, its contributions to individual SSI projects ranged from a low of 3% to as much as 62% of the total cost of training projects funded. In many cases, the Ministry did not meet one of the program's objectives—that of generating significant contributions from industry partners.

For contributions that were made by industry partners, the Ministry recognized both cash and cash equivalent or in-kind funding, such as donations of goods, services, labour, or equipment. In attributing a value to the contributions, consumable goods and services are to be valued at cost and are not to include any markup, and equipment is to be valued at the lesser of fair market value and the depreciated book value. We noted that the Ministry relied on applicants to value in-kind contributions. No documentation was included in the Ministry's files regarding an assessment of the reasonableness of valuation. In our visits to recipient training providers, we noted that for equipment valuations, there was little independent documentation supporting the value amounts. These amounts can be significant: at three recipients we visited, they totalled $5.7 million. In a recent audit of the SSI program, the Ministry's Internal Audit Services Branch also expressed concerns about the valuation of in-kind contributions without an independent appraisal.

Another area we reviewed was the timeliness of processing applications. Because the demand for specific skills can quickly change, it is important that the Ministry fund projects on a timely basis. For 2002, the Ministry planned to issue two calls for proposals from training providers. Normally, the Ministry's review and approval process takes from two to three months. However, we noted that applications submitted by training providers before the first proposal deadline of June 20, 2002 were not approved until February 3, 2003—more than seven months after the proposal closing date. Because of this delay, the planned call for proposals in the fall of 2002 never took place. Consequently, the Ministry did not meet its expected timetable of two calls for proposals in the 2002/03 fiscal year and was therefore unable to fund skills training to the extent originally anticipated.

Recommendation

To ensure that the Strategic Skills Investment program increases the responsiveness of training institutions to meeting business needs, the Ministry should:

- **ensure that in-kind contributions from private-sector partners are properly valued and, where amounts are significant, request independent valuations;**
- **review its share of funding for training programs in relation to the share provided by industry partners and consider developing funding-level guidelines; and**
- **ensure that training program proposals are evaluated, processed, and approved on a timely basis.**

Ministry Response

The Ministry agrees that consistent documentation of the value of in-kind contributions is important and is evaluating the best practices of Strategic Skills Investment (SSI) projects with the intent to incorporate those best practices in SSI program guidelines for use by all future proponents. In particular, the Ministry will implement a process to independently verify contributions valued at more than $100,000.

The current SSI guidelines call for industry contributions to be substantial in light of the project. While the current average for all projects puts SSI's contribution at 25%, with 75% coming from project partners, the Ministry will commit to a guideline of no more than 50% SSI contribution to any individual project.

The Ministry agrees that proposals should be processed on a timely basis. The Ministry will set a target date for completing the processing of each call for proposals.

EXPORT TRADE AND INVESTMENT

Part of the Ministry's mandate is to expand Ontario's export markets and to market Ontario as a premier investment location, attracting investors to locate and expand their operations in the province. This is accomplished mainly through the Ministry's Trade Development and Investment divisions.

Trade Development

A government agency, Ontario Exports Inc., carries out most of the responsibilities of the Trade Development Division. The agency works with Ontario companies to develop new export opportunities and assists foreign buyers to find Ontario suppliers for their purchasing requirements. In pursuing these aims, the agency leads and participates in a series of initiatives—including international trade missions, exhibitions, and seminars—and provides services in export market intelligence, consulting, and commercial advocacy to expand the international trade potential of Ontario firms. The agency's clients are mainly small- and medium-sized Ontario enterprises.

We reviewed the agency's direct operating expenditures for the 2001/02 fiscal year and noted that approximately 30% of the agency's funding for export activities was directed to initiatives in the United States. The remaining 70% of the agency's funds was directed to other international markets. The Board of Directors had instructed the agency to diversify Ontario away from dependence on the U.S. market, given that more than 90% of Ontario's exports are to the United States.

Long-term forecasts of Ontario's trading export potential indicate that the U.S. will remain the province's primary market. For instance, in October 2002, the Conference Board of Canada issued a report entitled *Canada 2010: Challenges and Choices at Home and Abroad*. The report indicates that our business linkages will be driven by our relationships within North America. It further states that "ensuring access to the U.S. market is, arguably, the single most important policy consideration…in the coming decade." In March 2002, Export Development Canada had also reported that: the United States will remain a growing and dominant destination for Canadian exports; the expansion of the European Union will make it even harder for Canadian businesses to maintain or grow their market share in Europe; exports to Japan are not expected to grow in the near future; and Canadian exports to China have been stagnant since 1995.

We also reviewed the agency's trade development activities, which include trade missions and trade shows, and noted that the agency did not evaluate the success of these activities in generating export business for Ontario companies. As a result, budget allocations to the various target markets were based more on what was allocated in previous years than on an analysis of potential costs and benefits. In addition, a November 2001 review of the corporation reported survey results whereby clients expressed postive feedback on the corporation but questioned the effectiveness of some of the corporation's trade development activities. Corporate staff were also surveyed and expressed concerns that some activities consumed a disproportionate amount of the corporation's resources and that these activities might be more suited to larger firms rather than the small- and medium-sized businesses that are the corporation's strategic focus. To better support Ontario firms in expanding their export potential, the Ministry needs to conduct a more formal evaluation of export opportunities; and to help maximize its marketing efforts, it needs to assess the costs and benefits of previous initiatives.

Investment

The Investment Division markets Ontario as an investment location to domestic and international business decision-makers. It does so by advertising, generating business investment leads, and providing investment services to potential investors. These services include providing detailed economic information about Ontario's potential as an investment location and assisting prospective investors in preparing business cases to support investment decisions. The agency's major clients are multinational corporations located in Ontario that may consider expanding and foreign-based firms considering new investments.

A key to achieving success with the Division's international marketing campaign is ensuring that adequate analysis of advertising media, target markets, and target sectors is performed before the marketing plan is developed. We determined that the advertising and marketing campaign was well planned and that appropriate research was carried out to support the development of a focused marketing plan. In addition, the leads generated from advertising and by in-market business development consultants (consultants hired by the Ministry to act as representatives in foreign target markets) were tracked and reviewed by management before these were transferred to the Division's International Investor Services section, which is responsible for attracting and retaining domestic and foreign investment.

The International Investor Services section maintains a list of potential business investment leads and related information, including company name, country of origin, nature of business operations, and the relevant business sector. However, it does not track the source of the lead—that is, whether it comes from in-market business development consultants, advertising, the federal government, municipalities, or the companies themselves. Such information would be useful to assess the effectiveness of the various investment initiatives undertaken by the Division to generate leads, as well as to improve its strategic planning and allocate resources based on the source of such leads.

Recommendation

To more effectively support the Ministry's initiatives for increasing Ontario exports and attracting investment to the province, the Ministry should:

- **perform a formal analysis of export opportunities, assess the success of the previous initiatives of Ontario Exports Inc., and conduct a comprehensive cost/benefit analysis of this agency's trade development initiatives; and**
- **track the source of business investment leads generated in the Investment Division to help improve its strategic planning and resource allocation.**

Ministry Response

The Ministry completed a program review of Ontario Exports Inc. (OEI) in 2001. As a result of the review, the corporation undertook a planning process to identify and evaluate the economic business environment, key market opportunities, client demand, other export services available, and resource implications. A three-year strategic plan for the period 2003/04 to 2005/06 was approved by the OEI Board. The plan identifies market and sector priorities and key activities for each market and sector. The plan also balances the importance of the U.S. markets with the need to make a long-term commitment

to develop other important markets. The resources have been allocated on the basis of these priorities.

As a further follow-up to the program review, OEI is currently undertaking research to develop an economic impact index to measure the economic contribution of its export advisory services. The research will focus on the impact of exports by small- and medium-sized enterprises on the provincial Gross Domestic Product, tax revenue, and employment. The final report, which is due in August 2003, will provide OEI with a tool for measuring its programs' economic impact.

The Ministry will add the source of the investment lead to its investment tracking program.

TRADE DEVELOPMENT AND FIELD SERVICES GRANTS

Grants are given to organizations for a defined purpose. Ministry managers are therefore required to obtain and review information on the performance of recipients to ensure that grants are being spent for the intended purpose and to determine whether the expected results are ultimately being achieved. Such monitoring may involve informal contact with recipients, review of records, site visits, or audits. Where recipients have failed to comply with the terms of their agreement with the province, managers are to initiate corrective action to ensure that funds are used as specified in the agreement. We reviewed the Trade Development Division's grants to the Canada Science and Technology Centre in Jiangsu, China. We also reviewed two entrepreneurship grant programs—the Summer Company program and the My Company program—that are delivered by the Corporate and Field Services Division. As outlined below, we found that the Ministry needed to improve its monitoring efforts to ensure that the objectives of grant programs are met.

In 1985, the Ministry entered into an agreement with the Canada Science and Technology Centre in Jiangsu, China, to help promote and exchange ideas with respect to economic development and trade. The agreement was that operating costs would be shared equally between the province and Jiangsu. As of March 31, 2003, ministry payments to the Centre since the inception of the agreement totalled $837,000—approximately $65,000 annually. Aside from a ministry review of invoices for its share of the operating costs, we found no evidence that the Ministry adequately monitored the recipient to ensure that funds were used as agreed. In May 1999, the Ministry's Internal Audit Services Branch issued a report of an audit carried out on the Centre. The report revealed that: most of the building space was vacant and not being used; a database of Ontario and Jiangsu companies had not been established as set out in the agreement; and an Ontario showroom set up to provide information on Ontario companies no longer existed. In 2001/02, the Ministry suspended payments to the Centre. A ministry review in March 2002 concluded that Ontario had not benefited from the 17-year relationship and was not getting value for the resources invested. At the end of our audit, in March 2003, although payments to the Centre had been suspended, the relationship with the Centre was still in place and the Ministry was still budgeting funding for the Centre.

The Summer Company program provides $3,000 grants to students to gain experience in entrepreneurship by running a small business over the summer. Grants under this program for the 2002/03 fiscal year totalled $654,000. The Ministry monitors the progress of participants over the summer and requires them to complete a final report on their experience. However, there is no formal assessment of how successful the program has been in meeting the Ministry's objectives of providing the tools and experiences necessary to enhance the success of small business start-ups by young entrepreneurs and of promoting entrepreneurship as a viable career option.

The My Company program provides guarantees of up to 85% for loans of $15,000 or less to young entrepreneurs starting their own business. This is a partnership arrangement with one of the chartered banks. For the 2002/03 fiscal year, the Ministry guaranteed loans issued by the bank totalling over $400,000. The program guidelines indicate that the loan may not be used to finance existing debt, purchase an existing business and assets, operate an extension of an existing business, or purchase a major item, such as a vehicle or computer. The bank is responsible for selecting, approving, and awarding loans, as well as monitoring the applicants. While the Ministry receives quarterly reports from the bank listing the outstanding loan amounts and the status of each loan, we noted that it did not verify nor receive assurance from the bank that the loans were used for the intended purpose.

Recommendation

To help meet program objectives for grant programs, the Ministry should ensure that proper systems for monitoring recipients are in place and that the success of each program is formally evaluated and taken into consideration in future funding decisions.

Ministry Response

The Ministry agrees that proper monitoring systems should be in place to support the evaluation of grant programs.

Ontario Exports Inc. has now completed an assessment of the $65,000 grant to the Canada Science and Technology Centre in Jiangsu, China, and determined that there are more effective activities to promote exports to China. The Ministry will continue to work with the Centre to promote Ontario-Jiangsu exports but will no longer provide direct support to the Centre. The grant line will be eliminated from the Ministry's 2004/05 expenditure estimates.

Summer Company and My Company are initiatives under a new program, the Youth Entrepreneurship Program, which was established in 2001 to promote

entrepreneurship among Ontario's youth. The Ministry is implementing a process for tracking the program's results, including monitoring the recipients. The program was awarded a Gold Public Sector Quality Award and is continually working to improve its effectiveness.

MEASUREMENT OF AND REPORTING ON PROGRAM EFFECTIVENESS

To demonstrate that its programs and policies for business and economic development are effective in accomplishing its mandate of fostering an Ontario with competitive businesses and a prosperous economy, the Ministry needs mechanisms to track the results of its initiatives and to take corrective action where objectives are not met.

Prior to 1995, the Ministry operated many direct business-assistance programs that provided grants, financing, loans, and loan guarantees—primarily through the Ontario Development Corporation. Since then, the Ministry's operational focus has been less on direct financial assistance and more on functions like advising companies, helping them access the resources needed to compete, marketing the province as an investment location, and helping Ontario exporters find new customers in world markets. While it can be more difficult to assess the impact of such activities, the Ministry is nevertheless required to measure and report annually through the business planning and allocation process on its effectiveness in achieving its mandate.

Performance measures should not report on ministry activities; they should show the likely economic results of those activities. Many of the Ministry's current measures are based on or defined as activities—for instance, the number of projects approved and the number of clients and companies assisted. Such measures describe activities rather than outcomes or economic results. For a performance measure to be relevant, it must show the direct relationship between the activity and the resulting outcome. For example, one of the Ministry's performance measures for its trade program was the number of clients assisted to maintain their export markets and expand internationally. While this may measure the level of ministry activity in this area, it does not measure success—that is, whether export trade actually increased as a direct result of ministry assistance. As another example, the key performance measure for the Strategic Skills Investment program was the level of employer satisfaction with the program. While the program received a 90% satisfaction rating, this does not measure the program's objective, which is to help develop the skills necessary for business competitiveness. This objective directly relates to the Ministry's overall mandate of fostering competitive businesses. The Ministry did not report on whether this objective was accomplished.

The Ministry noted that measuring program results for economic development and trade can be difficult and may not always be within the direct control of its programs. Other parties can influence results, including the federal government and multinational companies, as can other factors, such as domestic and world economic conditions, trade barriers, and international events. Nevertheless, Ministry staff acknowledged that even though specialized assessments may be required, more appropriate performance measures were needed to evaluate and report on the effectiveness of its business and economic development activities.

Recommendation

To measure and report on the effectiveness of its business and economic development activities, the Ministry should develop performance measures that demonstrate how program initiatives contribute to the fostering of competitive businesses and a prosperous economy.

Ministry Response

The Ministry tracks the performance of its business and economic development activities. For example, extensive tracking is done on the effectiveness of the investment marketing and servicing activities.

The Ministry is working to improve the measurement of the impact of these activities. For example, Ontario Exports Inc. is currently undertaking research to develop an economic impact index to measure the economic contribution of its export advisory services. The Ministry also periodically surveys other jurisdictions for their performance measures for similar programs. The Ministry also works with central agencies on the development of performance measures for new or revised programs.

The Ministry is committed to measuring the contribution of its programs and will continue to refine and improve performance measures for its business and economic development activities.

TRAVEL EXPENDITURES

Travel expenditures that are incurred by employees on ministry business and that are eligible for reimbursement relate to such areas as transportation, accommodation, car rentals, meals, and hospitality expenses. Management Board of Cabinet directives outline the general rules all ministries and government employees must follow to minimize the cost of travel expenses. During the two years ending March 31, 2003, the Ministry incurred over $3.5 million for travel expenses. We reviewed the travel claims process for these two years and noted numerous examples where employees disregarded Management Board of Cabinet directives and managers did not adequately scrutinize travel expenses.

When incurring travel expenses for such items as hotels and personal meals, employees are required to follow Management Board of Cabinet directives. However, for meal allowances, Management Board of Cabinet directives are silent on acceptable rates outside Ontario.

Nevertheless, the directives require that persons approving travel claims ensure that meal costs are reasonable for the locations in which they are incurred. As a proxy for reasonable meal rates in foreign jurisdictions, we compared the federal government's meal allowances with a sample of ministry claims and noted more than 100 cases where employees claimed personal meal costs in excess of these rates, and the excess averaged 50% more than the federal rates.

Before approving travel expense claims, managers are required to scrutinize travel expense claims to ensure that all expenses claimed are necessary, reasonable, and supported by appropriate receipts. However, we found that managers did not adequately scrutinize travel expense claims. We noted several instances where employees had been reimbursed for expenses without receipts or with receipts that were inappropriate, such as photocopied receipts and credit-card statements instead of original receipts. In such cases, there is a risk that ineligible expenses could be reimbursed or duplicate payments could be made. In fact, we noted two duplicate payments totalling approximately $1,200 where ministry staff were reimbursed for expenses using photocopied receipts. We informed the Ministry of these two instances and the duplicate payments were subsequently recovered. In addition, we found instances where managers approved the reimbursement of costs that were questionable business expenses, such as the renewal fee for a personal driver's licence and payment for a spouse's admission to an air show.

Employees extending hospitality to business clients and contacts are required to submit receipts detailing the amounts paid for food, beverages, and other items, as well as to indicate the persons in attendance. This is to ensure that only business clients and persons who are not employed by the government are extended hospitality. We noted over 200 cases, totalling over $48,000, where hospitality costs were claimed without detailed receipts. Supporting documentation consisted primarily of credit-card stubs and hotel bills, which show only the total amounts paid without any detail.

Recommendation

To ensure that all travel services are acquired economically, that Ontario government rules are followed, and that employees are reimbursed for only legitimate business expenditures, the Ministry should:

- **reiterate to employees the necessity of following government travel policies and advise staff that any exceptions to the rules will not be reimbursed; and**
- **reimburse only those travel claims that are accompanied by proper supporting documentation.**

Ministry Response

The Ministry agrees that travel services should be acquired economically and has endeavoured to contain the growth of travel costs over the past four years. In light of these audit findings, the Ministry will review its travel policies as they

relate to international travel. The Ministry will remind all staff of the importance of following Ministry travel policies, including the need for proper documentation to support their travel claims. The Ministry will also hold mandatory information sessions for all managers to remind them of their responsibility to closely review expense claims submitted by their staff to ensure adherence to travel policies.

MANAGEMENT OF CONSULTING SERVICES

During the three years ending March 31, 2003, the Ministry paid over $22 million for consulting services, primarily for management and technical projects. In acquiring consulting services, ministries must comply with Management Board of Cabinet directives that set out the key principles for the decisions made in planning, acquiring, and managing consulting services. We examined a sample of consulting assignments and found that the Ministry needed to improve its procedures to ensure the economical acquisition and proper management of consulting services, as detailed below.

Consultants are to be hired using a competitive selection process and are to be treated in a fair and equitable manner. Ministries must also retain appropriate documentation for each assignment. We noted instances where the Ministry did not maintain an open and fair process for acquiring consulting services or retain appropriate documentation. For example:

- One consultant the Ministry hired was selected because it was the lowest bidder at $50,000. Following the bid, the Ministry had some questions about the proposal and asked the consultant to provide additional information. As a result, the cost increased to $95,000 and the terms of reference in the request for proposal were different from the final terms agreed to in the contract. However, the Ministry did not give the other bidders the opportunity to resubmit their bids, which may have been lower, based on the final terms of reference.
- In another case, the Ministry hired a consultant for $382,000. Although the Ministry indicated that bids were received from three other consultants, it could not provide us with any documentation to demonstrate that a competitive process was followed.

Consulting contracts and payments are required to be properly monitored and controlled, and any increases in the ceiling prices must be justified, formally agreed to, and properly approved. However, we noted examples of payments made to consultants that exceeded the ceiling prices of the contracts by $20,000 to $116,000. These represented increases of 30% to 100% of the original cost. For these contracts, the terms and conditions of the assignments remained unchanged and we found no documentation justifying the increase in ceiling prices. We also found no evidence of prior approvals for the increases from the Deputy Minister or designate, as required by Management Board of Cabinet directives.

For every consulting assignment, a written agreement between the Ministry and the consultant must be prepared as soon as possible, preferably before the assignment begins.

From the sample of files we examined, we noted that one consultant provided services four months prior to signing a contract with the Ministry, and a recent audit by the Ministry's Internal Audit Services Branch also detected a number of similar exceptions. In not having a signed agreement in place before an assignment is undertaken, the Ministry runs the risk of misunderstandings with the consultant regarding their respective responsibilities and the scope of the work, which may impact on the successful completion of the assignment at the originally agreed-upon price.

When consultants complete their assignment, the Ministry is required to prepare a written evaluation that includes an assessment of: the quality of the work; whether value for money was obtained; and the suitability of the consultant for future assignments. However, we found that the Ministry had not prepared the required written evaluations for any of the consulting assignments we reviewed. Since the four ministry divisions we audited independently hire consultants, such evaluations would help other proposal review teams in the other divisions by providing information on a consultant's past performance.

Recommendation

To achieve value for money when using consulting services, the Ministry should ensure that:

- **consultants are hired through a competitive selection process and are treated fairly and equitably and any exceptions are adequately justified, documented, and approved;**
- **contracts and payments are properly monitored and controlled, and any increases in the ceiling price are justified, formally agreed to in advance, and properly approved;**
- **contracts outlining the key deliverables, costs, and other significant project details are signed before consultants begin their assignments; and**
- **formal evaluations are prepared for consultants when their assignments are completed, and these evaluations are made available to other divisions for future evaluations of consulting proposals.**

Ministry Response

The Ministry agrees that there should be value for money for consulting services and had taken steps prior to this review to ensure that consulting services are being acquired appropriately and managed effectively.

In 2001/02, the Ministry undertook an internal audit of consulting services. That internal audit had noted many of the issues related to consulting services identified in this report. The Ministry is implementing significant improvements to address the findings of this report and the internal audit report. These improvements include updated policies and procedures, improved communications of ministry policies, increased controls for acquisition of consulting services, enhanced reporting, and customized training for staff.

With regard to contract management, the Ministry is working with the Shared Services Bureau to improve operational efficiency and compliance with Management Board directives.

ONTARIO INVESTMENT SERVICE WEB SITE

The Ministry's Ontario Investment Service (OIS), part of the Ministry's Investment Division, acts as a single source of customized information, investment marketing materials, and other services to Ontario businesses considering expansion and to potential investors in Ontario. It operates a Web site that provides information of interest to potential investors, including: municipal profiles and industrial property information designed to assist investors with site selection; data on the availability of labour skills and other economic data; and comparative investment information on Ontario and competing jurisdictions.

To carry out its responsibilities, the OIS purchased a stand-alone computer server to host its Web site. A consulting firm was hired under two successive contracts, which totalled approximately $960,000 and covered the period July 2001 to September 2003. Under the direction of OIS, the firm's consultants were to provide day-to-day operational services related to project leadership and management of the Web site, including site design, database management, programming, page layout, editing, and other technical support. We reviewed the consultants' job descriptions and the list of their projects for the 2002/03 fiscal year and noted that most of the work they carried out was updating and maintaining aspects of the Web site. Of the 20 tasks assigned during the year, only two involved developing new sections for the Web site. The cost of having consultants carry out these tasks was significantly more than if the functions had been performed by two or three comparable Web co-ordinators and Web design staff at the Ministry. Salaries of similar staff positions in the Ministry averaged $66,000. At this rate, we estimate that hiring consultants instead of having ministry staff manage and maintain the OIS Web site may have cost the Ministry as much as $500,000 more.

Recommendation

To ensure that the Ministry's requirements for the Ontario Investments Service Web site are met in the most economical manner, the Ministry should consider the costs and benefits of having the functions performed internally.

Ministry Response

The Ministry agrees and is taking action to ensure that the Ontario Investment Service (OIS) Web site is delivered in an economical manner.

Until 2001, maintaining the OIS Web site through individual fee-for-services contracts was very cost effective. As a result of the move from individual

fee-for-services contracts to a full-service contract, there has been a significant increase in costs over the past two years.

The Ministry has identified this as an issue to be reviewed as part of the program evaluation currently underway for the Investment Program. The program evaluation will consider available options for Web site maintenance and make recommendations on the most cost-effective option.