

Chapter 4

Section 4.06

Ministry of Economic Development and Trade

Business and Economic Development Activities

Follow-up to VFM Section 3.06, *2003 Annual Report*

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 was to foster an Ontario with competitive businesses and a prosperous economy by promoting innovation, economic growth, and job creation. In fall 2003, the Ministry was renamed the Ministry of Economic Development and Trade.

At the time of our audit in 2003, the Ministry had four divisions employing 300 staff who delivered its business and economic development activities:

- The Competitiveness and Business Development Division supported business development, managed the government's relationship with various industry sectors, and delivered the Strategic Skills Investment program, which provided financial support to training institutions to develop job skills for Ontario's labour market.

- The Investment Division attracted 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 was responsible for increasing Ontario's global exports by working with Ontario-based firms 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 offered financial and management advice to businesses and entrepreneurs and operated a network of field offices and small-business enterprise centres to promote growth, export activity, and job creation.

In the 2004/05 fiscal year, the Ministry spent \$63.9 million (\$78.9 million in 2002/03) to carry out its business and economic development activities.

In 2003, 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. For example, we noted the following:

- The Ministry had not evaluated the Strategic Skills Investment 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 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 performance by measuring activities; for example, it assessed export trade performance by monitoring the number of clients assisted rather than by determining whether any increases in export trade had actually occurred as a result of ministry activities.

We found that the Ministry's advertising and marketing campaign to encourage investment in the province was well planned and that appropriate research was carried out to support the development of a focused marketing plan.

We made a number of recommendations for improvement and received commitments from the Ministry that it would take action to address our concerns.

Current Status of Recommendations

According to information received from the Ministry, progress has been made on all of the recommendations we made in our *2003 Annual Report*. The current status of action taken on each of our recommendations is as follows.

COMPETITIVENESS AND BUSINESS DEVELOPMENT

Strategic Skills Investment Program—Identifying and Responding to Skills Shortages

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.*

Current Status

The Ministry reported that a new data report to track and summarize student enrolment and completion information across all projects has been implemented. However, the Ministry cancelled the Strategic Skills Investment program during its planning process for the 2004/05 fiscal year. In spite of the program's cancellation, the Ministry intended to continue to track student enrolment and course completion information for all existing Strategic Skills Investment projects until they are complete. The Ministry also stated that options were examined and recommendations proposed to track whether graduates obtained employment in the areas for which they were trained, but because of the cancellation of the program, these recommendations would not be introduced.

Prior to the cancellation of the program in 2004, the Ministry hired a consultant to review the reasonableness of the percentage of ministry funding used for construction and equipment costs versus direct training costs. The consultant concluded that the flexibility of the program to fund the types

of costs required by each project was effective and should not be changed.

Strategic Skills Investment Program— Evaluating and Processing Proposals

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.

Current Status

Prior to cancellation of the Strategic Skills Investment program, the Ministry had implemented a procedure to independently verify in-kind contributions greater than \$100,000. The Ministry had also reviewed its share of funding and found that it averaged 25%. The Ministry committed to a guideline of funding no more than 50% of any single project. For all projects subsequently funded, prior to the cancellation of the program, the highest program percentage contribution was 35%, according to the Ministry. In addition, the Ministry informed us that, at the time the program was cancelled, it had planned to set target dates for obtaining project approvals.

EXPORT TRADE AND INVESTMENT

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.

Current Status

The Ministry and Ontario Exports Inc. completed a three-year strategic plan for the 2003/04 to 2005/06 fiscal years. The plan identified market and sector priorities and key activities for each market and sector. The Ministry reassessed and updated its priority sectors, markets, and activities in the 2004/05 fiscal year. Performance measures were refined and submitted to the Management Board of Cabinet in February 2005. The measures are to be reviewed in late June or July 2005.

The Ministry also informed us that it has added the source of business investment leads to its investment tracking system.

TRADE DEVELOPMENT AND FIELD SERVICES GRANTS

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.

Current Status

The Ministry stated that it has implemented systems for monitoring grant recipients and tracking results under two youth entrepreneurship programs—the Summer Company and My Company programs—that we reviewed in our 2003 Annual Report. Furthermore, the Ministry affirmed that similar monitoring and evaluating procedures would be implemented for all new programs, such

as its new \$500 million Ontario Automotive Investment Strategy program. In addition, with respect to the Canada Science and Technology Centre in Jiangsu, China, a recipient of Trade Development Division grants that we reviewed in our 2003 Annual Report, the Ministry informed us that it would no longer provide direct support for the Centre. The Ministry has eliminated the funding it budgeted for the Centre from its estimates for the 2004/05 fiscal year.

MEASUREMENT OF AND REPORTING ON PROGRAM EFFECTIVENESS

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.

Current Status

The Ministry has proposed a Performance Improvement Plan that it submitted to the Management Board of Cabinet in February 2005. We were informed that the plan was being reviewed and was expected to be addressed by the Management Board of Cabinet in late June or July 2005.

At the time of our follow-up, the Ministry was also working with the Results Office, a section of the Cabinet Office, to help develop performance measures relating to ensuring that plans, capacity, and monitoring processes are in place to deliver on the government's three key priorities of "Success for Students," "Healthier Ontarians," and "Strong People, Strong Economy."

TRAVEL EXPENDITURES

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.*

Current Status

The Ministry reported that steps have been taken to address deficiencies in travel expense claims, including revising travel policies to include international air travel, following up immediately on any detected instances of non-compliance with staff, educating all managers on travel policies, and posting travel reminders on the ministry Intranet site.

The Ministry completed a quality-assurance audit of travel claims in November 2004 to determine the level of compliance with travel policies and identify any areas needing further follow-up with staff. Results were communicated to managers and staff. The Ministry also communicated to staff the requirements of a new government-wide travel directive.

MANAGEMENT OF CONSULTING SERVICES

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.*

Current Status

The Ministry reported that it has implemented significant improvements in its management of consulting services to address the specific recommendations of the Auditor General's report. These include updated policies and procedures, improved communication of ministry policies, increased controls over the acquisition of consulting services, enhanced reporting requirements, and customized training for staff. In addition, the Ministry stated that it was continuing to monitor contract management for compliance with Management Board of Cabinet directives and would be conducting a quality-assurance audit of consulting services that was scheduled to be completed by the end of June 2005.

ONTARIO INVESTMENT SERVICE WEBSITE

Recommendation

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

Current Status

An evaluation of the Ministry's program to encourage investment in Ontario included a recommendation that the Ministry hire permanent staff for the regular data maintenance work and contract as needed for the complicated system development work on the Ontario Investment Service website. Accordingly, two programmers have been hired to perform regular data maintenance, while external consultants carry out design services and systems development on an as-needed basis. The Ministry estimated that, with this new arrangement, approximately \$150,000 would be saved annually.