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# MINISTRY OF CITIZENSHIP, CULTURE AND RECREATION

## Culture Activity

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The cultural activities of the Ministry of Citizenship, Culture and Recreation are designed to encourage the arts, support cultural industries, preserve Ontario's heritage and advance the public library system. The Culture Division oversees cultural agencies and is responsible for the development of policies and the operation of programs in support of the arts, heritage, cultural industries and libraries. For the 1996/97 fiscal year, the Division's expenditures for cultural activities were \$193 million.

During the 1996/97 fiscal year, the Ministry approved \$143 million in funding for 10 cultural agencies and \$8.4 million in grants to a number of arts, heritage and cultural industries. The Ministry also approved \$35.8 million in funding to public libraries and two library service organizations for providing various coordination services to local library boards.

Overseeing cultural activities is primarily the responsibility of the Division's 80 staff who work at the Ministry's head office in Toronto. The Ministry's network, comprising three regional and 19 district offices reporting to the Sport, Recreation and Ministry Regional Services Division, offers various consultative services and administers a cultural grant program. Administrative costs for the Culture Division were \$6.2 million for the 1996/97 fiscal year.

## OBJECTIVES AND SCOPE

The objectives of our audit were to assess whether the Divisions had adequate procedures in place:

- to ensure that cultural resources were managed with due regard for economy and efficiency;
- to hold cultural agencies accountable for their expenditure of public funds; and
- to measure and report on the effectiveness of cultural activities.

Our audit included an examination and analysis of documentation and management reports retained by the Culture Division, as well as discussions with appropriate ministry officials. We also visited one regional office and sent questionnaires to ministry staff at the other two regional offices.

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## OVERALL AUDIT OBSERVATIONS

Adequate procedures were in place to ensure that grant payments received the required approvals and were properly paid. However, in order to ensure that grant programs are delivered economically and efficiently, the Ministry needs:

- to clarify the responsibilities of the two Divisions that administer grant programs;
- to strengthen grant eligibility review procedures;
- to improve the assessment of the reasonableness of funding requests; and
- to develop policies regarding the recovery of unspent funds from its agencies.

The Ministry also needs to strengthen its framework for holding the 10 cultural agencies accountable for their expenditures by:

- implementing a system to track the receipt of agency submissions;
- requiring the submissions to contain sufficient information for appropriate review; and
- ensuring that agency board appointees are made aware of their duties and responsibilities through a comprehensive orientation process.

The Ministry has developed detailed plans for cultural grant programs and implemented a performance measurement and reporting process. However, the Ministry needs to take into consideration in its planning process all Division activities, including those of its agencies, and further develop procedures to measure and report on the effectiveness of such activities.

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## DETAILED AUDIT OBSERVATIONS

### *ARTS, CULTURAL INDUSTRIES AND HERITAGE SECTOR SUPPORT*

The Ministry provides funding to arts, heritage and cultural industries through a number of grant programs. Some of the programs' objectives are to provide support to increase the recipients' efficiency and capacity for self-reliance, strengthen and encourage strategic partnerships, and expand the volunteer sector. We reviewed the three largest programs which accounted for over 80% of the 1996/97 funding allocations as follows: operating funding of \$1.6 million to 35 arts sector organizations; \$3.1 million to 191 community museums; and \$2.5 million for specific cultural projects.

#### **PROGRAM DELIVERY**

The Division's Cultural Programs Branch employs 45 staff in the Ministry's head office, and is responsible for program development, program delivery and heritage planning. The Ministry's network of three regional offices and 19 local offices processes grants and offers consultative services relating to citizenship, cultural and recreational activities. In addition, the regional offices share responsibility for the delivery of cultural project grants with the Branch. However, the 115 staff of the regional and local offices report to the Sport, Recreation and Ministry

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Regional Services Division and not the Culture Division. For the 1996/97 fiscal year, the operational expenditures for all regional services totalled \$9.5 million.

We interviewed or sent questionnaires to a number of ministry staff and noted that they were unclear regarding their responsibilities to the two Divisions. Additionally, as staff in both the head office and the regional offices deliver project grants, the Branch could not fully assess the program because it was not responsible for regional office activities.

The Ministry did not have procedures in place to properly cost individual staff activities such as grant processing, consulting and administration. For example, regional office staff had not determined how much of their time was devoted to cultural activities but they estimated it could have been as much as 25%. Consequently, the Ministry cannot determine whether such activities are delivered efficiently and economically.

### **Recommendation**

**To ensure that cultural activities are delivered efficiently and economically, the Ministry should clarify the roles and responsibilities of the two Divisions that deliver cultural programs and develop procedures to provide program costing information.**

### ***Ministry Response***

***For 1997/98 the Culture Division and Regional Services have undertaken a joint operational planning exercise which clarifies the roles and responsibilities of the program branches. The process will continue throughout the year as plans are implemented.***

***By linking individual performance agreements to our ministry Business Plans' goals through the strategies and key deliverables of the Joint Operational Plan, the Division is able to allocate and measure resources in terms of ministry goals and core businesses.***

## **GRANT ELIGIBILITY**

The Ministry has established grant eligibility criteria incorporating legislative requirements and supporting ministry goals and objectives, and standards covering the form, content, submission and approval of grant proposals. Ministry approval is based on a review of grant submissions which include a signed standardized contract setting out the funding conditions, the purpose of the grant and the responsibilities of the Ministry and the recipient.

In reviewing a representative sample of grants for the three selected programs we noted that all payments received the required approvals and were properly paid. However, in two of the three programs eligibility was not adequately assessed, as illustrated in the following examples.

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- The *Ontario Heritage Act* Regulations require funded community museums to adhere to the “Standards for Community Museums in Ontario.” These standards, such as storing artifacts safely and securely, are meant to ensure that a minimum level of acceptable practices and guidelines has been established by the museum. The Ministry gave the museums 10 years, ending in 1991, to meet these requirements. However, the Ministry had not subsequently ensured that the museums had achieved the minimum standards. In the 1996/97 fiscal year, a questionnaire was sent by the Ministry to all funded museums to help in identifying museums which might not have been adhering to the standards. The responses to the questionnaire indicated that the rate of adherence to the various standards ranged from 96% down to 16%.
- In reviewing the cultural project grants for the 1995/96 and 1996/97 fiscal years, we noted that a number of the grants contravened the grant eligibility guidelines. For example, the program is not intended to fund ongoing operating costs, yet a number of organizations had received funding for these purposes.

### **Recommendation**

**In order to ensure that only eligible recipients and costs are funded, the Ministry should establish procedures to ensure compliance with the requirements of the legislation and ministry policy.**

### ***Ministry Response***

#### **Grants to Museums**

***The Ministry is presently reviewing its community museum program including its operating grants, regulations governing the grants and its advisory services to museums. The review, to be concluded during the 1997/98 fiscal year, is addressing eligibility criteria for funding, funding allocation and adherence to provincial museum standards as a condition of funding. Recommendations from this review will be implemented in the 1998/99 fiscal year.***

#### **Cultural Project Grants**

***It should be noted that a new program was put in place for cultural project grants for 1996/97. The staff manual and orientation is being updated to reflect eligibility criteria, and managers are responsible to ensure files comply with ministry policy.***

## **PROGRAM FUNDING**

Management Board Directives state that public funds should be expended wisely and prudently to meet planned objectives and should result in effective program delivery. This would require the Ministry to set explicit priorities, strengthen management processes and make trade-offs between existing programs and new initiatives.

For the art service organizations, the Ministry assessed the applicants’ operations and adjusted funding levels accordingly. However, for the other two grant programs (community museums

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and cultural program grants) the Ministry did not always compare, or otherwise fully analyze, the reasonableness of funding requests. The following examples illustrate our observations.

- Due to funding constraints the Ministry has given priority to funding those museums previously in receipt of a grant. According to Ministry staff there are a number of museums which adhere to the minimum required standards for museums, but they are on a waiting list and are not being funded by the Ministry. Moreover, the Ministry has not attempted to prioritize or reapportion the available funds among all the eligible applicants.
- In the 1996/97 fiscal year, Ministry analysis revealed that grants to museums ranged from 3% to 50% of eligible expenditures. Ministry staff attributed the variance primarily to historical funding inequities. Although the Ministry's ratings of museums in areas such as research, collections management and conservation ranged from 16% to 96%, all museums had their annual funding decreased by the same percentage. A similar type of rating was performed for art service organizations and was used to apportion available funds more equitably.
- In reviewing cultural program grants for the 1995/96 and the 1996/97 fiscal years, we observed a number of grants where there was no evidence on file that the request had been assessed for the reasonableness of the amounts funded.

### **Recommendation**

**To ensure that program funding is allocated on a more reasonable and equitable basis, the Ministry should periodically review the methods of funding and revise them where necessary.**

### ***Ministry Response***

#### **Cultural Project Grants**

***A new program was introduced in 1996/97 and evaluated at the year-end. As a result, the 1997/98 program requires more stringent analysis for expected results to be undertaken and decisions and analysis to be more fully documented in all files.***

#### **Grants to Museums**

***As previously noted, a review is being conducted on the community museum program, which is addressing the program's method of allocating its funding. This review will be concluded in 1997/98 and implemented in 1998/99.***

## **GRANT MONITORING**

For project grant monitoring purposes the Ministry requires that a post-project report, documenting how the grant was used, is to be submitted within three months of project completion. We found that different monitoring procedures were in place for project grants approved by head office and those approved by the regional offices. Specifically, the regional offices have a system for tracking grant submissions and require recipients to submit receipts and invoices so

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they can determine whether funds were spent for the purposes intended. Head office does not have such a system and does not require such documentation. We also reviewed the 1995/96 cultural project grants and found that the required final reports had not been received from 26% and 40% of the recipients approved for funding by the regional offices and head office, respectively. At the time of our audit the Ministry was implementing a new Corporate Grant Management System that is intended to provide all ministry staff with a means to monitor the status of the grant submissions more effectively.

Operational grant recipients are required to submit annual audited financial statements, business plans and details of what the organization accomplished during the preceding year. In reviewing the monitoring process regarding operating grants to art service organizations, we noted that the business plans of some applicants were very specific with respect to the type and number of programs offered to their clients. Such information enabled the Ministry to assess whether these organizations addressed program priorities and objectives and, if so, to what extent. However, other organizations submitted plans that did not provide such detailed information.

The Ministry only funds the operating costs of art service organizations. In the 1995/96 fiscal year, art service organizations reported administrative expenses ranging from 12% to 96% of their total expenditures. However, recipients were not reporting financial information in a consistent manner. Consequently, for the 1996/97 fiscal year the Ministry developed a standardized form which required all applicants to report statistical and financial information consistently. Our review of a sample of 1996/97 files revealed that administrative expenses ranged from 39% to 74% of total expenditures. As expenditures were still not being reported consistently, the Ministry could not use this information to compare similar organizations to determine whether administrative costs were reasonable.

### **Recommendations**

**To ensure that the objectives of program grants are achieved economically, the Ministry should:**

- ensure that year-end submissions from grant recipients are received on a timely basis so that they can be reviewed and corrective actions taken where necessary; and
- improve the standard reporting requirements to ensure that the information received facilitates monitoring and evaluation.

**To ensure that the grant monitoring process is administered efficiently, the Ministry should implement standardized monitoring procedures.**

### ***Ministry Response***

***With the formation of the Ministry in 1995, a number of grant systems were consolidated into a single corporate grant management system. Some user enhancements have already been, and others are currently being, incorporated which together will greatly improve the staff's ability to monitor and close files. The Culture Division will work with Regional Services and its Regional Support Services Unit to ensure a standard report procedure is developed and adhered to.***

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# LIBRARY SECTOR SUPPORT

## LIBRARY SECTOR FUNDING

Approximately 400 public library boards have been established in Ontario pursuant to the *Public Libraries Act*. The legislation requires the Ministry to make grants on a per household basis to all library boards to provide for their organization and operations. Municipal governments approve library budgets and provide the bulk of the funding. Ministry funding for the 1995/96 fiscal year totalled \$30.5 million and was reduced 20% to \$24.4 million for the 1996/97 fiscal year.

Grants to public libraries for 1996/97 were based on the previous year's per household funding, less a specified percentage. We reviewed these grants and found that payments were properly calculated, approved and paid.

The Ontario Library Service (OLS) established by the Ministry consists of two agencies: Ontario Library Services North and the Southern Ontario Library Service. These agencies provide various coordination services to local libraries including the provision of consulting services, staff training and an interlibrary loan network. The Ministry appoints members to the boards of these two agencies but the majority of the members are representatives from local library boards. For the 1996/97 fiscal year, ministry funding for these two agencies totalled \$5.5 million which is virtually 100% of their budgets.

Ministry funding for library service agencies is based on annual operating budgets. We reviewed this funding and found that budgets received the required ministry approvals and the two agencies were properly paid.

We reviewed the 1995/96 financial statements of the two library service agencies and noted significant accumulated surpluses totalling \$1.5 million, or over 25% of their 1996/97 funding. However, the Ministry has not established policies for dealing with situations where ministry funding has not been spent. Additionally, in our view, prudent government-wide policy would require all prior years' expenditure surpluses to be recovered.

### **Recommendation**

**The Ministry should review the funding arrangements that result in year-end surpluses and establish procedures to adjust future years' funding or recover these surpluses.**

### ***Ministry Response***

***It should be noted that, in the past, the agencies received their first grant payment of the fiscal year in May or June making it essential for them to carry over funds in order to function for the first two to three months of the year. This year the agencies received their first grant payment in April.***

***In the 1995/96 fiscal year, the agencies had received notification shortly before the end of the fiscal year of a 37% reduction in the following year. Both agencies immediately curtailed their spending in order to amass the savings necessary to cover the severance payments anticipated from mass layoffs early in 1996/97. The severance costs had to be covered entirely from the agencies' regular operating grants.***

***The Ministry will be reviewing accounting arrangements with the agencies to ensure they comply with overall government processes and procedures. The Ministry will also assess year-end surpluses to ensure the surpluses are reasonable for current operational purposes.***

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### LIBRARY SERVICES REVIEW

The Who Does What Panel, consisting of a number of mayors, municipal officials and financial experts, was appointed on May 30, 1996. The panel's goal was to ensure optimal service delivery by reducing waste, duplication and the overall cost of government at the provincial and local government levels. The panel made a series of recommendations including a proposal that the Ministry cease funding public libraries. The panel also suggested that libraries be given maximum flexibility to generate revenues. The legislative changes required to eliminate library funding and allow expanded revenue-generating capabilities were introduced in the Legislature in January 1997.

The Panel also recommended that the Ministry continue its role of advancing the library system. The two library service agencies fulfil a major part of this role. These agencies generate little revenue despite their provision of value-added services such as training programs for local library staff, the interlibrary loan service and a province-wide computer network. Neither the two agencies nor the Ministry had calculated the value of these services to determine the feasibility of cost recovery.

As outlined in the 1996/97 business plan, a major objective for the Ministry regarding grant recipients is to encourage revenue generation and self-reliance. Successful revenue generation may assist the two library service agencies to become more self-reliant and eventually less financially dependent on the Ministry. Streamlining of the two agencies may also result in administrative and operational economies as they offer similar services to different geographic areas.

#### **Recommendation**

**To reduce the overall cost of the program, the Ministry should work together with the library service agencies to assess the potential for revenue generation and consider the feasibility of streamlining their operations.**

#### **Ministry Response**

***The Ministry will be working with the agencies to examine the potential for revenue generation and the feasibility of streamlining their operations.***

***It should be noted that legislation requires that the agencies deliver programs on behalf of the government and therefore some government funding will be required on an ongoing basis.***

## CULTURAL AGENCIES

During the 1996/97 fiscal year, the Ministry provided almost \$143 million, or 74% of its culture budget, to 10 transfer payment recipients as follows.

### 1996/97 Cultural Agency Funding

	<b>\$ Millions</b>
TV Ontario	56.9
Ontario Arts Council	30.3
Royal Ontario Museum	19.4
Art Gallery of Ontario	11.9
Ontario Science Centre	11.7
Science North	3.3
McMichael Canadian Art Collection	3.2
Ontario Heritage Foundation	2.2
Royal Botanical Gardens	2.2
Ontario Film Development Corporation	1.7
<b>Total Funding</b>	<b>142.8</b>

*Source: Ministry of Citizenship, Culture and Recreation*

All of the above agencies have their own legislated mandates and report to the Legislature directly or through the Ministry. The province appoints all or the majority of board members for eight of the ten agencies. The Ministry is responsible for providing a framework to assess whether an agency's mandate is being fulfilled in compliance with approved government policies.

## AGENCY ACCOUNTABILITY

Legislation establishing the agencies, government policies and ministry requirements together provide a framework to hold government agencies accountable for their expenditure of public funds. The Ministry's framework for each agency is formalized in a Memorandum of Understanding which outlines the respective roles and responsibilities of the Ministry and the agency. The agencies are required to submit a number of documents, including an annual business plan, a strategic plan, a five-year capital plan and an annual report. In addition, agency and ministry staff attend regular liaison meetings to discuss current operational issues.

We reviewed the Ministry's accountability processes in place for cultural agencies and noted the following.

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- Adequate procedures were in place to ensure that payments to agencies received the required approvals and were properly paid.
- The Ministry did not have a system to track whether the submissions required by the Memorandums of Understanding had been received. In reviewing the documentation received over a four-year period, we determined that the majority of the required documents had been submitted. However, a number of required submissions had not been received from five of the six agencies examined. We also noted that all the Memorandums of Understanding had expired between 1990 and 1995 and had not been updated.
- The Ministry developed a business plan template to assist the agencies in preparing their annual budget submissions and ensure the receipt of comparable and complete information from all agencies. However, for the business plans submitted by the agencies during the period that we reviewed, compliance with the template information requirements ranged from 25% to 96%. The information not submitted generally included financial forecasts, staffing information and review of the current year's operational performance. The Ministry needed such information for proper planning and for holding the agencies accountable.
- We reviewed the agency business plans received and found that for each of the last three years over one third lacked evidence of ministry review. The Ministry generally had not performed key types of analyses, such as comparing actual to budget expenditures, determining compliance with the agencies' legislated mandates and reviewing expected outcomes.
- Management Board requires internal audits to be performed on a periodic basis by the Ministry's internal audit branch, by an internal audit capability within the agency, or through a private sector contract. We noted that one agency had its own internal audit capability. However, internal audits had not been performed at any of the other nine cultural agencies.
- In October 1996 the Ministry produced a report outlining the concerns expressed by a forum of agency officials. The forum identified a number of problems with the board appointment process, such as limited orientation of appointees to the agencies' boards of directors regarding their roles and responsibilities, and delays in filling vacancies on the boards. For example, a number of government appointments to the agencies' boards had not been made for more than six months. We also noted that prior to 1993 the Ministry had provided all appointees with a Board of Director's Manual which briefly outlined their duties and responsibilities.

### Recommendation

**In order to hold cultural agencies accountable for their expenditure of public funds, the Ministry should ensure that:**

- **a system for tracking the required agency submissions is implemented;**
- **submissions contain sufficient information, are thoroughly reviewed and corrective action is taken where necessary;**
- **internal audits are periodically performed on all cultural agencies;**
- **all agreements with agencies are kept up to date; and**
- **board appointees are provided with a comprehensive orientation which outlines their role, duties and responsibilities.**

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### **Ministry Response**

***The Ministry is currently revising the Memorandum of Understanding template that will be used for negotiating all agency Memorandums of Understanding. The template includes clearer reporting requirements for the Ministry as well as each agency. It is intended that all agency Memorandums of Understanding will be renegotiated. The Ministry is implementing a more formalized response process for all agency business plans. The response will examine if the agency has complied with the information requested in the business plan template as well as an analysis of the information. The analysis process will be incorporated into the workplan of each agency coordinator and the performance contract of the Director of the Cultural Partnership's Branch.***

***Over the next few months the Branch will be implementing an information database that will track reporting requirements for all agencies.***

***The Branch will be working with the ministry audit section to establish an appropriate internal audit schedule for all cultural agencies.***

***The Branch will work with the agencies to ensure the boards of agencies have an orientation process for new board members that includes an outline of members' roles and responsibilities.***

## **PLANNING PROCESS**

For the 1996/97 fiscal year, the Ministry produced a corporate business plan, a division plan and detailed branch plans. The planning process is designed to incorporate legislative objectives, government priorities and program objectives into workable branch plans. To facilitate the planning process the Ministry periodically assesses and prioritizes the needs of the arts, cultural industries and heritage communities and promotes activities to address those needs. In 1995 the Division had reviewed all grant programs and determined that all programs were still necessary, but two of them needed to incorporate their communities' needs to a greater extent. Our review of the grant programs revealed that the Ministry had subsequently incorporated the priorities and expressed needs of the applicable communities into the programs.

We reviewed the Ministry's plans for the 1996/97 fiscal year and found that the plans addressed legislative objectives, government priorities and program objectives. The plans generally focused on policy development, program reviews and operational tasks. The plans also need to outline specific program outcome measures and coordinate the activities of the 10 cultural agencies and other organizations with ministry programs. For example, both the Ministry and the Ontario Arts Council, one of the ministry-funded cultural agencies, assess and fund art service organizations. The Council funds program-related costs while the Ministry funds administrative costs. As the planning process did not coordinate the activities of the Ministry and the Council, they assessed the need to fund these recipients twice. This results in an inefficient and uneconomical method of service delivery.

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### **Recommendation**

**To ensure a more comprehensive planning process, the Ministry should further develop its process to incorporate specific program outcome measures and, where appropriate, coordinate its activities with those of the cultural agencies.**

### **Ministry Response**

***In accord with government-wide instructions from Management Board, the Ministry is putting in place a more complete performance measurement system that is expected to address the Provincial Auditor's concerns. This more comprehensive system will incorporate specific program outcome measures and will feed into and inform the ministry planning process from both levels.***

***In conjunction with its commitment to Management Board to carry out operating reviews for all agencies, the Culture Division will review its own activities and those of its agencies to ensure coordination of activities and eliminate duplication and overlap. The Ontario Arts Council, which has completed its operational review, is currently restructuring its activities toward these ends in consultation with the Ministry.***

## **PERFORMANCE MEASUREMENT AND REPORTING**

The Ministry's 1996/97 business plan specified a number of performance measures including the amount of private sector support provided to arts and heritage organizations, the economic activity of the cultural industry and the percentage of libraries using on-line systems. However, the Ministry did not use these measures to assess the effectiveness of its programs.

For the 1997/98 fiscal year the Ministry has developed a number of new performance indicators which will be used to measure the overall state of the cultural sector. Many of these indicators will be assessed using data generated by Statistics Canada. However, the Ministry has not related its activities to these overall indicators and therefore cannot determine the degree to which its programs have contributed to the overall cultural sector performance.

For each grant within the grant programs, the Ministry had entered into standardized contracts which described the roles and responsibilities of the recipient and any limits on the use of funding. However, measurable outcomes were not specified in these contracts for the 1995/96 fiscal year. In the 1996/97 fiscal year, the Ministry developed specific outcome measures for only the cultural grants program and incorporated the measures into the contracts.

The Ministry requires all agencies annually to report performance information such as attendance statistics and the number of viewers, members and volunteers. We reviewed a number of agency submissions for the 1995/96 fiscal year and noted that 50% did not report performance measures as required. Similarly, only one of the two library service organizations reported activity- and outcome-based performance measures.

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**Recommendation**

To ensure that division activities adequately contribute to overall cultural sector performance, the Ministry should develop more complete performance measures that relate ministry program results to the overall cultural sector measures currently in place.

***Ministry Response***

*The Ministry has committed to Management Board to develop and implement a complete performance measurement system in the course of this fiscal year.*

*The Culture Division has already taken steps toward implementing some aspects of this more comprehensive performance measurement system. The Division held a one-day workshop on April 29, led by a management consultant. A full cross section of the Division participated, including the Assistant Deputy Minister, all directors and managers (regional and head office) and selected staff.*