

2.25 Discovery Regional Development Board Inc.

In March 2003, the Public Accounts Committee made a resolution that “... *the Auditor General be asked to consider performing an audit of the Regional Economic Development Boards in the Province ...*”. Further to this resolution, I performed an audit of three zonal boards during the year. As requested by the Public Accounts Committee, the results of my work are included in my Annual Report to the House of Assembly on Reviews of Departments and Crown Agencies.

The Discovery Regional Development Board Inc. was incorporated in May 1996. The Corporation covers an area on the island’s east coast, including 109 communities, with a combined population of approximately 33,470 (1996).

The Corporation receives its funding from the Federal and Provincial governments. Due to the lack of externally prepared financial statements for all years since the Corporation’s inception in May 1996, we were unable to determine the total funding received relating to administration expenses since the Corporation’s inception or the amount received to fund initiatives in accordance with the Corporation’s strategic economic plan.

Our review indicated that the Corporation did not always publicly tender for goods and services, did not fully comply with its performance contract with the Federal and Provincial governments, and that improvements in controls are required in several areas. Specifically:

- **Property Purchase.** One item of particular concern resulting from our review relates to the purchase of a property by the Discovery Opportunity Centre Inc. (DOC). The DOC was a company established by the Corporation for this purpose. The property was intended to provide rental accommodations for the local IT sector as well as for Corporation administrative and program staff. The property was purchased in July 2000 for \$82,645 with an estimate of \$519,500 for extensive renovations. Based on the most recent information available, the DOC owes \$740,824 relating to the property purchase and renovations,

consisting of \$51,519 for the bank mortgage, \$449,416 relating to the second mortgage with the building materials supplier and \$239,889 relating to other creditors.

Our review of the Corporation's involvement with the DOC property indicated the following:

- The Corporation violated the terms of the performance contract by indirectly purchasing the DOC property. The establishment of the DOC, to enable the purchase and renovation of the DOC property, was designed by the Corporation in an attempt to circumvent the performance contract which did not permit such activities. The performance contract indicates that funding is provided to cover eligible direct operating costs and, in cases where deviations from eligible expenses are going to be made, requires that written approval of the Federal/Provincial Management Committee be obtained. No such written approval was provided.
- No public tender was called for the purchase of the initial property which cost \$82,645, and no information was provided that would suggest the Corporation considered other methods of securing the required accommodations. Therefore, the Corporation could not demonstrate whether the most appropriate space was obtained at the best price.
- No public tenders were called for any of the goods and services acquired during the renovation.
- Expenditures totalling \$46,050 were incurred by the Corporation on behalf of the DOC.
- At the time of our review, renovations on the building had not been completed, the lone remaining IT sector tenant which had occupied some of the space had left, all former DOC Board Directors except the former President of the

Corporation had resigned and a total of \$740,824 was owing to creditors.

! **Planning, Monitoring and Reporting.** No new long-term Strategic Economic Plan was developed to replace the original plan prepared in 1997 and which expired in 2002. Without a long-term strategic plan to provide a focus, it was difficult for the Corporation to demonstrate how annual initiatives contributed to any long-term objectives.

Also, while the Board did receive some information on the status of how projects were proceeding when it met, we found that there was insufficient information provided by Corporation officials at those meetings to enable the Board to monitor how resources were utilized in meeting stated objectives contained in work plans and the Strategic Economic Plan which expired in 2002.

As well, there was no annual evaluation undertaken by Corporation officials of the various initiatives and projects which could have been used by the Board to determine whether the initiatives or projects achieved the intended results and contributed to planned objectives.

• **Compliance with Performance Contract.** The Corporation receives its funding based on a performance contract with the Federal and Provincial governments. We found that the Corporation had not fully complied with the requirements of this contract. Most notable is the indirect purchase of the DOC property referred to above, which was not an eligible cost under the performance contract.

The Corporation is required to repay any unexpended operational funds promptly and in any event within 30 days of written notice by the Management Committee. However, the Corporation had not remitted any unexpended operational funds and furthermore, the Corporation had not received written notification requesting that the amounts be repaid.

- **Controls and Expenditures.** Although not documented as being Board policy, Corporation staff indicated that the Corporation follows the *Public Tender Act* in acquiring goods and services. Given that the DOC was established by the Corporation, we also used the *Public Tender Act* as a reference in reviewing the purchasing practices used by the DOC.

We found that in relation to the DOC property purchase no public tenders were called for purchases in excess of \$10,000. We also found instances related to the property purchase and other Corporation purchases, where three written quotes were not obtained for purchases of less than \$10,000.

Our review also identified issues with respect to documentation and payment of travel claims. Of particular concern was a notification the Board received in July 2002, from the Atlantic Canada Opportunities Agency (ACOA), of irregularities in travel claims by two of the Corporation's Board members. Corporation staff informed us that the two Board members in question were found to be submitting travel claims to two ACOA funded boards for the same travel. In September 2002, the Board decided to suspend the two Board members indefinitely from the Board until ACOA or the two Board members could satisfactorily inform the Board that the matter had been resolved. We were informed by Corporation officials that no further action was taken in relation to this matter and that no monies were recovered from the two Board members.

- **Human Resources.** Corporation staff could not locate job competition files and personnel files. Given the absence of these files, we were unable to review the hiring practices of the Corporation or determine how people were selected for positions or whether salaries and benefits were in compliance with any employment contracts which may have been in place.

Corporation staff indicated they are responsible for monitoring their own attendance and that there are no

attendance or leave records maintained. Also, there is no documented approval for overtime worked.

Our review also indicated that two complaints against the Corporation had been filed with the Human Rights Commission.

- **Capital Assets.** The Corporation does not have a complete and accurate record of its capital assets.

2.26 Marine and Mountain Zone Corporation

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The Marine and Mountain Zone Corporation was incorporated in 1996. The Corporation covers the island’s southwest coast, including 27 communities, with a combined population of 9,668 (2001).

The Corporation has received approximately \$1 million in funding from the Federal (70% - \$700,000) and Provincial (30% - \$300,000) governments relating to administration expenses since its inception in 1996. The Corporation also received approximately \$1.4 million for 2000, 2001 and 2002 to fund 11 initiatives in accordance with the Corporation’s strategic economic plan. Of this \$1.4 million, \$1.2 million was provided by the Federal government, \$75,000 was provided by the Provincial government and the remaining \$89,000 was provided by the private sector.

Our review indicated that the Corporation has made unauthorized payments, is not complying with its performance contract with the Provincial government and with other authorities, and requires improvements in controls in several areas. Specifically:

- **Unauthorized Payments.** One item of particular concern resulting from our review was the fact that unauthorized