

**Review of Expenditures
Heritage Incentive Program and Heritage Reserve**

May 2005

MARMHM01

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Executive Summary

The initial request to conduct a thorough review of transactions relating to the Heritage Incentive Property Grant and the Heritage Reserve was primarily due to a perceived lack of transparency in the process of grant funding. The review focussed on the identification and application of policies and processes established for heritage programs.

There are more than 400 registered heritage properties within HRM. A total of 116 transactions occurred in the Heritage Incentive Grants Cost Centre (C730-8004) between April 1, 1999 and March 31, 2005. Adjusted for transfers between accounts and corrections, a total of 88 grant cheques were issued to heritage properties. Selected files were reviewed for compliance with the Heritage Incentive Program process within Recreation Tourism and Culture ("RTC") and the internal controls of the Accounts Payable process in Financial Services. The methodology included the review of granting authority to expend funds; financial analysis of actual to budget from 1999 to 2004; personal interviews with key employees; and a review and comparison of documentation compiled from both the accounts payable cheque back-up files and the originating files from RTC used to approve and create the grant cheque.

There is no evidence to suggest that preferential treatment has been given to certain registered heritage property owners. The results of the review did identify sloppy record keeping and a high incidence of noncompliance with the established processes as presented to Regional Council in September 2002. In two cases, staff was not able to provide any records to support the approval of funding. Only one of the twenty randomly selected files originating from RTC met all the processing conditions of the Heritage Incentive Grants Program and appropriate internal controls for the accounts payable process.

There is a need to better define the application process in terms of frequency of access and reporting accountability. Staff currently responsible for the administration of the Heritage Incentive Grant Program were unclear as to the appropriate application of eligibility rules per property and/or per period and are now documenting clear "Rules of Engagement" to support the policy statement.

Staff reports a hesitancy to deny funding opportunities to repeat applicants because of the fragility of the legislative heritage framework. The report did not look at denied applications, only those that received grant approval. Of the 88 cheques issued as heritage incentive grants, seven properties received two or more payments, resulting in a total of 76 properties accessing the Heritage Incentive Program established in 2002. Lack of ongoing direct communication of the program to heritage property owners may be the reason for an overall response rate of 19% (76/400). Other than the initial announcement of the funding opportunity to those properties registered as of September

2002, there was no indication that staff seeks out property owners who have not availed themselves of the program for ongoing maintenance or exterior upgrading.

The analysis also identified payments paid from C730 to support the Dartmouth Heritage Museum and/or the Dartmouth Heritage Museum Society. The analysis was subsequently expanded to identify the total funds provided across HRM to operate the museum assets as there is a management agreement in place that sets the HRM's financial contribution at \$50,000 per year. From the signing of the management agreement on July 20, 2000 to March 31, 2005, the HRM paid a total of \$293,300¹ in service fees and additional identifiable funds of approximately \$50,322 for such items as utilities, grants, special event tickets and materials relating to the upkeep of the buildings.

Overall the defined process appears to have adequate controls to ensure that the HRM expends funds as intended by the program. It is the lack of adherence to the established controls that is reflected in the findings of this report.

Recommendations include the tightening of internal controls relating to the approval of funding and the acceptance and processing of cheque requests; adherence to and documentation of new and prior established procedures; and improved targeted communication to all registered heritage property owners within HRM.

Respectfully submitted,

Cathie Osborne, CGA, CMM
Team Leader Business Systems and Control

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Financial Consultant

¹ See Table 1

Project Outline

Purpose:

The purpose of the project was to review expenditures relating to the Heritage Incentive Program reinstated by Council on October 7, 2002 and the Heritage Tourism Reserve, approved by Council in February 2003. The review was to confirm that business practices were in compliance with formal policies, practices or operating standards established by the Business Unit and/or organization.

Methodology:

The review examined the details of grant transactions between April 1, 1999 and March 31, 2005 occurring in the Heritage Cost Centre (C730) assigned to the Recreation, Tourism and Culture Business Unit. The analysis focussed on the level of compliance with identified policies, procedures, etc. and was conducted on a random selection of 20 of the 116 transactions from the operating account. Transactions flowing in/out of Heritage & Culture Tourism Reserve Account (Q312) were reviewed for compliance with the Reserve Business Case and other directions of Council.

Interviews were held with parties who are or had been familiar with the delivery of the Heritage Incentive and Heritage Property Programs. Documentation was compiled through Internet searches, staff files and other reliable sources.

Background:

There are two components associated with heritage properties.

Heritage Property Program:

The Heritage Property Program is set up under the authority of the Heritage Property Act (NS) and HRM By-Law H-200 which establishes the process and evaluation criteria used to award and retain heritage registration on a property. Registered properties are formally listed in the Municipal Heritage Registry. Residential and commercial properties can hold Municipal, Provincial and Federal Heritage designations. Registration generally includes both the buildings and land. Heritage registration voluntarily encumbers the property owner to conserve the unique external heritage qualities of the property, often at higher than normal costs than non registered property owners.² The program provides the Municipality with leverage and input regarding any changes proposed to the facade and/or use.

² Excerpt from Staff Report to Council, October 7, 2003 Heritage Incentives Program: Proposed Program, page 2.

Once listed in the Municipal Registry, commercial and residential properties becomes eligible for consideration for funding under the HRM Heritage Incentives Grant Program. There are more than 400 registered properties within HRM. Other property types may be eligible for funding under the HRM Community Grants Program.

Heritage Incentive Grants Program:

The Heritage Incentive Grants Program is a budget activity of the Recreation, Tourism and Culture Business Unit. It is a companion program to the Heritage Property Program delivered by Planning and Development. Funding is available to registered heritage properties for external work which must be matched by the property owner. Residential properties can receive a maximum HRM contribution of \$5,000 per application while commercial properties are eligible to a maximum of \$10,000. Staff has set a minimum application value of \$5,000. A property owner may submit up to two applications a year. Staff had established a per property limit of only funding three grants in a five-year period but this has since been replaced with the twice yearly application limit.

Responsibility for the Heritage Incentive Program has resided, at various times, in Planning and Development or Recreation, Tourism and Culture. Prior to fiscal year 2000/01, the program was not consistently funded. According to the records reviewed for the period April 1999 to March 2005, 76 properties received funding through the Heritage Incentive Grant program. Included in the 76 properties are three (3) properties who received two grants and four properties who received grant funding three times.

An excerpt from the Halifax Regional Municipality Council Minutes of January 29, 1997, outlines the history of the current Heritage Incentive Program.

- | | |
|---|--|
| < | The Heritage Incentive Grants policy was carried over from the former City of Halifax. |
| < | The former City of Halifax was the only municipality that had heritage grants in the past. |
| < | The Heritage Incentive Grants policy was approved by Council by virtue of the passing of HRM Bylaw H-200, The Heritage By-Law. |

Prior to 1996, (amalgamation) the authority and responsibility to grant a property heritage status and funding resided with the Heritage Planner of the Planning Department. After amalgamation the authority to grant a property heritage status remained with the Heritage Planner but approval for grant funding (when it existed) was transferred to the Manager of Culture and Heritage, working from the Tourism, Culture and Heritage Business Unit. This section was later included in the restructured Recreation, Tourism and Culture Business Unit. As of February 2005 the current Heritage Incentive Program resides with Planning and Development who also have responsibility for the Heritage Property Program.

Heritage Advisory Committee

The Heritage Advisory Committee is a committee of HRM Council comprising two Councillor appointments and ten public participants. The Committee's primary role is to review and recommend to Council the granting and retention of heritage registration of properties within HRM. The Committee meets monthly and staff from Planning and Development (Heritage Planners) provides administration and advice on heritage matters. As a condition of granting heritage status, the property owner agrees to submit, for approval, through the heritage property process, all exterior property improvements or modifications. Applications for work falling within a Level 1 criterion can be approved by staff. Applications for all other work (Levels 2,3) must be recommended for approved by the Heritage Advisory Committee and/or HRM Council.

Council approved Level 1 Guidelines include alterations such as paint colour, window replacement(of like material,) reroofing and signage. Council approved Level 2 Guidelines includes alterations that change the mass of the building or uses non-traditional material. Level 3 Guidelines, which always requires the approval of HRM Council, as recommended by staff and the Heritage Advisory Committee, includes demolition and subdivision applications, construction of new detached buildings and the construction of additions.

The Heritage Advisory Committee has no formal role in the approval of grant applications under the Heritage Incentive Grant Program.

Staff's Role

Under the Heritage Property Program, Planning and Development staff approves and then advises the Heritage Advisory Committee of all Level 1 approvals and recommends (or not) approval to the Heritage Advisory Committee for all Level 2 and 3 applications. Although staff is solely responsible for the approval of Level 1 applications, they have established a practice of submitting Level 1 applications with an attached grant approval to the Heritage Advisory Committee for information purposes and to ensure transparency in the process.

Detailed Analysis and Findings

Financial Analysis - Heritage Incentive Grant Program

The Heritage Incentive Grant Program was funded from 1996 to 1997 but suspended until 2002. At its reinstatement for fiscal 2002/03, account C730-8004 was designated the budget for the issuance of grants to eligible property owners. Prior to this, cost element 8004 held monies set aside to pay for the upkeep of the Dartmouth Heritage Museum.

Table 3 provides a comparison of budget to actual for selected cost elements under the cost centre C730 for the fiscal years 99/00 to 04/05. These cost elements have been selected to better depict the movement of funds within the cost centre. The data indicates that funding for the Heritage Incentive Grant Program doubled from \$50,000 to \$100,000 when Council reinstated the program in fiscal ** 02/03. In fiscal ***03/04 funding again increased by an additional \$50,000 to its current level of \$150,000. During the 02/03 fiscal period, an additional \$50,000 was set aside in cost element ^ 8001 to fund the fee-for-service component of the Management Agreement with the Dartmouth Heritage Museum Society entered into in July 2000. (See following section for further details.)

Currently the Heritage Incentive Grant Program resides in the operating account C730-8004 for which Recreation, Tourism and Culture are accountable even though administrative responsibility has been transferred to Planning and Development. There is an unsigned agreement between the two business units that require the Director of RTC sign off on all expenditures relating to the grant program.

Recommendation:

1. The budget allocated to the Heritage Incentive Grant Program should be realigned with Planning and Development. Regular reporting to the Manager of Culture and Heritage advising of new property registrations and grant approvals should occur.

Management Response:

The Acting Director of RTC has suggested that a viable alternative to this recommendation is to move all heritage related staff, funding and programs to Recreation Culture and Heritage. Fragmentation of the heritage and culture program has been identified as an issue under the Regional Plan Transition Plan.

Financial Analysis - Dartmouth Heritage Museum

The analysis of operating transactions included a review of the financial support HRM provides under a Management Agreement with the Dartmouth Heritage Museum Society. Prior to the signing of the management agreement, and as shown in Table 3, the budget allocation for the management fee did not appear until fiscal year 2002/03 when it was set up to a separate cost element (C730-8001). During the year of the signing of the management agreement, no funds were expended from the grant account. However, further analysis of payments³ made to the Dartmouth Heritage Museum and/or the Dartmouth Heritage Museum Society indicates that a total of \$78,300 was paid out in fiscal year 00/01 from Account C770-8004 (Buildings and Operations - RTC), part of which is related to the \$50,000 annual fee.

Table 1 also highlights the expenditures made in regards to the Dartmouth Heritage Museum prior to and since the signing of the management agreement. Of interest is the continuation of utility payments of \$22,629 which, according to the management agreement, are the responsibility of the Society. Due to the manner in which the data for fuel was collected and processed, we were not able to break out the value of funding HRM provided for fuel for the years 2001 - 2003.

Staff are currently reviewing the status, components and impact of all management agreements in force within the HRM. No recommendation is provided at this time to address the additional funding being provided outside the terms and conditions of the management agreement as this issue will be considered during the re-evaluation process under way.

Table 1: Expenditures Dartmouth Heritage Museum & Dartmouth Heritage Museum Society

Payment	99/00	^ 00/01	01/02	02/03	03/04	04/05	Totals
Annual Fee	\$20,000	\$73,300	\$50,000	\$50,000	\$50,000	\$50,000	\$293,300
Identified Utilities	NA	NA	\$3,904	\$6,398	\$6,611	\$5,715	\$22,628
Building and/or Operations		* \$36,526		** \$231	\$2,194	\$368	\$39,319
Grant				\$3,200	\$9,000		\$12,200
Society Revenue, inc HRM donations	\$588	\$300	\$500	\$2,463	\$450	\$150	\$4,451
Relocation Exp		\$5,000			\$3,485		\$8,485

³ See Table 1

Miscellaneous	\$2,750	\$1,480	\$298		*** \$7,404	\$499	\$12,431
Totals	\$23,338	\$116,606	\$54,702	\$62,292	\$79,144	\$56,732	\$392,814
^ Management Agreement signed July 20, 2000 * Internal Transfer from Balance Sheet Acct 2134, Council Approved. ** Pmt from Fiscal Grants and Tax Concessions for Gill Theatre backdrop *** Moving municipal collection to storage							

Financial Analysis - Heritage & Tourism Reserve

The Heritage & Tourism Reserve Business Case submitted to Council has an established purpose of upgrading HRM owned heritage and cultural sites in support of the Council approved Heritage Tourism Strategy in "one of the fastest growing [market] segments⁴" - Heritage Tourism. The funds are to be applied to develop and enhance culture and heritage sites within HRM. Specifically, the reserve is to be applied in three areas.

- A) Improving the awareness of, condition and access to, HRM owned cultural and heritage properties;
- B) Promoting HRM owned heritage and cultural sites through visual identity programs, market positioning, and web site development;
- C) Establish opportunities such as visitor centres and shops, mail order and e-commerce.

All expenditures must be approved by Council.

Table 4 provides the analysis of the Heritage & Tourism Reserve (Q312). There does not appear to be any unusual transactions and all transactions appear to have received and followed the appropriate approval process for expending funds from a Reserve Fund.

Business Processes - Residential Heritage Incentive Grant Program

HRM launched the Residential Heritage Incentive Grant Program in October 2002. In March 2003, staff brought forward an action plan, endorsed by Council, which requested staff to bring forward policies and programs after consultation with the Heritage Advisory Committee. The October 7, 2003 Report to Council was fully endorsed by the Heritage Advisory Committee and consisted of:

- a) Heritage Grant Review Process;
- b) Residential Heritage Incentive Program; and
- c) Commercial Facade Improvement Program

⁴ Excerpt from Heritage & Culture Tourism Reserve Q312 - Reserves Business Case, Jan 31, 2003, Lew Rogers, Director, Recreation, Culture & Heritage

According to the report, consultation included a review of the strengths and weaknesses of the Residential Heritage Incentive Grant Program as operated prior to 2002; the proposed Commercial Heritage Incentives Program; and timing and staff resources for the Heritage Incentive Grant Program.

The consultation process arrived at a number of recommendations.

- a) Improve the relationship between the incentives and the HAC by providing more opportunity to provide guidance from the committee to actions that would enhance heritage alterations. The Heritage Incentive Review Process is one outcome.
- b) Amend the Residential Heritage Incentives Program eligibility criteria to include properties whose owners resided off site, allow for up to eight residential units and prioritize traditional materials, designs and skills.
- c) Propose a new heritage incentive program for commercial property facades.

The Heritage Incentives Review Process comprises a number of steps from the point of application to the issuance of a matching grant cheque. The following table outlines each step in the Council-approved process and the incidents of the noncompliance identified from the randomly selected files. The *italicized steps* are those presented to Council on October 7, 2003. The remaining steps are internal processes necessary to ensure that the expenditure is in compliance with accounting standards.

Table 2: Analysis of Processing Steps Heritage Incentive Grant Program

Description	# of Properties Reviewed**	# in Non-compliance	% of Total in non-compliance
<i>Step 1 - Application received with 2 quotes</i>	20	7	35%
<i>Step 2 - Referral to Planning and Development for approval of work. Level 1 can be approved by staff.</i>	18	2	11%
<i>Step 3 - Referral to HAC (Required for Level 2, 3 work)</i>	1	0	0
<i>Step 4 - Referral to Regional Council (required for Level 2, 3 work)</i>	1	0	0
<i>Step 5 - Response To Applicant-tentative approval</i>	20	2	10%
<i>Step 6 - Applicant applies and receives Permit from P & D</i>	18	11	61%
<i>Step 7 - Applicant indicates work complete, files proof of payment</i>	20	9	45%

Description	# of Properties Reviewed**	# in Non-compliance	% of Total in non-compliance
Step 8 - Site Visit and photographic record (RTC)	20	19	95%
Step 9 - Grant Cheque Request to Accounts Payable - sufficient back up provided	20	8	40%
Step 10 - Grant cheque issued.	20	0	0

Note:** RTC staff was unable to provide original documentation for two of the selected files. Information has been compiled from the Accounts Payable cheque back-up files.

The total value of the grants issued during fiscal period 02/03 to 04/05 was \$329,176. The total grant budget for this same period of time was \$400,000 (Table 3) which means approximately 82% of the available funds were dispensed. Based on the 50/50 matching contribution required for the program, this would result in an economic impact of \$658,352 applied toward the maintenance and improvement of heritage properties within HRM. From the files selected for the period of fiscal 02/03 to 04/05, a total of \$237,704 was requested from the 20 applications reviewed. HRM awarded a total of \$98,848 or 30% of the total funding approved to these properties, seven of which received two or more grants.

The result of the business process analysis indicates that, on average, 42% of the time the business practice was not in compliance with the requirements presented to Council. This was either due to the acceptance of incomplete documentation to complete a step(s) in the process or staff not following the prescribed steps. To put this processing risk into financial perspective, if the error rate of not following the prescribed process was equal to the value of the results of this analysis (42%), then the risk potential of processing non-qualified grants could amount to \$41,516 (\$98,848 * 42%). Extrapolating the same error result against the total of grant funds expended results in a potential process risk value of \$138,253 (\$329,176 * 42%). In other words, there is a 42% chance that staff may have granted funding to non-eligible properties as a result of not adhering to the internal controls established by management and endorsed by Council.

Recommendations:

1. Improve internal controls relating to the approval and processing of grant payments.
 - a) Adhere to internal process submitted and approved by Council and develop a check list for reporting and monitoring - Specifically:

- Require two quotes to be submitted with grant application or sufficient and appropriate written explanation of reason for noncompliance.
- Provide written response to the applicant of tentative approval of grant application, including next steps and/or other HRM processes that must be followed. IE Building Permit
- Establish a policy that requires the applicant to meet all HRM processes prior to funding being granted. IE. Copy of approval Building Permits for work more than \$5,000 must accompany final request for grant funding.
- Proof of payment must clearly indicate that the applicant has made full payment for work approved. This can include original cancelled cheque, original VISA slip or statement, PAID stamped original invoice.
- Partial or split payments should not be accepted where proof of full payment is not provided.
- Release of grant funds should not occur until a documented site visit has been conducted and before and after pictures are obtained.

b) Provide appropriate back-up to cheque requests submitted to Accounts Payable. Suitable back up could include:

- Letter of tentative approval to applicant
- Check list, signed by inspecting staff member which clearly indicates that the original file includes the application, two quotes (or letter of explanation), Building Permit (as required), Proof of Payment received, site visit and before and after pictures completed.
- "Request for cheque" should be reviewed and signed by authorizing manager for the cost centre before submission to Accounts Payable.
- Except in unusual circumstances, all cheques should be mailed or picked up from Accounts Payable and not returned to the requesting business unit. (Results in timing delays and additional cost to process.)

2. A complete record of the grant application approval process by property, including all original documentation and copies of cheque request back up documentation, should be maintained in one location.

Management Response:

Generally, comments from management were positive recommending the improvement of internal control practices. Copies of email responses are attached as:

- *Appendix 1 - Acting Manager of Accounting, Financial Services - Anna Emeno - Action Plan to implement Recommendation 1 (above)*

- *Appendix 2 - Heritage Planner - Maggie Holm*
- *Appendix 3 - Acting Director of RTC - Carol Macomber and Manager of Heritage and Culture - Dan Norris - Dan suggests that the review did not give full consideration to the verbal communication undertaken during the process and that the extrapolation of findings to the full audit universe can be challenged.*
- *Appendix 4 - The Authors response to the issues raised in Appendix 3*

Administration of Heritage Incentive Grant Program:

Discussions with staff indicate that there is no designated funding set aside to administer the Heritage Incentive Grant Program except for the salary and benefits of staff assigned to the Heritage Property Program. As a result, numerous heritage properties have not been provided with plaques or some indicator for placement on the property which highlights the heritage status. Other administrative costs are also absorbed by the host business unit's budget such as printing, travel, photographic documentation and research costs.

Recommendations:

1. **Additional funding should be provided for the administration of the Heritage Incentive Grant Program to cover costs of heritage plaques, ongoing communication of the program and other administrative costs associated with managing the program.**

Monitoring and Reporting:

Under the Heritage Bylaw staff has the authority to approve Level 1 modification to a heritage property without consulting with the Heritage Advisory Committee. Up until 2003, no formal reporting process was in place to advise the Heritage Advisory Committee of the ongoing Level 1 approvals. As well, there is not a requirement for staff to acquire prior approval for grant funding of Level 1 alterations. Staff now reports Level 1 alteration approvals and grant funding to the Heritage Advisory Committee as they occur, to ensure that the committee remains fully engaged and aware of the activity relating to heritage properties in HRM. However, there is no summary reporting of the complete activity over a specific period of time to the Heritage Advisory Committee or Council.

Recommendations:

1. **To improve accountability, an annual reporting should be made to the Heritage**

Advisory Committee through to HRM Council on the activity of:

- a) Applications received and approvals granting Heritage Status to properties within HRM.**
- b) Applications received and approvals granted for Level 1,2 and 3 alterations.**
- c) Applications received and approvals granted under the Heritage Incentive Grant Program, including the dollar amount requested and approved.**

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Table 3: Budget and Expenditures for C730 - Heritage

C730	Budget 99/00	Actual 99/00	Budget 00/01	Actual 00/01	Budget 01/02	Actual 01/02	**Budget ^02/03	Actual 02/03	***Budget 03/04	Actual 03/04	Budget 04/05	Actual 04/05
18001	\$0	\$0	\$0	\$0	\$0	\$0	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
18004	\$60,000	\$30,327	\$60,000	\$170	\$50,000	\$50,700	\$100,000	\$49,248	\$150,000	\$149,227	\$150,000	\$118,695
18008			\$31,523	\$0			\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$22,913
	<u>\$60,000</u>	<u>\$30,327</u>	<u>\$91,523</u>	<u>\$170</u>	<u>\$50,000</u>	<u>\$50,700</u>	<u>\$175,000</u>	<u>\$124,248</u>	<u>\$225,000</u>	<u>\$224,227</u>	<u>\$225,000</u>	<u>\$191,608</u>
Variance of budget to actual		\$29,673 under		\$91,353 under		-\$700 over		\$50,752 under		\$773 under		\$33,392 under
¹ Cost Element	8001 - Transfers from Outside Agencies 8004 - Grants 8008 - Transfers to/fr Reserves											

Table 4: Cash Flow Heritage & Tourism Reserve Q312
Heritage Reserve Capital Projects
Fiscal Year 2002/03 to 2004/05

Order #	Project Name/Description				
SAP	Reserve Q312	04/05	03/04	02/03	Total
CBG00301	City Hall-Carpet, lighting, wall coverings	0	17,596	26,788	44,384
CBG00300	Bicentennial Theatre	29,000	116,000	0	145,000
CBG00306	Evergreen House-Install Heating System	20,456	57,530	13,559	91,546
CBG00307	Capital District-Ferry Terminals-Exterior Signage	0	0	12,413	12,413
CBG00314	Visitor Information-Centre Upgrades	22,229	47,899	0	70,128
CBG00505	Civic Collection Storage	0	43,070	0	43,070
CBG00506	Starr Manufacturing Site	13,032	0	0	13,032
CBG00508	Gill Backdrop-Bicentennial	18,290	40,855	0	59,145
CBG00641	Bengal Lancers Stable	0		0	0
CDG00271	Capital District-Downtown Streetscapes	0	0	50,000	50,000
CDG00302	Community Pride Program-Community Signage	16,433	0	0	16,433
CDG00303	Cultural Tourism Exhibit	0	0	0	0
CDG00305	Deadman's Island-Public Access Pathway	17,183	16,228	65,000	98,411
CDG00311	Scott Manor House	0	0	0	0
CDG00333	Community History Boards	0	372	0	372
CDG00332	Capital District - Wayfinding	0	0	0	0
CDG00487	Public Art-Repair & New	0	0	0	0
CDG00509	Heritage Incentive Program	0	0	0	0
CDG00510	Lighting Granville Mall	0	0	0	0
CDG00511	Cultural Asset Inventory	5,000	0	0	5,000
CPG00483	Sullivan's Pond	33,768	1,232	0	35,000
CPG00484	Black Heritage Trail	6,575	3,425	0	10,000
CPG00485	Needham Bells	119,933	3,806	0	123,739
CPG00486	Shubenacadie Canal	7,281	0	0	7,281
CPG00492	Capital District-Public Gardens Mgmnt pln	0	0	0	0
					824,953

Listing of Recommendations

1. Improve internal controls relating to the approval and processing of grant payments.
 - a) Adhere to internal process submitted and approved by Council and develop a check list for reporting and monitoring - Specifically:
 - Require two quotes to be submitted with grant application or sufficient and appropriate written explanation of reason for noncompliance.
 - Provide written response to the applicant of tentative approval of grant application, including next steps and/or other HRM processes that must be followed. IE Building Permit
 - Establish a policy that requires the applicant to meet all HRM processes prior to funding being granted. IE. Copy of approval Building Permits for work over \$5,000 must accompany final request for grant funding.
 - Proof of payment must clearly indicate that the applicant has made full payment for work approved. This can include original cancelled cheque, original VISA slip or statement, PAID stamped original invoice.
 - Partial or split payments should not be accepted where proof of full payment is not provided.
 - Release of grant funds should not occur until a documented site visit has been conducted and before and after pictures are obtained.
 - b) Provide appropriate back up to cheque request submitted to Accounts Payable. Suitable back up includes:
 - Letter of tentative approval to applicant
 - Check list, signed by inspecting staff member which clearly indicates that the original file includes the application, two quotes (or letter of explanation), Building Permit (as required), Proof of Payment received, site visit and before and after pictures completed.
 - "Request for cheque" should be reviewed and signed by authorizing manager for the cost centre before submission to Accounts Payable.
 - Except in unusual circumstances, all cheques should be mailed or picked up from Accounts Payable and not returned to the requesting business unit. (Increases the cost of processing and may result in delays in issuing)

2. A complete record of the grant application acceptance and approval process by property, including all original documentation and copies of cheque request back up documentation should be maintained in one location.
3. The budget allocated to the Heritage Incentive Grant Program should be realigned with Planning and Development. Regular reporting to the Manager of Culture and Heritage should occur advising of new property registrations and grant approvals.
4. Additional funding should be provided for the administration of the Heritage Incentive Grant Program to cover costs of heritage plaques, on-going communication of the program and other administrative costs associated with managing the program.
5. To improve accountability, an annual reporting should be made to the Heritage Advisory Committee through to HRM Council on the activity of:
 - a) Applications received and approvals granting Heritage Status to properties within HRM.
 - b) Applications received and approvals granted for Level 1,2, and 3 alterations.
 - c) Applications received and approvals granted under the Heritage Incentive Grant Program, including the dollar amount requested and approved.

Appendices

- Appendix 1 -** *Acting Manager of Accounting, Financial Services - Anna Emeno - Action Plan to implement Recommendation 1(above)*
- Appendix 2 - Heritage Planner - Maggie Holm*
- Appendix 3 - Acting Director of RTC - Carol Macomber and Manager of Heritage and Culture - Dan Norris - Dan suggests that the review did not give full consideration to the verbal communication undertaken during the process and that the extrapolation of findings to the full audit universe can be challenged.*
- Appendix 4 - The Authors response to the issues raised in Appendix 3*

Appendix 1

From: Anna Emeno
To: Cathie Osborne
Date: 09/08/2005 12:43:22
Subject: Draft Report - Review of Expenditures - Heritage Incentive Program and Heritage Reserve Report

Hi Cathie,

I have reviewed the above noted draft report. Thank you for also providing the additional review documents as requested for clarification.

I am in agreement with recommendation #1 regarding improved internal controls relating to the approval and processing of grant payments. It is evident from the supporting documents you provided that while A/P staff have not processed cheques without the proper approval signature of the originating business unit, the backup documents have not always been sufficient per the criteria outlined in your report. There is at present no written policy regarding the appropriate backup requirements for the Grants Program (or similar reimbursement program).

Action: Ensure that the FSRs have written policies and procedures which support their right to request additional backup before issuing cheques.

Process:

1. Payment Processing Supervisor to draft policy and procedure for payment processing - general policy, but with specific reference to handling special circumstances;
2. Update current *Checklist for Accountants Re: Cheque Runs* to include a check for backup specific to reimbursement of invoices paid by others;
3. Work with the business unit to develop the checklist for grant program reimbursement requests - checklist should clearly indicate what is to be included as backup with the cheque request and what is required to be obtained by the business unit, but not necessarily forwarded to Accounting;
4. Develop policy for mailing/pick-up of cheques;
5. Approval of policies;
6. Implementation of policies and communication to FSRs.

Target completion date: September 30, 2005

Please let me know when the report is approved and if the action plan/timeline is acceptable. Draft Policies and procedures will be forwarded to you for review.

Thanks
Anna

Appendix 2

From: Maggie Holm
To: Cathie Osborne
Date: 10/08/2005 11:43:48
Subject: Report - Review of Expenditures of Heritage Incentives Program and Heritage Reserve

Cathie,

As per our phone conversations, I have no concerns with your report (aside from the small points of clarification I explained over the phone). You seemed to have gained a good appreciation of our programs in short time!

In relation to the recommendations in your report, I felt they were all good suggestions, and we have already begun to implement some of them. Here are my comments relating to each of the recommendations in the report.

Recommendation 1 a) and b): I have created an internal checklist which we attach to each application, and will now supply this to financial services when requesting a cheque. This lets all parties know that we have covered all the requirements.

Recommendation 2: The Heritage Property Program maintains all supporting documentation for all grant applications - and a stamp on the cheque request indicates where this supporting information can be found.

Recommendation 3: I whole heartedly agree that the budget should be realigned with Planning and Development - presently the check requests are sent internally to RTC, who sign them and send them to Finance. While this is working well, there is a time lag where applicants have to wait longer to have the funds released to them. If we had the ability to have P&D management sign the request, the cheques could be issued faster.

Recommendation 4: Again, I am thrilled to see a recommendation for funding for our plaques, and public relations (mail out, etc) to let people know about our wonderful program! This would be very helpful.

Recommendation 5: I agree that annual reporting to the HAC with cc's to P&D and RTC management makes the program more transparent, and allows departments better updates of progress of the program. This is something Bill and I aim to begin doing this year.

Thank you for preparing this report, I know it will help make the program better than it already is!

Maggie

Maggie Holm, BA, BDep
Heritage Planner - HRM

Phone: 490-4419

Fax: 490-4406

CC: Paul Dunphy; Sharon Bond

Appendix 3

From: Carol Macomber
To: Cathie Osborne
Date: 09/08/2005 12:23:17
Subject: Fwd: Comments on Heritage Incentive Review

Hi Cathie,

Thanks for doing the above and for seeking our comments. I've attached Dan Norris's comments, and although I didn't review his financial facts, I also felt the risk assessment aspect of the noncompliance part could be challenged.

I'd like the audit to include interviews with those turned down and to try to get more information on why we aren't getting more applications, but perhaps this is beyond the scope of the work.

Should Sue Uteck be asked to review at this point given she asked for the audit?

I'd like to discuss your recommendations with Dan English before the report is concluded. For example, an alternative to moving the budget for incentives to P&D would be to move all heritage staff to RTC. The regional plan transition plan is noting the fragmentation of heritage and culture delivery as a problem to be addressed in achieving our policy direction.

Thanks. Greatly appreciated.

CC: Dan English

Appendix 3 (continued)

To: Carol Macomber, Director
From: Dan Norris, Coordinator, C&H
Date: July 27, 2005
Subject: Review of Heritage Incentive Program- Comments of Coordinator, C&H

FINANCIAL ANALYSIS:

I am concerned about the non-compliance analysis. It is used to “extrapolate” a calculation of financial risk. Specifically, my concerns are with analytical methodology as noted below:

- C The statement that “on average, 42% of the time the business practice was not in compliance” is a concern. I tallied all of the individual non-compliance scores in Table 2. A total of all scores divided 10 steps creates an average score of 29.7 % , not 42%. Furthermore, it is my contention that non-compliance is below 10 % because:

- C Step # 1 speaks to a need for an estimate for the work. I question the figure that 35% of applications were non-compliant. Quotes were a requirement that I was hard line about. All applicants submitted quotes. Some quotes were by phone, some in person.

- C Step #6 and Step #7 speaks to communication with applicants. I made a priority to communicate with applicants and property owners while managing the Heritage Incentive Program. To deliver a high level of customer service (ie a prompt response), most of my communication was by phone, some in person and some by email. I question the figures of 61% and 45% for non-compliance for Step # 6 and Step #7.

- C Step #8 speaks to communication, this time in the form of site visits. One of the joys of the job was conducting site visits. Unfortunately, I rarely made paper notes to file to indicate that the visits took place. We also complied photos digitally, not on paper.

Accordingly Carol, I contend that the methods, while correct in terms of a standard accounting review, did not fully capture the communication. In part this was because we did not employ an administrative assistant. In part, it is because communication has changed.

RECOMMENDATIONS:

In the Listing of Recommendations, I concur with the review in all but two aspects:

Recommendation # 3: Cathie Osborne did verbalize a concern to me in interview about one BU

granting both heritage incentive grants and heritage alteration approvals. This does not appear to have been noted in the report. We should verify with the review team that it is no longer a issue.

Recommendation # 4: Expenses related to heritage plaques are solely a function of heritage registration and are a function of the Heritage Property Program.

Appendix 4:

From: Cathie Osborne
To: Carol Macomber
Date: 10/08/2005 15:06:30
Subject: Re: Fwd: Comments on Heritage Incentive Review

Carol, thank you for your comments and for forwarding Dan's. I will be on vacation from Aug 12th, returning September 12th. It is my intention to finalize the report before I leave, filing it with Dan and Councillor Uteck. I can include, within the body of the report as management's comments, your comments relating to the transfer of budget so that it is articulated at the time the report is filed.

The focus of the review was to test compliance in issuing grants. No access or information was provided to properties denied funding and although I share your interest in this area it was outside the scope of the project.

I assume by "risk assessment" you are referring to the translation of the average non-compliance finding of 42% of the files reviewed into a **potential financial risk** of \$41, 516. Our attempt was to provide management with some understanding of the potential impact that could result from inadequate controls and processes. It does not say that this has happened.

The approach taken to test compliance with the established process was random non-statistical sampling. This method was utilized for a variety of reasons. Primary was that a strictly defensible result based on mathematics was not necessary to evaluate the level of compliance based on documentation and notation. The files are diverse and the process segmented, which can result in more errors. The process must go through 4 HRM functions and 10 steps. In addition, although we requested access to the original files we were only provided access to the files randomly selected. This is not the normal course in this line of work. However, rather than create additional swirl we relied on a number of complementary sources to compile a full record of each file.

I will include Dan's general comments on communication. (his last paragraph under his miss-heading of Financial Analysis)

I offer the following as clarification.

In response to "Business Process" Step 1, I would point out that receiving a quotation over the phone without requiring a copy of the document from the property owner or even documenting the details of that information in the file is not an adequate control to ensure that quotes were received, nor does it assist in independently validating the process.

Appendix 4 continued

In response to Step 6, the step refers to the requirement for the property owner to obtain a building permit. There were a few instances where the file held a copy of a building permit but in most cases, there was no documentation or a even a notation that a building permit was obtained. If HRM is going to fund building projects, is it unreasonable to assume that it be a condition that the owner provide proof that they have complied with all appropriate HRM regulations? How would someone independently reviewing the file know that this requirement was kept if there is no indication on file that the property owner complied with the requirement?

Step 7 refers to adequate proof of payment. The only acceptable indication that the work is completed is a paid stamped invoice that is matched to the original quote provided. If you only have one or neither of the two, you do not have adequate controls. However, even this could be manufactured so the process should be concluded with a site visit and photographic record. Dan confirmed that he did not conduct these visits on a regular basis and there was little documentation on file to indicate otherwise. Even though there is a requirement for proof of payment, a site visit or photographic record would provide indisputable proof that the work was done.

Overall, we would reiterate that the review evaluated the level of compliance to a process developed by staff and approved by Council. The defined process appears to have adequate controls to ensure that the HRM expends funds as intended by the program. So it is not the controls that are the problem, but the lack of adherence to the controls. I will be including this statement in the body of the final report.

Hope this clarifies our position.

Cathie Osborne, B. Comm, CGA, CMM
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