

Audit of Loan and Investment Program

Prepared for

Western Economic Diversification Canada

Prepared by

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1.0 EXECUTIVE SUMMARY

The Loan and Investment Program (LIP) is intended to leverage an incremental source of capital to western Canadian firms. The program is intended to be pan western in nature and to support the continued development and diversification of the western Canadian economy.

The LIP shares losses with eligible Recipients (Capital Providers) thus allowing them to provide a pool of capital for loans and equity investments with targeted groups. Under this program, the Department of Western Economic Diversification (WD) contributes funds to provide loss support which partly offsets higher risks associated with eligible loans or investments to small businesses.

The regional office in Manitoba, under the leadership of the Assistant Deputy Minister has administrative responsibility for the LIP.

The 2007/2008 Audit and Evaluation Business Plan, approved by the Departmental Audit and Evaluation Committee (DAEC) in February 2007 identified that an audit was to be undertaken on the Loan and Investment Program.

1.1 Audit Objective

The objective of the audit is to provide independent and objective assurance on the following:

- a. The management control framework and overall management and administration of the program is appropriate and ensures compliance with Treasury Board approved terms and conditions for the program as well as WD's policies and practices;
- b. Funds were expended for the intended program purposes with due regard to economy, efficiency and effectiveness by examining the various stages in the project cycle (selection, approval, payment and review);
- c. Program information and monitoring processes and systems are sufficient and accurate for the collection and capture of relevant information for monitoring, audit and evaluation purposes;
- d. Agreements with Recipients are in place which outline purpose and expected results to be achieved along with reporting requirements; and

- e. Where Recipients receive funding from multiple departments and levels of government (stacking), a limit to the level of project assistance for each program will be included as required by the program's terms and conditions approved by Treasury Board.

1.2 Audit Opinion

In our opinion, the Loan and Investment Program is well managed, but minor improvements as discussed in Section 2.5 are needed.

1.3 Statement of Assurance

Sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the opinion provided and contained in this report. The opinion is based on a comparison of the conditions, as they existed at the time, against pre-established audit criteria that were agreed with management. The opinion is applicable only to the program examined. The evidence was gathered in compliance with Treasury Board policy, directives, and standards on internal audit and the procedures used meet the professional standards of the Institute of Internal Auditors. The evidence has been gathered to be sufficient to provide senior management with the proof of the opinion derived from the internal audit.

1.4 Summary of Recommendations

Despite the limited number of people responsible for the LIP, the internal audit disclosed that due diligence is exercised in the administration and management of the program through all stages of the project cycle. The existing controls which include the completion of the Quality Assurance Review File Contents and Best Practices Checklists and the on-going monitoring performed by the LIP staff ensures that the program meets its objective.

The recommendations, summarized under each stage in the management of the project cycle and other significant matters, are as follows:

Project Approval

The responsibility to review and recommend the Due Diligence Report (DDR) should always be exercised by the supervisor of the officer who prepared the document.

The Department should include the stacking provision in the Agreements as per approved terms and conditions of the program. Likewise, the Agreements should include a provision for the Recipients to disclose all sources of funding related to the project before the start and end of a project. We suggest that the Department re-visit the need to include the stacking provision in the Agreements as per approved LIP Terms and Conditions.

Payment Process

LIP staff should consider preparing a template (e.g. spreadsheet) to incorporate the information gathered from the Recipient and WD analysis. The template can be used as the request for payment form to be reviewed and signed by the Financial Administration Act (FAA) Section 34 delegate to initiate payment.

Monitoring and Review

As part of its succession planning, the Department should consider the need to have a policy and procedures manual for the LIP. The LIP manual will assist in training future staff in administering and managing the program.

For a more efficient process in gathering the data for the Quarterly Statistics Report required by headquarters, the Department should consider the need to set up a customized program to perform the data gathering function.

After completing the on-site review of the financial records of the Recipient related to the LIP, a report summarizing the significant results of the review should be prepared by the WD Monitoring and Payments Officer and forwarded to the LIP staff. A plan can then be developed to ensure any findings indicating non-compliance to the Agreement are addressed (e.g. follow-up review). Also, the need to conduct a preliminary review of active Agreements on a sample basis should be considered.

Other Items for Consideration

If warranted, the role and responsibilities of the Management Committee should be clearly stated in the Agreements.

Since the timely receipt of the Recipient's quarterly reports is vital in the completion of the required reports needed by headquarters, the Agreements should specify the due date for the Recipients to submit the required reports.

In the future, the format of the Amendments to the Agreements should be consistent among the regions. The same applies to Agreements related to the LIP. The Department should also consider the merits of having both the Agreements and the Amendments prepared by the LIP Manitoba office.

2.0 AUDIT REPORT ON LOAN AND INVESTMENT PROGRAM

2.1 Background

The Loan and Investment Program (LIP) is intended to leverage an incremental source of capital to western Canadian firms. The program is intended to be pan western in nature and to support the continued development and diversification of the western Canadian economy.

The LIP shares losses with eligible Recipients (Capital Providers) thus allowing them to provide a pool of capital for loans and equity investments with targeted groups. To be eligible to receive a loan or investment an applicant will:

1. Be a firm involved or about to be involved in a targeted industry or a targeted group;
2. Be operating or about to operate as a firm in western Canada;
3. Have less than 300 employees and average annual total sales of less than \$25 million (with the period for this average not to exceed the applicant's most recent five years); and
4. Have demonstrated management commitment and financial exposure, such as a full time commitment to the management of the firm, and a significant financial stake in the project.

Eligible projects include research and development leading to commercialization, pre commercial and commercial product development, market development, and new production and services capacity. The larger, often pan western Agreements offer loans up to \$1 million to small and medium enterprises, at an average loan size of \$340,000. Other more geographically localized Agreements, providing financing for a variety of very small and start-up businesses, average close to \$14,000 per loan.

WD generally contributes between 10 and 20 per cent of the value of client disbursed loans to the capital provider to support loan loss expenses. The financial institutions

undertake the lending decisions and lend their own money to higher risk clients with insufficient security for traditional loans.

Since April 2001, the value of financial institution financing under this program has averaged \$19.2 million per annum leveraged by WD loss support contributions of roughly \$2.7 million per annum. From the beginning of the program in 1995, until March 2007, 3,080 loans totaling \$234 million were approved, with 218 loans totaling \$16.1 million approved in fiscal year 2006/2007 alone.

The regional office in Manitoba, under the leadership of the Assistant Deputy Minister has administrative responsibility for the LIP Agreements.

2.2 Audit Objective

The objective of the audit is to provide independent and objective assurance on the following:

- a. The management control framework and overall management and administration of the program is appropriate and ensures compliance with Treasury Board approved terms and conditions for the program as well as WD's policies and practices;
- b. Funds were expended for the intended program purposes with due regard to economy, efficiency and effectiveness by examining the various stages in the project cycle (selection, approval, payment and review);
- c. Program information and monitoring processes and systems are sufficient and accurate for the collection and capture of relevant information for monitoring, audit and evaluation purposes;
- d. Agreements with Recipients are in place which outline purpose and expected results to be achieved along with reporting requirements; and
- e. Where Recipients receive funding from multiple departments and levels of government (stacking), a limit to the level of project assistance for each program will be included as required by the program's terms and conditions approved by Treasury Board.

2.3 Audit Scope

The audit was completed in February 2008 at the office of the WD Loan and Investment Program and covers the program administration and management from its inception in 1995 to September 30, 2007.

The scope of this internal audit included an assessment of the internal controls within the management framework for each of the stages in the management of the project life cycle. The management control framework includes the management, financial, administrative, and operational process and systems in place to ensure the effective and efficient delivery of the Loan and Investment Program.

The scope includes:

- A. Project Selection – determine that the review and approval of applications is undertaken in accordance with program criteria;
- B. Project Approval - determine that there is adequate review and approval of projects and there is relevant documentation to support the existence of a duly authorized Agreement;
- C. Payment Process - determine that there is adequate review and approval of payments and there is relevant documentation to support the decisions to make the payment;
- D. Monitoring and Review - include both on-going monitoring and periodic reviews to assess the Recipient's compliance to the terms and conditions of the LIP Agreement;
- E. Project Completion and Termination - ensure Recipient's compliance with the terms and conditions of the Agreement; and,
- F. Other Items for Consideration – this report also includes comments and suggestions on any other significant matters which came to our attention during the audit.

2.4 Audit Approach

The approach to complete the internal audit was consistent with the internal audit standards for the Government of Canada, as articulated in the Treasury Board Policy on Internal Audit.

From December 2007 to February 2008, we conducted interviews with the Loan and Investment Program staff and the Manager of Finance of the WD Manitoba office. We also conducted telephone interviews with Business Officers who are the key contact persons in the regional offices. Please refer to Appendix C -WD Staff Interviewed.

Based on initial discussions with the Business Officer and the LIP Manager (“LIP staff”), analysis of various WD documents and information (e.g. system, policies and procedures) and preliminary survey, the criteria to assess compliance to the audit objective was established. The general and specific audit criteria to assess the control activities within the LIP are summarized in Appendix A - Audit Criteria.

The internal audit included, but was not limited to, a review of program documentation, reports, project files and interviews with program personnel. The audit also included substantive testing of a sample of seventeen (17) approved project files and included projects under the Main Sector Technology, Micro Loans, Advice and Business Loans for Entrepreneurs with Disabilities (ABLED), Francophone Loans and Community Investment Loan (Community Futures). The seventeen files accounted for 34% of all approved projects and approximately 56% of total dollar value of approved eligible costs as at March 31, 2007. The sample project files tested included projects that were in progress, projects that were completed as well as those that were terminated. The sample included review of the three (3) projects that had separate Treasury Board submissions.

2.5 Findings and Recommendations

In order to address the changes that have occurred with respect to the administration and management of the LIP (inception to September 30, 2007), the findings have been categorized by the TB Submission either as “Old Agreements” or “New Agreements”. Please refer to Appendix B - Treasury Board Submissions Summary. The recommendations focused on the administration and management of the program for the “New Agreements.”

The details of the findings and recommendations resulting from the audit procedures are discussed below:

A. PROJECT SELECTION

Criteria: Projects are properly assessed based on program criteria.

Findings:

Proposal Development and Assessment

The proposals for both the old and the new Agreements are mostly developed jointly by WD and the Recipient through incremental negotiations.

As part of the assessment performed by the LIP staff, information vital to assess the Recipient's ability to deliver the program based on the program criteria is requested. The information can range from a proposal, a copy of the Articles of Incorporation, a copy of the latest Annual Report, etc.

B. PROJECT APPROVAL

Criteria: Projects are approved based on the required documentation.

Required approval documentation includes certification of Section 32 of the Financial Administration Act (FAA) by an officer with a delegated authority verifying that sufficient funds are available in the appropriation before entering into an Agreement with the Recipient.

Proper Agreements are in place consistent with approved Treasury Board and WD program terms and conditions.

Findings:

Old Agreements

- B1. Projects are approved based on the Project Approval Note (PAN) or the Briefing Note (BN). The PAN is prepared by the Business Officer or the LIP Manager (LIP staff), recommended by the Manager or Director General Operations and approved by the Officers with delegated authority (e.g. Assistant Deputy Minister, Deputy Minister, Minister)
- B2. There is evidence of FAA Section 32 certification by an officer with a delegated authority that sufficient funds were available in the appropriation before an Agreement was signed. In the past, the Ottawa office was responsible for the FAA Section 32 commitment authority function for the program.

Our testing disclosed that for some of the project files examined, the FAA Section 32 stamp pad and signature was not on file. Nevertheless, the commitment of funds for the projects has been entered in the system which indicated that the projects have been approved.

- B3. A Loan Fund Approval Checklist is completed by the LIP staff as a guide to preparing an Agreement that will initiate and manage the program. The Checklist ensures compliance of the Agreement with the program terms and conditions.

We noted that some of the checklists were completed after the projects have been approved (e.g. Agreements with separate TB submission). We were advised that the Checklist was completed as part of program monitoring and review.

For some of the Agreements, the Quality Assurance Review (QAR) File Contents and Best Practices Checklist was completed by the Business Officer in lieu of the Loan Fund Approval Checklist (refer to item B9 below).

- B4. The LIP follows WD's delegation of signing authority. The ADM has delegated limited authority to the LIP Manager to deal with and approve exceptions to the loan or investment size limits in each Agreement.
- B5. Legal counsel at the Department of Justice has been consulted in drafting LIP Agreements to ensure compliance with the approved terms and conditions of the program.
- B6. The terms and conditions of the Agreements for the approved projects mirror the terms and conditions of the approved Treasury Board submission.

New Agreements

- B7. The Project Approval Record (PAR) completed by LIP staff is a Project Assessment Tool (PAT) generated document which replaces the Project Assessment Sheet (PAS). The PAT is within Project Gateway and shares information with GX which is the financial system used by WD.

The PAR contains a summary of the project and the basic project information that is to be captured in the GX database. The Due Diligence Report (DDR) is also completed. The DDR replaces the PAN and Project Checklist and contains the evidence of due diligence taken in assessing the project, the Recipient and the expected contribution to WD objectives. The salient information in the DDR is

carried in the PAR. According to the LIP Manager, the system to input project information in the PAR was available to the LIP only sometime in 2005.

The LIP is administered by a Business Officer and the LIP Manager (Manager, Service Delivery Partnerships). Per our discussions, the Business Officer does the majority of the work as it relates to the administration of the LIP.

Our testing disclosed that because of the limited number of LIP staff, some of the DDRs were prepared and recommended by the same person. In the absence of a supervisor's review of the DDR, there is a potential risk that some of the information contained in the DDR may not be considered prior to project approval.

Recommendation:

The responsibility to review and recommend the Due Diligence Report (DDR) should always be exercised by the supervisor of the officer who prepared the document.

- B8. The requirement for a FAA Section 32 signature is included in the PAR. The Manager, Finance and Corporate Services (Manitoba Region) signs FAA Section 32.

Based on our discussion with the Manager, Finance and Corporate Services (Manitoba Region) the role of Finance is to sign off on approved projects and to commit the funds. The authority is centralized and therefore requires Finance's sign off prior to committing the funds. Finance looks at the terms and conditions of payments to ensure that they are consistent with authorities and that they meet the Department's mandate. Finance takes an arms length view to determine whether the project, and subsequently the Agreement, meets the terms and conditions of the program.

- B9. A Quality Assurance Review (QAR) File Contents and Best Practices Checklist for each Agreement is completed by the Business Officer. The following documents signify that due diligence has been applied in the project selection, project approval and project amendment:

Proposal Document
WD LIP Agreement Approval Checklist
Treasury Board Approval Documents
WD Project Approval Documents (BN or PAN)
WD Project Amendment (BN or PAN or Re-profiling) Documents
WD/Bank Confirmation

The Agreement signed by both WD and the Client
Any Signed Amendments to the Agreement
Signed PAR and DDR
Certification pursuant to Section 32 of the FAA

- B10. The LIP follows WD's delegation of signing authority. The ADM has delegated limited authority to the LIP Manager to deal with and approve exceptions to the loan or investment size limits in each Agreement.
- B11. The template used for LIP Agreements have been reviewed by legal counsel at the Department of Justice.
- B12. The approved terms and conditions of the program (Appendix B) included a stacking provision. The stacking provision was also included in the LIP's Integrated Results - Based Management and Accountability Framework (RMAF) and Risk Assessment and Risk-Based Audit Frameworks (RBAF).

Our examination of project files confirmed previous discussions with the LIP Manager that the Agreements did not include a clause related to the stacking provision. A Memorandum on file related to Changes to Loan and Investment Fund Agreements for Treasury Board's new policy on Transfer Payments provided the rationale for not using the stacking provision. According to the Memorandum, the Agreements are with financial institutions (not with the business clients seeking financing) and WD's contribution is always limited to a maximum of 80% of losses (within the above 20% limit). The advice of legal counsel was obtained with respect to this matter. Per discussion with the LIP Manager, the financial institutions and capital providers are not receiving other funding to cover losses on higher risk loans. The stacking limit may be applicable however in venture capital sort of arrangements.

Since the stacking provision was not included as a clause in the Agreements, the Recipients were not required to disclose all sources of funding related to the project before the start and end of a project. Hence, it is not possible to determine if the maximum level (90% stacking limit) of Total Government Assistance (federal, provincial and municipal assistance) towards the costs supported in the Agreement has been respected.

Recommendation:

The Department should include the stacking provision in the Agreements as per approved terms and conditions of the program. Likewise, the Agreements should include a provision for the Recipients to disclose all sources of funding related to the project before

the start and end of a project. We suggest that the Department re-visit the need to include the stacking provision in the Agreements as per approved LIP Terms and Conditions.

C. PAYMENT PROCESS

Criteria: FAA Section 34 approval authority is exercised by an authorized officer after examining proof that the performance conditions of the Agreement were met.

FAA Section 33 payment authority is exercised by the Finance Officer with delegated authority after assurance that FAA Section 34 was exercised by the appropriate authority or delegate before authorizing payment.

Findings:

Old Agreements

C1. Request for payment prepared by the LIP staff is documented through an inter-office memorandum. The amount requested is determined through the analysis performed as part of the monitoring of the projects. Payments were usually made once a year based on the anticipatory needs for the upcoming year. The Recipient is not required to complete a claim form. Also, a standard template is not used for requesting payments.

FAA Section 34 (approval authority) is exercised by the officer with delegated authority by signing the inter-office memorandum after performing due diligence that payment is required for the Agreement.

C2. A Payments Tracking Sheet is included in some of the old project files.

For some of the Agreements, the Quality Assurance Review (QAR) File Contents and Best Practices Checklist for each payment was completed by the Business Officer in lieu of the Payments Tracking Sheet.

C3. FAA Section 33 (payment authority) is exercised by the Finance Officer with delegated authority after assurance that FAA Section 34 was met before authorizing payment.

New Agreements

- C4. Request for payment prepared by the Business Officer is documented through an inter-office memorandum. The amount of the initial advance is specified in the Agreement. Subsequent payments are based on the analysis performed by the Business Officer as part of the monitoring of the projects.

More recently, the LIP staff looks at how the funding fits for fiscal year requirements. They review and analyze the Recipient's payment requirements twice. These reviews are completed first in April and then in December. The LIP staff ensures that funding meets the Transfer Payment Policy and the LIP Terms and Conditions.

There is no standard template used for requesting payments. Also, the analysis performed by the Business Officer is not summarized in a single document.

FAA Section 34 (approval authority) is exercised by the authorized officer by signing the inter-office memorandum after performing due diligence that payment is required for the Agreement.

Recommendation:

LIP staff should consider preparing a template (e.g. spreadsheet) to incorporate the information gathered from the Recipient and WD analysis. The template can be used as the request for payment form to be reviewed and signed by the FAA Section 34 delegate to initiate payment.

- C5. A QAR File Contents and Best Practices Checklist for each Payment is completed by the Business Officer. The following documents included in the project file signify that due diligence has been applied in the payment process:

Agreement and any Amendment Documents
Project Approval Record Authorized Signatures
Rationale determining payment amount
Bank Confirmation and Agreement to payment amount
Bank Activity Report
WD Reconciliation
Certification pursuant to FAA Section 34
Certification pursuant to FAA Section 33

- C6. Section 33 (payment authority) is exercised by the Finance Officer with delegated authority after assurance that Section 34 was met before authorizing payment.

A copy of the GX Production Database indicating details of the payment is included in the project file. The stamp "Approved under Section 33 of the FAA" with the initial of the Finance Officer with delegated authority is included in the GX Production Database to signify verification work performed prior to processing the payment.

D. MONITORING and REVIEW

Criteria: On-going monitoring of the performance of the projects under the LIP is performed to ensure Recipient's compliance to the Agreement.

Program staff has information, tools and resources to assist in performing the tasks related to program monitoring.

Periodic monitoring is done through evaluation and review of the projects.

Findings:

Old Agreements

On-going Monitoring

- D1. The interviews conducted as well as the examination of project files indicated that due diligence is exercised by program staff in ensuring compliance of the Recipients with the terms and conditions of the Agreements.

At the onset of the LIP, there were four Fund Manager positions across western Canada, 1 in BC, 2 in Alberta and 1 in Saskatchewan, and these Fund Managers worked on LIP projects 100% of the time until the year 2000. The last Fund Manager retired about a year ago and they have not put replacements in any of those positions.

In fiscal year 1997/1998, the LIP Manager used to go with the local Fund Managers to Recipients (financial institutions, capital providers) to promote the program and provide client services. The Agreements at that time stipulated that WD would provide client services.

- D2. Periodic reports were submitted by the Recipients to the LIP - Manitoba Office. We noted that not all the required reports (e.g. quarterly reports) as per reporting requirements of the Agreement were received from the Recipients. However, LIP staff assured us that the required reports to assess the annual performance of the specific project was requested and the necessary follow-up done with the Recipients (e.g. year-end).

Periodic Reviews

- D3. Periodic monitoring is done through evaluation and reviews of the projects.

LIP had four (4) evaluations since inception of the program. The last evaluation of the LIP dated July 2002 was by done by Ference Weicker & Company. The results were reviewed by the Department and necessary adjustments were made to the program.

A number of preliminary financial reviews on the compliance of the Recipients to the Agreements were conducted by Audit Services Canada (formerly Consulting and Audit Canada) in fiscal year 2002/2003. The results were reviewed by LIP staff and shared with the Recipients. There have been no follow-up reviews to any of the financial reviews.

An on-site review of the financial records of the Recipient was performed by a WD Payments and Monitoring Officer for a project that was closed-out.

Other

- D4. The Agreement stated the “Evaluation parties to agree on evaluation criteria and terms of the LIP within 6 months of the date upon which the Agreement is signed.” This provision was not implemented as the on-going and periodic reviews of the performance of the project were deemed adequate by the parties.

New Agreements

On-going Monitoring

- D5. The on-going performance of monitoring the LIP is performed by the Business Officer of the Service Delivery Partnerships. Templates were also provided to the Recipients to assist them in preparing the required reports.

D6. The administration and management of the LIP is mostly carried out in the Manitoba office. It is the only pan western program managed outside of headquarters.

There is no policy and procedures manual specific to the program to guide future staff.

Recommendation:

As part of its succession planning, the Department should consider the need to have a policy and procedures manual for the LIP. The LIP manual will assist in training future staff in administering and managing the program.

D7. Quarterly Statistics Reports prepared by the Business Officer and submitted to headquarters are based on the information gathered from the reports submitted by the Recipients and the data available from Lotus Notes. Manual entry of data on a spreadsheet is performed to compile the information for the quarterly reports. There is no existing program to pull together all the required information for the Quarterly Reports to make the reporting process more efficient.

Recommendation:

For a more efficient process in gathering the data for the Quarterly Statistics Report required by headquarters, the Department should consider the need to set up a customized program to perform the data gathering function.

Periodic Reviews

D8. Based on the Departments' Integrated RMAF/RBAF, a low risk is associated with the program. Reviews are performed by WD Monitoring and Payment Officers at the request of LIP staff. These reviews are intended to provide an independent check that the information previously provided by the Recipient to LIP agrees with their records. These reviews are requested only after the project is closed.

We were advised that some reviews have been requested by LIP in 2007. These reviews will be performed by WD Monitoring and Payments Officers in Manitoba and Saskatchewan in fiscal year 2008/2009.

Recommendation:

After completing the on-site review of the financial records of the Recipient related to the LIP, a report summarizing the significant results of the review should be prepared by the WD Monitoring and Payments Officer and forwarded to the LIP staff. A plan can then be

developed to ensure any findings indicating non-compliance to the Agreement are addressed (e.g. follow-up review). Also, the need to conduct a preliminary review of active Agreements on a sample basis should be considered.

Other

D9. Finance selected some of the LIP projects for review as part of sampling transactions to provide assurance while exercising payment authority under Section 33 of the FAA. As part of the review, the documentation supporting the payments (including project files) was verified by a Financial Officer. The results of the post or pre-limited sample reviews were shared with the LIP staff and corrections were made, if necessary.

E. PROJECT COMPLETION OR TERMINATION

Criteria: Repayment calculation is in accordance with the terms and conditions of the Agreement.

Conditions and Provisions

The terms and conditions of the both the old and new Agreements included termination conditions and default provisions which ensure that the interest of the Department (WD) is protected. The risk sharing clause of the Agreements outlines the manner in which the loss reserve should be accounted for.

Most of the old Agreements that were terminated were made at the request of the Recipients. Our examination confirmed that the specific repayment clause of the Agreement had been followed.

A Venture Capital Program was the only Agreement terminated at the request of WD as the Recipient failed to comply with a conditional clause in the Agreement. The Recipient did not comply with the requirement to raise capital totalling \$10 million for the joint venture.

The review of the project file disclosed that LIP management took immediate action to collect WD's contribution to the investment loss reserve of \$2 million as well as the interest due on the funds.

F. OTHER ITEMS FOR CONSIDERATION

F1. Role of the Management Committee

Old Agreements

No formal Management Committee (MC) exists. It is a fluid committee made up generally of the LIP Manager, the in-charge at the financial institution or capital provider they are working with and, as required, the Director General at WD. During the early stage of the introduction of the program, (i.e. 1995-1997), only 3 or 4 formal meetings of the MC took place.

The minutes of the meetings of the MC were included with the project files. From 1995 to 1997, there were Industry Advisory Committees (or Industry Management Committees) formed to help define how to go about the marketing of the program. They had difficulty getting members to sit on these committees and as a result, only one or two committees ever met.

New Agreements

The Agreements include a clause with respect to the role of the MC in the administration of the program. The clause includes provisions on MC membership, a requirement to keep a record of all decisions, a need to establish practices and procedures and the establishment of an industry or advisory committee, if needed.

Based on our discussions with LIP staff, the role of the MC is informal. The members of the management committee will change depending on the issue. For day-to-day matters, it consists of the Recipient's representative talking to the Business Officer or the LIP Manager if the representative has a question on interpretation of the Agreement, or reporting requirements. It might include the DG Operations or other higher WD Officers for larger issues.

Recommendation:

If warranted, the role and responsibilities of the Management Committee should be clearly stated in the Agreements.

F2. Due Date for Submitting the Required Reports

The Agreements stated the requirement to submit quarterly reports. The due date (e.g. 30 days after the end of the quarter) for submitting the required information

was not specified in the Agreement. The timely receipt of the quarterly reports is vital in the completion of the required reports needed by headquarters.

Recommendation:

Since the timely receipt of the Recipient's quarterly reports is vital in the completion of the required reports needed by headquarters, the Agreements should specify the due date for the Recipients to submit the required reports.

F3. Consistency in the format of the Amendment to the Agreements among Regions

Our sample included an Agreement that was prepared and issued by the Regional offices. We noted that the format of the amendment to the Agreement issued by the B.C. Region was structured in a different format than the amendments issued by the LIP Manitoba office.

Recommendation:

In the future, the format of the Amendments to the Agreements should be consistent among the regions. The same applies to Agreements related to the LIP. The Department should also consider the merits of having both the Agreements and the Amendments prepared by the LIP Manitoba office.

F4. Role of the Regional Business Officers

The Business Officers of the regions who are the key contact persons for the program functionally report to their respective Regional Manager.

The Business Officers do not usually have involvement with the project selection. The task is centralized with the LIP Manager. They are not also usually involved in any project approval.

The Business Officers are involved in discussions with respect to the eligibility of loan applicants and proposed lending. Exception requests are received from the Recipients and routed to the LIP Manager.

For the Growth Capital Fund, the Business Officer has to provide confirmation on eligibility of applicants. He reviews terms and conditions of loan programs as it relates to the Agreement and application. He also reviews the submitted Eligibility Form and confirms back to the Recipient by email or fax the decision. In order to confirm the sales of the company and ensure that they are within the

guidelines, the Business Officer requests the Recipient at the outset to provide him with financial statements, details of sales and any other information with respect to the information requested. WD's role is not to approve the loan, but to confirm eligibility and to verify that the purpose of the loan is for what it is intended to be for.

The estimated time spent by the Business Officers on the program varies by region from no time spent on the program to an estimate of 15% of their time. The estimated time dedicated to the LIP is in response to the utilization and acceptance of the merits of the program by the financial institutions.