



Culture and Tourism

October 2017

Summary

Department

Matters from current and prior audits

There is one new recommendation for the Department of Culture and Tourism from the current audit. The Department of Culture and Tourism should improve its controls over administration of the Alberta Production Grant program—see below.

The Department of Culture and Tourism implemented its outstanding recommendation to improve its financial statement preparation process for transactions that do not occur regularly—see page 38.

Travel Alberta

There are no new or outstanding recommendations to Travel Alberta in this report.

Findings and Recommendations

Department

Matters from the current audit

Funding to support the film and television sector

Summary

The Department of Culture and Tourism lacks effective grant administration processes to manage the Alberta Production Grant (APG) program¹ well.

The APG program is designed to attract film and television companies so that they spend money in the province and hire local talent. Unfortunately, current grant management processes put the program at increased risk of not achieving the benefits it intends, because the department:

- is using unclear guidelines that have allowed grant recipients to claim ineligible expenses
- lacks effective monitoring processes to verify that expenses being reimbursed comply with guidelines
- continues to fund individuals even when the companies they own, or are associated with, were found to claim ineligible expenses

¹ The Alberta production grant program is by far the largest screen-based production program funded by the Department of Culture and Tourism under the Alberta Media Fund (AMF). The screen-based production sector includes film, television and digital media. The department reported its expenses for APG in the 2017 audited financial statements under the Alberta Media Fund program as \$40 million (2016 – \$44 million).

Context

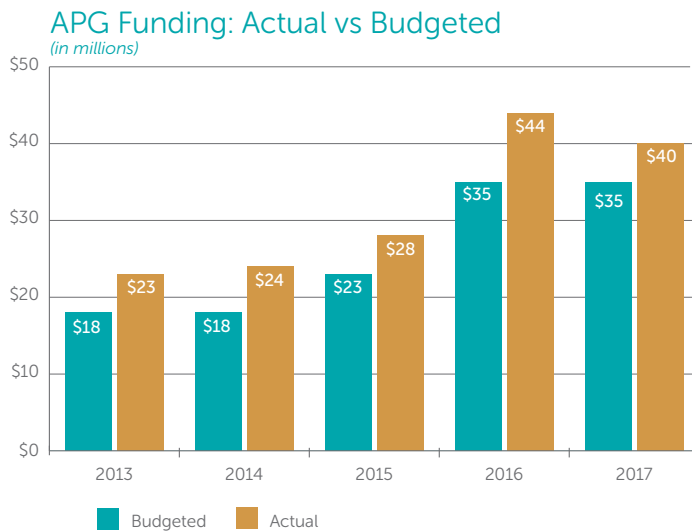
Funded through the Alberta Lottery Fund,² the APG program supports and encourages film and television production in Alberta. The objectives of the APG program are:

- development of Alberta-based production expertise and talent
- sustained industry development
- increased investment in Alberta-based production
- use of Alberta as an international film, television and digital content location that employs Alberta-resident production labour expertise

For each project, the department funds up to 30 per cent of all eligible Alberta expenses, or up to \$5 million (whichever is less). Eligible costs generally include all expenditures where the good or service is purchased and consumed in Alberta, including the cost to hire Alberta residents in key creative positions. The department provides grant funding only when all reporting requirements have been met. Each grant recipient is required to submit audited production cost statements for projects with budgets of \$200,000 or greater to provide assurance to the department that claimed expenses are true Alberta expenses.

The department uses a guideline that outlines general eligibility criteria, funding levels and definitions, including eligible Alberta costs, grant recipient obligations, the funding process and other conditions and limitations. The guideline helps grant recipients and their auditors to understand the eligibility criteria and the definition of eligible Alberta expenses.

Departmental analysis shows that the APG program contributed to economic growth and diversification in the province. In its 2016–2017 annual report, the department indicated that over the last five years it has provided \$140 million to support production in the province, resulting in an estimated \$510 million in direct production expenditures in Alberta.³ In those five years, the funding for the APG program has doubled. The program is oversubscribed and continues to be in high demand.



² The Alberta Lottery Fund is made up of the government’s share of net revenues from video lottery terminals (VLTs), slot machines and ticket lotteries. These revenues total more than \$1.5 billion each year and are used to support thousands of volunteer, public and community-based initiatives annually. Funding for the Alberta production grant program comes from the Alberta Lottery Fund.

³ 2016–2017 Culture and Tourism annual report, page 38.

Since 2013, the department has been spending more than what was budgeted for the program yet still staying within its overall ministry-approved budget. To maintain the overall ministry budget while continuing to overspend in one program forces the department to reduce funding to other programs. Therefore, the department needs to ensure its programs are managed well.

Criteria: the standards of performance and control

The department should:

- define and document clear, easy-to-understand criteria for Alberta eligible expenses and communicate them to stakeholders
- verify that expenses are appropriate and eligible for reimbursements
- monitor the grant program and incorporate results to improve the program

Our audit findings

The department:

- is using unclear guidelines that have allowed grant recipients to claim ineligible expenses
- does not use a risk-based approach in its audits of the grant recipients
- continues to fund individuals even when the companies they own, or are associated with, claim ineligible expenses

a) Unclear guidelines have allowed grant recipients to claim ineligible expenses

An audit conducted by the department in late 2015 identified a number of grant recipients that received funding for ineligible Alberta expenses. The department identified that a lack of clarity in the definition of Alberta eligible expenses allowed grant recipients to claim ineligible expenses.

The department engaged a consultant to make recommendations on the program guidelines and develop specific audit procedures for the external auditors to use to verify expenses claimed by the applicants. The department revised its program guidelines in early 2016 to clarify the definition of Alberta eligible expenses. However, the department has yet to implement its new guidelines and communicate specific audit procedures to the production companies' auditors. The department has not provided a reasonable explanation for this delay.

The department continues to provide funding to the film and television companies under guidelines that are not clear on the definition of Alberta eligible expenses. Therefore, there remains a risk that the department will continue to reimburse grant recipients for ineligible Alberta expenses. Management indicated that they will review past files to determine if funding has been provided for ineligible expenses. However, management has not provided information on the scope and timing of this review.

b) Department did not use a risk-based approach in its audits of the grant recipients

An important element of an effective granting process is monitoring and validating that the grant was spent for the purposes for which it was provided. The department relies primarily on an applicant's audited production costs statement to determine whether the claimed Alberta expenses were valid. Unclear guidelines contributed to production companies' auditors not identifying ineligible Alberta expenses.

The department also has an audit resource provided by the Alberta Gaming and Liquor Commission (AGLC)⁴ that allows the department to do audits of a limited number of grant recipients. Each program area in the department is responsible for selecting files to be audited. We would expect an independent review of all selected files to be performed to ensure the audit is focused on risk areas. However, we did not find evidence that files selected by program areas were scrutinized and evaluated based on risk.

The APG program grant recipients were not audited until the department received two anonymous complaints. As a result of these complaints, the department decided to audit eight files to determine whether grant recipients claimed eligible Alberta expenses.

The department's audit, completed in October 2015, identified five recipients that claimed ineligible or unsupported expenses. Total ineligible expenses funded by the department included:

- amounts claimed as Alberta expenses for services paid to vendors in B.C., Ontario and the United States
- salary expenses claimed by one individual for three positions when eligibility criteria clearly disallowed this
- salary expenses claimed for individuals who were not Alberta residents
- production costs that were based on estimates and varied significantly from actual costs, or that were never spent

Management met with grant recipients to discuss the findings. For three of the five companies, the department did not pursue recovery of funds because the unclear guidelines made it difficult for the department to enforce compliance.

Since February 2016, the department has been trying to recover \$1.2 million from the remaining two companies, one of which needed to repay the entire grant amount. In late 2016, the department reduced the recovery amount to \$430,000, some of which was sent to a collection agency. The department's staff explained that they needed to be consistent with the level of leniency exercised with the other three applicants because the existing program guideline lacked clarity. To date, the department has not been able to recover the \$430,000.

In late 2016, the department selected another five grant files for the AGLC to audit. The files did not include any of the grant recipients that previously were found to claim ineligible expenses. Without a clear definition of eligible Alberta expenses, the department will not be able to appropriately respond to the audit findings. Unfortunately, the department would have to fall back on applying the same level of leniency as in the previous audit.

c) Department continues to fund individuals even when the companies they own or are associated with claim ineligible Alberta expenses

Under the *Community Development Grant Regulation*, Section 8(1) and (3), the department has the authority to request a repayment of the grant if the recipient did not comply with the conditions of the grant or provided inaccurate information to

⁴ The Alberta Gaming and Liquor Commission conducts audits on grant programs funded through the Alberta Lottery Fund in accordance with the 2008 Memorandum of Understanding between the AGLC and Alberta Culture and Tourism. The AGLC provides a resource of one full-time equivalent that allows for an audit of 15–20 grant files a year for the ministry as a whole. The department is responsible for identifying grant files for the AGLC to audit and taking appropriate action in response to the findings.

obtain it. Although enforcing compliance with grant conditions is a last resort, the ability to do so is an important mechanism of the government to recover taxpayers' money that is not spent appropriately.

Often, large television shows have multiple seasons. According to management, it is common for a television series production to establish each season of the same television show as a separate corporation (separate legal entity) to limit its liability and claim labour tax credits. Normally, all these separate entities are owned by the same shareholders.

The department identified applicants who had previously claimed ineligible expenses and from whom it is still trying to recover the funds. Despite this, the department continued to fund subsequent seasons of the same television series for the full eligible grant amount. Management told us that they could not refuse funding or reduce future funding, because each season is set up as a separate legal entity and, as such, is considered by the department to be a different grant recipient. We did not find evidence that management obtained a legal opinion to support this decision. Although management passed on the debt to a collection agency, it is unlikely the funds will be recovered, because the legal entity is normally dissolved once the production of the season is over.

One of the production companies that needed to repay funds applied for additional funding for the production of another season of the same television show. Despite the audit results, the department still went ahead and approved \$9 million to fund the production of the next season.

RECOMMENDATION: Improve controls over administration of the Alberta Production Grant program

We recommend that the Department of Culture and Tourism improve its controls over administration of the Alberta Production Grant program by:

- defining and documenting clear, easy-to-understand criteria for Alberta eligible expenses and communicating them to stakeholders
- using a risk-based approach when selecting grant files to audit
- establishing a mechanism to facilitate more timely recovery of funds in instances where the department identified applicants claiming ineligible expenses

Consequences of not taking action

Without effective controls over administration of the Alberta Production Grant program, there is an increased risk to program viability and, ultimately, its ability to contribute to economic diversification of the province.

Matters from prior-year audits

Improve financial statement preparation processes—**recommendation implemented**

Context

We recommended⁵ that the Department of Culture and Tourism improve its financial statement preparation processes by preparing and documenting an analysis of non-routine transactions to ensure they are accounted for under appropriate accounting standards and legal authority.

Our audit findings

During the year a number of non-routine transactions occurred that included dissolution of two related entities, transfer of land, and grants issued related to the 2013 flood. We examined management's process to support accounting treatment of non-routine transactions. We found that management performed a detailed analysis to ensure the non-routine transactions were accounted for appropriately. We concluded that the department had implemented our recommendation.

Outstanding Recommendations

Department

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve controls over administration of the Alberta Production Grant program—October 2017, Financial Statement Auditing, p. 37

We recommend that the Department of Culture and Tourism improve its controls over administration of the Alberta production grant program by:

- defining and documenting clear, easy-to-understand criteria for Alberta eligible expenses and communicating them to stakeholders
- using a risk-based approach when selecting grant files to audit
- establishing a mechanism to facilitate more timely recovery of funds in instances where the department identified applicants claiming ineligible expenses

⁵ Report of the Auditor General of Alberta—October 2016, no. 13, p.88