REPORT ON THE
AUDIT OF CONTRIBUTIONS

JANUARY 2007

GOVERNMENT OF YUKON
GOVERNMENT AUDIT SERVICES BRANCH

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EXECUTIVE SUMMARY

Each year substantial funds are expended on both grants and contributions, and each year these funds play an important role towards the government's economic, job creation and community-based development strategies. Typically contributions are used to support areas that are not the business the government is in. Every contribution program or project to which an agreement is made is unique, as each is variable as to goals and objectives, dollar-size, terms and conditions, performance measures, timelines, risk, and class of recipient. Every contribution agreement requires a different control framework that should be appropriately crafted to integrate with departmental programs and set of priorities.

The objective of our audit was to determine whether departments adequately manage and control their contribution programs or projects. Our examination was conducted in five departments and entailed a review and analysis of four contributions programs and over 90 contribution files. It included such tests and other procedures as we considered necessary in the circumstances.

We found that there were wide-ranging deficiencies in the management practices and controls governing contributions. While audit results varied to some extent, all the programs and projects audited were experiencing significant shortcomings in one area or more: program and project design; project assessment and approval; performance measurement, project monitoring and financial management**.** Projects were sometimes driven by unrealistic timelines for implementation. Management actions to expedite projects were often found to be endemic, and embraced as "the rule rather than the exception".

Until the government addresses these issues, contribution programs and projects will continue to have persistent control problems leading to the possibility of conflicting initiatives, the possibility of over-funding, and an ongoing risk of using public funds inefficiently and ineffectively. In this report we describe where the program, project and financial control deficiencies have occurred in the administration of contributions, and offer a number of recommendations including a framework designed to help managers to think more critically about and better manage their contribution programs.

The departments we audited have indicated their agreement with most of our recommendations. The actions they have taken or plan to take are set out in their responses to the recommendations in the respective sections of this report.

RESULTS IN BRIEF

This section describes our principal observations and key recommendations derived from our examination of contributions in the five selected departments. It should be noted that our observations may be symptomatic of the types of problems we would have found in the other seven departments of government. In other words, we believe that had our work been done in those other departments the audit results would have been essentially the same.

Policy issues matter

The current policy on contributions does not provide sufficient direction to managers as to how they should plan, assess for risk, design, execute, classify, and evaluate their contribution programs and projects. The policy was written more as a guideline for finance officers and falls short of providing managers with a definitive set of policy requirements to which departments must adhere. We recommend the creation of a new policy on transfer payments and one that establishes clear and comprehensive policy statements and directives for all staff.

Transfer Payment Definition

Transfer payments can take several forms with the most familiar ones being grants and contributions. However, certain forms which are prevalent in other jurisdictions are not defined or described in the current Yukon government policy. These include operating grants, non-discretionary grants, repayable contributions, multi-year contributions and grants, transfers to individuals and transfers to organizations such as those that fund the Yukon College or Whitehorse General Hospital. Because the nature and treatment of some transfer payments can be more complex than a typical grant or contribution, the new transfer payment policy will need to address these and the unique terms and conditions that may apply to each. As well, the accounting system will have to accommodate all the varied classes of transfer payments and those tied to inter-governmental agreements.

Program design needs more attention

Departments pay too little attention to the design of their contribution programs. The programs reviewed had stated objectives that proved difficult to correlate to the specific goals and priorities of departments. The structural form of the objectives was found to be generally written as strategies to: create jobs, strengthen local governments, generate spending, support the arts, and so on. More often than not, stated objectives did not set out the specific results from the program spending within a given period of time or the final desired state the government intends. The lack of clear objectives and expected results makes it difficult for management to assess risks thoroughly and therefore to establish appropriate controls.

Project management is inadequate

Decisions to fund projects were often based on partial or perfunctory assessments of project merits. Due diligence, when it was exercised, was generally left for the execution phase when problems arose rather than put into the planning of the project. There needs to be more rigourous terms and conditions in contribution agreements to ensure recipients meet the performance requirements of projects. Because existing policies and guidelines had become outdated and lacked cohesion, departmental procedures and controls over the administration of agreements were found to be so generally inadequate in so many areas that collectively they create an overall severe deficiency in project management and control over contributions.

Program reviews and evaluations are not conducted

Departments do not adequately report on the performance of their contribution programs or the results expected from them; nor do they conduct reviews or evaluations to give government a clear overview of whether their programs are achieving value for money. Although the cost of conducting program evaluations may be viewed as prohibitive in most cases, we recommend departments, as a minimum, should undertake certain steps each year to report on the performance of their contribution programs.

Need for central monitoring

Presently, there is no government-wide process for monitoring the performance of departments that sometimes fail to exercise minimum control. In our view the Department of Finance, acting as the “financial watchdog” of government, should establish a monitoring or early warning system over contributions and other transfer payments. This would involve setting-up the rules for the monitoring of high risk programs or projects in departments. Until a monitoring system is put in place and resources within the Department of Finance are assigned to this activity, we are concerned that serious and correctable problems in departments will remain unexamined and uncorrected.

Staff training is needed

Most employees we interviewed are dedicated to their work and want to do a good job. Yet, many do not have the knowledge or work tools necessary to rectify the management problems and control issues identified in this report. Presently, there are no established support structures to help departments and staff better deliver their contribution programs and projects. Such support structures could include a training requirement for managers who design and implement transfer payment programs or projects. Another support structure could include staff training for employees who have to administer programs and monitor projects day-to-day, and who need training on the new transfer payment policy. There is another important requirement to train managers and project officers who lack training in the areas of financial and risk management.

Contributions are classified incorrectly in the Main Estimates

One of the first issues we encountered early in our audit relates to how contributions are classified as expenditure items in the Main Estimates. Some contribution programs and projects are classified as operational expenditures under the operations and maintenance (O&M) vote, while others are classified as expenditures under the capital vote. We found no logical framework to show how decisions were made in this regard. Capital contributions in many cases do not involve the acquisition of assets or an investment in public infrastructure. By reporting some contributions which are clearly operational in nature as capital, the government may be misleading the public into thinking that it is spending more on new capital initiatives and acquiring assets when the exact opposite may be true.

Some grant legislated programs are administered as contributions

Some of the recreation and arts programs we reviewed are governed by Acts that either enable organizations to apply for grants on an annual basis or create entitlements for which yearly grant funding is provided to organizations. Yet, these programs are being managed and administered as contributions. Whether there is some legislative expediency in the way they are being treated, the cost of administration for programs like these are usually excessive relative to the risk that they pose. The form and structure of all transfer payment programs in government should be reviewed to assess the legitimacy of the manner in which they are being delivered and to ensure that all legislated grant programs are administered as such.

INTRODUCTION

WHY THE AUDIT WAS CALLED

At the request of the Deputy Minister of Finance the audit of contributions was included as an item in the Internal Audit Plan of 2004-5 and approved by the Audit Committee on July 23, 2004. The call for this audit was precipitated by three main considerations.

First, a government-wide audit of contributions had not been conducted recently. The lack of an audit in this area posed considerable risk given the discretionary nature of contributions and their financial significance, which today represents about 15 percent of overall government spending.

Second, the decentralized nature of how contributions are administered and controlled by departments raised some questions among senior officials as to whether departments were adhering to the requirements of the Financial Administration Manual (FAM) and other polices affecting grants and contributions. There was a central agency concern that departments could be entering into contribution arrangements without appropriate terms and conditions or a framework to facilitate accountability, performance and transparency.

Lastly, the current policy on contributions had not substantially changed since 1992. The Department of Finance felt the existing policy did not adequately define or describe how contributions should be applied today. For this reason departments could be expending money on contributions outside of the policy's original intent.

WHAT ARE CONTRIBUTIONS?

Contributions as well as grants fall into the category of a transfer payment to an individual, organization or other level of government. By definition, a contribution is a *conditiona*l transfer payment, which is subject to audit and for which the government will not receive any goods or services. A grant, on the other hand, is defined as an *unconditional* transfer payment, which is not subject to audit and for which the government will not receive any goods or services. That the government does not receive goods or services directly in return for transfer payments distinguishes grants and contributions from other types of payments such as contracts.

Some spending through grants and contributions is mandatory and written in legislation as a statutory "entitlement". Social assistance payments and grants to local recreation boards and associations are examples of expenditures that fall within a statutory entitlement. Other grants and contributions are voted expenditures, for which legislative authority must be granted through an annual Appropriation Act.

TYPES OF CONTRIBUTIONS

There are two major ways of establishing contributions. One way is for a department to create a *program* which is advertised publicly as being open to any individual or organization that qualifies. Such a program would establish a set of policy objectives and guidelines, eligibility criteria and funding limits for each recipient who submits an application. Examples of such programs are the Yukon Arts Fund and Firesmart Fund.

Another way of establishing contributions is for a department to create a contribution *project* that is solely aimed at one recipient. Contributions of this nature are usually designed to cover part of the costs of a specific event, economic initiative, activity or acquisition of an asset. Contributions have unique objectives, terms and conditions and are not publicly advertised. The funding of a specific non-governmental organization (NG0) or major community infrastructure project are two examples of a contribution project.

SPENDING ON CONTRIBUTIONS

In 2004-05 the Yukon government budgeted $543.1 million for operations (O&M) and $162.7 million in capital expenditures. Excluding grants, the contribution budgets for 2004-05 constituted $103 million or 14.6 percent of overall government spending. In terms of actual expenditures, close to $75 million was spent on contributions in 2003-04.

POLICY CONSIDERATIONS

Presently, the government's *Financial Administration Manual* (FAM) provides the common rules governing contributions that must be adhered to by all departments and agencies. These are described in FAM Chapter 5, Accounting and Control of Expenditures, Section 5.9, Grants and Contributions. In addition to FAM, the General Administrative Manual (GAM), specifically Policy 1.16, Non-governmental Organization Funding, identifies some funding provisions for non-governmental organizations.

As explained in FAM, Section 5.9, Management Board has responsibility for establishing policies in matters relating to government revenues and expenditures, operations, management practices, systems and controls. It approves the terms and conditions for all contribution programs initiated by departments at the time authority is sought to include a contribution item in the government's budget (Main Estimates).

FINANCIAL AND PROGRAM RESPONSIBILITIES

Under the *Financial Administration Act* (FAA), the Management Board, as a Committee of Cabinet, has statutory responsibility in matters relating to the way departments manage public money, and for evaluating government programs as to economy, efficiency and effectiveness. The Management Board is assisted by a Secretariat, which is responsible for providing all information and analysis required for sound decision-making and control of government spending. The Management Board Secretariat functions within the Department of Finance.

The Department of Finance, which is established under the FAA, is one of four central agencies involved in the financial management of the government. Its primary mandate is to ensure that the financial resources of the Yukon Government are managed in a manner that meets the priorities of the government and complies with statutes. The Department of Finance provides accounting direction and advice to departments.

Departments within the Yukon government play the most important role in managing contributions. For the most part, they are responsible for;

- designing and implementing effective financial and program controls for their contribution programs and projects;
- exercising due diligence in selecting and approving recipients of contributions;
- establishing efficient and effective accounting and other procedures to ensure that payment requests comply with FAM’s account verification requirements;
- maintaining proper records of decisions made and results achieved; and
- ensuring that they have the capacity to deliver and administer their contribution programs effectively.

Section 5.9 of FAM imposes different management requirements for departments and recipients depending on whether the transfer payment is a grant or contribution. An individual or organization that meets the eligibility criteria for a grant can usually receive the payment without having to meet any further conditions. In contrast, contributions are subject to performance conditions that are specified in a contribution agreement. The recipient must show that it continues to meet the performance conditions over the life of the agreement in order to be reimbursed for specific costs. As mentioned earlier, the government can audit the recipient’s use of contribution payments, whereas an audit is not necessary for grants.

AUDIT OBJECTIVES AND SCOPE

AUDIT OBJECTIVES

The objective of the audit was to determine whether departments adequately manage and control their contribution programs or single recipient projects. Specifically, we assessed:

1. the appropriateness of existing governing policies and guidelines that provide direction to departments on contributions;
2. the adequacy of the design and management control framework of the selected contribution program or project;
3. the adequacy of the internal controls relating to eligibility, selection, approval, payment and review of individual contributions;
4. the content of individual contribution agreements to ensure that each meets departmental requirements and all governing policies;
5. the appropriateness of transactions and the extent to which there is transparency and accountability in the accounting and reporting on contributions;
6. general compliance by recipients to terms and conditions of agreements; and
7. the process in place to evaluate the performance of the selected contribution program.

SCOPE AND APPROACH

Our examination was conducted in five departments and covered the period from April 1, 2003 to September 30, 2004. It involved information gathering, and interviews with staff responsible for managing individual contribution programs and projects and other government officials. We also relied on project files, records and documents necessary to fulfil the audit objectives and established audit criteria. Where appropriate, we examined the processes and systems tied to contributions. Some research was conducted on transfer payments to analyze and provide advice on best management practices as they exist in other jurisdictions.

In carrying out our audit, we relied on the following authorities:

- FAM, Chapter 5 and other chapters of FAM that influence the recording, accounting and reporting of contributions;

- General Administrative Manual (GAM), specifically, Policy 1.5, Intergovernmental Relations, and Policy 1.16, Non-governmental Organization Funding; and
- Financial Administration Act (FAA), Management Board directives or minutes, and the terms and conditions for each contribution program where this exists to assess the program's management.

AREAS OF EXAMINATION

We examined 24 project files within four contribution programs: FireSmart, Sports and Recreation Program, Community Development Fund (CDF) and Arts Fund totalling $1.6 million. As well, we analyzed 67 other single recipient project files totalling $19.5 million. The coverage given to the selected contribution programs and single recipient contribution is shown below:

Table 1 Audit Coverage of Contributions by Program and by Project

	Yukon Communities	**First Nations**	**Non-governmental Organizations**	**Business /Other**	**Totals**
Contribution Programs					
FireSmart	2	1	2		5
Sports and Recreation Program			8		8
Community Development Fund	1		4		5
Arts Fund			6		6
Single Recipient Projects					
Community Services	2	2	2		6
Economic Development			6	4	10
Education			13		13
Energy, Mines and Resources		1	3	6	10
Tourism and Culture		1	24	3	28
Total Project Files	5	5	68	13	91

Our approach and selection methods were refined to capture as many of the key features of contributions as possible, including nature of funding, type of recipient, delivery mechanism, duration of project funding, policy area, and burden of cost.

We purposefully excluded from our audit projects or agreements under review by the Office of the Auditor General and intergovernmental agreements between the Yukon Government and the Canadian government or other provincial governments. Intergovernmental agreements usually require that audits be performed by outside independent auditors. In addition, given their size and complexity, we ruled out the Yukon government's agreements with the Yukon College, Yukon Hospital Corporation and recipients of social assistance

The audit was conducted in accordance with the Yukon Government's policy on Internal Audit Services and Activities and the Standards for the Professional Practice of Internal Audit.

The audit criteria used to assess the government's performance against the audit objective were based on an Audit Plan that was reviewed and approved by the Department of Finance. These criteria are described in Appendix A.

Observations and Recommendations

During our audit we looked for rigorous program design, sound support for decisions to spend public funds, proper control of disbursements, and good knowledge of performance. While the audit results vary among departments and programs, they all have problems in one or more of these key areas. Although we found areas in some departments were managed properly, some public funds have been put at risk, because management, in one way or another is not always following the rules established by government for contributions. Management can not be confident that the programs and projects are fulfilling their stated objectives and achieving value for money where expected results are only stated vaguely, where risks are not considered, where project assessments are incomplete, or performance is unmeasured.

Table 2 below, Department Scoreboard, highlights how well departments responded overall to our audit criteria (*expectations*) and presents a description of the rating scale used in our analysis.

Following the table, we present our observations and recommendations broken down into five sections of the report. The first two sections touch on our review of the policy framework for contributions and other related government policies. The third section examines the government-wide role played by the Department of Finance as a central agency responsible for overseeing departmental operations. The fourth section highlights program management issues that are specific to the four contribution programs reviewed in the audit. Finally, in section five of the report, we examine project management issues common to all five of the selected departments.

At the end of Sections 4 and 5 we present a sampling of projects where we found issues in applying our audit criteria.

Table 2 - Summary Department Scorecard

AUDIT CRITERIA	Rating: Tourism& Culture	Economic Development	Energy, Mines & Resources	Education	Community Services
1. Contribution policies and guidelines provide clear direction to departments and agencies.	Central Function = "C"				
2. Contribution programs and projects are designed to achieve expected results, manage risks, ensure due diligence in spending, and provide accountability for public funds spent.	D	D	D	D	D
3. Departments exercise due diligence in determining eligibility, and in selecting, approving, paying and reviewing individual contributions.	C	B	C	B	D
4. Individual contributions comply with all governing policies and departmental requirements.	C	C	C	C	C
5. Individual contributions are properly accounted for and reported in the Public Accounts.	B	B/C*	B	B	B
6. There is reasonable assurance that contributions are used for the purposes intended.	B	B	B	B	B
7. Contribution programs are periodically evaluated for performance.	D	D	n/a	n/a	D

Rating		Explanation
Very Good	**A**	No significant control deficiency exists. The control system provides reasonable assurance that business and/or control objectives will be achieved, and that the related risks will be properly mitigated. Minor deficiencies, if any, will be addressed as time and resources permit.
Satisfactory	**B**	Few control deficiencies exist. The control system provides some assurance that business and/or control objectives will be properly achieved, but in a less efficient manner. Identified deficiencies may be reported in a management letter should be corrected to mitigate the related risks.
Inadequate	**C**	Many significant control deficiencies exist. The control system provides a lower level of assurance that significant business and/or control objectives will be achieved. Identified deficiencies should be promptly corrected to mitigate the related risks.
Seriously Deficient	**D**	The control system does not provide assurance that significant business and/or control objectives will be achieved. Immediate corrective action is required and should be given a high priority so that the risks will be mitigated.

Note: The split "B/C' rating applies to the fiscal year 2004-05 and 2003-04, respectively.

SECTION 1

THE POLICY FRAMEWORK

IN BRIEF

The Yukon Government policy on contributions was examined in light of what makes good policy. Most policies are broad statements used for decision-making when people face recurring problems. Policies do not deal with particular situations; rather they are used as “guideposts” for solving repetitive types of problems. A policy should not be too narrow; it should give individuals the opportunity to exercise their judgment and initiative in the decision-making process. Other characteristics of good policies are:

- Should be clear and understood by everyone in the organization.
- Should be compatible with the organization goals and help employees to achieve organization goals.
- Should not describe or be confused with the specific administrative procedures to be followed.
- Should be easily converted into workable terms so that all departments, branches or units have the facility to apply them.

Typically, contributions are made to further government priorities and objectives. A sound policy in this area would ensure that contributions are managed in a manner sensitive to risks, complexity, accountability for results and economical use of public resources.

Clear and complete policy is essential.

The Financial Administration Manual (FAM), which under Section 5.9 contains the current policy on grants and contributions, was issued under the authority of the Management Board in December 1992. FAM establishes the control framework which incorporates the general requirements of the Financial Administration Act (FAA) including grants and contributions. We examined FAM to determine whether it provides good direction and management control over contributions.

While there is some direction given to departments as to how they can initiate a contribution program or enter into a contribution agreement, Section 5.9 was written more as a general guideline and falls short of providing managers with a definitive set of policy requirements to which departments must adhere.

Ideally, a transfer payment policy should provide direction on the following:

- A policy statement that clearly expresses the government's objectives with respect to transfer payments.
- A statement that clarifies what is considered a mandatory element of policy and what is considered optional or simply a guideline.
- A section that provides a greater understanding of the roles, responsibilities and accountabilities of Management Board, the Department of Finance, other departments and recipients of contributions.
- Sections that describe the government's policy towards multi-year funding, stacking of assistance (*i.e., where there are multiple sources of funding for a project*), and funding to non-governmental organizations and First Nations.
- Sections that provide direction on assessing program and project risks, refunds and recoveries, eligible and non-eligible project costs, contributions to businesses, and multilateral agreements.
- A part that promotes and encourages departments to develop results-based management and accountability frameworks that provide for measuring and reporting results.
- Guidelines that distinguish a contribution from a grant; and a contribution from a contract.
- Guidelines that provide a model framework for developing contribution agreements, and which set the minimum terms and conditions for such agreements.

Recommendation

1.1 The Department of Finance through consultation with departments should develop a new Management Board Directive on transfer payments for inclusion in the General Administrative Manual under the heading "Financial Policies". Section 5.9 of the Financial Administration Manual should be redrafted as a guideline for finance officers and departmental line staff in support of the new policy on transfer payments.

<u>Management Response</u>

Section 5.9 of the Financial Administration Manual will be replaced with a new policy and guidelines on transfer payments. The policy will not go into the General Administrative Manual, as being of a financial nature, it is felt it belongs in the Financial Administration Manual.

How transfer payments should be defined.

The Financial Administration Manual restricts the types of transfer payments to just two types: contributions and grants. However, there are other kinds of transfer payments that FAM does not address, transfers which do not clearly fit within the framework of a typical contribution or grant. To illustrate, a wage subsidy program could be created to support a certain industry for a limited time frame. This type of grant would be viewed as discretionary. A student financial assistance program, on the other hand, creates an entitlement which has no limited time frame. Such a grant would be considered non-discretionary. Other examples of transfer payments would include transfers to the Yukon College or Whitehorse General Hospital. Transfer payments to these organizations are based on a historical arrangement, funding formulas, and performance and accountability requirements that are far more complex than a typical contribution arrangement. The new transfer payment policy will need to provide some further direction on how to treat these other types of transfer payments.

One size definitely does NOT fit all.

The new transfer payment policy needs to address the issue that “one size definitely does NOT fit all” in regards to how contribution agreements are formulated and designed. An agreement for $400 does not need to be designed at the same level of complexity as one for $40,000. The size and complexity of each contribution should be based upon a risk evaluation of each potential arrangement. A risk management framework would also help determine whether the agreement should be subject to review by Management Board and/or any other government body such as the Department of Finance or the Land Claims and Implementation Secretariat of the Executive Council Office.

Risk management is a systematic approach to identifying the risks that could result in the program not meeting its goals, defining the level of risk that is acceptable, and providing the tools to manage risks. The risk factors related to a project can either be financial, non-financial, or both. A non-financial risk may be related to the recipient’s ability or capacity to undertake the project given its size, scope and level of expertise required. Other non-financial risks include the recipient’s history and record of performance, the sensitivity of the project as perceived by the public, and the events or circumstances that could significantly prevent the recipient from achieving the project’s objectives. If the uncertainty is high then the level of control exercised by management may have to be higher than normal. Typically, the project’s performance requirements and level of monitoring will be adjusted to mitigate the project risks.

Table 3 below presents a crude indicator of possible government expectations for each spending level loosely correlated to a level of financial risk. As cost per project increases one would expect to exercise greater program and financial control, and greater accountability. Note that the risk could be much higher for amounts where there is a risk of precedent setting, or some sort of "assumption" of liability. If the sum of projects within a fund falls within one of the upper bands then the contribution program starts to attract the same sort of expectations as a large single project.

Table 3 - Contribution Risk Model

<table>
<tr><th></th><th>First Level</th><th>Second Level</th><th>Third Level</th><th>Fourth Level</th></tr>
<tr><td>Level of Project Funding</td><td>Low Risk</td><td>Medium Risk</td><td>Medium/High Risk</td><td>High Risk</td></tr>
<tr><td>Less than $10,000</td><td rowspan="4">Recipient:
• Eligibility
• Clean history
• Capacity to undertake project
• Record of public accountability
Clear statement of project objectives
Community support
Clear project description and general budget

Available base dollars and program data</td><td></td><td></td><td></td></tr>
<tr><td>$10,001 to $50,000</td><td rowspan="3">All first level risk metrics

Plus statement of eligible project expenditures and identification of outputs</td><td></td><td></td></tr>
<tr><td>$50,001 to $150,000</td><td rowspan="2">All second level risk metrics

Plus detailed plan and budget and identification of expected outcomes</td><td></td></tr>
<tr><td>Over $150,000</td><td>All third level risk metrics

Plus project evaluation strategy to assess expected outcomes</td></tr>
</table>

Generally, the cut-off points for agreement differences in risk and reporting can be seen as follows:

1. Where a project gets funded under $10,000 the main concern should be execution of the tasks undertaken as part of the project. These agreements should be considered to be low risk. The assessment of a low risk project places the focus on the recipient's eligibility, clean funding history, record of public accountability and community support. Low risk agreements would

entail standard terms and conditions that apply to all agreements with minimal reporting requirements.

2. Between $10,001 and $50,000 the agreement could be considered medium risk with the main concerns involved in the execution of tasks and the output of what was intended for the project. At this level the outputs are measurable and the reporting requirements are aimed at providing evidence that funds were expended on the tasks. Certain interim terms and conditions may have to be met during the life of the project and before final payment is made.

3. Between $50,001 and $150,000 the agreement would generally be considered medium to high risk. The concerns for this level of agreement should be the identification of the performance measures, expected results and outcomes. The programming may be more complex and the performance information requirements more extensive. The recipient may be expected to contribute to the project. In some cases, non-audited financial statements prepared by an independent accountant and/or audited financial statements of the project would be submitted after project completion. Review engagements by a professional accounting firm should be undertaken for projects falling between $100,000 and $150,000.

4. Over $150,000 the agreement could be considered high risk. The concerns at this level should be the execution of the project and its evaluation upon completion. The recipient must contribute to the project and other funding sources must be identified and validated. All projects over $150,000 should be formally evaluated as to their performance. As well, the contribution agreements should stipulate the requirement for audited financial statements.

When agreements form part of a large contribution program involving multiple recipients we would expect to see a management control framework designed to achieve a medium or lower level of risk. Ideally, such programs would establish reasonable funding limits for those eligible to apply and these would minimize the level of the risk involved in funding any one single recipient.

Recommendation

1.2 The Department of Finance should establish a risk management accountability framework for contributions and other transfer payments within the context of developing a new transfer payment policy. Guidelines should also be developed to assist departments with the framework when programs are being implemented.

<u>Management Response</u>

Agree.

Recommendation

1.3 The terms and conditions of some existing contribution programs should be changed to reflect the new risk management accountability framework including the re-design of the contribution agreements tied to those programs. Where appropriate, departments should obtain the approval of Management Board for the changes that are required to the terms and conditions of their contribution programs and projects.

<u>Management Response</u>

Agree.

Amounts advanced to recipients of contributions

Contributions are normally paid on the basis of achievement of performance objectives or as a reimbursement of expenditures. Advance payments should be limited to the immediate cash requirements of the recipient. In our audit we found departments were advancing recipients at the start of their projects with funds far in excess of their needs and without any consideration to the recipient's cash flow requirements. Some of the larger projects were even advanced years before an event actually occurred.

FAM Section 5.9.7 states that "*advance payment should be based on cash flows, forecasted by month whenever possible, prepared by the recipient…Advances may be made for an initial period no greater than three months, and thereafter for only one month at a time*". This requirement ensures that recipients do not take advantage of the government by investing or securing long-term financing from the money which they receive from contributions. Overall, departments were not adhering to the FAM guidelines on advances. Most agreements lacked cash flow statements from recipients and many showed advances ranging from 100% to 50% up front without regard to the three month advance rule. Similar to the federal policy on transfer payments, departments could adhere to the following model:

Table 4 Advance Payment Model on Contributions

Total Value of annual amount	Duration of Agreement		
	Less than 4 months	4 months or longer	
		Initial Advance	Subsequent Advances
Up to $10,000	100%	90%	N/a
$10,001 - $50,000	75%	Up to 50%	Quarterly
$50,001 - $150,000	50%	First quarter	Quarterly
$150,001 to $500,000	25%	First quarter	Monthly, starting in 4th month
Over $500,001	Monthly	First month	Monthly

Advancing all or most contribution money up front without assessing the project risk or recipient need leaves the government vulnerable if the project tasks are not completed. The options for recovery are limited, potentially costly and time consuming, especially if there is any type of audit or litigation involved.

Another consideration should be the government's cash management policy. On a government-wide basis it can become very costly if all departments are providing cash advances in excess of 50% on contributions, and in those cases in advance of actual need. Consider for the moment the loss of interest on $50 million for three months at two percent interest. It amounts to $250,000 of potential interest revenue.

Recommendation

1.4 In developing a new transfer payment policy, the Department of Finance should establish a position for advance payments on contributions. This position should be aligned with the government's cash management policy.

Management Response

Agree. The existing policy for advance payments on contributions will be examined during the development of the new transfer payment policy.

Program evaluations are not conducted.

The driving force behind the requirement for measurement and evaluation is deeply entrenched within government legislation and policy. According to the FAA, Section 4(1) "the Management Board shall act as a committee of the Executive Council in matters relating to, among other things, the evaluation of government programs as to economy, efficiency, and effectiveness." Chapter 2 of FAM, Section 2.1.4.3, elaborates further on this by stating that in addition to monitoring financial performance, program delivery managers should establish performance criteria or indicators that can be used by themselves and others to assess overall program delivery performance. Great care must be taken in the development and analysis of performance indicators so that they indeed serve as a measure of efficiency and effectiveness, rather than strictly as a measure of activity".

The contribution programs we reviewed were not being periodically evaluated for performance by departments as required by FAM.

Recommendation

1.5 Program evaluations of contribution programs that have a significant impact on the achievement of government objectives should be conducted every five years. This requirement should extend to grant funded programs.

<u>Management Response</u>

The Executive Council Office will undertake to develop a corporate policy, intended for inclusion in the General Administrative Manual, which outlines the importance of evaluation needs in the design of programs and requirements for conducting program evaluations on a regular and/or scheduled basis. The policy will outline the principles for evaluation and the roles and responsibilities related to program evaluation within the Yukon government.

OTHER RELATED POLICY ISSUES

In Brief

The FAM policy on contributions and grants is not the only Yukon government policy that refers to transfer payments. GAM Policy 1.16, Non-governmental Organization Funding, for example, provides guidance to departments on how they should fund non-government "citizen groups" engaged in delivering community services and programs. Another example is GAM Policy 1.12, First Nations Relations. This policy gives Management Board responsibility for approving any formal agreement with First Nations that commit government to financial or personnel resources that are $50,000 or more.

When examining other related policies and various legal matters touching on contributions we observed some areas of risk which had the potential to raise future issues; namely those items related to the funding of non-governmental organizations (NGOs), how certain "Communities" are defined under the Municipal Act, and some funding and "contracting legalities" related to First Nations. These issues are discussed below.

NGO policy is no longer relevant.

GAM Policy 1.16 was introduced by government in 1998. The policy establishes categories of funding requests based on a point system that departments are required to follow in making funding decisions. Most departments are not adhering to the policy as it affects the contribution funding of NGOs and what is deemed as an eligible expenditure.

Section 5 of the NGO funding policy states that core funding will not be provided to NGOs. It goes on to say that funding for general or operational purposes must specify what project, service or function will be performed as a result of the government funding provided. These two statements appear to be contradictory. On the one hand, core funding which is not defined is not allowed, and on the other hand, the funding of a service or function, which typically represents core funding, appears to be allowed.

In 2003-04 almost $11.1 million of financial assistance was expended by government to support the core operations of NGOs. It seems each department has its own unique solution to the issue of this type of funding and the terms and conditions which govern the relationship with recipients. Some departments automatically fund NGOs from year to year, while other departments fund NGOs that have similar mandates. Core funding exists, but a clear and concise administrative framework to manage it does not. As the government develops and establishes a new policy on transfer payments, the on-going need for a NGO funding policy becomes questionable.

Recommendation

2.1 The Non-governmental Organization Funding Policy should be retired and integrated into the new transfer payment policy.

<u>Management Response</u>

In concert with the Department of Finance's work on the proposed transfer payment policy, the Executive Council Office will investigate establishing an appropriate mechanism that reflects the government's policy on the funding of non-governmental organizations, in order to provide direction to departments in this business area.

First Nations Relations Policy may need amendment

GAM Policy 1.12 first became effective in January 1995 and was later amended in May 2004. The purpose of the policy was to ensure that Government of Yukon activities, as they relate to First Nations, are carried out in a manner that fosters constructive and mutually effective relationships. Various principles are introduced to help build on these relationships and to clarify the roles and responsibilities of government with respect to their relations with First Nations. During the period of audit coverage Section 3.2 of the policy gave Management Board responsibility to formally approve all agreements with First Nations that were $50,000 or more including contribution agreements.

On October 10, 2006 several changes were made to the First Nations Policy including the removal of the requirement for Management Board to review all contribution agreements over $50,000. Added to Section 3.5 of the Policy, however, is a clause that requires the Executive Council Office to "*review funding agreements that do not follow the suggested template for contribution agreements with First Nations that has been developed by Justice. This may include service and purchase contracts*". As stated in Section 1 of this report the new transfer payment policy will need to address the issue that "one size definitely does NOT fit all" in regards to how contribution agreements are formulated and designed. This would include the suggested template for contribution agreements with First Nations that has been developed by Justice.

Another concern we have with the clause under Section 3.5 is the idea that contribution agreements can be viewed in the same light as a service or purchase contract. The Executive Council Office is currently reviewing this clause.

Legal status of some recipients

Three concerns exist with respect to the legal status of some recipients who regularly receive contribution funding from the government from one program or another. At issue first is how the government can have an effective relationship with some "communities" or "bodies that represent a community" that do not fall under the Municipal Act, noting that these relationships are unclear from a legal perspective. The risks in such relationships can include the capacity of the recipient to undertake the project, insurance coverage, potential for project failure, and potential lack of accountability.

Second, there are issues with non-signed Final Agreement First Nations (*Indian Act Bands*) and Tribal Councils, in that there is legal uncertainty around the availability of remedies in cases of difficulty of contractual performance and execution. This can create a high-risk scenario. Risk management strategies are recommended for these relationships.

Finally, there seems to be some confusion within departments on the legal-person difference between a First Nation and its development corporation. Of particular concern are contribution agreements with First Nations that are really contracts which grant contractual preference to their development corporation. In such arrangements, departments are contravening the Contract Regulations and Contract Directive, and the principles of fair competition and openness.

Recommendation

2.2 The Department of Finance with advice from the Department of Justice should develop a framework that clearly defines in a consistent manner the terms community, non-profit organization, co-operative, charitable organization, private or public business enterprise, and First Nation. Such a framework should be included in the new transfer policy and used by all departments in the design of their contribution programs and projects.

Management Response

Agree.

Where conflict of interest may exist

The current FAM policy on contributions is silent in addressing the issue of government employees, especially managers signing as, and/or, negotiating with government in their capacity as officers of third-party organizations (usually NGOs). Although our audit found that such relationships do not appear to have had any direct influence over related decisions on contributions, it is still a grey area. Recognizing that such relationships do appear to be allowed under GAM Policy #39 on Conflict of Interest, it may still be preferential to err on the side of caution and clarify within a new transfer payment policy what is and what is not allowed. The risk is that there could be a perception of conflict of interest in a given situation or a perception of favouritism and unfairness.

Government employees should continue to be encouraged to be involved with associations, societies and other community groups. They should also be informed that wherever possible they do not sign agreements and representations to the government in their capacity as officers or representatives of those bodies. Employees should also (1) declare their "interests" and absent themselves from discussion and decisions and/or (2) should not sit on "External" Advisory Boards, or similar, that advise government on policy, funding or contract (or similar) awards or any other positions that could be perceived as resulting in a perception of a "Conflict of Interest".

Conflict of Interest Clauses

The federal government policy on transfer payments requires all contribution agreements to include the following two provisions:

i *A requirement that no member of the House of Commons shall be admitted to any share or part of this Funding Agreement or to any benefit arising there from; and*

ii *a requirement that it is a term of this Funding Agreement that no current or former public office holder or public servant who is not in compliance with the Conflict of Interest and Post-employment Code for Public Office Holders or the Conflict of Interest and Post-Employment Code for the Public Service shall derive a direct benefit from this Agreement.*

Recommendation

2.3 The terms and conditions of all contribution programs and project agreements should contain provisions for the proper disclosure of situations that may give rise to conflict of interest.

<u>Management Response</u>

Agree.

How the Yukon Government is symbolized?

When organizations are acknowledging a contribution from the Yukon government, as required under many agreements, we found that there is too much variation in what “trade-mark” or symbol represents the government. The trademark needs to clearly and succinctly identify the Yukon government to the public and should not be some variation of the “Magic and the Mystery”, “Canada’s True North” or “On Yukon Time”.

Recommendation

2.4 One clear identifiable trade mark should be established for the Government of Yukon with written variation as to the represented department or branch of the department, where appropriate.

Management Response

The Department of Highways and Public Works will, in consultation with departments, recommend changes to Policy 2.13 to ensure the obligation to use the government’s established visual identity when non-governmental organizations are acknowledging government funding is clear. During the course of the 2006-07 fiscal year, Highways and Public Works will update and finalize the Visual Identity Manual.

Federal “flow-through” agreements and year-end “off-loads”.

Each year the Government of Canada provides certain Yukon government delivered programs with funding that flows-through the accounts of the Yukon government as a recovery. Sometimes the funding by the Canadian government is cost shared by contributions from the Yukon government. Most “flow-through agreements” occur on a multi-year basis, sometimes for as many as three years or longer. The public often view these arrangements as Yukon funded programs that operate on an on-going basis. The knowledge of the potential impacts and significance of the situation often only resides with the program managers and finance officers in the respective departments. The over-arching summary view of these types of programs is not readily available.

There is an inherent “time-box” risk in the flow-through and “year-end off-loads” that are offered close to the financial year-end; which gives the government only two choices – either decline the contributions or arrange an appropriate system to accommodate the expenditures of the “funds” within the limited timeframe. Some of the risks we see in this regard are as follows:

1. The amounts “offered” are for a limited period and usually target NGOs.

2. Some NGOs may not have the “capacity” to handle a large influx of cash and the associated administration of a program, and may have limited or no full or part-time resources to administer the funding, being mainly volunteers.

3. Because the flow-through funding is often off-loaded at or near year-end, this sometimes leads to a rushed attempt to plan and execute the initiative(s).

From a central agency perspective, the government's accounting system does not readily link the cost of the delivered program to the recovery, nor do the annual Public Accounts separate or specifically identify recoveries that are one-offs (projects/capital) and those that were initiated to be in service for a limited number of years. The Public Accounts should include a note appended to the Notes to the Financial Statements, "Schedule of Recoveries" outlining those recoveries that have a limited lifespan in the next "X" years.

Recommendation

2.5 The Department of Finance should establish guidelines to assist departments in their handling of flow-through agreements from the Canadian government. In some cases, Finance should be involved in assessing the financial risks associated with these agreements before they are signed and approved.

Management Response

Section 5.9 of the Financial Administration Manual dealing with transfer payments is to be replaced with a new policy and related guidelines on transfer payments. These guidelines will naturally cover this area. The requirement of the Department of Finance to be involved in agreements review will be addressed in the policy and related guidelines.

SECTION 3

GOVERNMENT-WIDE MANAGEMENT OF CONTRIBUTIONS

IN BRIEF

Under Section 4.1 of the FAA, Management Board has responsibility in matters relating to accounting policies and practices of the government, including financial management standards in departments. The Board is assisted by a Secretariat which resides within the Department of Finance and the Deputy Minister of Finance, who serves as the government's treasurer and financial advisor. The Deputy Minister of Finance has, as one of his duties, the responsibility to evaluate accounting and financial management systems throughout the government and recommend improvement considered necessary. Management Board Secretariat ensures that the Board and Cabinet are provided with the financial and human resource information required for sound decision-making. The Secretariat also has responsibility for ensuring departments and agencies are complying with the FAM policy on contributions when reviewing departmental submissions.

Contributions are not properly classified in the Estimates.

All contribution expenditures classified and budgeted as capital in the Main Estimates present a misleading picture to the public of what is meant by the term "capital". Capital expenditures normally involve the development, building or purchase of an asset. If the asset is owned by the government it is accounted for and reported as a tangible capital asset in the public accounts. If the asset is not owned by the government it should be accounted for and reported as a tangible capital asset in the accounts of the recipient organization. Some of the contribution programs and projects currently shown in the Main Estimates under the capital vote do not meet the criteria of a capital asset or of a capital transfer. Spending on the Arts Fund, for example, does not involve the development, building or purchase of an asset. It is really an O&M type of expenditure, yet the program gets reported as a capital contribution.

Another related classification issue pertains to how contributions should be coded in the accounting system and reported in the annual public accounts. This includes how the coding structure within the "Objects of Expenditure" should be expanded and how to account for multi-year agreements, recoveries and flow-through contributions. These matters have been raised separately with the Department of Finance and will be addressed as part of an overall action plan to rectify the accounting for transfer payment.

Accounting for Transfer Payments

The Public Sector Accounting Board (PSAB) Section 3410, Government Transfers, requires transfer payments to be recognized in the government's financial statements as expenses or revenues in the period that gives rise to the transfer. By their very nature transfer payments are considered as expenses or revenues for financial reporting purposes. Beside the Yukon, there are only two other jurisdictions across Canada that regard contributions differently for budgeting purposes, as both O&M and capital. However, in these other jurisdictions a capital transfer must involve the acquisition or building of an asset which is not the case with the Yukon government.

The Yukon government should prepare itself for the eventual day when the Main Estimates will have to be compared to the public accounts for both budgeting and financial reporting purposes. Because of the way capital contributions and other non-capital transactions are accounted for in the Main Estimates, the Main Estimates cannot at this time be properly reconciled to the public accounts. For example, in 2004-05 the Capital Estimates showed an amount of $30.6 million deemed to represent an investment in capital contributions. Less than a quarter of this amount involved the development, building or acquisition of an asset. O&M type expenditures reported as capital contributions amounted to $23.5 million.

Recommendation

3.1 All transfer payments classified under the capital vote in the Main Estimates should at least meet the conditions that call for the development, building or acquisition of a capital asset. Where contributions programs and projects do not satisfy these conditions, they should be classified in the Main Estimates under the O&M vote. Alternatively, the Yukon government may want to classify all transfer payments under the O&M vote. In this way, the public will have a clearer and more accurate picture on how government actually spends its moneys.

Management Response

The Department of Finance agrees that transfer payments classified under the capital vote should meet the conditions that call for the development, building or acquisition of a capital asset.

Grant programs and other types of transfer payments operating as contributions

In the following sections of this report on contribution programs and projects we describe several instances where the programming and project management of contributions failed to address how contributions should be treated for accounting and reporting purposes. Each year it is a recurring issue. More generally, we found the following:

1. Some legislated grant programs are administered and funded as contribution programs. The Arts Act, for example, refers to grants for artists and arts organizations. Yet, the arts funding under this Act is treated as a contribution.

2. Some contributions we audited involved a legal entitlement. For example, we found one wage subsidy program that is being administered as a contribution program. Normally, wage subsidies to prospective employers who meet certain pre-conditions are normally treated as a grant or transfer payment to an organization. Subsidies against which payments are made do not have to be accounted for or audited once entitlement is determined.

3. We noted a few contribution programs would have been better designed as grant programs given the low level of risk, funding, and specified performance requirements involved. The Advanced Artist Award is a case in point. It only has a budget of $80,000 a year. Awards to individual recipients never exceed $5,000 at any one time. One would not expect to see the rigours of a contribution program to be imposed on recipients of this type of financial assistance.

Recommendation

3.2 The Department of Finance in consultation with departments should undertake a study to identify the contribution programs whose form and purpose for accounting and reporting purposes may be inappropriate. The departments responsible for the programs identified in this manner should then take the necessary steps to rectify how these transfer payments are to be administered and managed.

<u>Management Response</u>

Agree.

Recommendation

3.3 All legislated grant funded programs should be administered, accounted for and reported as such.

<u>Management Response</u>

Section 5.9 of the Financial Administration Manual will be replaced with a new policy and guidelines on transfer payments. The new policy and related guidelines should provide the impetus for any required change in transfer payment delivery to recipients. It also will provide the direction required to ensure departments

administer, account and report legislated grant funded programs in an appropriate manner.

Rigorous review of terms and conditions are needed.

Departments are normally responsible for ensuring that expenditures meet legislative, executive, central agency and departmental requirements. When making submissions to Management Board departments sometimes seek the advice of the Department of Finance and the Management Board Secretariat before obtaining approval on the terms and conditions of their proposed contribution programs. It is the responsibility of the Management Board analysts to provide Management Board with the information and analysis required for sound decision-making relative to the submissions they receive from departments. The Management Board Secretariat also has to ensure that the submissions are complete and follow government policy.

We examined four contribution programs in 2004-05 totaling about $7.6 million. The size of the programs varied from $500,000 to $3.2 million with the number of organizations or individuals applying for funds ranging from a few to several hundred. Most of the programs reviewed have been in existence for many years. Their purposes ranged from supporting education associations, individual artists, sports organizations, and Yukon communities to providing economic and social incentives to communities as a means of creating jobs to the strengthening of the Yukon's social, cultural and business activities. Two of the programs (*Arts Fund and the Sports and Recreation Program*) involved some form of third-party delivery, which meant that an organization outside the government could decide who would ultimately get the money.

In reviewing these programs, we looked at whether the terms and conditions were consistent with key elements of control and the policy on contributions. We were also interested in determining whether the terms and conditions of programs built in reasonable assurance that the funded projects could succeed. For example, we looked for the following control elements that, in our view, the Management Board Secretariat should consider in reviewing submissions that propose programs:

- Goals or objectives should be specific enough to guide the development of program controls, such as eligibility criteria, criteria for assessing applications for funding, and reasonable payment terms.

- Risk management needs to be an integral part of program design so that potential control failures are identified up front.

- Eligible recipients should represent the individuals or organizations that have the capacity to achieve program goals.

- Eligible expenses should be limited to specific project costs directly associated with, and necessary for, project success.

- Scheduling of payments should be consistent with achieving sound cash management principles and practices.

Overall, we found that many program terms and conditions lacked one or more of these control elements. For example, there were programs whose objectives were very broad, whose performance criteria were unclear or not focused on results, whose eligible expenditures had few or no restrictions, or which lacked frameworks for audit and evaluation.

We tried linking the objectives of some of contribution programs with the stated objectives of department or branch of the department, as expressed in the Main Estimates. For most programs we could observe this simple level of correlation. However, it often proved difficult to observe the correlation between the contribution objectives to those of the main programs under which each is administered, and the specific goals and priorities of the department or branch. Objectives of most programs were framed in very broad terms and provided little information on what the spending would achieve within a given period of time. Further, most programs did not describe the performance criteria or specific results that were expected.

Setting clear objectives and expected results are fundamental to proper program and project design, and to developing risk management strategies, performance measurement, and key controls. It also has an impact on the audit and evaluation frameworks at the core of any transfer payment policy.

Recommendation

3.4 The Department of Finance, through the Management Board Secretariat, should establish a more rigorous process and set of procedures for reviewing contribution program submissions and the terms and conditions that apply to them.

Management Response

Agree.

Recommendation

3.5 Departments should be required to establish clear objectives and expected results for their contribution programs and these should fit within the context of a newly developed transfer payment policy.

Management Response

Agree.

A risk-based approach is needed.

Throughout this report we describe where departments are not taking a risk-based approach in the design and execution of their contribution programs and projects. Risk management is an issue faced by all governments. In some jurisdictions, departments are required to establish risk management programs and report annually to their central agencies on their management of risks. Although the Yukon government as a whole has not established a policy framework to address various risk management issues, we would encourage the Department of Finance to adopt a risk management approach in setting the rules and monitoring the management of contributions and other transfer payment vehicles.

A risk-based approach would allow Finance to better identify and address areas that need attention government-wide and individual department attention. The idea would be to formulate strategies that would mitigate the risks and to provide assistance to departments when support is needed. With information supplied by departments, the Department of Finance could start to establish risk profiles by departments or type of contribution program and be in a better position to provide Management Board with advice for its decision-making.

Developing a Department's Risk Profile

Department profiles take stock of the organization's operating environment and its capacity to deal with key high-level risks linked to achievement of department and government objectives. Expected Results:

- *Threats and opportunities are identified and adjusted through ongoing internal and external environmental scans and analysis.*
- *Current status of risk management within the organization is assessed - challenges/opportunities, capacity, practices, culture - and recognized in planning to manage organization-wide risks.*
- *The organization's risk profile is identified—key corporate risk areas, stakeholders' risk tolerance, ability and capacity to mitigate risk, and learning needs.*

Developing a risk profile is a logical starting point in implementing integrated risk management. Organizations take stock of their operating environment, identify key risks, and review the organization's capacity to deal with these risks.

Recommendation

3.6 The Department of Finance should develop a risk-based approach and systematic process for assessing contributions across departments and for establishing departmental risk profiles. Through consultation with departments the approach taken should be consistent with the risk management accountability framework proposed under Recommendation 1.3. It should also form the basis for reviewing submissions on transfer payments, developing program management tools and monitoring departmental activities.

Management Response

Agree.

Some central agency monitoring is required.

Since Management Board has overall authority to prescribe the way departments manage public funds, the Board needs to find a balance between delegating decision-making authority to departments and holding them accountable for results. This means moving towards a management regime based on leadership and values, well-defined standards, and sound risk management - with the right systems in place to ensure effective control at all times.

Under Section 6 and 7 of the Financial Administration Act, the Deputy Minister of Finance has responsibility for the supervision of the expenditures of the government and for the evaluation of the accounting and financial management systems throughout the government. This means the Department of Finance has the responsibility to monitor the status of controls in departments and to intervene when it identifies unacceptable risks or vulnerabilities. Presently, Finance has little information on departmental operations in assessing the integrity and performance of contribution programs, which would come about from audits, annual reviews and program evaluations conducted by departments. A process to identify government-wide problems in the management of contributions does not exist. Lacking, as well, are adequate resources for monitoring the financial function in departments.

By proposing some form of central monitoring of contributions, the Department of Finance would be able to systematically identify problems across government. With this knowledge Finance would be in a better position to support and advise departments on remedial actions to be taken. In assisting the Department of Finance to undertake an active monitoring role, it would be useful for departments to periodically provide Finance with “snapshots” of the annual performance of their contribution programs and high risk single recipient agreements. From a controllership perspective, this kind of information would help Finance develop and maintain risk profiles of each department and program, and to identify areas where departments need their support.

Recommendation

3.7 The Department of Finance should gather and compile enough information on departmental operations to use as a basis for monitoring and assessing the integrity of contributions and other transfer payments once the new transfer payment policy is fully implemented. This mechanism should provide a means of identifying government-wide systematic control problems and the effectiveness of the remedial actions taken to rectify them.

Management Response

Agree.

A 360 degree view is needed.

Currently, in the Yukon Government there is no central “source” for a full data listing of contributions made or committed, or, a list of what each of the recipients has received (*a type of 360º overview*). There is no type of formal process for identifying and handling multiple funding arrangements that may exist with some recipients where the project funding derives from more than one source. Departments, in answer to their own data needs, are creating a proliferation of Microsoft Access databases. This creates additional hardware and maintenance costs, as well as data loss and security risks.

Departments also lack complete historical or baseline information about the clients or recipients that they fund. Baseline information could become a valuable resource for departments to use and share with each other. It would be useful in comparing how recipients apply to government for assistance under various transfer programs. Such an approach requires complete and accurate information be obtained about what other departments and agencies are doing in relation to the programs and projects that they are undertaking with similar client recipients.

The absence of information and a cohesive view causes a risk of conflicting initiatives, possibilities of over funding, missed integration of programs, and the government’s general loss of control over this area of discretionary spending. During our audit, for example, we found some non-governmental organizations with similar mandates and a similar client base being given financial assistance, for example, some tourism organizations. The funding of organizations which are essentially the same with respect to their mandates should be more rigorously challenged on the basis of their eligibility, record of service to the public, and performance record. Baseline information on recipients of contributions could help detect these types of situations.

We found it was difficult, in some cases, to group payments to a particular recipient as we saw many different variations of a recipient’s name in the contribution general ledger accounts. We also were unable to assess from our initial selection of agreements whether the samples represented Yukon agreements or flow-through agreements as previously discussed in the report. No doubt, the Department of Finance would find itself facing the same difficulties as ourselves if they were to obtain an overall view of contributions in government.

Recommendation

3.8 The Department of Finance, in consultation with departments, should establish a consistent process of collecting, storing and making available data and information on contributions and other transfer payments to departments.

Management Response

Agree.

Staff training is needed

Throughout our examination we noticed there were no support structures to assist staff in the delivery of their contribution programs and projects. The lack of a support system that would include training on contributions varied from department to department and from one individual to another. Some who manage or administer contributions had no basic understanding or training of the financial function even though most agreements require financial information of some sort that has to be reviewed. As the agreements are often being looked after by a non-financial program manager, we found many instances where information received is often filed away and not analyzed for reasonableness. This may be due to some managers not having adequate knowledge or basic training on the fundamentals of program and financial management.

Another weak area is risk analysis. Since contributions can vary in complexity and size, there is always a risk of non-performance or unintended outcomes when managing projects. Managers and staff who administer contributions day-to-day should have a basic understanding of how to identify, monitor and manage these risks. We found most employees do not have an adequate understanding of risk. As the training of staff will become necessary with the introduction of the new transfer payment policy there is an opportunity here for government to extend this training to cover other aspects of financial and risk management.

Recommendations

3.9 The Public Service Commission should work with departments to identify needs, develop and deliver training appropriate for staff involved in the transfer payment process. Important components of this training already determined by this audit include financial and risk management theory.

Where Does the Training Responsibly Lie?

The responsibility for training is a shared responsibility between employees, deputy heads, managers at all levels, and the employer. Generally, employees are responsible for acquiring and maintaining the knowledge, skills and competencies related to their level and functions. Deputy heads have the responsibility to supervise the business of their departments and for ensuring that employees are adequately trained in the performance of their duties. Deputy Heads usually delegate some of these responsibilities to managers who determine the learning, training and development requirements of staff under their employ. The Public Service Commission, acting as employer for the Yukon government, has the responsibility to sponsor, encourage, administer, or participate in programs of employee training and safety.

Management Response

The Public Service Commission will work with departments to add components to the newly developed training program for financial personnel to include Financial and Risk Management Theory and other topics for staff involved in the transfer payment process. Public Service Commission will also examine the content to determine suitability for inclusion in other training programs currently including a financial management training component. Those programs are the Corporate Orientation Program, the Supervisors Success Program and the Yukon Government Leadership Forum.

CONTRIBUTION PROGRAMS

In this section, we look across our audits of the contribution programs to make observations on the major elements of program management and discuss the key management responsibilities and practices that are still weak. Our detailed observations on each program take into account their specific circumstances. It is important to recognize how programs differ and how differences affect the way departments manage them. The contribution programs reviewed were as follows:

- FireSmart Fund (*Community Services*)
- Sports and Recreation Program (*Community Services*)
- Community Development Fund (*Economic Development*)
- Arts Fund (*Tourism and Culture*)

Following our findings and recommendations on each of the contribution programs we include sample case observations meant to demonstrate a variety of issues found in our review of agreements within those programs. These issues touch on three major areas which lend credence to the general findings contained in this report:

- Project assessment and approval – *how projects are designed, assessed and approved.*
- Approval, payment and accounting – *how projects get certified for performance and approval under Sections 29 and 30 of the FAA, respectively, and how projects are reported for accounting purposes.*
- Project performance – *how projects are reviewed and evaluated on the basis of their performance after their completion.*

COMMUNITY SERVICES – FIRESMART FUND

In Brief

The FireSmart Fund supports the use of local resources and skills on projects aimed at reducing the wildfire risk to communities. Most projects focus on removal of deadfall that could fuel fires, thinning heavily wooded areas, planting less flammable species of trees, improving emergency and fire access roads, and helping communities to develop long-term wildfire safety plans. In existence since 1998, FireSmart was originally associated with the Community Development Fund (CDF) and was made part of the 2002-03 "Winter Works" program initiative. FireSmart is often mentioned in the media. Government Audit Services performed an audit of the program in 2000 and issued its report February 2001.

In 2004-05 a total of 38 applications were submitted to the department. Of these, 26 projects were approved totalling $1.25 million. In 2003-04 a total of 35 applications were submitted, of which 34 were approved totalling $1.34 million.

Qualities of a Well-Managed Grant or Contribution Program

- *The choice of transfer payment respects accountability to Parliament and achieves a balance among principles of cost-benefit, risk management, and reasonable treatment of program recipients.*
- *Management can explain how recipients are expected to benefit from funding and to what end.*
- *Program officers understand who and what is eligible for funding, under what conditions funding can be provided, for what purposes, and in what amounts.*
- *Potential applicants are aware of the program.*
- *Eligible projects represent value for money to both the applicant and the program.*
- *More deserving recipients are funded and at an appropriate level.*
- *Funding is used for the purposes agreed.*
- *Problems with project and program performance are resolved quickly.*
- *Management reporting demonstrates a good knowledge of program performance.*

Source: 1998 OAG report, Chapter 27, Audit of Grants and Contributions

Scope of Our Work

Our audit of the FireSmart Fund entailed a review of five projects administered under the program.

Program Design

FireSmart presently lacks a framework that identifies performance indicators, expected results, outcomes, methods for the reporting on performance, and evaluation criteria that could be used as a basis for assessing the effectiveness of the program. In reality, community applicants are "competing" for FireSmart funds, which tend to attract more interest in how and what decisions are made, as opposed to how the program is functioning. FireSmart started as a fuel reduction initiative with one of its objectives being the creation or provision of winter employment. In some communities the fuel reduction work is near completion.

Program terms and conditions were found to lack the rigour necessary to best mitigate potential risks. For example, FireSmart does not require applicants to show proof of insurance, health and safety record, or the qualifications and skills of people proposed in projects. Certain standard clauses in agreements were either missing or unclear; specifically, some dealing with conflict of interest, organizational status, and termination clauses. In one community there was confusion as to whether restrictive local hiring practices are allowed by the funding agreement.

Recommendation

4.1 Community Services should re-examine the design and objectives of the FireSmart program and develop performance measures that will enable program management to determine whether desired results are being achieved.

<u>Management Response</u>

Agree. Community Services will review from time to time FireSmart's program objectives in the context of changing Government priorities and community needs and will also apply the appropriate indicators of performance.

Recommendation

4.2 FireSmart's operating guidelines, procedures and application terms and conditions should be revised to reflect the requirements of a new transfer payment policy.

<u>Management Response</u>

Agree. The Department has introduced new measures and guidelines to be followed by our Zone Protection Managers. These Guidelines will be adjusted to reflect a new transfer policy when the policy becomes available.

Program Performance

Two of FireSmart's major output indicators are how much money was spent per hectare in each Yukon community and how much labour was generated by the FireSmart project. Although information and data could be made available to provide results on outputs and outcomes, it is neither assembled nor summarized. Linkages of related program costs between years for each community are absent as well as other prior (older) years main cost data. Such information could be used for planning the completion of FireSmart's risk-mitigation strategy in each of the outstanding communities where Firesmart activity is most needed, particularly Whitehorse. Resources could be utilized in "out-of-peak-season" downtime, to enter this older data into the system. Department management mentioned that this is being planned for Winter 2005/06.

At the program level, year end reports on the overall performance of the FireSmart program are not being prepared for senior management or published for public information. Given the high program profile, such reports could serve to highlight the success of the program, and show how and where monies were spent by both the government and the recipient.

The department has not carried out a formal review or program evaluation of the program. Although the 2001 audit acknowledged some strength in the program's stated objectives and how individual projects were being assessed, a program evaluation could provide management with an assessment on FireSmart's overall effectiveness.

Recommendation

4.3 Community Services should improve the FireSmart program management and reporting on results.

In implementing this recommendation, the department should consider the following:

a. Refine the risk management control framework so as to enable program managers to assess and report on the performance of the FireSmart program;

b. Compile and summarize the output measures including the government and community portions of costs; original work and sweep work completed the next year; and a new inclusive database that records the costs and hours worked. The database should be capable of producing a report showing cost per hectare and per density of population. Reporting on this basis would help managers with their analysis, as well as, the tying in of outcomes to branch objectives and funding priorities. These reports would also have the potential to forecast costs of future projects that are based on prior costs and densities;

c. Implement a quality control review process enabling staff to regularly and independently review the work of other co-workers; and

d. Prepare an annual FireSmart report showing how many applications were submitted, from which communities, amounts approved, amounts paid out and results achieved. It is important for the department to demonstrate fairness, equity and transparency in the spending of public money.

Management Response

Community Services agrees with this recommendation and some of the suggestions offered in the report on program management, the tracking of Government and community costs and reporting on results.

Project Assessment and Approval

The assessment and review of FireSmart applications was found to be reasonable and in accordance with published guidelines. What was missing was a clear system or process to guide staff to properly document the steps taken in this exercise. Staff, for example, may be checking the recipient's eligibility and reviewing appropriate documents supporting an application, but they do not always show evidence of this work or what steps were taken or not taken in reviewing or approving a project.

Zone Protection Managers (ZPM) do not currently sign off their approval when reviewing a project application. Sometimes there is only one officer who signs on behalf of the recipient organization, when two signatures are required. Processes are not documented, year-to-year information on project acceptances and rejections are not maintained. For these reasons, many project files contained little evidence to support the decisions made.

Recommendation

4.4 The process for reviewing and approving FireSmart applications should be documented showing what steps were taken in determining eligibility, the processing of payments, and the closing of project files. The use of a checklist or a template could help managers assess where project files stand in terms of the steps taken in the process.

Management Comments

Agree. Community Services has tightened its procedures for reviewing and approving FireSmart applications. Documentation and systems have been designed for eligibility reviewing, approval and the processing of payments and file closeout have been implemented.

Recommendation

4.5 Information and statistics should be maintained on applicants, whose projects have been accepted or rejected.

<u>Management Response</u>

Agree. The new FireSmart database will now track all approved and rejected projects.

Recommendation

4.6 Firesmart management should ensure the Zone Protection Manager signs off on each community FireSmart project plan to ensure that there is an overall link to the Branch's expenditure plans.

<u>Management Response</u>

Agree. Each Zone Protection Manager has a method of "signing-off". Management will formalize the process.

Approval, Payment and Accounting

FireSmart recipients receive a 10% advance on the funding approved for their projects, which minimizes the level of financial risk associated with any one project. However, beyond the first advance, payments to recipients are normally made on the basis of the original estimates shown in the contribution agreements and not as a percentage of budgeted or actual costs. The cost information submitted by recipients is not actually assessed or monitored during or after completion of a project. In two of the five projects we reviewed the recipients were paid according to the project budgets which turned out to be in excess of their actual project costs. Although these cases were not significant, management should ensure that action is taken to recover funds when projects are over funded.

FireSmart has received continuing financial support since 1998 and each year gets classified for budget purposes as a capital contribution rather than as an O&M item in the Main Estimates.

Recommendation

4.7 The FireSmart program should be properly classified and voted as an O&M item in the Main Estimates.

<u>Management Response</u>

This is an issue that has to be looked at as part of budget classification and presentation from an overall corporate perspective.

Project Performance

Prior to 2004/2005 there was no requirement for FireSmart inspection reports (*closing reports*) on the completion of projects; reports were submitted ad hoc. The requirement for an inspection report has now been initiated for 2004/2005.

FIRESMART FUND - SAMPLE OBSERVATIONS

Ross River Dene Council

In June 2003 the Little Rascal Day Care Centre applied for FireSmart funding of $100,000 on behalf of the Ross River Dene Council to clear forest land around the community of Ross River. The department approved funding of $50,000 and a contribution agreement with the Ross River Dene Council was signed September 2003. The proposal indicated that the Little Rascal Day Care Centre would be assigned as project administrator, in part, because they had the capacity to undertake the project.

As it turned out the Little Rascal Day Care Centre did not participate in the project as project administrator. After the project was completed questions were raised by the department about the First Nation's hiring practices that included only Council members. In March 2004 the Council submitted a report stating that the FireSmart program was completed in November 2003 and was a success with the employment of eight Ross River Dene Council members. Three payments were made under the project. The final payment was issued on April 30, 2004 without a financial statement from the Council on the costing of the project. An inspection of the site was completed in early May 2004 indicating that four hectares had been cleared. In June 2004 the Council produced a financial statement showing the project had cost $47,365. The recipient was overpaid by $2,635.

Community Services – Sports and Recreation Program

In Brief

The Recreation Act and Recreation Regulations of 1986 establish the Yukon government's program requirements for most recreation and sport related activities. Under the Act and regulations, grants may be made to local recreation authorities to cover discretionary expenses, salaries and facility operations and maintenance. Section 15 and 18 of the Act covers grants to municipalities and local authorities for community recreation. Sections 21 to 23 of the Act establish how grants are to be made to recreational and sports organizations as well as to advanced athletes, coaches and other officials. Such grants are designed to cover administrative and other costs such as travel, skill training, leadership development, and competitions. To be eligible to receive territorial funding Yukon recreation authorities and sport governing bodies must meet general criteria as specified under regulation. Decisions on applications for grants including information to be supplied in support of those applications are determined by the Yukon Recreation Advisory Committee (YRAC). This Committee consists of up to six members appointed by the Minister of Community Services.

The Sports and Recreation program is the responsibility of the Sport and Recreation Unit within the Community Development Branch. This unit works with organizations, groups, government departments, and the Volunteer Bureau in the areas of sport, recreation, health, education, justice and social services. The program's major objective is to encourage and support active living and healthy lifestyles in communities through the promotion and development of recreation and sport. In 2004-05 the Sports and Recreation program had a total budget of $2.6 million. Contributions for community recreation and sport programming totalled $620,000 and $1.2 million, respectively.

Scope of Our Work

Our audit of the Recreation and Sports program entailed a review of eight contribution projects.

Program Design

The Sport and Recreation program appears to be governed by legislation, which sets the context for the program's design. However, what is funded by way of this legislation is not totally clear. Under Section 20 of the Act "the Minister may, on the advice of YRAC, make grants under section 21 to 23, subject to any terms and conditions that may be prescribed…" Yet, what we found is that some sports funding gets reviewed by YRAC, while other similar contribution funding do not. The structure and decision making processes that identify the respective roles and responsibilities of YRAC and the department are not clearly known.

Section 5(5) of the Recreation Regulations states that "Program accountability shall be introduced to link territorial government priorities and individual Yukon Sports Governing Bodies objectives…" The Sports and Recreation program, however, lacks a framework that identifies expected results and outcomes, performance measures, and methods for the reporting on performance and evaluation criteria for assessing program effectiveness.

Typically, grants are not recoverable. Yet, under Section 3.10 of the regulations recipients are required to remit back to the government any part of a grant that is unspent. This requirement, however, is not disclosed in the recipient applications which are submitted to YRAC.

It would seem that most of the program's control framework is administered in a manner more grant-like than that for contributions. Funding for recreation and sport organizations, for example, is primarily core funding that is reviewed by YRAC by way of applications, approved by the department, and then paid out. There is no formal contribution agreement with the recipient. There are also limited requirements for financial information or reports.

Recommendation

4.8 Community Services should determine whether certain sports and recreation activities should be funded by way of grants or contributions and what types of funding should fall under the authority of the Recreation Act and regulations.

Management Response

Agree.

4.9 Serious consideration should be given to changes to the Recreation Act and Regulations, changes that properly reflect how the program is to be administered.

Management Response

Agree. A review of the Act has been done recently and a number of changes, some of which would address issues in the recommendations, have been incorporated. It is expected that the changes will enhance the management framework.

Program Performance

Performance information on funded projects is not maintained. Year-end reports on the overall performance of the Sports and Recreation program are not being prepared for senior management or reported for public purposes. The department has not carried out a formal review or program evaluation to assess the program's overall effectiveness.

Recommendation

4.10 Community Services should improve the Sports and Recreation program management and reporting on results.

In implementing this recommendation, the department should consider the following:

a. Develop and implement a management framework that enables program managers to assess and report on the performance of the program.

b. Develop a new inclusive database capable of producing information showing how outcomes tie into the objectives and funding priorities of the department.

c. Prepare an annual Sports and Recreation report that identifies how many grant applications or contribution projects were submitted, from whom, amounts approved, amounts paid out and the results achieved.

<u>Management Response</u>

Agree. Management recognizes that the program management's accountability framework can be improved through a more formalized process.

Project Assessment and Approval

We were unable to determine whether "Due Diligence" checks were performed to qualify applicants as there is no full or partial scoring system for evaluating (*and recording*) applications from potential sports organizations or individuals. Decisions are left up to the Yukon Recreation Advisory Committee.

The terms and conditions which govern the funding to community recreation centres and Yukon sports governing bodies are described in regulation. Some of the imposed terms and conditions are rigorous: for example, the requirement for annual audited financial statements and multi-year plans ratified by the organization's Board, which "*are comprehensive and have measurable goals and objectives*". We were unable to determine whether YRAC or the organizations applying for funds were aware of these terms and conditions and/or the risk of non-compliance.

We found most agreements were lacking in a number of basic essential clauses: for example, clauses dealing with "conflict of interest", changes in society status, reporting on performance, financial reporting, and requirement for two signing officers. In the absence of such clauses the department and YRAC have no effective remedies to deal with potential cases of impropriety, integrity violations or issues of potential conflict with organizations or individuals applying for funds.

Recommendation

4.11 The process and procedures for reviewing and making decisions on the funding of recreation and sports related activities should be documented and communicated to staff on the basis of the any future changes to the Recreation Act and Regulations and new transfer payment policy.

<u>Management Response</u>

Agree.

Approval, Payment and Accounting

The recipients of three project files we reviewed obtained 100% of their funding up-front without reference to need or actual cash flows. One of these organizations was advanced over $100,000 without justification and authority under Section 30 of the FAA. Payments to the other two projects were approved by officers who did not have the appropriate spending authority under Section 29 of the FAA.

In general, the processing and authorization of payments under the Sports and Recreation program were found to be weak. Four of eight contribution agreements showed no reporting requirements of any kind. The recipient of another project did not meet the reporting requirements of the contribution agreement, yet the project was fully funded. More care should be taken to ensure recipients meet the terms and conditions of their agreements and are accountable for the public moneys received.

Recommendation

4.12 Advance payments on contributions should be based on an assessment of project risk, a reasonable budget or on an actual expenditure claim. For high risk projects, advances should be based on the recipient’s cash flow requirements.

<u>Management Response</u>

Agree.

Recommendation

4.13 Project and finance officers should ensure recipients adhere to the stated terms and conditions of agreements before certifying performance and approving payments on projects.

<u>Management Response</u>

Agree.

Recommendation

4.14 Project officers should ensure that all required reports including financial statements are meaningfully reviewed when received. Where appropriate, every attempt should be made to recover money that may be owed from a project.

Management Response

Agree

Project Performance

While a variety of reporting mechanisms exist, we found no formal or systematic reporting of results to senior management. Contribution agreements allow for government review and audit of projects. We did not find any evidence that reviews or audits had been performed. Periodic reviews and audits could help management address problematic issues that would help improve performance and provide for greater accountability.

Recommendations

4.15 The Sports and Recreation Unit should periodically conduct post completion reviews of projects to assess project compliance and performance.

Management Response

Agree.

SPORTS AND RECREATION PROGRAM- SAMPLE OBSERVATIONS

Carcross Recreation Committee

Two payments totalling $41,420 were made to the Carcross Recreation Committee in 2003 in the absence of a contribution agreement. The department refers to these payouts as Community Recreation Assistance Grants. Recreation grants to communities are governed by the Recreation Act and are based on a formula tied to population. Some of the smaller grants have specific limits.

The funding to the Carcross Recreation Committee was approved by the Sports and Recreation Unit. The letter sent to the Carcross Recreation Committee mentions how much they will be receiving for each component of the grant. The letter does not elaborate on how the amounts were calculated. The population base of the community was not included. The funding was given under the Recreation Act and should have been treated as a grant rather than as a contribution.

Sport Yukon

Sport Yukon was given $225,000 of financial assistance in 2004 to provide for transportation for Team Yukon to participate in the 2004 Arctic Winter Games in Alberta. The agreement was approved without a budget. It did not identify any eligible costs or who would be entitled to travel to the games. The money was paid out February 2004 in one lump sum. There was no indication of any financial accountability for the amount funded. Sport Yukon did provide Community Services with a general ledger printout from their financial system that showed over $225,000 was expended on travel. The printout, however, did not specifically refer to the agreement; nor was it signed by duly authorized officers of the Association. Community Services should have asked for a statement that explained how the purposes of the agreement were achieved.

Yukon Amateur Hockey Association

Applications for contributions under the Yukon's Recreation Act are made annually by various Yukon Sports governing bodies. Most requests are intended to defray the O&M costs of the participating organizations. In June 2003 YRAC approved funding of $56,000 for various athletic initiatives to be undertaken by the Yukon Amateur Hockey Association. The application submitted by the Association had not been signed. Previous year financial statements had not been submitted to support the funding request. Up to January, 2004, four payments were made towards the 2003-04 agreement. These payments were triggered automatically like grant payments and not as contributions that require some kind of accountability.

Economic Development – Community Development Fund

In Brief

The Community Development Fund (CDF) supports projects that create economic and social benefits for Yukon communities and their well being. The CDF has generally been in existence since 1998 and at the start was included with the FireSmart program. The concept of a CDF arose from the federal government's Local Employment Opportunities program (LEOP) which was terminating around that time. The CDF also formed part of the 2002-03 Winter Works program.

In May 2003 Cabinet approved new program guidelines, approval authorities and membership on the CDF Program Advisory Board. Then in June 2003 the responsibility for the administration of the program was transferred from the Department of Community Services to the Department of Economic Development. The CDF is a high profile fund that is often mentioned in the media. It is said to be well-liked in the communities; it has the ability to be flexible and adaptable to community needs. Applicants indicate responses are quick.

Applicants who apply for CDF financial assistance can include registered-not-for-profit societies, community associations, charitable organizations, professional/industry/business associations, local governing bodies, municipal governments and First Nation governments. There are three levels of funding available to applicants: Tier I applications include proposals $20,000 or less; Tier II, $20,001 to $75,000; and Tier III $75,000 or more. Application time periods and deadlines vary according to the level of funding requested.

From 2003 to 2004 over 170 applications were submitted to the department. Of these, a total of 82 projects totalling $3.2 million were approved for funding: 47 Tier I, 23 Tier II and 12 Tier III projects.

Scope of Our Work

Our audit of the Community Development Fund entailed a review of five contribution agreements submitted as projects under the program.

Program Design

The CDF program is structured in a similar manner to the previous "Project Yukon" and the older CDF. The stated objectives of the CDF program are to create economic opportunities and strengthen social and community networks by funding projects with sustainable social or economic benefits in Yukon communities. What this means or how these benefits and intended impacts are to be measured is not totally clear. This was one of the main issues raised in the Government Audit Services 2001 audit of the CDF.

The eligible funding areas defined by the CDF program, as shown below, are stated in very general terms. While this is not unusual, the department has not supported them with a more clearly stated objective or set of evaluation criteria. Doing so would have helped to ensure an appropriate choice of projects for funding and to facilitate measurement of the results achieved.

Community Development Fund

The CDF gives Yukon communities, industry and professional associations, non-profit and charitable organizations, and municipal and First Nation governments money for projects that:

- *Create employment*
- *Generate spending on Yukon goods and services*
- *Support community well-being*
- *Have measurable social cultural and economic benefits for Yukon residents and communities*

We found that with only such broad objectives to guide decision-making, the CDF is funding projects that also fall within the mandates of other departments or of municipal governments. As well, the CDF program and the government priorities which influence it essentially makes any project and any organization eligible for funding provided that the priorities "of the day" are satisfied. For example, in 2004 a sample of CDF approved projects included the following:

- a coronary health improvement project
- a number of community gardening projects
- support for a community music festival
- a community display and education video project
- infrastructure support for a number of building projects
- information workshops on issues affecting seniors
- a head coach sports program

The CDF can attract a number of large projects that could be considered high-risk or potentially precedent setting. Some of these projects can sometimes compete with or duplicate other department programs where projects within the programs may have been rejected or funding seriously curtailed. Examples would be capital infrastructure projects or initiatives that touch on building "social capacity". As it is, the CDF follows the standard Main Estimates process for transfer payment funds that allows the internal fund management to approve and execute potentially high-risk projects outside of a formal process of assessment and evaluation by the central agencies or Management Board.

The CDF's tiered system partially explains the design flaw with the program. Essentially, it enables applicants to request financial assistance according to "the amount of money they need" and not on the basis of any well-defined criteria or government spending limit. Similar programs in other jurisdictions have detailed criteria and spending limits to qualify projects. The CDF program does not do this. Instead, CDF sets project dollar limits on Tier I and II projects, but not on Tier III projects and without defining what really constitutes a Tier I, II or III project. Although budgets are established for Tier III projects, individual projects have no upper spending limits.

The CDF provides a source of funding that attracts a great deal of expectation and attention. Although we found funds were distributed equitably between and among the Yukon communities like the FireSmart fund, there is a very real risk that the CDF can also attract criticism if there is no sound basis or reason for determining eligibility or approving a project.

Recommendation

4.16 Economic Development should further clarify the objectives of the Community Development Fund by defining clear attainable goals and expected annual results. The stated objectives of the fund should be set in such a way as to not conflict with the stated objectives of other government programs and responsibilities of other departments.

<u>Management Response</u>

The CDF was intentionally designed "to provide a flexible, responsive program to fill funding gaps responsive to community needs. Economic Development will review the objectives of the fund in the context of changing government priorities and community needs identified during scheduled program reviews. This review may lead the Department into re-examining the CDF's program design as compared to other funding programs, with the intent of refining and improving the CDF's long-term goals and expected results.

Recommendation

4.17 Performance measures should be developed for the Community Development Fund that will enable program management to identify the intended impacts and expected results.

<u>Management Response</u>

Agree. The department is currently working on developing performance measurement indicators for all department fund programs including clarifying performance measures for CDF to the extent possible. These measures will be developed in alignment with the actions taken under Recommendation #4.16 and incorporated in the department's performance management system.

Recommendation

4.18 The CDF's operating guidelines, procedures and application terms and conditions should be revised to reflect the requirements of a new transfer payment policy.

Management Response

Agree. If a new transfer payment policy is approved by Management Board, Economic Development will adhere to the policy.

Recommendation

4.19 The CDF fund should be establish upper funding limits for Tier III projects. Eligibility criteria should also be developed to better distinguish the project requirements for all levels of funding.

Management Response

Tier III upper funding limits on projects are presently capped at 37% of the total CDF budget as the fund budget cannot be guaranteed from one year to the next. Upper funding limits for Tier III projects will be clarified with the actions taken under Recommendation #4.16, as will the eligibility criteria for all levels of funding.

Program Performance

As reported in the 2000 audit, periodic assessments or program evaluations of the CDF are not conducted to assess the extent to which the desired outcomes are being achieved. Based on an assessment, corrective action could be undertaken to improve desired outcomes or to eliminate unintended negative impacts.

The CDF appears to be a program that the Yukon communities and non-profit organizations support, perhaps because it contributes to the territory's economic and social vitality. While the department does publicize lists of awards and the number of jobs created under each Tier I, II and III intake, it does not report on the overall performance of the fund. Performance reports could serve to highlight the success of the program, and show how and where monies were spent in terms of meeting the program's goals and priorities.

Recommendation

4.20 A system should be developed for collecting, compiling and summarizing recipient information on active and completed CDF projects. The data and information collected should be capable of producing reports to show how the program is performing in terms of meeting departmental priorities and goals.

Management Response

The Community Development Fund utilizes an access data system that collects, complies and summarizes recipient information on active and completed projects. Since the period of the audit, the Department of Economic Development has been in the process of further expanding on these reporting capabilities through the development of a department-wide fund management system.

Recommendation

4.21 As originally envisaged, a report on the Community Development Fund should be prepared annually showing how many applications were submitted, from whom, amounts approved, amounts paid out and the results achieved. It is important for the department to demonstrate fairness, equity and transparency in the spending of public money.

Management Response

Agree. An annual report for the period June 23, 2003 (inception of the CDF under the Economic Development) to March 31, 2005 was tabled in the legislature on April 3, 2006. In future the Department will ensure these reports are issued in a more timely fashion. In addition to the annual reporting on the CDF, press releases are consistently issued after each Tier approval. These releases provide a listing of the approved Community Development projects along with their funded amounts.

Project Assessment and Approval

Projects applications are first screened by CDF staff to ensure that all application requirements have been met. An interdepartmental committee composed of representatives from the departments of Community Services, Economic Development, Tourism and Culture, and Justice then reviews applications in order to make recommendations to the CDF Program Advisory Board. The Board consists of a Chair, Deputy Chair, a public representative appointed by the Premier, as well as the Deputy Ministers of Community Services, Economic Development and Tourism and Culture. Tier I projects are approved by the Minister of Community Services. The Minister of Community Services and the Minister of Economic Development have final approval on Tier II and Tier III projects.

The CDF is a complex fund with processes and procedures that are not adequately documented. It was found that evaluation criteria on projects can be a matter of "corporate knowledge and experience" coming from those individuals who happen to be making decisions at meetings. When employees change positions, there is always the risk that this knowledge and experience will be lost.

Although some improvement was made to the stewardship of the fund by the addition of a public representative to sit on the CDF Program Advisory Board, most of the more important issues identified in the 2001 audit have not changed. The outstanding issues are 1) the lack of clear defined project objectives and 2) the lack of specific project evaluation criteria. Because the CDF does not adequately set mandatory requirements that are tier driven, there is a fair amount of Ministerial involvement at the final review and approval stages. In our examination of files we noted some final adjustments taking place at this level of decision-making.

The eligibility requirements of applicants were found to be open-ended and not based on an assessment of an applicant's ability, history or capacity to meet the project goals. For larger projects one would have expected more stringent requirements for documenting the evaluation of the application and determining the ability and capacity of the recipient to undertake it. Often the focus was on simply checking into the organizational status of the recipient. For infrastructure projects, there was no stated health and safety requirement, no requirement for insurance coverage, no contracting or procurement rules, no training or staff development requirements or other obligations based on an assessment of project risk.

One of the signatories on one of the agreements we examined was a manager employed by the Yukon government who signed as a representative of the applicant. Government policy is not clear on this issue. There is a risk that such signing(s) could create a public perception of a conflict of interest.

Recommendation

4.22 More rigorous terms and conditions for determining the eligibility of applicants and for establishing project requirements should be developed for all projects, and especially those that are deemed to be high risk.

<u>Management Response</u>

Agree. The Department of Economic Development will re-evaluate the terms and conditions that are applied to the three levels of tier funding using a risk-based approach that will apply to projects under the new transfer payment policy. CDF is introducing more formalized assessment and monitoring protocols based on a risk assessment of each project.

Approval, Payment and Accounting

All applicants are required to be registered with the Yukon Societies or Federal Board of Trades Acts. All applicants must include a Certificate of Status confirming their good standing, if applicable and all must have any Yukon government loans in good standing. Although the files we reviewed showed evidence that applicants were registered under the Yukon Societies or Federal Board of Trades Acts, we were unable to determine whether due diligence checks were performed to validate the applicant's good standing.

The basic administration of approved projects, such as preparation of contribution agreements, review of claims, preparation of payments, tracking and accounting activities within the fund was found to be satisfactory. The outstanding issues are the risks inherent in the approval process and lack of criteria which distinguishes the three levels of funding under the program.

When reconciling the 2003-04 Public Accounts to the general ledger and to the 2003-04 Main Estimates it was noted that a mix of two old programs and one new related initiative were merged into one reported line item under contributions. This was the January 2003 announced "Winter Works" program, which was included with the new CDF program of June 2003 and reported as "Project Yukon" in the 2003-04 Public Accounts. Although the merging of these programs for reporting purposes was done for convenience, the process stream for elicitation, evaluation and selection of projects under each of them was different. Hence, as shown below, it was not appropriate for the programs to be grouped together. In this regard, the department did not adhere to the requirements of the public sector accounting standards, PS 1000.29(a) Representational faithfulness, or to Yukon government's FAM Section 5.9.5.

CDF (combined with Winter Works & Project Yukon)	**2003/04**
Project Yukon	$94,412
Winter Works	1,201,590
CDF (July 2003 version)	1,774,250
Total Reported as "Project Yukon"	$3,070,252

The CDF program like FireSmart receives continuing financial support from the government each year, and gets classified for budget purposes as a capital contribution rather than as an O&M item in the Main Estimates. We believe that this kind of budget treatment gives the public the wrong impression about the government's capital spending initiatives.

Recommendation

4.23 Careful attention should be paid to the set up, reporting and grouping of contribution expenditures. Generally, it should be one general ledger account per one reporting line item in the Public Accounts, with the general ledger account representing either a single agreement or a single fund. If doubt exists, prudence dictates that they should be reported separately.

Management Response

Agree.

Recommendation

4.24 The Community Development Fund should be classified in the Main Estimates under the O&M transfer payment vote.

Management Response

Agree. Economic Development would classify the Community Development Fund under Operations and Maintenance if direction was received from the Department of Finance or Management Board.

Project Performance

Although agreements allow for government review and audit of projects, we did not find any evidence that this has been done. CDF often performs site inspections but this is not the same as a formal review or audit. Periodic reviews and audits could help management address problematic issues that would help improve performance and accountability.

Recommendation

4.25 The CDF unit should periodically conduct post completion reviews of projects to assess project compliance and performance.

Management Response

Agree. The Community Development Fund does request applicants to submit detailed financial substantiation on completion of their project. As part of the final report, the proponent is asked to highlight the successes and to recommend improvements that would have contributed to a more successful project. CDF will develop more formalized agreement close-out procedures to ensure that deliverables were met and that all agreements have assessments on compliance and performance. As well, the amount of post-completion site visits will be increased.

COMMUNITY DEVELOPMENT FUND - SAMPLE OBSERVATION

Watson Lake Daycare Society

In April 2004, the Community Development Fund Advisory Board approved funding of $284,025 to be given to the Watson Lake Daycare Society for the construction and complete renovation to an existing daycare facility. The original budget for this project was $320,000 supported by equity financing totalling $35,975, which was largely made up of supplier discounts and in-kind services.

In September 2004 the department approved additional financing of $25,000 to bring the CDF's total contribution to $309,092. The final payment was made n the basis of a financial accounting that did not clearly show how moneys were spent or how the equity financing was actually applied to the project. The CDF application guidelines clearly describe in highlighted bold letters that the "CDF does not fund 100 percent of any project's cost." For larger projects, such as this, the recipient is expected to find other sources of revenue and contribute at least 10% in equity financing. The equity financing involved in this project was less than the 10% threshold. As well, the nature of the in-kind contributions applied to the project as equity financing was, in our opinion, questionable. In-kind administration costs which the CDF policy does not allow, as well as, potential supplier discounts normally do not qualify as equity financing.

Tourism and Culture – Arts Fund

In Brief

The Arts Fund supports group projects that foster the creative development of the arts in the Yukon and the principles of the Yukon Arts Policy. Funding is for arts-related projects including literary, visual or performing arts. Decisions on the Yukon Arts Funding Program used to be associated with the Recreation Fund via the "Yukon Recreation Advisory Committee (YRAC), Arts subcommittee. The duties of YRAC's Arts subcommittee were split off with the creation of the Arts Act in 2000 and the Yukon Arts Advisory Council (YAAC), which now makes recommendations to the Minister on financial assistance to individual artists and individual arts organizations including awards for the Arts Fund.

In 2004-05 a total of 67 applications were submitted to YAAC. Of these, YAAC approved 58 applications totaling $463,000. In 2003-04 a total of 71 applications were submitted, of which 56 were approved for $471,000.

Scope of Our Work

Our audit of the Arts Fund entailed a review of six contribution agreements submitted as projects under the program.

Program Design

In March 1997 Cabinet ratified the Yukon Art's Policy and Action Plan which initially directed the Arts Branch, among other things, to develop an Arts Act which came into effect in 2001. One of the purposes of the Act was to give the YAAC a mandate to make recommendations on all arts funding programs administered by the Yukon government. The Arts Fund was one of those programs, although it is not clear whether it is solely governed by the Arts Act. It is also not clear as to the relationship between the Arts Fund, as a budget line item, and the Arts Act regarding the eligibility criteria and similar clauses in the Act.

Under the adjudication process, completed project proposals are reviewed by the Arts Section staff in consultation with YAAC whose recommendations go to the Minister for final approval. There is no provision for applicants to appeal proposals that may have been rejected.

The applicant guidelines developed for the Arts Fund enable several types of organizations to apply for funds. Such organizations include community associations, industry associations, First Nations, school councils, artist collectives, registered non-profit organizations and municipal governments. While the guidelines give a fairly broad interpretation as to what organizations are eligible for funding, the Arts Act refers only to grants for artists and arts organizations. The term "Arts Organizations" is not defined in the Act. Therefore, it is not known whether the funding recommendations made by YAAC to projects sponsored by non-arts organizations are what the Act originally intended.

We expected the Arts Fund would be designed to achieve results, manage risks, ensure due diligence in spending, and provide accountability for funds spent. We found that the fund's objectives are stated in very broad terms: to support group projects that foster the creative development of the arts in the Yukon and the principles of the Yukon Arts Policy. We were unable to determine whether these objectives are in alignment with the mandate, strategies and goals of the department.

Section 15 and 16 of the Arts Act refer to "Grants for Artists" and "Grants for Arts Organizations", respectively. The Arts Fund, however, is administered as contribution program. The applicant guidelines for the Arts Fund only give examples of the types of projects that can apply for assistance. These include projects involving festival development, special initiatives or activities, training, facilities activities and cultural industries (sector initiatives). None of these activities are explained, nor are any requirements established for these activities.

The Arts Fund guidelines go on to say that the funding criteria must satisfy the principles of the Yukon Arts Policy. However, the stated policy principles focus on the Yukon Government's past agenda for creating an arts program rather than on a policy that provides guidance to program managers. For the most part, the criteria are stated in financial terms with little information as to how projects will be awarded in relation to any set of program indicators. What is missing is guidance on how resources are to be allocated among the various arts activities, the expected outcomes of the program and on what basis the performance of the Arts Fund is to be measured and evaluated. The specific goals for the fund have not been determined. It is not clear what role YAAC has in this regard, as the Arts Fund guidelines are inconsistent with the scheme of the Arts Act.

Recommendation

4.26 The Department of Tourism and Culture should conduct a strategic review of all its arts related programs and activities within the Yukon government to determine whether they should fall within the Arts Act legislation. The review should encompass the Yukon Arts Policy, Yukon Art Funding Program, Arts Fund, Advanced Artist Award, Cultural Industry Training Trust Fund and any changes that may be necessary to the Arts Act.

<u>Management Response</u>

The Arts Act was created to develop an advisory council and provide authority to administer a specific suite of programs that were originally housed under the Recreation Act. The Arts Act was never intended to capture all arts funding *programs. The Arts Fund, developed subsequent to the creation of the Arts Act, joined other funding programs that function independently, though in partnership, with activities and programs empowered by the Act.*

A review of funding levels and program issues is currently underway and will be completed by year end.

Recommendation

4.27 Where programs and activities are deemed to be part of the Arts Act, the Department of Tourism and Culture should determine the proper funding instrument for the provision of financial assistance to arts organizations and individual artists. If the provision of financial assistance is grant based, the policies and guidelines established under the Act should meet the normal requirements of a grant where eligibility is the prime focus. Likewise, if the provision of financial assistance is contribution based, the policies and guidelines should meet the normal requirements of a contribution where performance expectations are clearly defined and reporting on results is the prime focus.

<u>Management Response</u>

Grant and contribution allotments are determined in the context of the budget development process and allocated in the department's vote. The department will make recommendations as appropriate as a consequence of this review.

Program Performance

Assessing program performance is still a challenge for most departments. Since its inception the Arts Fund has not been reviewed or evaluated. Under Section 6 of the Arts Act, YAAC is required at least once every two years to conduct a review of the criteria for financial assistance and make recommendations to the Minister about how to serve the current needs of artists, arts organizations, and arts consumers. YAAC is also responsible for monitoring the implementation of the Yukon Arts Policy, as well as other programs and services under the Act.

To our understanding, a review of the Arts Fund under Section 6 of the Act has not been performed. Although a list of awards from the fund is published quarterly, year end reports on the overall performance of the Arts Fund are not prepared by the YAAC for management or public disclosure. The Arts Section, however, does report regularly on the Arts Fund. It is our understanding that this reporting will be reviewed in the context of the program review that is underway.

Recommendation

4.28 In alignment with Recommendation 4.27, YAAC should conduct a review of the criteria for financial assistance under and make recommendations to the Minister about how to serve the current needs of artists, arts organizations and arts consumers, as required under Section 6 of the Arts Act.

Management Response

The YAAC regularly, though informally, reviews the criteria and efficiency of the Arts Fund and makes recommendations to the Minister. The review process will be formalized in future in accordance with the recommendation.

Project Assessment and Approval

Generally, funding under the Arts Fund may be provided for up to 70% of applicable expenses, to a maximum of $50,000. Although most projects fall under $50,000 there are no written guidelines as to what makes up a $10,000 versus a $50,000 project or how funding decisions may be impacted by the size of the proposal or other sources of funding.

The evaluation and decision-making tools used for reviewing and rejecting fund applications are mainly based on verbal discussion and subjective assessments. As a result, there is little or no record of proceedings or basis for the decisions. We also found a few cases where a "queue" of approvals was being carried over from quarter-to-quarter and into the next (new) financial year. This resulted in one case exceeding the maximum annual limit of $50,000.

It was noted one of the members of the YAAC was a Yukon government employee at the time of our audit. Although this individual was not employed by the Department of Tourism and Culture, the position held by this individual may have influenced the decisions and matters brought before the YAAC. Government policy in this regard is not specific on the issue of employees and their limits of involvement with advisory boards.

Recommendation

4.29 The process for determining eligibility, scoring, rejecting and approving Arts Fund applications should be documented. The process for making decisions that are appealed should also be documented and made available to all applicants.

Management Response

Funding decision processes will be reviewed and better documented in the future, as appropriate. The Arts Fund does not currently support a formal appeal process. Unsuccessful applicants are instead encouraged to amend and resubmit applications for further review

Recommendation

4.30 Pursuant to Recommendation 4.27, the Arts Fund application forms should contain terms and conditions that are appropriate to the funding instrument being used, whether it be a grant or contribution.

Management Response

The Arts Fund is administered as contribution program. Terms and conditions for the contributions are articulated in the contribution agreement. The application forms will, however, be reviewed to determine those terms and conditions deemed appropriate to merit inclusion.

Approval, Payment and Accounting

We observed that for many projects it was common to issue advances up to 90% of the approved funding without reference to actual current recipient expenditures. Although the processing and authorization of payments under the Arts Fund were found to be appropriate, it is unknown whether, in these instances, the decision(s) on advances were preceded by a risk assessment of each project. The resulting strategy is to accept the potentially overall “low-risk” evaluation for the grouping of these types of projects within the Arts Fund. Noting that this may be cost-beneficial in reducing administrative overhead, risk-acceptance is a strategy that can be employed by management.

If a project is funded up to 70% of applicable expenses the fund’s general application criteria do not specify what constitutes an applicable expense for the purposes of a project. The signing authority levels for the cheque requisitions were not always appropriate; approvals were not always clear and decipherable.

The Arts Fund receives continuing financial support from government each year. It gets classified for budget purposes as a capital contribution rather than as an O&M item in the Main Estimates.

Recommendation

4.31 Advance payments on contributions should be based on an assessment of project risk or on the basis of an actual expenditure claim. For high risk projects advances should be based on the recipient’s cash flow requirements.

Management Response

The Fund Administration routinely assesses risk based on knowledge of the applicant, past performance history, and the relative complexity of the project. The Fund Administrator is empowered to vary the "advance payment guidelines" employed by the department where a risk is evident. This practice will be reviewed and adjusted to reflect the new transfer payment policy when it becomes available.

Recommendation

4.32 The Corporate Services Branch of the Department of Tourism and Culture should ensure the proper authorizations of all cheque requisitions issued under the Arts Fund.

Management Response

Tourism and Culture will comply with this recommendation.

Recommendation

4.33 The Arts Fund should be properly classified in the Main Estimates under the O&M transfer payment vote.

Management Response

Grant and contribution allotments are determined in the context of the budget development process and allocated in the departments vote. The department will make recommendations as appropriate as a consequence of this review.

Project Performance

We expected the Arts Unit to be aware of how funded projects were performing, that is, aware of their activities and results. We, therefore, expected to see appropriate monitoring during the life of each project and at its completion.

We found that in most cases the Arts Unit does not provide sufficient documentary evidence to show that they are monitoring the progress of projects. The agreements with recipients allow for government review and audit of projects, but none have ever been performed. Project monitoring including reviews help managers to determine whether recipients have properly fulfilled their agreement obligations. It also enables managers to assess actual results with expected results and take that information into account when renewing agreements or to improve program performance.

Recommendation

4.34 The Arts Section should conduct periodic post completion reviews of projects to assess project compliance and performance.

Management Response

The Fund Administrator regularly reviews all project final reports to ensure compliance with the terms and conditions of the agreement and project proposal outlined in the original application. The department will, however, review its documentation practices in this regard as a way program performance.

ARTS FUND - SAMPLE OBSERVATION

Dawson City Arts Society

Each year the Dawson City Arts Society and its operating arm, the Klondike Institute of Arts and Culture (KIAC) requests financial assistance to support various summer and special art related programs. In December 2002 the Society submitted an Arts Fund application requesting $49,230. In June 2003 Tourism and Culture approved funding of $45,000 under a contribution agreement.

Three payments were made in fulfillment of the agreement; $22,500 at the signing of the agreement; a progress payment $18,000 in October 2003 and a final payment of $5,000 which was issued in March 2004. Section 2d) of the agreement stated that the final payment would be paid upon: acceptance of a final report submitted for the project; a complete financial statement outlining the expenditures and revenues related to the project, signed by an officer of the recipient; and an invoice for the remaining funds.

The final payment was made two months before the completion of the agreement (May 2004) and on the basis of an invoice supported by some program materials and an interim financial statement, which had not been signed by an officer of the recipient. The project's reporting and financial statement requirements had not been met when final payment was made.

CONTRIBUTION PROJECTS

In Brief

The provision of grants and contributions to individuals, businesses and non-profit organizations is one of the most important ways the Yukon government pursues its objectives and priorities. The spending on contributions alone in 2003-04 was close to $100 million. Approximately 900 contribution agreements were negotiated by departments and agencies in that year.

The table below illustrates the contribution spending and number of agreements issued by the five departments under audit examination:

Table 2 Contribution Spending 2003-04

Department	Expenditure ($000)	Approximate Number of Agreements
Community Services	$19,004	125
Economic Development	4,109	130
Education	17,813	170
Energy, Mines and Resources	5,966	70
Tourism and Culture	4,492	200
Total	$51,384	695

Scope of Our Work

Our audit of contribution projects in the five departments entailed a review of 67 single recipient contribution agreements valued at $19.5 million. Although some projects may have multiple agreements, the agreements selected in our audit were not part of any contribution program or fund like those reported in the previous section where multiple recipients can apply for assistance. The agreements were randomly chosen as follows: Community Services (6); Economic Development (10); Education (13); Energy, Mines and Resources (10); and Tourism and Culture (28). This section describes our general observations and recommendations on the projects we chose for testing. At the end of the section we present a sampling of projects where we found issues in applying our audit criteria.

Project Assessment and Approval

Expected results need to be defined clearly. Good planning begins with a clear picture of what you are hoping to achieve – the expected result of a contribution project. Clearly defined results help managers evaluate whether projects have accomplished their objectives. These results are generally measurable within the timeframe of the proposed project. They set how projects will be defined, monitored and adjusted as needed. They also establish the expected outputs and reporting on what was achieved and the lessons learned.

While many projects across departments state their intended actions they rarely catalogue the specific expected outcomes and results. In some cases we were unable to determine how the various contribution projects fit into overall program goals and funding priorities. Departments tend to be stating what they see as their program objectives in very broad terms or as a list of specific unrelated actions, or a mixed list of both. When objectives are stated in this way it makes it difficult to assess the overall impacts and added value of projects with respect to those programs.

Important terms and conditions of agreements are missing. Departments deliver programs and execute their projects using contribution agreements that contain their own unique terms and conditions. These terms and conditions usually set out the process that must be followed in assessing and approving requests for funds. While we recognize that it is unlikely two agreements will be exactly the same because they have differing purposes and are negotiated, we expected to see in all of them the basic requirements that conform to FAM. We also looked for agreements that would ensure accountability in performance. However, what we repeatedly found were important elements missing from contribution agreements.

With high dollar value projects and other projects that could be assessed as high risk we would have expected to see more rigorous terms and conditions. The more rigorous terms and conditions would, for example, identify the contracting and procurement methods, local hiring practices, conflict of interest and risk insurance rules. More often than not, the high dollar value and high risk contribution agreements contained fewer terms and conditions than those of lower risk.

Many agreements failed to clearly identify the eligible project costs, performance measures and project reporting obligations, which were often ad-hoc or vague when present. The repayment of surplus funds was also generally not required for most projects including the provisions that would describe the precipitating causes for repayment.

A sampling of our findings with the terms and conditions of the agreements we examined were as follows:

Out of a sample of 67 projects, agreements showing:		**Number of Agreements**	**Percent**
1.	No indication of eligible or non-eligible project costs.	32	47.8%
2.	No stated performance measures or project reporting requirements.	35	52.2%
3.	No financial reporting requirements.	30	44.%
4.	No indication that contributions are refundable if funds not spent, tasks not completed or if moneys improperly spent.	11	16.4%

Contracting and grant like activities were used improperly as contributions. Twenty-five of the 67 projects reviewed involved some form of legal entitlement, service or requirement for information of a direct benefit to government and should have been straight contracts. Five other projects should have been set up as grants or other form of transfer payment. In total, 30 of the 67 projects we examined were improperly designed and administered as contributions. When the rigours of a contribution system are forced into what should be a grant-type arrangement, it could lead to unnecessary administration and a drain on resources on both parties. When arrangements that should be contracts are handled as contributions it means that managers either have little or no understanding of what constitutes a transfer payment or the contracting process, regulations and directive are being avoided. Both scenarios present a different level of risk to the government. One touches on the knowledge of managers and the other on whether the government contracting activities are carried out in a fair, fiscally responsible, accountable, open and competitive manner.

Core funding is used to support non-governmental organizations. Twenty-four of the 67 contributions audited were issued to non-governmental organizations and involved funding their core operations. Although Section 5 of the NGO Funding Policy states that core funding will not be provided to NGOs, later sections allow for some funding for general or operational purposes. Most departments recognize the ambiguity this policy presents and do not pay much attention to it. The issue of core funding needs to be clearly addressed, as well as the question of whether such funding qualifies as a grant or contribution, and under what circumstance.

Lack of assessments of project risk. Most projects are not properly assessed to determine the level of risk involved. In our discussions with staff, we found that their knowledge of risk was inconsistent. Some view risk as limited to the monetary value of the contribution. Others assume the recipient has the ability to perform the project tasks regardless of the project value. The worst case scenario applies to managers who do not assess the level of risk involved with projects or NGOs that receive continuous support from year-to-year. These managers may have a long standing relationship with recipients where compliancy has settled in. However, the links between the agreement conditions, history of the recipient, tasks to be performed, value of agreement and the elements of risk are not always apparent, nor are the conclusions reached about projects if they are not supported by a formal analysis.

Approval process. In 49 of the 67 contribution projects examined we could not assure ourselves that the eligibility, management capability and financial capacity of recipients were assessed prior to project approval. In some cases we found the recipient's need for government funding was not explicitly demonstrated. Many project approvals were found to be based on the project officer's assumption of "local knowledge" of the organization or individual. The "good standing" of organizations that receive funding is not always checked, and if verified, the work is not documented as the basis for giving approval. Due diligence is often only considered once problems have arisen.

Conclusions

Departments need to look at all their contribution projects to assess their purpose, design and risks. If agreements for small low risk arrangements are viewed the same as those that are larger and high-risk, there is a very real danger of debasing the seriousness and applicability of terms and conditions in all agreements. Managers and project officers are more likely to become complacent about all terms and conditions if the low risk agreements have multiple terms and conditions that are never invoked or anticipated to be used. This could occur no matter where they are found or what the actual context or applicability may be.

Recommendations

5.1 Departments should ensure all single recipient contribution agreements are designed to manage and minimize risk and to provide for accountability. The terms and conditions of agreements need to be clear and specific in defining eligible costs, performance measures, intended outcomes and reporting requirements. Agreement terms and conditions should be tailored to the level of risk associated with the project. The greater the risk, the more rigorous the terms and conditions.

5.2 The process for reviewing applications should be documented for all contribution projects. Tools and methodologies should be developed such as checklists to show what steps are needed in assessing eligibility, approving or rejecting applications, making payments against the terms and conditions of agreements, and for assessing performance.

5.3 Program managers should exercise greater care in ensuring that the nature of the relationship and the intended level of required accountability are matched to the appropriate type of agreement – whether contributions, grant, other form of transfer payment or contract. In deciding which agreements should be used, managers should ensure that they characterize appropriately the nature of the contractual arrangement and comply with the applicable policies on contracting and transfer payments.

Management Response

Agree.

Approval, Payment and Accounting

The lack of a systematic approach to project design, which would include risk assessment, has led to poor financial accounting practices and reporting on programs and project performance.

Advances not based on cash requirements. The government's current policy on grants and contributions allow contributions to be paid in advance as the recipient's cash flow requirements dictate. Advances should cover only the recipient's immediate cash requirements, as forecasted by the recipient by month, whenever possible. FAM policy directs that final settlement of a contribution should be made only after a department has satisfied itself, preferably by audit, that the recipient has met the terms and conditions of the contribution arrangement.

We found most projects tended to be over-advanced. The timing and size of amounts advanced on projects were rarely based on a recipient's budgeted needs or submitted budgeted cash flow statements. Sometimes advances were made in the absence of a recipient request. At other times advances on recurring annual contributions were given to recipients without knowing whether the terms and conditions of prior agreements had been met. Our analysis of advance payments on the 67 projects revealed the following:

Analysis of Advance payments	Number of Projects	Percent
1. Number of agreements without cash flow statements, budgets or evidence of recipient need.	55	82.1%
2. Number of recipients who received 100% of their full contribution up-front.	22	32.8%
3. Number of recipients who received as their first advance between 75% and 99% of their contribution.	14	20.1%
4. Number of recipients who received as their first advance between 50% and 74% of their contribution.	8	11.9%

Funds which may be owed are not collected. We found no form of co-ordination or process in departments ensuring contributions are withheld when prior reporting requirements have not been met. Paperwork that should have been received prior to payments being made was often received after payment was made. In some cases the required outcome reports were not received at all and the agreements were paid in full. When payments are issued without due consideration of need and risk, or evidence of performance there is always the possibility that funds will be mismanaged or misspent. As well, departments may not be able to recover funds if money is owed or if a project task has not been successfully completed by the recipient.

Categorization of projects. As noted elsewhere in this report, we found 24 of 67 projects characterized as capital contributions in the Main Estimates rather than as O&M contributions. The defining characteristics of contributions, grants and contracts are not well understood by the government departments. The risks of not correctly defining the funding framework for these types of funding arrangements can mean unnecessary administrative overhead, wasted resource efforts and generally public misinformation on the true nature of spending that is managed in departments.

Project performance not always checked before payments made. Our review of contribution files shows that project and finance officers have very little understanding of how the contribution process should work or how project and financial information should be reviewed as a basis for certifying performance. Payments under 14 projects were made without any clear evidence that the project officer had verified spending authority under Section 29 of the FAA, which is the authority to confirm contract performance and price. We also noted that many project officers do not know how to review the financial information submitted by recipients.

Generally, finance officers rely on the project officer's assertion and signature on a cheque requisition that the terms and conditions of contribution agreements have been met before they give their approval under Section 30 of the FAA, which is the authority to make payment. However, finance officers do not always understand how project officers certify performance; nor do they always have access to the project documentation and financial statements or reports submitted by recipients. As stated in Section 5.5 of FAM, "the review of documents by the public officer with payment authority constitutes the final departmental check on the appropriateness of the spending authority exercised, account verification and payment requisitioning".

It appears that excessive reporting fatigue exists where standard terms are put in and then not exercised. In small agreements the risk may not warrant the need to see the reporting items although complacency is created where in the bigger agreements the risk is increased and the required information is not requested.

Payments made without proper authorization. In nine cases we reviewed contribution payments were made to recipients without proper signing authorization either under Section 29 or 30 of the FAA. Either signatures were missing from the cheque requisitions or those signing the requisition forms did not have the delegated authority to sign under the respective sections of the FAA.

Conclusions

The financial controls over the disbursement of contributions in all departments were found to be unsatisfactory. For the most part, project and finance officers are not adequately exercising their responsibilities over contributions as required by FAM and the Financial Administration Act. Advance payments to recipients are not properly supported, nor are other payments which are paid out before the terms and conditions of agreements are fully met.

Recommendations

5.4 Advance payments on contributions should be based on an assessment of project risk, a reasonable budget or on an actual expenditure claim. For high risk projects, advances should be based on the recipient's cash flow requirements.

5.5 Project officers should ensure that recipients adhere to the stated terms and conditions of agreements before asserting performance and approving payments on projects. Project officers should ensure that all required reports including financial statements are meaningfully reviewed when they are received. Where appropriate, every attempt should be made to recover money that may be owed from a project.

Management Response

Agree.

Project Performance

We expected management in all departments to have reasonable assurance that funding is used for the intended purposes. All contribution agreements should be monitored on an an-going basis requiring recipients to provide periodic progress reports or activity reports, as needed. Recipients should also be required to submit a final report at the end of the project.

Need for more systematic and meaningful monitoring of results. Our audit found little evidence that projects, once completed, are meaningfully reviewed or assessed by departments. Often documentation on completed projects is very poor and evidence indicating that a formal assessment was done is usually not present in project files. In large measure departments have no system to signal when reports are due and no procedures to record their receipt or basis for review. When reporting obligations are present, enforcement and the method of review is usually ineffectual. For example, in one department where we noted a lack of project information, the project officer did not want us to bother the recipient with too many questions.

Audits are not performed on projects. We found no case where an audit was initiated on a project after it was completed. The only time a department initiates an audit on a contribution agreement is when it becomes known that a serious deficiency exists or a problem with a recipient has somehow been made public. For large high risk projects departments should require that audits be performed. Departments should also budget for the audits that they intend to initiate after a project comes to an end.

Conclusions

All contribution projects should emphasize the continuing responsibility of the contributing department to monitor and report on the use of the funds and the obligation of the recipient to meet the specified conditions throughout the life of the contribution agreement. For there to be effective monitoring of projects, Project officers must have the appropriate authorities, via the agreement's terms and conditions, to be able to request the necessary information from recipients and for this information to be actually received, noted and assessed.

Recommendation

5.6 Project officers should conduct post-completion reviews of contribution projects to assess their performance. For some high risk projects, a sampling of audits should be conducted as a way of documenting differences between expected and achieved results and taking that information into account when renewing agreements.

Management Response

Agree.

SAMPLE OBSERVATIONS – COMMUNITY SERVICES

Whitehorse 2007 Canada Games Host Society

On October 17, 2003 the Yukon government signed an agreement with the Whitehorse 2007 Canada Games Host Society for $4,000,000, of which $2 million was to apply in 2003-04 towards the Host Society's capital budget and another $2 million towards the O&M budget for 2004-05. Three days following the signing of the agreement the full amount of $2 million for 2003-04 was advanced to the Host Society. The 2003-04 audited financial statements of the Host Society shows that moneys were not expended on capital during the year. The agreement stated that they had to recognize the interest earned on the money advanced as coming from the Yukon Government. The audited financial statements show investment income without separating the portion earned from the Yukon Government advanced funds.

In June 2004, another payment for $2 million was issued to the Host Society in fulfillment of the second part of the contribution agreement. The contribution agreement with the Whitehorse 2007 Canada Games Host Society is an example of a project designed and administered without any regard to risk and accountability.

Vuntut Gwitch'in payment

An agreement for $1,000,000 was entered into with the Vuntut Gwitch'in First Nation (VGFN) in February 2004 for the Old Crow "Riverbank Stabilization" of the Porcupine River. It provides for two payments of $500,000: the first payment was fully advanced the day following the signing of the agreement. The second payment was to be made in 2005.

The River Stabilization agreement is a construction project where responsibility for its execution, design and engineering lies with the Yukon government. This brings into question whether the VGFN has the capacity to do this work and whether the performance of the project is largely being sub-contracted to the VGFN Development Corporation. Still outstanding from the project at the time of the audit are; 1) a final report on the Yukon Hire Statistics, and 2) any financial report that shows how the contribution money was spent or whether the project was completed.

The administration of this agreement shows the risk associated with advancing projects 50% up front without any expected accountabilities for how public monies are spent. This agreement should have been set-up as a contract.

SAMPLE OBSERVATIONS – ECONOMIC DEVELOPMENT

Yukon Chamber of Commerce

In April 2004 the Department of Economic Development entered into a three year contribution agreement with the Yukon Chamber of Commerce (YCC) to provide the organization with $36,000 of annual financial assistance. In return for this contribution, the YCC is required to provide the department with information and statistics; support services for the department's trader and/or investment activities, and other information services related to the Canada Yukon Business Services Centre. Payments against the agreement are made quarterly.

The invoices submitted by the YCC refer to fee for service. Because the department receives a benefit from this agreement in terms of services and information this agreement clearly should have been designed as a contract.

MC4 Productions

From October 2003 to November 2004 the Department of Economic Development made four contribution payments totalling $108,833 to MP4 Productions as part of the Yukon Film Incentive Program. These payments represented partial labour and travel rebates given to the company based on actual expenditures for the feature film production of the "*The Last Trapper*". There was no signed contribution agreement with the company. Rather there was a signed "letter of comfort", which to our understanding is a standard industry practice for this type of expenditure.

The Yukon Film Incentive Program provides for certain rebates to film makers who employ Yukon workers while making films or commercials in the Yukon. It is a form of a grant subsidy that is somewhat different than a contribution because it provides for an entitlement based on prior expenses incurred by the applicant. Funding under the Yukon Film Incentives Program should have been set up as a grant program or transfer payment to an organization. This program is funded every year and is budgeted as a capital item in the Main Estimates.

SAMPLE OBSERVATIONS - ECONOMIC DEVELOPMENT

Dana Naye Ventures

In 2001 the Yukon government entered into a partnership with the Dana Naye Ventures (DNV) to deliver and administer a Micro Loan program. The program was designed to provide small loans to First Nation individuals and businesses that needed funds to start or expand their operations, or to provide training. Up until 2004 the government had contributed $220,000 towards the initiative. In 2004-05, DNV signed a three year contribution agreement with the Department of Economic Development for $289,000, of which $98,000 was given to the organization in the first year. Of this amount, $73,000 covered the cost of delivering the program and $25,000 represented a capital infusion to the loan fund.

According to Schedule A of the agreement, the funding provides for wages, training, travel, rent, communications, materials, maintenance, advertising, rent, an administration fee and other costs. We found payments made by the department covered 100% of all direct and indirect costs of the program. By their very nature contribution projects normally identify eligible costs that would cover up to a certain percentage of overall project costs, say up to 75%. However, under this project the department seems to be paying the full costs of running the Micro Loan program and it is not known whether there are other contributors.

Each quarter DNV submits a detailed report on the status of the agreement and a detailed cost claim. Although the project as a whole appears to be very successful, the web site which advertises the programs and services offered by the Dana Naye Ventures does not give any recognition to the Yukon government for its contribution to the loan program, nor does it provide access to financial statements for public disclosure. The last post project assessment was completed in 2003 and covered a three year period.

The Micro Loan program is reported in the Main Estimates as a capital contribution rather than as an O&M transfer payment. The O&M component to the agreement is core funding. The annual capital infusion of $25,000 that goes towards the loan fund is not recoverable and is really is a grant.

SAMPLE OBSERVATIONS –EDUCATION

Yukon Learn Society

The agreement between the Department of Education and the Yukon Learn Society covers most if not all of the Society's annual operating costs. In 2003-04 the Society was awarded $150,000 which was paid days after the contribution agreement was signed. Likewise, in 2004-05, the full amount of $225,000 was paid after the signing of the agreement. The work of the Society can be viewed as an extension of the department's responsibility to provide adult literacy education. In our opinion, support for the Yukon Lean Society should have been handled as a contractual arrangement rather than as a contribution agreement.

Yukon Teachers Association

In October 2003 the Department of Education submitted a cheque for $362,000 to the Yukon Teacher's Association pursuant to Article 12.01.2 of the collective agreement with the teacher's union. This payment was treated and accounted for as a contribution agreement rather than as an obligation of an existing contract with the Yukon Teacher's Association. A signed contribution agreement for this payment does not exist. This agreement should have been treated as a contract.

Yukon Teacher's Mentoring Program

The department entered into a five year agreement for a total of $225,000 with the Yukon Teacher's Association to provide a collaborative teacher mentoring program in the Yukon. The program started in 2003 and is designed to pay for substitute teacher costs, program materials and some travel and accommodation. The nature of this agreement is contractual as it applies to a service agreement with teachers who are employed by the Yukon government. The agreement should have been treated and accounted for as a contract.

Yukon Women in Trades and Technology

In May 2004 the department entered into a contribution agreement for $68,125 with the Yukon Women in Trades and Technology to support an annual conference, workshops and developmental training sessions to women in trades and technology. Although the agreement included a description and schedule of events from May 2004 until March 31, 2005 the recipient obtained the full amount of the agreement at the start of the project. The project was also classified as a capital contribution.

SAMPLE OBSERVATIONS – ENERGY, MINES AND RESOURCES

Kaska Tribal Council

In May 2003 the Yukon government signed an agreement with the Kaska Tribal Council for $200,000 for the purpose of concluding and delivering a consent agreement that would have set out the parameters under which the Yukon can issue new dispositions or license oil and gas activities. An amount of $150,000 was advanced at the signing of the agreement. This project had no stated plan or budget to show how the monies would be spent. It did not identify any eligible costs such as travel or legal fees. A final payment of $50,000 was made in March 2004 without a "concluded and delivered consent agreement" and without the department asking for an accounting of the money spent. If the true intent of these lands and resources negotiations were really to get the parties to come to the table for discussion and to create future working structures and frameworks, the contribution agreement should not have anticipated delivery of an outcome result. Instead, it should have been designed to track and measure the input and output costs related to the conduct of the negotiations.

Nacho Nyak Dun Development Corporation

An agreement not to exceed $1.2 million was signed in July 2003 with the First Nation of the Nacho Nyak Dun as represented by the Nacho Nyak Dun Development Corporation. It called for the care and maintenance operations at the United Keno Hill Mine site for a one year period. The agreement included a statement of work, an approved schedule of rates for individual team and work crew members and a payment schedule. Upon its signing the Corporation received an advance of $180,000. All other payments made against the agreement were properly authorized and processed. In essence, this agreement was initiated as a contract rather than as a contribution agreement. It is our understanding that the agreement for 2004-05 was changed to the contract form.

Midnight Sun Drilling

In January 2004 Midnight Sun Drilling Company applied for financial assistance in the amount of $12,500 under the Job Site Transportation Fund. This fund aims at providing financial support to oil and gas drilling companies wishing to transport employees to job sites located outside the Yukon where transportation costs are beyond the industry norm. The actual travel costs claimed under the contribution agreement with the Midnight Sun Drilling Company occurred in the prior year - July and August of 2003. Typically, contribution program agreements set the framework for reimbursing the cost of activities that have not yet taken place. The Job Site Transportation Fund was designed as a grant or subsidy program because it requires applicants to meet certain back-end grant-like requirements. This fund should not have operated as a contribution program. Payments made under the fund should have been coded to O&M rather than to a capital vote.

SAMPLE OBSERVATIONS – ENERGY, MINES AND RESOURCES

Yukon Chamber of Mines – Mining Exploration Trust Fund

On March 29, 2004 the Department of Energy, Mines and Resources signed a contribution agreement with the Yukon Chamber of Mines (YCM) not to exceed $500,000 to establish a Mining Exploration Training Trust Fund project. This project was designed to support and develop an effective training program in the exploration sector especially directed at First Nation and non-First Nation community members. The project involved three phases: classroom training; field school training of seven to 10 days duration; and actual work at an exploration site. The YCM was given responsibility to administer the trust fund and to put forward training proposals that would meet the goals of the agreement.

There are a number of governance and programming issues regarding this agreement. While on the face of it the recruiting and training of Yukoners in the mining resource sector appears to be the prime objective of the Mining Exploration Training Trust Fund, the budget shows about $100,000 assigned to the exploration technology training program and $400,000 to set-up and operate a remote drilling site where some training took place. The agreement itself did not identify how the training proposals or applications were to be evaluated. The full value of the results of this agreement can only be ascertained when combined and read in conjunction with a separate third-party contractual agreement, indicating that this project should have really been designed and executed as a contract.

SAMPLE OBSERVATIONS – TOURISM AND CULTURE

Vuntut Development Corporation

In August 2004 an agreement was signed into with the Vuntut Development Corporation for $90,000 to assist towards the design portion of the Vuntut Gwich'in Visitor Reception/Cultural Centre Exhibit and the fabrication of exhibit items. In our view this agreement should have been negotiated and signed with the First Nation as the owner and organization responsible for the reception centre. By not having the First Nation as a signatory to the agreement, the department bypassed the government's First Nations Relations policy (GAM 1.12). According to this policy, all agreements with First Nations over $50,000 have to be reviewed by the Land Claims and Implementation Secretariat and Justice Department, and then be approved by Management Board.

Contribution agreements with corporations or profit-making enterprises such as the Vuntut Development Corporation normally serve to enhance the growth of the enterprise. This agreement was not designed for this purpose.

On Yukon Time

During 2003-04 the Department of Tourism and Culture entered into an agreement with the Recording Arts Industry Yukon Association (RAIYA) for $100,000 to encourage visitors to extend their stay in the Yukon. RAIYA used the funds to support various art venues in Yukon communities to cover expenses such as artist fees, associated site costs, marketing costs, community trips, and the cost of coordination and assessment. RAIYA would also charge a contract fee for each of the services that they provided. An amount of $50,000 was advanced at the signing of the agreement. This was followed-up by a second payment of $40,000 in May 2003 and a final payment of $9,500 in December 2003.

The requirement at the end of the agreement is a written report on the completed activities as opposed to the previous year in 2002-03 when RAIYA was required to evaluate the work they did. The financial statement submitted at the end of the project was simply an excel spreadsheet showing amounts spent in each community, who received the money and for what purpose.

The agreement with RAIYA requires that it provide a service on behalf on the Yukon government. The funding to this organization should have been set-up as a contract rather than as a contribution.

SAMPLE OBSERVATIONS – TOURISM AND CULTURE

Dawson City Arts Society

In April 2003 the Government of Yukon entered into a contribution agreement with the Dawson City Arts Society for $250,000 in support of the Society's annual operating costs for 2003-04. Half of the money was released on the signing of the agreement. In October 2003, an amount of $100,000 was made on receipt of an invoice. Reports were not submitted for this payment. A final $25,000 payment was issued in March 2004.

The agreement with the Society contained no substantial terms or conditions. There was no sound basis to support the amount requested and approved. Schedule A of the agreement contained no description of the project. There were no stated project deliverables and no requirement to account for the monies being allocated at various payment stages. The financial statement submitted in March 2005 for the year ending December 31, 2004 was not prepared by an independent professional accountant, was not properly approved by the Society's Board, and missed some essential information that one would expect to see in an agreement of this size. The internal statement showed substantial net revenues over expenditures during the reporting year, substantial cash on hand and substantial investments held by the Society.

There was a high element of risk involved in the $250,000 contribution given to the Dawson City Arts Society that was not considered by management. Future funding to the Dawson City Arts Society should be based on need and this organization should be held to properly account for the money that it receives.

Nakai Theatre – Multi-year Agreement

In June 2003 Tourism and Culture informed the Nakai Theatre that it had been awarded $55,000 starting in 2003-04 and for the next two years subject to legislated appropriation and successful accounting from the funding. Seventy-five per cent of the funding was advanced up front. The Arts Branch has an informal policy that if a group received funding in the previous year they are eligible to apply for an advance of 25% of what they received from the previous year.

The Arts Branch informal policy for advancing funds runs contrary to the current contribution policy. Although the current policy does not address multi-year contributions, money given to organizations in this manner should be based on a formal and documented assessment of risk.

SAMPLE OBSERVATIONS – TOURISM AND CULTURE

MacBride Museum

Each year the Department of Tourism and Culture provides funding to the MacBride Museum. In 2003-04 an amount of $80,000 was approved for the museum, 90% of which was paid up front. The first advance was made prior to the receipt of the organization's financial audited statements from the previous year. The agreement states that the funding is to provide financial assistance towards the management and operations of the museum. This type of funding is normally seen as core funding, which is questionable under the government's NGO policy.

Tourist Industry Association of the Yukon (TIAY)

On August 1, 2003 the Government of Yukon entered into a three year agreement with the Tourist Industry Association of the Yukon (TIAY), which provides for $230,000 of assistance each year to promote tourism within the Yukon. Of this amount, TIAY is required to allocate $130,000 annually towards programming activities and $100,000 in support secretariat services to the Yukon Tourism Marketing Partnership (YTMP). The annual funding to these organizations is provided under existing NGO funding guidelines.

Schedule B presents the payment schedule for the entire agreement. Normally, payments are made upon TIAY's submission of (a) financial reports approved by the TIAY Board of Directors; and (b) interim reports that include financial reports for the YTMP. We found that payments in general were not paid according to schedule and financial reports submitted by TIAY showed no evidence of Board approval. Also missing were interim financial reports for the YTMP. Overall there is little or no accountability for the public funds given to this organization.

TIAY obtains substantial funds each year from the Yukon government for other programming activities such as the Joint Yukon Alaska marketing program, TIAY consumer show and some cooperative marketing initiatives. In our view the arrangement with TIAY functions more as a service contract than as a contribution.

Appendix I

AUDIT CRITERIA

Audit criteria are those conditions that we expect departments to meet with respect to the management and administration of contribution programs and projects. In relation to each audit objective the audit criteria that will be used are as follows:

1. **To assess the appropriateness of existing governing policies and guidelines that provide direction to departments on contributions.**

Criteria 1.1 Existing authorities and policy guidelines clearly define contributions and other transfer payments, and the roles, responsibilities and accountabilities of departments in managing and controlling programs and single recipient projects.

Criteria 1.2 Existing authorities and policy guidelines provide adequate direction to departments as to how they should establish, administer, account, monitor and report on programs and projects.

2. **To assess the adequacy of the design and management control framework of the selected contribution program or project.**

Criteria 2.1 The program or project is designed to achieve expected results, manage risks, ensure due diligence in spending, and provide accountability for public funds spent.

Criteria 2.2 The program is supported by a policy or set of funding guidelines that contain terms and conditions as approved by Executive Council or Management Board (FAM 5.9.5).

Criteria 2.3 The terms and conditions of the program clearly define the class of recipients, the departmental review and monitoring procedures and recipient requirements (FAM 5.9.5).

Criteria 2.4 Roles and responsibilities are clearly defined and assigned to staff in the operation and delivery of the program or project.

Criteria 2.5 Resources assigned to the program or project are sufficient in meeting departmental goals, and in monitoring performance.

3. **To assess the adequacy of the internal controls relating to eligibility, selection, approval, payment and review of individual contributions.**

Criteria 3.1 There is a mechanism in place for organizations and individuals to submit an application for a contribution.

Criteria 3.2 The Department has a Committee or Executive Team that reviews each request before an agreement is signed and any payment is made (FAM 5.9.5).

Criteria 3.3 Requests are evaluated against the established criteria set by the Executive Council or Management Board (*eligibility, relationship to the mission of the department, managerial capability and cost effectiveness*).

4. **To assess the content of contribution agreements to ensure that they meet departmental requirements and all governing policies.**

Criteria 4.1 The content of each agreement is in accordance with the department's program requirements, FAM and other related policies.

Criteria 4.2 Each agreement indicates written acceptance of the terms and conditions of the contribution arrangement by the recipient (FAM 5.9.6).

Criteria 4.3 Each agreement includes clearly defined payment terms including provisions, if applicable, for advance payment and/or progress claims, and conditions for final payment (FAM 5.9.6).

Criteria 4.4 The department exercises due diligence in approving individual contributions.

5. **To assess the appropriateness of transactions and the extent to which there is transparency and accountability in the accounting and reporting on contributions.**

Criteria 5.1 Contributions are properly budgeted and disclosed in the Main Estimates (FAM 2.4.6.2 and 2.4.6.4).

Criteria 5.2 Contribution payments are made as a reimbursement of costs (FAM 5.9.7).

Criteria 5.3 Where advance payments are made, they are in accordance with FAM policy and the terms of the signed agreement (FAM 5.9.7).

Criteria 5.4 Conditions of payment are met before payment is issued (FAM 5.9.7).

Criteria 5.5 Contribution expenditures are properly disclosed in the Public Accounts (FAM 5.9.8)

6. **To assess general compliance by recipients to terms and conditions of agreements.**

Criteria 6.1 Each agreement is properly evaluated by the responsible manager at the end of the contribution period.

Criteria 6.2 The department periodically conducts audits of contributions to assess compliance and performance.

7. **To assess the process in place to evaluate the performance of the selected contribution program.**

Criteria 7.1 The department periodically conducts program evaluations to determine whether the program is achieving the expected results.

Criteria 7.2 The department makes reasonable efforts to harmonize and coordinate their activities with other organizations delivering similar programs.