

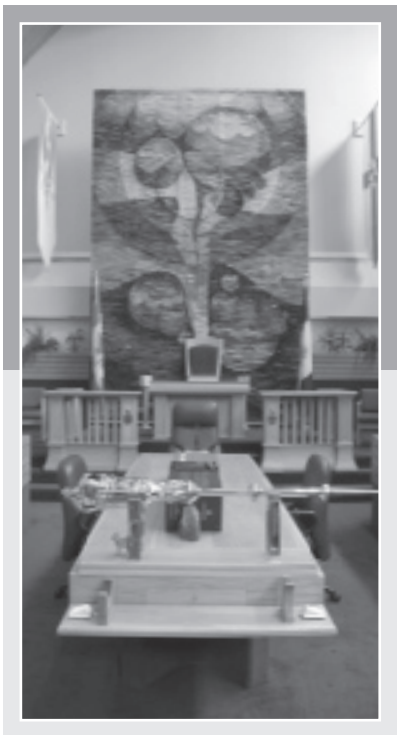
Report of the Auditor General of Canada to the Yukon Legislative Assembly—2017

Government Transfers to Societies—Yukon



Office of the
Auditor General
of Canada

Bureau du
vérificateur général
du Canada



Report of the Auditor General of Canada to the Yukon Legislative Assembly—2017

Government Transfers to Societies—Yukon



Office of the
Auditor General
of Canada

Bureau du
vérificateur général
du Canada

Ce document est également publié en français.

© Her Majesty the Queen in Right of Canada, as represented
by the Auditor General of Canada, 2017.

Cat. No. FA3-112/2016E-PDF
ISBN 978-0-660-06868-8





Office of the
Auditor General
of Canada

Bureau du
vérificateur général
du Canada

To the Honourable Speaker of the Yukon Legislative Assembly:

I have the honour to submit herewith my report on Government Transfers to Societies—Yukon to the Yukon Legislative Assembly in accordance with the provisions of section 35 of the *Yukon Act*.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Michael Ferguson".

Michael Ferguson, CPA, CA
FCA (New Brunswick)

OTTAWA, 6 March 2017

Table of Contents

Introduction	1
Background	1
Focus of the audit	2
Findings, Recommendations, and Responses	3
Delivering and monitoring government transfers	3
The policies for managing government transfers contained contradictions and undefined concepts	5
Departments did not always comply with key policy requirements	8
Departments did not consistently use a risk-based approach in managing government transfers	12
Monitoring of societies and government transfers was sufficient	14
Departments did not fully implement a results-based approach	17
Conclusion	19
About the Audit	20
List of Recommendations	23

Introduction

Background

Government transfers

1. In Yukon, money or non-monetary assets—such as inventories or capital assets—can be transferred from the government to individuals, organizations, or other governments. The assets are intended to be used for activities that will help the Government of Yukon carry out its mandate and achieve the goals and objectives of its policies or programs. In these transactions, known as government transfers, the government does not receive goods or services directly in return. Many of these transfers provide funding to organizations called societies.
2. The Government of Yukon defines a society as a group of five or more people who incorporate for a recreational, cultural, scientific, community, social, or charitable purpose. According to the *Societies Act*, a society cannot exist for the purpose of carrying on a trade or business. The government funds societies because it considers them to be important community resources and viable delivery mechanisms for many public services, such as organizing recreational events, funding infrastructure, and promoting health and wellness.
3. Approximately 730 active societies are registered in Yukon. In the 2014–15 fiscal year, the Government of Yukon used government transfers to provide a total of about \$40 million to approximately 300 societies.
4. Government transfers to societies can be made through funding programs or through single-recipient funding agreements. Funding programs have terms and conditions, eligibility requirements, and goals defined in terms of results and outcomes. All funding programs must be approved by the Management Board. Once a program is approved, a department may use government transfers to fund applicants that meet the program's criteria. Recipients obtain funds either by signing a funding agreement with the government or by making a claim after they have been awarded funds through an adjudicated application process. Government transfers made through single-recipient funding agreements are granted on a case-by-case basis and are not subject to program-specific requirements.
5. In 2007, the Government of Yukon published a report of its internal audit on government transfers, which examined both program funding and single-recipient funding agreements to determine whether they were adequately managed. The Government of Yukon published a follow-up internal audit report in 2010.

Roles and responsibilities

6. A Government of Yukon department that uses a government transfer to fund a society is responsible for designing, approving, and delivering the transfer in accordance with all applicable policies and guidelines. The department must also monitor, review, report on, and evaluate the government transfer so that it helps achieve departmental objectives.
7. The registrar of societies (the Registrar), who is appointed under the *Societies Act*, operates from within the Department of Community Services. The Registrar's functions include
 - administering the incorporation and dissolution of societies;
 - collecting the information that societies are required to submit under the *Societies Act*, including lists of officers and financial statements;
 - maintaining a record of which societies are in existence and in compliance with reporting requirements (and providing departments with this information on request);
 - investigating complaints against societies; and
 - requiring societies to provide audited financial statements if there are reasonable grounds for believing that their finances have not been accurately represented.
8. The Department of Finance has a central policy development and monitoring role. It is responsible for the 2008 Government Transfers Policy in the Financial Administration Manual. The Department of Finance monitors, evaluates, and advises on the government transfers made by other departments. It is also responsible for recommending corrective actions to the deputy minister of a department if it determines that a government transfer violates the 2008 policy and guidelines.
9. The Executive Council Office supports Cabinet governance by ensuring that government policy and planning are coordinated and effective. It is also responsible for maintaining and disseminating portions of the General Administration Manual, including the 1998 NGO Funding Policy, which applies to funding for Yukon societies.

Focus of the audit

10. This audit focused on whether selected departments adequately managed a sample of government transfers to societies according to key legislative, policy, and administrative requirements. The three departments we selected were the Department of Community Services; the Department of Economic Development; and the Department of Energy, Mines and Resources. Among the items we examined were whether the departments conducted risk assessments, whether they

measured the results of government transfers, and whether they confirmed that societies were free of outstanding debts to the government and in compliance with legal reporting requirements. In addition, we looked at the monitoring and coordination roles, and related responsibilities, of the Department of Finance and the Executive Council Office.

11. This audit is important because the government uses transfers to societies to deliver a wide range of services and programs to the citizens of Yukon. These government transfers help fund operations and projects across diverse sectors, including health and social services, arts and culture, and sports and recreation. The activities funded by government transfers help individuals and organizations achieve goals that align with those of the Government of Yukon, such as investing in mental health services, supporting participation in sport for Yukon athletes, and improving community facilities for residents.

12. We did not examine government transfers made to First Nations, municipalities, Government of Yukon organizations, organizations not subject to the *Societies Act*, or individuals.

13. More details about the audit objective, scope, approach, and criteria are in **About the Audit** at the end of this report (see pages 20–22).

Findings, Recommendations, and Responses

Delivering and monitoring government transfers

Overall message



14. Overall, we found inconsistencies in the policies and practices related to government transfers. We found that the policies contained contradictions and undefined concepts, and that departments did not always document the risks associated with government transfers or verify that societies that received transfers complied with their legal reporting requirements. We also found that departments had not fully implemented a results-based approach.

15. These findings are important because the consistent application of policy helps departments be more accountable and promotes the equitable treatment of societies. By using systems and practices that support good management of government transfers, the government can better assist societies that provide programs and services to Yukon citizens.

16. **Policy foundation.** The rules that govern funding to societies are contained in two separate policies:

- The 1998 NGO Funding Policy in the General Administration Manual is maintained by the Executive Council Office. The purpose of this policy is to ensure an equitable, fair, and open process for making decisions on funding non-government citizen groups that deliver community services and programs.
- The 2008 Government Transfers Policy in the Financial Administration Manual is maintained by the Department of Finance. The purpose of this policy and its related guidelines is to ensure that departments authorize, deliver, account for, and evaluate government transfers according to public sector generally accepted accounting principles; that they serve the needs of recipients and stakeholders; and that they effectively manage risks.

17. **Audit sample.** To examine the delivery and monitoring of government transfers, we selected three Government of Yukon departments that provided transfers to societies:

- the Department of Community Services;
- the Department of Economic Development; and
- the Department of Energy, Mines and Resources.

We then selected 24 societies, each of which was approved for funding through government transfers in the 2014–15 fiscal year from at least one of the three departments.

18. These 24 societies received a total of 53 government transfers—17 through single-recipient funding agreements and 36 through the following three programs:

- the Community Development Fund,
- the Yukon Recreation Advisory Committee, and
- Yukon Sport for Life.

19. Exhibit 1 presents data on the government transfers to Yukon societies from the three selected departments for the 2014–15 fiscal year.

Exhibit 1 Government transfers to Yukon societies from selected departments for the 2014–15 fiscal year

Department	Funding source	Number of societies funded	Value of transfers		Number of transfers	
			Total (\$ million)	Sampled (\$ million)	Total	Sampled
Department of Community Services	Yukon Recreation Advisory Committee	29	\$0.5	\$0.2	29	6
	Yukon Sport for Life	29	\$0.8	\$0.4	41	17
	Single-recipient funding agreements	28	\$2.1	\$1.9	35	11
Department of Economic Development	Community Development Fund	83	\$2.1	\$0.7	103	13
	Single-recipient funding agreements	12	\$0.7	\$0.2	24	2
Department of Energy, Mines and Resources	Single-recipient funding agreements	6	\$0.2	\$0.1	11	4
Total		N/A	\$6.4	\$3.5	243	53
N/A—Not applicable because some societies received funding from more than one source. Source: Based on information from the Government of Yukon						

The policies for managing government transfers contained contradictions and undefined concepts

What we found

20. We found that the policies for managing government transfers to societies contained concepts that were contradictory or undefined.
21. Our analysis supporting this finding presents what we examined and discusses
 - core versus operational funding, and
 - good standing.

Why this finding matters

22. This finding matters because without a consistent and well-defined policy foundation, departments cannot easily verify that they are meeting policy requirements and objectives when considering and managing government transfers.

Recommendation

23. Our recommendation in this area of examination appears at paragraph 31.

Analysis to support this finding

24. **What we examined.** We examined whether departments complied with key elements of the following two policies in their use of government transfers to fund societies:

- the 1998 NGO Funding Policy in the General Administration Manual, and
- the 2008 Government Transfers Policy in the Financial Administration Manual.

We also reviewed the policies themselves more closely after our examination revealed contradictions and undefined concepts.

25. **Core versus operational funding.** Department officials must consult both the 1998 NGO Funding Policy and the 2008 Government Transfers Policy when deciding to fund a society. According to both policies, the government can provide operational funding to societies. However, we found that the policies described different activities that qualified for operational funding. The 1998 policy states that to receive government funding for general or “operational” purposes, societies must specify the project, service, or function that will be performed as a result. The 2008 policy defines operational funding more broadly—as funding that is directed to an organization’s operations as a whole rather than to particular projects, or that supports a particular program, department, or division within an organization. The discrepancy between the narrow definition in the 1998 policy and the broader definition in the 2008 policy may cause confusion about the types of activities that operational funding can support.

26. For example, some of the funding considered operational by the Department of Community Services was earmarked for general administration purposes, such as rent or employee salaries. This type of funding is allowed under the 2008 Government Transfers Policy, but is not allowed under the 1998 NGO Funding Policy. In our opinion, having different definitions of a key term could result in inconsistent funding decisions by departments and in the inequitable treatment of societies that request funding.

27. In addition, we found a contradiction in the 1998 NGO Funding Policy regarding core funding and operational funding. The policy states that departments are not permitted to provide core funding to non-governmental organizations, which include societies registered under the *Societies Act*. However, the same policy states that the government may provide funding to these organizations for general or operational purposes. In our opinion, these two statements are contradictory, because core funding and operational funding can be used to support similar

services and functions, such as paying the salaries of a society's employees. Furthermore, this policy does not define the term "core funding." Officials in two departments told us that they considered the terms "core funding" and "operational funding" to be synonymous, even though core funding is not permitted.

28. We found that departments approved both core and operational funding to societies, even though only operational funding was allowed. We found two instances of funding—totalling about \$140,000—that were categorized as providing core funding. One transfer was through the Department of Community Services, and the other was through the Department of Energy, Mines and Resources. We also found that the Department of Community Services categorized 16 instances of funding to societies—totalling about \$445,000—as "operational."

29. The Government of Yukon raised contradictions in terminology as an issue in its 2007 internal audit. In the audit report, it also pointed out that departments often provided core funding to recipient societies through government transfers, contrary to the 1998 policy. We found that this issue had not been resolved.

30. **Good standing.** The 2008 Government Transfers Policy states that before deciding to fund a society, departments should consult the Registrar, verify the correct legal name of the applicant, and ensure that the organization is in good standing. We found that the policy does not define the term "good standing." In addition, although the 1998 NGO Funding Policy defines an NGO as a Yukon registered not-for-profit agency in good standing, it also does not define the term "good standing." Without a definition of good standing, departments may not be applying this policy requirement consistently (see paragraphs 40 to 43).

31. **Recommendation.** The Department of Finance and the Executive Council Office should work together—and consult with other departments, as necessary—to review the 1998 NGO Funding Policy in the General Administration Manual and the 2008 Government Transfers Policy in the Financial Administration Manual. They should resolve contradictions in the policies and define key policy concepts.

***The Department of Finance's response.** Agreed. The Department of Finance will work with the Executive Council Office to conduct an initial scoping of the possible changes and approach. This work will be completed by 1 April 2017. Detailed work on policy changes and the development and implementation planning will follow. We anticipate that this initiative will be completed by November 2018, subject to how it is prioritized in relation to other initiatives.*

***The Executive Council Office's response.** Agreed. The Executive Council Office will conduct an initial scoping of the possible changes and approach, in addition to consultations on where the evaluation function for this policy will reside (referred to in recommendation 84), by 1 April 2017. Detailed work on policy changes and the development and*

implementation planning will follow. We anticipate that this initiative will be completed by November 2018, subject to how it is prioritized in relation to other initiatives.

Departments did not always comply with key policy requirements

What we found

32. We found that the departments did not always comply with key policy requirements.
33. Our analysis supporting this finding presents what we examined and discusses
- installments and advance payments,
 - verification of legal reporting requirements,
 - outstanding debt,
 - government transfers versus contracts, and
 - “other expense” classification.

Why this finding matters

34. This finding matters because departments are responsible for promoting fair and accountable decision-making processes for government transfers in Yukon. To accomplish this, departments must comply with policy requirements in determining when government transfers should be used, and in verifying whether societies meet the criteria to receive funding through government transfers.

Recommendation

35. Our recommendation in this area of examination appears at paragraph 51.

Analysis to support this finding

36. **What we examined.** We examined whether departments had paid societies according to the policy guidelines on installment and advance payments, and whether departments had verified the societies’ compliance with their legal reporting requirements. We also examined whether departments had obtained assurance that societies did not owe money to the Government of Yukon, and whether departments had appropriately determined to use government transfers or goods and services contracts.
37. **Installments and advance payments.** The 2008 Government Transfers Policy states that government transfers are to be made with due regard for both the government’s cash management practices and the recipient’s cash flow requirements. This means that departments cannot always pay a society the full amount of the transfer up front, but must instead follow the policy guidelines, which can require multiple payments.

38. Of the 53 government transfers sampled, 16 involved installments for operational funding. We found that in all 16 cases, departments had complied with the guidelines in the 2008 Government Transfers Policy and made the minimum number of operational funding installments.

39. The sample included 31 government transfers in which advance payments were considered necessary to fund a specific project. We found that in 28 of these cases, the advance payments complied with policy or program guidelines. We found that advance payments did not meet the relevant guidelines in 1 government transfer provided by the Department of Economic Development, and in 2 government transfers provided by the Department of Community Services.

40. **Verification of legal reporting requirements.** The 2008 Government Transfers Policy states that before deciding to fund a society, a department should consult the Registrar, verify the organization's correct legal name, and ensure that the organization is in good standing. However, as noted in paragraph 30, the policy does not define the term "good standing." The Department of Finance told us that being in good standing means that a society is in compliance with all reporting requirements laid out under the *Societies Act* and its regulations.

41. In the absence of a formal definition of "good standing," we examined whether the departments, before providing government transfers, had at least verified whether the societies in question were in compliance with their reporting requirements under the *Societies Act* and its regulations.

42. For 38 of the 53 government transfers we sampled, we found no documentation indicating that before the departments decided to provide the transfers, they had verified with the Registrar that societies were in compliance with legal reporting requirements:

- For the Department of Community Services, we found no evidence for any of the 34 government transfers we examined that the Department had verified that the societies were in compliance with their legal reporting requirements.
- For the Department of Energy, Mines and Resources, we found no evidence for 3 of the 4 government transfers we examined that the Department had verified that the societies were in compliance with their legal reporting requirements.
- For the Department of Economic Development, we found no evidence for 1 of the 15 government transfers we examined that the Department had verified that the society was in compliance with its legal reporting requirements.

43. By failing to verify compliance, the departments risked making payments to societies that had not met their legal reporting requirements.

44. **Outstanding debt.** The 2008 Government Transfers Policy states that departments must determine whether prospective recipients of government transfers owe any money to the Government of Yukon and that an organization with outstanding debts to the government should not receive funding from the government.

45. We examined whether the government transfers in our sample included affirmations that the prospective recipients did not owe money to the government:

- For the Department of Community Services, we found no evidence in 9 of the 34 government transfers in our sample that societies had affirmed that they did not owe money to the Government of Yukon.
- For the Department of Energy, Mines and Resources, we found that all 4 government transfers in our sample included affirmations that the recipients did not owe money to the Government of Yukon.
- For the Department of Economic Development, we found that 14 government transfers in our sample included affirmations that the recipients did not owe money to the Government of Yukon. One government transfer in our sample was approved, but funds were never paid out. Therefore, an affirmation that the recipient did not owe money to the Government of Yukon was not needed.

46. **Government transfers versus contracts.** The 2008 Government Transfers Policy states that departments must examine all potential funding agreements and decide whether a government transfer is the right funding mechanism to use, or whether another vehicle, such as a goods and services contract, would be more appropriate. According to the policy, if the government is acquiring goods, services, or an asset directly in return for resources, the agreement must be classified as a goods and services contract. The 2008 policy also states that the use of contracts may sometimes be necessary if the government acquires goods or services as a by-product of the agreement.

47. We found that in 8 of the 53 government transfers sampled—5 from the Department of Community Services and 3 from the Department of Energy, Mines and Resources—the funding provided to societies resulted in the government’s acquiring a direct benefit, such as goods or services. For example, one society received about \$5,000 to install signs and perform maintenance for pools owned by the Government of Yukon. In our opinion, contracts rather than government transfers might have been the appropriate mechanism.

48. Similarly, the Government of Yukon’s 2007 internal audit report included a finding that departments sometimes provided funding through government transfers when they should have used contracts. In addition, the Department of Finance recently observed that several of the government transfers it tested in an audit were for payments that did not meet the definition of government transfers (see paragraph 73). According

to the audit report, the transactions should have been categorized as contracts.

49. If departments do not choose the correct funding mechanism, they may use the wrong policy to manage the funds they provide to societies. In our opinion, consultation with the Department of Finance, when necessary, would help departments determine the correct mechanism to use.

50. **“Other expense” classification.** In 2011, the Mountain View Golf Club received a \$750,000 payment through an agreement from the Government of Yukon. This payment was originally classified as a government transfer. At the end of the 2010–11 fiscal year, the payment was reclassified as an “other expense.” Although we found that the payment was properly authorized from a financial perspective, we could not determine which other policy requirements were met for this transaction. Departments need to follow rules when spending public funds, so that they manage them with appropriate accountability and control.

51. **Recommendation.** The Department of Community Services and the Department of Energy, Mines and Resources should comply with policy requirements for government transfers, including verifying a society’s compliance with its legal reporting requirements, determining that a society does not have any outstanding debts to the government, and determining when to use a government transfer instead of a goods and services contract.

The Department of Community Services’ response. Agreed. The Department of Community Services will better comply with policy requirements related to government transfers by

- *ensuring that documentation is saved in the agreement file demonstrating the society’s compliance with the Societies Act,*
- *including a statement from the society that there are no outstanding debts to the Government of Yukon by either revising the application form for the funding programs or by adding a clause into the transfer agreement attesting to that fact, and*
- *developing guidelines that will be available to all staff by publishing on the internal website and offering training sessions to target groups on how to decide whether to use a government transfer or a contract.*

This work will be completed by 1 April 2017.

The Department of Energy, Mines and Resources’ response. Agreed. The Department of Energy, Mines and Resources will comply with policy requirements related to government transfers. The Department will start working within the next few months and will request that when a government transfer agreement is created in the commitment system, it is saved with documentation showing that the society is in compliance with legal reporting requirements and that it does not owe outstanding debts to the Government of Yukon. The Department will also review the process on how to decide whether to use a government transfer or contract. This work will be completed by 1 April 2017.

Departments did not consistently use a risk-based approach in managing government transfers

What we found

52. We found that a risk-based approach was not always used in managing government transfers.
53. Our analysis supporting this finding presents what we examined and discusses
- risk assessment.

Why this finding matters

54. This finding matters because effective risk management helps departments identify risks, define acceptable levels of risk, and identify the tools needed to manage risk in specific cases.

Recommendation

55. Our recommendation in this area of examination appears at paragraph 62.

Analysis to support this finding

56. **What we examined.** We reviewed 53 government transfers to determine
- whether the department's funding process had included assessments of both the risks related to the proposed project and the risks related to the capacity of the society, and
 - whether two program officers had assessed the risks, as a way of maintaining objectivity and verifiability.
57. **Risk assessment.** The 2008 Government Transfers Policy states that departments must use a risk-based approach to managing government transfer requests. Risk assessments should measure the risks associated with a particular project or funding proposal. They also determine the capacity of the recipient to fulfill the requirements of the agreement. Completed and documented assessments of both project and capacity risks are intended to help determine the nature and extent of a funding agreement's terms and conditions, and to help determine the level of monitoring needed throughout the funding period.
58. Most of the government transfers we examined had not had assessments carried out for both project and capacity risks. We found that across the three departments, 32 of the 53 government transfers (60 percent) had no documented risk assessments:
- The Department of Community Services had no documented risk assessment for 21 of 34 government transfers (62 percent). The 21 transfers without a documented risk assessment had a total

value of about \$2 million in approved funds. For the 13 risk assessments conducted, we found that all 13 were assigned a low risk level.

- The Department of Economic Development had no documented risk assessment for 7 of 15 government transfers (47 percent). The 7 transfers without a documented risk assessment had a total value of about \$400,000 in approved funds. For the 8 risk assessments conducted, we found that 6 were assigned a medium risk level and 2 were assigned a low risk level.
- The Department of Energy, Mines and Resources had no documented risk assessment for any of its 4 government transfers in our sample (100 percent). The transfers without a documented risk assessment had a total value of about \$200,000 in approved funds.

59. In our opinion, despite the variation in assigned levels of risk, the risk assessment results did not appear to affect the terms and conditions of the related agreements, or the levels of monitoring and reporting required.

60. The 2008 Government Transfers Policy also states that for objectivity and verifiability, departments should have two program officers assess risk and document the rationale for the assessed risk. We found that only 3 of the 21 government transfers that contained risk assessments (14 percent) had clear documentation that two program officers had assessed the risks.

61. The 2007 internal audit report recommended developing a risk-based approach and a systematic process for reviewing proposed government transfers. According to the 2010 follow-up audit, the 2008 Government Transfers Policy was developed in response to this recommendation to include such an approach. We found, however, that the risk-based approach was not being consistently applied in the government transfers we sampled. In our opinion, by not consistently using risk-based tools to assess the project and capacity risks of recipients, departments may not be able to determine the appropriate level of monitoring.

62. **Recommendation.** The Department of Community Services, the Department of Economic Development, and the Department of Energy, Mines and Resources should consistently use a risk-based approach in their assessments of all funding requests. The departments should adequately document both project and capacity risk for government transfers and include funding agreement provisions, monitoring requirements, and other elements that reflect the level of risk identified.

***The Department of Community Services' response.** Agreed. When considering a funding agreement, the Department of Community Services will more methodically apply a risk-based approach that is consistent with the 2008 Government Transfers Policy in the Financial Administration Manual. Specifically, the Department of Community Services will*

implement a risk assessment with an overall score for both project risk and recipient risk. Scores of low, medium, or high risk will be reflected in the terms and conditions of the agreement to ensure that issues of risk are identified, and that deliverables are monitored as the project unfolds. This documentation will be saved in each agreement file and will be implemented by 1 April 2017.

The Department of Economic Development's response. Agreed. In its assessments of all funding requests, the Department of Economic Development will more methodically apply a risk-based approach that is consistent with the 2008 Government Transfers Policy in the Financial Administration Manual and will require documentation when implementing government transfers. Specifically, the Department of Economic Development will do the following by 1 April 2017:

- *implement a risk assessment for the departmental funds, with an overall score (for example, of 1 to 5) to assess project and client risk, leading to placement in low-, medium-, or high-risk categories, with documentation placed in each client file and signed off by two project officers (or one project officer and a manager or director); and*
- *reflect the results of the overall score assessment in the terms and conditions of the funding agreement to ensure that issues of risk are identified and that projects are monitored as the project unfolds.*

The Department of Energy, Mines and Resources' response. Agreed. In its assessments of all funding requests, the Department of Energy, Mines and Resources will more methodically apply a risk-based approach and require documentation when implementing government transfers. The Department will work with the Department of Finance to create and provide a government transfer agreement checklist and a risk-assessment worksheet for staff to use, will make these new forms available on the internal website, and will present a short information session as a refresher for various levels of staff. Work is being done on this, effective immediately. This work will be completed by 1 April 2017.

Monitoring of societies and government transfers was sufficient

What we found

63. We found that the Registrar provided sufficient monitoring of societies' compliance with the *Societies Act*. We also found that the Department of Finance carried out its role of central policy monitoring for the three selected departments.

64. Our analysis supporting this finding presents what we examined and discusses

- role of the Registrar, and
- central policy monitoring and compliance.

Why this finding matters

65. This finding matters because to make informed decisions on funding societies, departments need up-to-date information from the Registrar on whether those societies are meeting their legislative requirements. Central policy monitoring is important to identify problems with compliance and propose corrective actions.

Recommendations

66. We made no recommendations in this area of examination.

Analysis to support this finding

67. **What we examined.** We examined the Registrar's monitoring of societies' compliance with the *Societies Act*. We also examined the extent and nature of support provided by the Department of Finance in its central policy monitoring and compliance role.

68. **Role of the Registrar.** We examined whether the Registrar

- collected key documents that societies are required to submit under the *Societies Act*, such as financial statements, bylaws, and annual reports; and
- maintained a record of which societies complied with their reporting requirements and whether this information was provided to departments on request.

We found that the Registrar had these systems and practices in place.

69. To monitor whether societies are meeting their legislative requirements, the Registrar assigns them to one of two status categories:

- **In compliance**—The society is currently meeting its reporting requirements as defined by the *Societies Act*.
- **Not in compliance**—The society is currently in default because it is not meeting its reporting requirements as defined by the *Societies Act*.

70. For the 24 societies in our sample, we examined whether the Registrar collected key documents that societies were required to submit. We found that for all 24 societies, the Registrar collected the required key documents, such as bylaws, annual reports, and financial statements. We also examined whether the Registrar maintained a record of whether societies were in compliance with their legal reporting requirements. We found that the Registrar did maintain such a record.

71. **Central policy monitoring and compliance.** The 2008 Government Transfers Policy states that the Department of Finance is responsible for monitoring, evaluating, and advising on departments' compliance with the policy and guidelines. The 2008 policy also states that the Department of Finance can make recommendations for corrective action to a department's deputy minister if it finds any government transfer to be in violation of the policy and guidelines.

72. To fulfil this responsibility, the Department of Finance performs accounts payable post-audits and spot checks on government transfers within departments and other government organizations. Accounts payable post-audits are designed to

- assess whether a department's accounts payable and associated processes, including those for government transfers, are reviewed and documented;
- evaluate transactions, systems, and procedures to determine whether transactions comply with legislative and policy requirements, the process is efficient, and the appropriate controls are in place; and
- report observations and recommendations to the appropriate levels of management.

73. In the Department of Finance's accounts payable post-audits schedule, we found that the most recent audit of the Department of Community Services had been completed in the 2005–06 fiscal year. In addition, we found that the Department of Finance had completed an accounts payable post-audit of the Department of Economic Development in the 2014–15 fiscal year, and one of the Department of Energy, Mines and Resources in the 2015–16 fiscal year.

74. The spot checks that the Department of Finance performed were more targeted reviews. They focused on determining whether particular government transfers adhered to the 2008 Government Transfers Policy. The spot checks also offered an opportunity to provide additional comments and guidance to departments on the government transfers examined. We found that the Department of Finance had performed recent spot checks on the three selected departments:

- For the Department of Community Services, three spot checks had been completed: two in the 2013–14 fiscal year and one in the 2015–16 fiscal year.
- For the Department of Economic Development, two spot checks were completed in the 2013–14 fiscal year.
- For the Department of Energy, Mines and Resources, two spot checks were completed in the 2013–14 fiscal year.

We also found that some of the spot checks focused on issues similar to those highlighted in this report, such as the failure to review whether recipients had complied with their legal reporting requirements, and the insufficient use of risk management tools.

Departments did not fully implement a results-based approach

What we found

75. We found that the Department of Economic Development and the Department of Energy, Mines and Resources assessed and documented whether the objectives of government transfers had been met. We found that the Department of Community Services did not always assess and document whether the objectives of government transfers had been met. We also found that the Executive Council Office had not developed a corporate evaluation policy to allow departments to measure results at the program level.

76. Our analysis supporting this finding presents what we examined and discusses

- program-level results, and
- funding-agreement-level results.

Why this finding matters

77. These findings matter because performance measurement and evaluations provide departments with the information they need to determine and report on whether funding objectives have been met at both the program and funding-agreement levels.

Recommendations

78. Our recommendations in this area of examination appear at paragraphs 84 and 90.

Analysis to support this finding

79. **What we examined.** We examined whether a results-based approach was implemented at both the program and funding-agreement levels.

80. **Program-level results.** The goal of a funding program is to allow departments to achieve their departmental and program objectives by providing funding to individuals or organizations outside the government. Departments must use a results-based approach to manage programs, as stated in the 2008 Government Transfers Policy. Elements of this approach include having a performance measurement plan that contains performance indicators and expected results, conducting evaluation work, and reporting on results. The 2008 policy also states that departments must review and evaluate government transfer programs in accordance with a corporate program evaluation policy established by the Executive Council Office.

81. We found that none of the departments had conducted evaluations on any of the three programs that we examined. Although the Department of Economic Development had not evaluated the Community Development Fund, it had identified inputs, outputs, outcomes, and goals for the program.

82. We also found that the Executive Council Office had not developed the corporate program evaluation policy. Therefore, departments had no guidance to fulfill the 2008 policy's requirements for review and evaluation.

83. This finding is important because of the high level of funding involved in government transfers and the significant number of societies that receive funding. For example, in the 2010–11 to 2014–15 fiscal years, the Community Development Fund provided \$9.8 million to more than 170 societies. The Yukon Recreation Advisory Committee and the Yukon Sport for Life programs were valued at \$5.1 million and \$2.4 million, respectively, over the same period.

84. **Recommendation.** The Executive Council Office should create, in consultation with departments, an evaluation policy that will support a results-based approach to managing government transfers, so that departments can measure, account for, and report on expected results.

***Executive Council Office's response.** Agreed. The Executive Council Office agrees that an evaluation policy should be developed; however, the Government of Yukon will decide which department should establish that policy. An initial scoping and consultation on where the evaluation function will reside (a matter that is linked to the policy changes referred to in recommendation 31) will be done by 1 April 2017. Detailed work on policy changes and the development and implementation planning will follow. We anticipate that this initiative will be completed by November 2018, subject to how it is prioritized in relation to other initiatives.*

85. **Funding-agreement-level results.** The 2008 Government Transfers Policy states that the results-based approach must also be considered at the funding-agreement level. Departments must demonstrate that results of both program and single-recipient government transfers have been achieved.

86. At the Department of Economic Development, we found that all 12 applicable government transfers for the Community Development Fund (for which 1 project was never completed) required recipients to complete an evaluation and final report of the successes and challenges of the individual funding projects. In our opinion, this was a good practice that could help recipients build capacity by reflecting on what went well, what went poorly, and what they would do differently. In addition, for all 12 transfers for the Community Development Fund, we found that program officers prepared a post-assessment report to confirm that the program and project objectives had been met.

87. At the Department of Community Services, we found that of the 23 government transfers for the Yukon Recreation Advisory Committee and Yukon Sport for Life programs, 3 government transfers did not include documentation provided by the recipient on whether the

objectives were met. We also found that 11 of the 23 government transfers did not include a program officer's documented assessment of whether the project's objectives had been met. For 1 of these government transfers, neither the recipient nor the program officer had documented whether the objectives had been met.

88. Of 17 government transfers made outside funding programs across all three departments, 4 did not include evidence of review by a program officer to determine whether the project's objectives had been met. Of these 4 government transfers, which were single-recipient funding agreements, 3 were funded by the Department of Community Services and 1 was funded by the Department of Economic Development. Without a review by a program officer, a department does not know whether the society met the key deliverables required to achieve the objectives of the government transfer.

89. The lack of program evaluations and consistent project reviews were issues raised in the Government of Yukon's 2007 internal audit report. Evaluations and reviews can help departments determine whether they are meeting their goals and objectives.

90. **Recommendation.** The Department of Community Services should put mechanisms in place to systematically review government transfers to determine and document whether their goals and objectives have been met.

***The Department of Community Services' response.** Agreed.*

The Department of Community Services will require recipients to complete a final evaluation to document whether the objectives of the program or project have been met as part of the agreement's final deliverables. The Department will also require program officers to complete a post-assessment report to confirm that the objectives of the program or project have been met. This requirement will be in place by 1 April 2017.

Conclusion

91. We concluded that the Department of Community Services and the Department of Energy, Mines and Resources did not adequately manage selected government transfers to societies in accordance with key legislative, policy, and administrative requirements. We also concluded that the Department of Economic Development adequately managed selected government transfers to societies in accordance with key legislative, policy, and administrative requirements.

92. We concluded that the Department of Finance conducted sufficient monitoring to identify and report on matters of non-compliance on selected departments, and that the Registrar, operating from within the Department of Community Services, provided sufficient monitoring and administrative support to these departments.

About the Audit

The Office of the Auditor General's responsibility was to conduct an independent examination of government transfers to Yukon societies to provide objective information, advice, and assurance to assist the Legislative Assembly in its scrutiny of the government's management of resources and programs.

All of the audit work in this report was conducted in accordance with the standards for assurance engagements set out by the Chartered Professional Accountants of Canada (CPA) in the CPA Canada Handbook—Assurance. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

As part of our regular audit process, we obtained management's confirmation that the findings in this report are factually based.

Objective

The audit objective was to determine whether selected departments adequately managed government transfers to societies in accordance with key legislative, policy, and administrative requirements.

For the purpose of this performance audit, "adequately managed" means

- the design, delivery, and monitoring of government transfers to societies; and
- the evaluation of and reporting on government transfers to societies.

Scope and approach

The audit focused on the management of government transfers to Yukon societies by

- the Department of Community Services;
- the Department of Economic Development;
- the Department of Energy, Mines and Resources;
- the Department of Finance; and
- the Executive Council Office.

We examined whether the first three departments in the above list managed government transfers to Yukon societies according to key legislative, policy, and administrative requirements.

We also assessed the central monitoring or support provided by the Department of Finance, the Executive Council Office, and the registrar of societies (the Registrar) in the Department of Community Services in relation to legislation, policy, and administrative requirements of government transfers.

In our work under the first two audit criteria (see **Criteria**), we assessed the management framework within which government transfers operate. In particular, we assessed whether a risk- and results-based approach was used in the design of government transfers.

Work under the third audit criterion determined whether the payments made through government transfers were authorized, delivered, accounted for, and evaluated in accordance with policies, guidelines, and program requirements. For this criterion, we looked at key controls and policy requirements and assessed how well the funding process was managed.

Work on the fourth audit criterion focused on the role of the Registrar. The fifth audit criterion examined the role of the Department of Finance in monitoring government transfers across departments.

The audit approach for all criteria included the following techniques:

- review and analysis of documentation,
- data analysis and extraction of data from departmental systems,
- testing of funding applications and funding agreements,
- review of compliance with reporting and evaluation requirements, and
- interviews with government officials.

The audit scope did not include government transfers to the following parties:

- First Nations,
- municipalities,
- Government of Yukon organizations,
- organizations not subject to the *Societies Act*, or
- individuals.

The audit also did not examine the following aspects from an administrative perspective:

- funding of societies through goods and services contracts,
- the level of resources allocated to program delivery, or
- the overall level of funding and method of allocation to individual departments or programs.

For our sample, we selected 24 societies for examination across levels of materiality, choosing transfers made through funding programs in addition to those made outside programs to single recipients. We reviewed the government funding to these 24 societies from the 2010–11 fiscal year to the 2014–15 fiscal year. In addition, we reviewed one transaction between the Government of Yukon and the Mountain View Golf Club, which took place in the 2010–11 fiscal year. This transaction was originally classified as a government transfer, although it was later reclassified as an “other expense.”

The 24 societies that we selected for our sample received \$7.5 million in funding from departments and government organizations from across the Government of Yukon for the 2014–15 fiscal year. From all government transfers made to these 24 societies, we selected 53 for detailed examination, made through the Department of Community Services, the Department of Economic Development, and the Department of Energy, Mines and Resources. These 53 government transfers represented payments of about \$3.5 million in the 2014–15 fiscal year.

Criteria

Criteria	Sources
To determine whether the selected departments adequately managed government transfers to societies in accordance with key legislative, policy, and administrative requirements, we used the following criteria:	
Departments must ensure that a funding program or funding agreement is an appropriate vehicle for achieving departmental goals and objectives before they decide to use or enter into it.	<ul style="list-style-type: none"> • 2008 Government Transfers Policy, Financial Administration Manual • 1998 NGO Funding Policy, General Administration Manual
Departments design government transfers with a risk- and results-based approach.	<ul style="list-style-type: none"> • 2008 Government Transfers Policy, Financial Administration Manual • 1998 NGO Funding Policy, General Administration Manual
Departments authorize, deliver, account for, and evaluate government transfers while serving recipients' and stakeholders' needs and effectively managing risks.	<ul style="list-style-type: none"> • <i>Financial Administration Act</i> • 2008 Government Transfers Policy, Financial Administration Manual • 2008 Conflict of Interest Policy, General Administrative Manual • 1998 NGO Funding Policy, General Administration Manual
The Registrar monitors whether societies are in compliance with key aspects of the <i>Societies Act</i> and its regulations.	<ul style="list-style-type: none"> • <i>Societies Act</i> • <i>Societies Regulations</i> • <i>Regulation to Amend the Societies Regulations</i>
Sufficient central monitoring and oversight is in place to ensure that government transfers are made in accordance with policies and guidelines.	<ul style="list-style-type: none"> • <i>Financial Administration Act</i> • 2008 Government Transfers Policy, Financial Administration Manual

Management reviewed and accepted the suitability of the criteria used in the audit.

Period covered by the audit

The audit covered the period between 1 January 2007 and 31 March 2016. Audit work for this report was completed on 3 October 2016.

In testing specific government transfers, we focused primarily on the 2014–15 fiscal year. For data trend analysis and funding history, we reviewed the five-year period from the beginning of the 2010–11 fiscal year to the end of the 2014–15 fiscal year. When we needed to follow up on funding received in the 2014–15 fiscal year, we reviewed some transactions or documents that were received in the 2015–16 fiscal year.

Audit team

Assistant Auditor General: Jerome Berthelette

Principal: Casey Thomas

Director: Ivar Uptis

Jenna Germaine

Joey O'Brien

List of Recommendations

The following is a list of recommendations found in the report. The number in front of the recommendation indicates the paragraph where it appears in the report. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
Delivering and monitoring government transfers	
<p>31. The Department of Finance and the Executive Council Office should work together—and consult with other departments, as necessary—to review the 1998 NGO Funding Policy in the General Administration Manual and the 2008 Government Transfers Policy in the Financial Administration Manual. They should resolve contradictions in the policies and define key policy concepts. (20–30)</p>	<p>The Department of Finance’s response. Agreed. The Department of Finance will work with the Executive Council Office to conduct an initial scoping of the possible changes and approach. This work will be completed by 1 April 2017. Detailed work on policy changes and the development and implementation planning will follow. We anticipate that this initiative will be completed by November 2018, subject to how it is prioritized in relation to other initiatives.</p> <p>The Executive Council Office’s response. Agreed. The Executive Council Office will conduct an initial scoping of the possible changes and approach, in addition to consultations on where the evaluation function for this policy will reside (referred to in recommendation 84), by 1 April 2017. Detailed work on policy changes and the development and implementation planning will follow. We anticipate that this initiative will be completed by November 2018, subject to how it is prioritized in relation to other initiatives.</p>

Recommendation	Response
<p>51. The Department of Community Services and the Department of Energy, Mines and Resources should comply with policy requirements for government transfers, including verifying a society's compliance with its legal reporting requirements, determining that a society does not have any outstanding debts to the government, and determining when to use a government transfer instead of a goods and services contract. (32–50)</p>	<p>The Department of Community Services' response. Agreed. The Department of Community Services will better comply with policy requirements related to government transfers by</p> <ul style="list-style-type: none"> • ensuring that documentation is saved in the agreement file demonstrating the society's compliance with the <i>Societies Act</i>, • including a statement from the society that there are no outstanding debts to the Government of Yukon by either revising the application form for the funding programs or by adding a clause into the transfer agreement attesting to that fact, and • developing guidelines that will be available to all staff by publishing on the internal website and offering training sessions to target groups on how to decide whether to use a government transfer or a contract. <p>This work will be completed by 1 April 2017.</p> <p>The Department of Energy, Mines and Resources' response. Agreed. The Department of Energy, Mines and Resources will comply with policy requirements related to government transfers. The Department will start working within the next few months and will request that when a government transfer agreement is created in the commitment system, it is saved with documentation showing that the society is in compliance with legal reporting requirements and that it does not owe outstanding debts to the Government of Yukon. The Department will also review the process on how to decide whether to use a government transfer or contract. This work will be completed by 1 April 2017.</p>

Recommendation	Response
<p>62. The Department of Community Services, the Department of Economic Development, and the Department of Energy, Mines and Resources should consistently use a risk-based approach in their assessments of all funding requests. The departments should adequately document both project and capacity risk for government transfers and include funding agreement provisions, monitoring requirements, and other elements that reflect the level of risk identified. (52–61)</p>	<p>The Department of Community Services’ response. Agreed. When considering a funding agreement, the Department of Community Services will more methodically apply a risk-based approach that is consistent with the 2008 Government Transfers Policy in the Financial Administration Manual. Specifically, the Department of Community Services will implement a risk assessment with an overall score for both project risk and recipient risk. Scores of low, medium, or high risk will be reflected in the terms and conditions of the agreement to ensure that issues of risk are identified, and that deliverables are monitored as the project unfolds. This documentation will be saved in each agreement file and will be implemented by 1 April 2017.</p> <p>The Department of Economic Development’s response. Agreed. In its assessments of all funding requests, the Department of Economic Development will more methodically apply a risk-based approach that is consistent with the 2008 Government Transfers Policy in the Financial Administration Manual and will require documentation when implementing government transfers. Specifically, the Department of Economic Development will do the following by 1 April 2017:</p> <ul style="list-style-type: none"> • implement a risk assessment for the departmental funds, with an overall score (for example, of 1 to 5) to assess project and client risk, leading to placement in low-, medium-, or high-risk categories, with documentation placed in each client file and signed off by two project officers (or one project officer and a manager or director); and • reflect the results of the overall score assessment in the terms and conditions of the funding agreement to ensure that issues of risk are identified and that projects are monitored as the project unfolds. <p>The Department of Energy, Mines and Resources’ response. Agreed. In its assessments of all funding requests, the Department of Energy, Mines and Resources will more methodically apply a risk-based approach and require documentation when implementing government transfers. The Department will work with the Department of Finance to create and provide a government transfer agreement checklist and a risk-assessment worksheet for staff to use, will make these new forms available on the internal website, and will present a short information session as a refresher for various levels of staff. Work is being done on this, effective immediately. This work will be completed by 1 April 2017.</p>

Recommendation	Response
<p>84. The Executive Council Office should create, in consultation with departments, an evaluation policy that will support a results-based approach to managing government transfers, so that departments can measure, account for, and report on expected results. (75–83)</p>	<p>Executive Council Office’s response. Agreed. The Executive Council Office agrees that an evaluation policy should be developed; however, the Government of Yukon will decide which department should establish that policy. An initial scoping and consultation on where the evaluation function will reside (a matter that is linked to the policy changes referred to in recommendation 31) will be done by 1 April 2017. Detailed work on policy changes and the development and implementation planning will follow. We anticipate that this initiative will be completed by November 2018, subject to how it is prioritized in relation to other initiatives.</p>
<p>90. The Department of Community Services should put mechanisms in place to systematically review government transfers to determine and document whether their goals and objectives have been met. (75–78, 85–89)</p>	<p>The Department of Community Services’ response. Agreed. The Department of Community Services will require recipients to complete a final evaluation to document whether the objectives of the program or project have been met as part of the agreement’s final deliverables. The Department will also require program officers to complete a post-assessment report to confirm that the objectives of the program or project have been met. This requirement will be in place by 1 April 2017.</p>

