

**Chapter 1  
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## **1.1 PURPOSE OF MANUAL**

The purposes of this manual are to:

1. explain the government's overall financial processes in broad terms and the reasons for those processes;
2. provide direction to the various departments and agencies of the government such that detailed interdepartmental/agency financial policies and procedures can be developed from a common and consistent base;
3. provide common financial policies that must be adhered to by all government departments and agencies (subject to exclusion by legislation or Management Board Directive).

It is not intended that this manual be considered a "stand-alone" document. It will refer in numerous places to other manuals and documents and must be read in conjunction with these to gain a complete understanding of the government's financial structure, authorities and processes. The manual should, however, give the reader a basic understanding of financial management in the Government of the Yukon and, most importantly, an understanding of the purpose behind a particular financial policy.

### **1.1.2 Objective of Government Financial Administration Policy**

There are three objectives inherent in the establishment of government financial administration policy:

1. **Accountability**  
to ensure that responsibility for every commitment of funds is assigned to a responsible individual, that there is an audit trail of transactions to document that responsibility and ensure accurate reporting of the transaction;
2. **Control**  
to ensure that every financial transaction is for a purpose specified by the legislature, is carried out, in its essential elements, in a manner that is consistent throughout the government and reflects proper financial procedures to ensure that proper authorities authorize and check the various stages of the transaction;
3. **Efficiency**  
to ensure that funds are spent in a manner that maximizes the value received by the government for that expenditure.



## **1.2 ORGANIZATION AND SCOPE OF MANUAL**

### **1.2.1 General**

The manual is organized for easy use with a main chapter heading and table of contents at the front and a detailed table of contents at the beginning of each chapter.

The beginning of each chapter contains a brief policy or objective statement of the function being dealt with followed by a comprehensive outline of the functions involved.

A description of each Chapter will follow.



## **1.3 AUTHORITY FOR MANUAL**

This manual is issued under the authority of the Management Board and Deputy Minister of the Department of Finance pursuant to Sections 4 and 7 of the *Financial Administration Act*, and must be complied with to satisfy the general requirements of the *Financial Administration Act*. Terms used in the manual have the same meaning as do those terms when used in the *Financial Administration Act* and the Management Board Directives.

### **1.3.1 Distribution**

This manual is distributed by the Department of Finance to all departments and agencies of the Government. Additional manuals or sections will be made available on request.

### **1.3.2 Amendments**

Amendments to the manual will be made by the Department of Finance and will be by issue or re-issue of the relevant pages and/or sections. Each amendment will be distributed automatically under cover of consecutively numbered amendments which will provide details of the sections to be removed, new sections to be inserted and any additions or changes to the table of contents.

Readers are reminded that no manual can be a static document and suggestions for changes or improvements are always welcome.

### **1.3.3 Application**

The contents of this manual apply to all departments and agencies of the Government of the Yukon unless the department or agency is excluded by legislation or Management Board Directive issued under the authority of the *Financial Administration Act*.

Departments may also be exempted from specific section(s) on direct application to Management Board. Exempt organizations should model their own policies and procedures, to the extent possible and practical, on those contained in this manual to achieve as much consistency as possible within the government and its agencies.

### **1.3.4 Judgement**

Rules of general application cannot be tailored to meet every situation nor would it be desirable to attempt to do so. Rules as contained in this manual are meant to free individuals to concentrate their attention on situations that require judgement, not to replace judgement.

The policies contained in this manual are an attempt to develop



**1.3.4 (Continued)**

guides that are appropriate and applicable to "normal" situations. There will always be situations that arise which are not "normal" or are not material enough to warrant the application of the manual. The unthinking application of general rules to the exclusion of applying judgement to a situation that requires it will only result in disrespect for the rules and, very likely, subvert their intent and, ultimately, the legislation being dealt with. Judgement is an essential component of management and will have to be exercised on those occasions where the manual is silent as to what to do in a given situation or where following the manual would be inappropriate, either because of the uniqueness of the situation, the relative immateriality of a transaction or otherwise. Innovative and appropriate solutions are required and welcomed in these circumstances.

In general, the approach in such cases should start from the question "what does the legislature intend should be the result of this transaction?"

Any questions relating to the application of this manual should be addressed to the appropriate branch of the Department of Finance.



## **1.4 LEGAL FRAMEWORK OF FINANCIAL ADMINISTRATION IN YUKON**

### **Financial Authority and Responsibility**

Financial authority and responsibility for the Government of the Yukon is granted in the first instance by the Yukon Act, a federal statute. The actual delegation of financial powers within the government is done under the authority of the Financial Administration Act (FAA) as passed by the legislature of the Yukon.

The FAA establishes a committee of the Executive Council called the Management Board that consists of the Executive Council Member responsible for Finance as Chairperson and two other members of the Executive Council appointed by the Commissioner in Executive Council. The FAA grants the Management Board authority, among other things, to establish accounting policies and practices for the government and also makes it responsible for government financial management and control of revenue, disbursements and assets. The Management Board may, for the performance of its powers and duties, issue directives.

The FAA goes on to establish a Department of Finance and outline the responsibilities of the Executive Council Member responsible for Finance who, under the direction of the Commissioner in Executive Council, is responsible for the management and administration of the Consolidated Revenue Fund, the supervision of the revenues and expenditures of the government and all matters relating to the fiscal policy of the government. Each member of the Executive Council, in turn, is made responsible for the management of the financial affairs of their department under the general direction of the Executive Council Member responsible for Finance and the Management Board.

The Deputy Head of the Department of Finance, under the direction of the Executive Council Member, is responsible for the day-to-day administration of the Department of Finance and its activities including the collection, recording and disposition of government funds, establishment and evaluation of accounting procedures, maintenance of government accounts and preparation of any financial statements and reports required by the Executive Council Member.

Readers are referred to the FAA and the Management Board Directives if they wish to gain a more complete understanding of the powers that reside in various boards and positions and the legislated financial reporting requirements of the government.



**Chapter 2 Financial Planning and Budgetary Control**

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## **2.0 POLICY STATEMENT**

Financial planning and budgetary control systems and procedures that exist throughout the Yukon Government must ensure that financial resources are managed and accounted for in a manner that meets legislative and management requirements. Planning, which includes budgeting, is a key element of management and provides the context for control. Control is the monitoring and evaluation of performance and provides feedback to planning.

This Chapter outlines the financial planning and budgetary control process used by the Yukon Government. It also provides the corporate policies, procedures, guidelines and other reference material pertaining to financial planning and budgetary control including:

- the preparation, review and approval of departmental budget plans in the Yukon Government;
- authority and responsibility of participants in the budgetary process; and
- central agency requirements, services and systems.

Management and financial personnel should familiarize themselves with the contents of this Chapter as it relates to their duties and responsibilities.

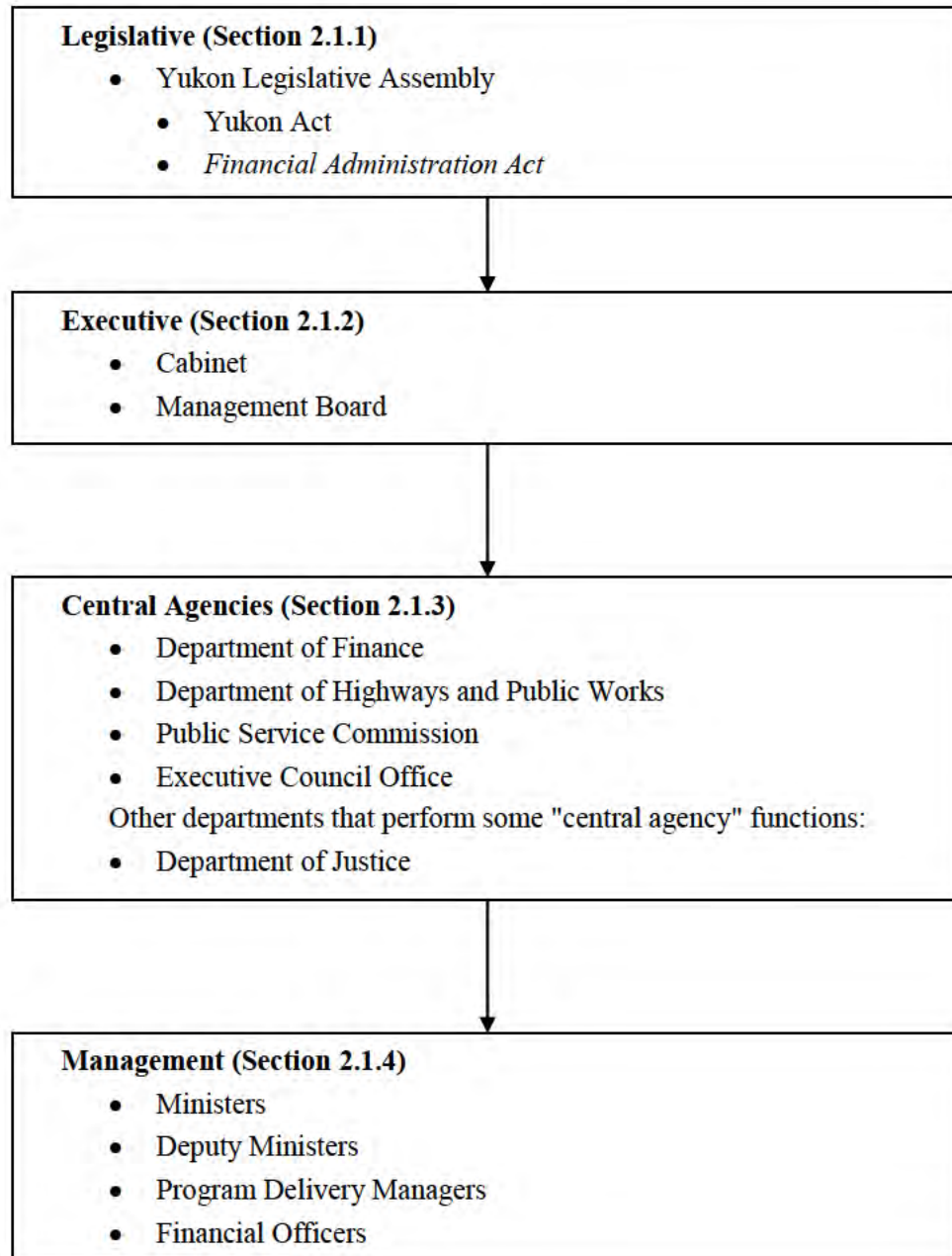
This Chapter has been reviewed and approved by Management Board on May 11, 1995 (MBM#95-11-02) as a Management Board Directive per Section 4(3) of the *Financial Administration Act*. This Chapter cannot be revised without the approval of Management Board.

The direction provided in this Chapter applies to all departments including the Yukon Housing Corporation, Yukon Development Corporation and Yukon Liquor Corporation unless specifically stated otherwise either in this Chapter or by Management Board. This Chapter does not apply to the Workers' Compensation, Health and Safety Board.



## **2.1 OVERVIEW OF ORGANIZATIONAL RESPONSIBILITIES**

Within the organizational structure of the Yukon Government there are several levels of responsibilities for financial planning and budgetary control. These are:





## **2.1.1 Legislative**

### **2.1.1.1 Yukon Legislative Assembly**

#### *Yukon Act*

The Yukon Legislative Assembly is established by the *Yukon Act* (Federal). This Act defines the composition, size, duties and legislative powers of the Legislative Assembly (referred to as "the Council" in the *Yukon Act*). Part of these responsibilities consist of debating and passing/rejecting legislation concerning taxation, borrowing, lending, investing and estimates of expenditures.

The *Yukon Act* also requires that a financial report (Public Accounts) be tabled each fiscal year in the Legislative Assembly. The report should contain statements of revenue and expenditures and of assets and liabilities certified by the Auditor General for Canada, and a report on the financial transactions during the year.

#### *Financial Administration Act*

The Yukon Legislative Assembly passed the *Financial Administration Act* which defines the management and financial administration responsibilities within the Yukon Government. These responsibilities are outlined in this Chapter as well as Chapter 3 of this manual. Where there is a conflict between the *Financial Administration Act*, and another Act enacted before or after, the *Financial Administration Act* prevails unless the other Act contains an express provision otherwise.

## **2.1.2 Executive**

### **2.1.2.1 Cabinet**

Cabinet is established under the authority of the *Yukon Act* and has ultimate responsibility for the management of the Government. This includes establishment of goals and objectives, selection of programs, and allocation and management of resources and outputs. The financial and personnel responsibilities of Cabinet are discharged through Management Board under the authority of the *Financial Administration Act*.



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**2.1.2.2 Management Board**

The *Financial Administration Act* defines the functions of Management Board which is a sub-committee of Cabinet. The Board is responsible for management of the Government's resources and, in doing so, may issue directives, policies and procedures to:

- establish specific controls on certain expenditures,
- establish the budgeting and control process,
- define procedures for dealing with internal audit reports, and,
- more generally, promote internal control and accountability.

For example, directives, policies and procedures may specify control procedures for approval of new programs, expenditure and payment authorizations, increases or decreases to approved budgets and transfers of budgeted funds between programs, activities and allotments. Chapter 3 of this manual provides further details about Management Board.

**2.1.3 Central Agencies**

There are four central agencies involved in the financial management of the Government: the Department of Finance, the Department of Highways and Public Works, the Public Service Commission and the Executive Council Office. The Department of Justice also performs some "central agency" functions related to financial planning and budgetary control.

**2.1.3.1 Department of Finance**

The Department of Finance is established by the *Financial Administration Act*. The Department's major functions related to financial planning and control are described below.

The Financial Operations and Revenue Services Branch of the Department of Finance provides the overall accounting services to the Government, although departments have their own financial staff. The Branch receives and disburses payments to and from the Government and maintains accounting records for the Government as a whole. In doing so this Branch:

- provides accounting direction and advice to departments,
- ensures that proper procedures have been followed to authorize payroll and other payments,



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- manages the Government's financial resources, including revenues, recoveries, receivables and payables,
- produces the Government payroll,
- records financial transactions and maintains the general ledger,
- maintains the central commitment accounting system, and
- prepares the annual public accounts.

**The Management Board Secretariat:**

- ensures that Management Board and Cabinet are provided with the information and analysis required for sound decision-making relative to the allocation, management and control of the financial and human resources of the Government, including physical assets;
- plans and coordinates the government-wide budgeting process, including preparation of the Main and Supplementary Estimates;
- provides meeting support and record keeping services to Management Board; and
- provides economic forecasts and trends for budgeting purposes.

**Bureau of Statistics:**

- one of the many services provided by this Unit includes providing past growth rates (e.g., inflation, GDP, population) for use by departments as guides in forecasting expenditure requirements.

**2.1.3.2 Department of Highways and Public Works**

The Department of Highways and Public Works' role includes performing several functions related to financial planning and budgetary control.

**Corporate Services Branch:**

- provides management services for insurance and risk management matters.

**Information & Communication Technology Branch:**

- provides comments and advice to departments on requests for telecommunications equipment and computer systems or services; and
- operates the central computer system.



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**Supply Services Branch:**

- assists departments with the acquisition of goods and services and the disposal of surplus assets; and
- provides departments with:
  - office equipment rental and purchase rates;
  - rental rates for leased vehicles;
  - air travel rates; and
  - estimates of costs associated with printing and forms requirements.

**Property Management Branch:**

- coordinates lease space requests and capital project requests from departments; and
- provides departments with:
  - accommodation rates;
  - an indication of operating implications of requested capital facilities;
  - cost estimates of construction projects; and
  - advice on capital maintenance upgrade projects for department-specific buildings.

**2.1.3.3 Public Service Commission**

The Public Service Commission provides corporate human resource management services to departments. This includes providing advice and information to departments on pay and benefits, training and development, and staffing and classification.

**2.1.3.4 Executive Council Office**

The functions performed by the Executive Council Office related to financial planning and budgetary control are described below. These are not the only central agency functions of the Executive Council Office.

**Government Audit Services:**

- provides the Government with an internal audit of government activities which is free from departmental bias. This includes some responsibility for the evaluation of government programs for effectiveness, efficiency and economy under the direction of the Audit Committee (a sub-committee of Management Board). The position and authority of the Internal Auditor is provided pursuant to the *Financial Administration Act*. Refer to Policy #1.13 in Volume 1 of the General Administration Manual for more information on the role of the Internal Auditor.



#### **2.1.3.5 Department of Justice**

One of the tasks of the Solicitors Branch of the Department of Justice is to assist departments by reviewing and providing drafting advice for contracts and cost-sharing agreements.

### **2.1.4 Management**

#### **2.1.4.1 Ministers**

Per the *Financial Administration Act*, Ministers are responsible for the management of the financial affairs of their departments under the general direction of the Minister of Finance and Management Board.

#### **2.1.4.2 Deputy Ministers**

Deputy Ministers are responsible for ensuring that departmental activities and expenditures meet legislative, executive, central agency and departmental requirements for financial planning, control and accountability. These requirements are expressed through legislation, regulations, directives, goals, objectives, policies and procedures. They include ensuring that budgets and expenditures are monitored, commitments are recorded and monthly financial reports are reviewed to determine whether transactions have been correctly recorded and activities are proceeding according to operational plans.

The financial responsibilities may be delegated by the Deputy Minister to personnel in his/her department subject to any limitations that legislation, Management Board or Ministers place on this authority to delegate. See Chapter 5 which provides further details on delegating authority for expenditures.

#### **2.1.4.3 Program Delivery Managers**

Many financial planning and budgetary control activities occur at the program delivery level. Managers who are responsible for program delivery should participate in the planning and budgeting processes and manage their approved budgets. This includes ensuring that adequate funds are available for the expenditures required and that expenditure flows are consistent with annual budgets, approved goals, objectives and operational plans.



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Program delivery managers should review, on a regular basis, financial reports to identify actual and potential problems so that they can initiate appropriate remedial action. This review should include comparing actual expenditures, recoveries and revenues to budgets. See Section 2.5.6.2 of this Chapter for more details on variance reporting.

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.

Program delivery managers are responsible for reporting to more senior management regarding their program's performance.

**2.1.4.4 Financial Officers**

Financial Officers are an integral part of a department's organization and management structure and are responsible for ensuring that departmental financial procedures are consistent with the *Financial Administration Act*, Management Board instructions and other regulations and policies. These Officers often carry out many of the financial management and control functions of the Deputy Minister on a delegated basis. Financial Officers must therefore work very closely with Department of Finance staff and be familiar with the legislation, regulations, directives and policies that govern departmental and government-wide financial operations.



## **2.2 OVERVIEW OF THE FINANCIAL PLANNING AND BUDGETARY CONTROL PROCESS USED BY THE YUKON GOVERNMENT**

The financial planning and budgetary control process used by the Yukon Government is determined by Management Board. The major components are outlined below. Note that budgeting is a component of planning but it is identified separately in this Chapter because of its significance.

### **Planning (Section 2.3)**

- Cabinet sets corporate goals and priorities
- Departments prepare/revise and obtain approval where appropriate for: strategic, business and/or operational plans



### **Budgeting (Section 2.4)**

- Overview Memorandum is prepared and reviewed by Management Board
- 5-year Capital financial plans are prepared and approved
- Operations and Maintenance budgets are prepared and approved
- Yukon Legislative Assembly debates and approves the budgets



### **Budgetary Control (Section 2.5)**

- Departments implement approved plans/budgets
- Budgets and implementation of plans are monitored, controlled and revised and this feeds back to the next planning cycle
- Public Accounts are prepared at year-end, audited by the Auditor General and tabled in the Legislative Assembly



## **2.3 PLANNING**

### **2.3.1 Cabinet Goals and Priorities**

As the executive decision-making body in the Yukon Government, Cabinet is responsible for identifying the corporate goals, priorities and plans of the Government.

### **2.3.2 Departmental Strategic Plans**

Departments should develop strategic, business and/or operational plans to guide them in achieving Cabinet's goals and priorities.

These plans must be realistic and take into consideration resource limitations. The plans should be used as the basis for developing and approving budgets per Section 2.4 of this Chapter. The plans can also be used to provide accountability. This can be accomplished by measuring and comparing actual performance to the desired performance stated in the strategic, business and/or operational plans.

### **2.3.3 Departmental Overviews and Program Descriptions**

#### **2.3.3.1 Definition**

Departmental overviews are broad statements that define the general purpose of the department while program descriptions identify, in general terms, clients to be served and services to be performed.

#### **2.3.3.2 Updating**

Each fiscal year, departments are directed by Management Board to review and update their departmental overview and program descriptions for Management Board approval. Management Board Secretariat sends departments instructions (a call letter) on how and when these are to be updated. In response to the call letter, departments submit any proposed changes to program titles (names) or descriptions in order to obtain a mandate for program expenditures.

The departmental overview and program descriptions must be approved by the department's Deputy Minister and Minister prior to submission to the Management Board Secretariat.



#### **2.3.3.3 Review by the Management Board Secretariat**

The Management Board Secretariat reviews the departmental overview and program descriptions to ensure they are:

- consistent with overall government goals, policies and priorities, and
- prepared in accordance with any direction given by Management Board.

#### **2.3.3.4 Management Board Approval**

After the Management Board Secretariat completes its review, the Minister of Finance submits the departmental overviews and program descriptions to Management Board for review and approval.

This submission will usually be reviewed and approved by Management Board prior to the call for budget preparation and serve as the basis for preparing both the Capital and Operation and Maintenance Estimates.

#### **2.3.3.5 Disclosure**

Departmental overviews are disclosed in the Main and Supplementary Estimates:

Program descriptions are disclosed only in the Main Estimates.

#### **2.3.3.6 Revisions During the Fiscal Year**

Sometimes circumstances occur that require revisions to departmental overviews or program descriptions during a fiscal year (e.g., devolution of a program from the Federal Government or a departmental reorganization). If this happens, departments must submit proposed revisions to Management Board for approval prior to implementation.



### **2.3.4 Capital Plan Narrative**

#### **2.3.4.1 Definition of a Capital Plan Narrative**

The capital plan narrative includes capital program descriptions and capital project Standards and criteria. These define the purpose of the programs (or activities), the standards to be met by the programs and projects and the criteria used to justify project expenditures in the program.

#### **2.3.4.2 Definition of Standards**

Program or project standards refer to acceptable levels of quality, safety and serviceability and may be based on nationally or locally established building and construction codes, road construction requirements or other appropriate benchmarks. For example, a standard for building a new facility may be meeting national Building Code requirements.

#### **2.3.4.3 Definition of Criteria**

Program or project criteria refer to the decision variable(s) used for the justification of projects. For example, a new or expanded facility may be justified if the number of occupants currently exceeds the established maximum number of occupants per 100 square metres. Another example is equipment that is required to be replaced after it is 10 years old. Appropriate criteria should be defined for each type of expenditure.

#### **2.3.4.4 Updating the Capital Plan Narrative**

Each fiscal year, departments (excluding the Yukon Development Corporation) are directed by Management Board to review and update their capital plan narratives. Management Board Secretariat sends departments instructions (a call letter) on how and when the capital plan narratives are to be updated.

#### **2.3.4.5 Review of the Capital Plan Narratives by the Management Board Secretariat**

The Management Board Secretariat reviews the capital plan narratives to ensure that the narratives:

- consistent with overall government goals, policies and priorities, and
- prepared in accordance with any direction given by Management Board.

#### **2.3.4.6 Approval of Capital Plan Narratives**

Capital plan narratives must be approved by the department's Deputy Minister and Minister. Unless otherwise directed by Management Board, the capital plan narratives do not need to be submitted to Management Board for approval.



## **2.4 BUDGETING**

### **2.4.1 Definition and Purpose of a Budget**

The "Budget" of the Yukon Government is a formal financial plan that reflects the Government's objectives. The budget discloses the amount and sources of funds the Government will receive and the proposed expenditures of the Government.

The Yukon Government's budget is referred to as the "Main Estimates". Supplementary Estimates are used to amend the Main Estimates when revisions are required during the course of the fiscal year.

The budget is used to:

- determine the financial and other resources required to carry out plans assigned to managers;
- communicate planned activities in the common business language of dollars to the public, Legislature and employees;
- obtain Executive and Legislative approval of departmental programs and resource requirements;
- provide a basis for authorizing actions and expenditures; and
- provide a framework for monitoring and evaluating performance.

### **2.4.2 Types of Budgeting Methods**

Over the years, several methods of budgeting have been advocated and tried by various governments. The following describes some of the budgeting methods that may be used by Management Board from time to time.

#### **O&M Target Setting**

Management Board may establish operation and maintenance departmental budget levels by providing departments with a specified amount of funding often referred to as a "target". In arriving at the target for each department, Management Board may take into consideration such things as:

- new program priorities (this includes increases or decreases to existing programs, or new programs);
- program enhancement needs;
- items approved by Management Board since the last Estimates;



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- price/volume increases (sometimes referred to as forced growth since the increases may result from increased demand for services, legislated requirements, or price increases);
- program transfers between departments;
- recently devolved programs from the Federal Government;
- inflation;
- freezing/reducing levels of spending in certain areas; and
- projects or programs that are one-time in nature.

**Enveloping**

Management Board may establish budget levels (Operation and Maintenance and/or Capital) by means of enveloping expenditures. This involves identifying envelopes (e.g., envelopes could be based on types of services or types of benefits expected), allocating available resources to the envelopes, and grouping departments, or portions of departments, into those envelopes. Budgets are then prepared by departments that support the envelope objectives and reflect the level of resources allocated to each envelope. An example of envelope groupings is:

- economic development,
- social affairs,
- education, culture and recreation, and
- legislative and service to government.

**Incremental/Decremental Budgeting**

Incremental/Decremental budgeting consists of amending previous year budget items upward or downward (usually by a specified percentage) according to new priorities or constraints. This approach does not necessarily require a careful analysis of all budget items.

Since regular and detailed reviews of budgetary items is not mandatory under this system, workload on staff is reduced. The primary disadvantage of this system is that budgets are not evaluated in light of meeting government goals, objectives and priorities.

**Zero Base Budgeting Method**

Zero-base budgeting was developed in the 1970's to justify government programs and costs. In contrast to incremental budgeting, zero-base budgeting requires that the budget evaluation process begin with no initial commitment of resources.



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Each item in the budget must be evaluated and ranked against alternative items. Different levels of service may be proposed for a particular program, each level being assigned a ranking number. Selection of programs is based on the total funding available. Funds are assigned according to the ranking or priority code of the program. This process can become extremely complex, arbitrary and time-consuming.

The use of zero-base budgeting can result in the elimination of major programs, particularly if government priorities have shifted drastically since the development of the previous budget. However, the elimination of programs with low priority rankings is often subject to political and long-term commitment constraints.

**ABC Budgeting Method**

Activity Based budgeting is a method of budgeting which allocates planned expenditures against components of a process rather than by the traditional objects of expenditure. All costs associated with a process, including direct, indirect and administrative costs are allocated to particular components. For example, in the activity of mail services, instead of using the usual object codes of expenditure such as personnel, supplies, and postage, expenses would be attributed to such components as:

- pick-up and delivery services;
- sorting;
- handling and inquiries for special services; and
- distribution (e.g., affixing postage, verifying postal codes).

This budgeting method takes a lot of effort to apportion costs to the various activities, particularly if the expenditure accounts do not support separation of costs by activities.

However, the ABC budgeting method offers a good analytical tool for measuring performance, allocating resources and determining service/output costs. In addition, this tool provides a means to identify inefficiencies and areas for improvement in service delivery.

**Special Operating Agencies (SOAs)**

Although SOAs are more than just a "budgeting method", they are mentioned here because often SOAs use tailor-made budgetary methods. The concept of SOAs was designed to achieve new balance between the philosophy of control and risk avoidance and the desire to encourage innovation and promote initiative in the public service.

In essence, SOA status gives service delivery units increased management flexibility in return for agreed-upon levels of performance and results. SOAs remain part of a departmental



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organization and are accountable for results to this home department. However, unlike other departmental units, SOAs operate under a tailor-made, written understanding with the department. This understanding (consisting of a "charter agreement" and a business plan) covers the results and service levels expected, the relief from administrative rules that will be granted, if any, and the resources available to do the job.

In short, the SOA model is intended to provide increased freedom from department and government-wide administrative rules in return for a commitment to clear performance levels.

**2.4.3 Overview Memorandum**

For each fiscal year, the Department of Finance prepares an overview memorandum for Management Board to review. The memorandum includes:

- an estimate of the total funds that will be available for government operations;
- a preliminary estimate of expenditure levels based on direction provided by the Minister of Finance and/or Management Board; and
- other relevant analysis and information. This may include such things as an economic forecast, historical expenditure levels, and options for future expenditure levels.

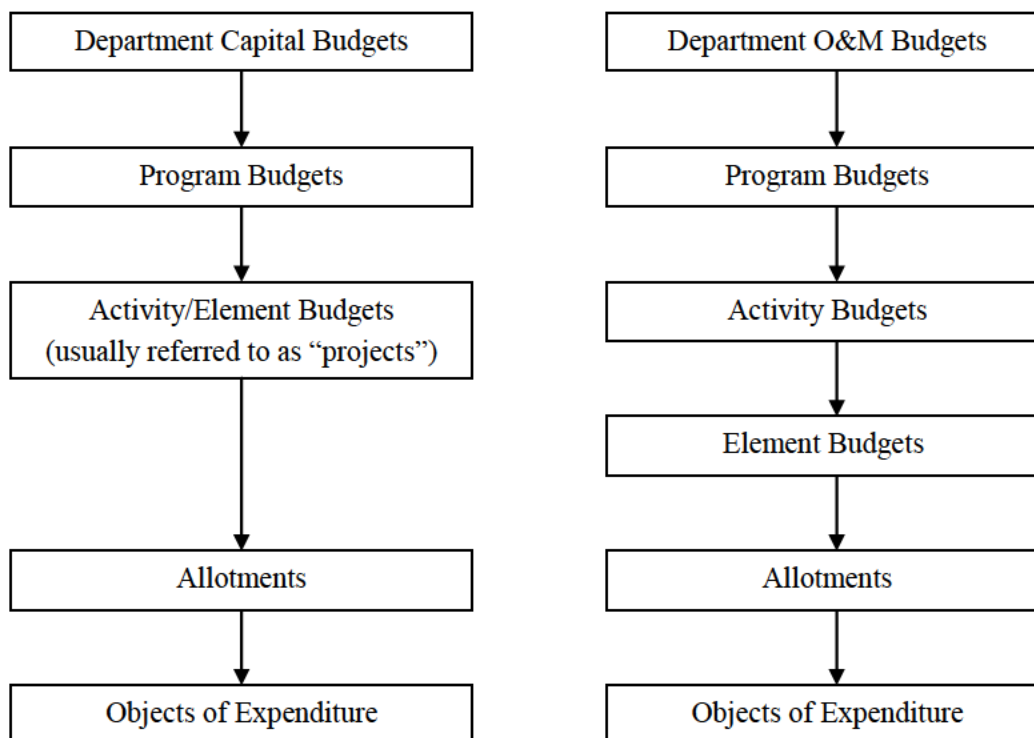
Management Board uses this overview memorandum when making resource allocation decisions for the next fiscal year.



### 2.4.4 Budget and Account Coding Structures

The overall government expenditure budget structure is as follows:

#### Yukon Government Budget



#### **Definitions:**

**Program** means that part of a vote identified as a program and which reflects government policy and is comprised of activities designed to accomplish a specified objective or set of objectives.

**Activity** means a sub-division of a program which is a focus for program planning and the setting of objectives, and is the lowest presented for debate in the Committee-of-the-Whole of the Legislative Assembly.

**Element** means a sub-division of an activity designed to attain the objectives of that activity.

**Allotment** means the parts of a program allocated to "Personnel", "Transfer Payments" or "Other" expenditures.

**Objects of expenditure** mean types of expenditures such as wages and benefits, travel or contracts. These objects are grouped into the three allotments: Personnel, Other and Transfer Payments.



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**Application of the Budget and Account Coding Structures:**

The budgets of a department are allocated to programs in a manner that will best achieve the goals and objectives of the department and the Government as a whole. The program structure will vary between departments depending on the required individual management control of program delivery and expenditures. This is to ensure accountability is delegated appropriately to obtain expected results. These programs are further defined by being divided into activities, elements, allotments and objects.

The budget for a small department may simply have programs divided into objects of expenditures without using activity subdivisions because a small program may have no true activity subdivisions. Larger programs will almost invariably have programs divided into activities and elements.

Although revenues and recoveries may correspond to a specific program, activity or project, they are identified in a separate portion of the budget. This is because the *Financial Administration Act* requires that all programs be shown on a gross expenditure basis. In other words, recoveries or revenues cannot be netted ("net budgeted") against expenditures.

A standard chart of accounts has been developed for the Government as a whole that reflects the structure described above. See Chapter 4 of this manual for further details and definitions regarding the account coding structure.

## **2.4.5 5-Year Capital Financial Plan Update**

### **2.4.5.1 Definition of Capital Expenditures**

Capital expenditures are defined in Chapter 5 of this manual.

### **2.4.5.2 Definition of the 5-Year Capital Financial Plan**

This is a financial plan covering the capital expenditure requirements for the next five years.

### **2.4.5.3 Updating the 5-Year Capital Financial Plan**

#### **Process and Procedures**

Departments with capital expenditure requirements (excluding the Yukon Development Corporation) prepare and submit to Management Board a five-year plan which is updated every year.



**2.4.5.3 (Continued)**

Once approved by Management Board, the first year of the plan becomes the next capital budget.

Capital budgeting is done by program, although emphasis is placed on projects within programs. The process is a bottom-up, zero-base type of planning, where departments prepare five year capital plans which comprise extensive details on each individual project.

Based on Management Board direction, the Management Board Secretariat provides departments with instructions (a call letter) explaining what information is to be contained in the budget submission and by when the submission is to be completed. Standard forms are usually provided to departments. For each project, departments are required to include in the plan such things as:

- a description of the project;
- the need for the project;
- the community location of the project;
- the number of years required to complete the project;
- the total estimated capital cost of the project and the financial and human resources required to complete the project, including the resulting O&M impact of the project;
- the priority of the project in comparison to the department's other capital projects;
- benefits from and beneficiaries of the project; and
- the economic impacts of the project (e.g., number of jobs created in the private sector by the project).

The 5-year capital financial plan must be approved by the department's Deputy Minister and Minister prior to submission to the Management Board Secretariat.

**Direct Costs**

To the extent possible or practical, program budgets and project estimates should include all direct costs associated with them. Note that there are some types of expenditures that are directly related to program delivery but reported centrally in only one department (e.g., the Department of Highways and Public Works may budget and report all purchases of pool vehicles).

**Personnel Costs**

Personnel costs are calculated using the number of full time equivalent (FTE) positions, classification levels and pay and benefit rates.



**2.4.5.3 (Continued)**

An FTE is calculated by dividing the current regular bi-weekly hours an individual is paid by the regular hours approved for the position's class (e.g., an employee works 56 hours in the pay period in a class whose regular hours are 75; the  $FTE = 56/75 = .75$ ). This formula applies to all employees regardless of their category of employment with the following limitations:

- it excludes Justices of the Peace and M.L.A.'s;
- overtime hours are not included in the calculation of an FTE; and
- regular hours are those established by the Public Service Commission for each position's class.

**Disclosure of Grants and Contributions**

Departments must identify in their submissions, the amount of grants and contributions including the name of proposed recipient(s) or group of recipients and, if applicable, the statutory authority for making the grant/contribution. (The dollar value of all grants and contributions will be identified under the heading "Transfer Payments" in the Main Estimates.) See Section 2.5.5.2 of this Chapter for a definition of grants and contributions.

**Capital Recoveries**

Capital recovery projections are a vital component of the Capital budget. These projections are incorporated into the Estimates to provide a complete financial picture of the Yukon Government. Unlike expenditure projections, recoveries are not voted by the Legislative Assembly although they may be discussed by the Legislature. Note that when preparing budgets all expenditures must be shown on a gross basis. In other words, recoveries cannot be netted against expenditures.

**One Dollar Vote Items (\$1 vote)**

The Main and Supplementary Estimates will sometimes reflect "one dollar" budgets (\$1 vote) for specific items. The \$1 vote is a constitutional practice and courtesy to the Legislature that encourages the accountability of the Government (Cabinet) to the Legislative Assembly and the control of the Assembly over expenditures. The \$1 vote can be used in instances where it is the intention of Government to spend an unspecified, and presently unpredictable, amount of money on an item if the occasion requires. Management Board makes the final decision as to the appropriateness of using the \$1 vote for specific expenditure items. Once the amount of the expenditure is known, the amount is reflected in a department's variance report and, if required, in the associated Supplementary Estimates.



#### **2.4.5.4 Review of the 5-Year Capital Financial Plan by the Management Board Secretariat**

The Management Board Secretariat's main role in analyzing and reviewing the capital financial plan is, in conjunction with departments, to ensure that projects are consistent with established departmental objectives, standards and criteria and are prepared in accordance with any direction given by Management Board. The Secretariat is also responsible for preparing the consolidated submission for Management Board.

#### **2.4.5.5 Management Board Approval of the 5-Year Capital Financial Plan**

After the Management Board Secretariat completes its review, the Minister of Finance submits the 5-year capital financial plan to Management Board for review.

Management Board decides which, and to what extent, proposed projects will be funded for the upcoming fiscal year. Once this is done, departments update years one through five of the 5-year capital plan. The Management Board Secretariat then consolidates the Management Board-approved first year of the five-year departmental capital forecasts into a detailed overall government capital budget. The resulting Capital Estimates are tabled in the Legislative Assembly.

#### **2.4.5.6 Role of Department of Highways and Public Works**

Where Highways and Public Works is to be the performing department in accordance with General Administration Manual Directive #2.17, the department sponsoring the proposed capital project must obtain approval of the estimated cost of the project from the Department of Highways and Public Works before including it in the Capital Financial Plan. This approval is given by the Department of Highways and Public Works signing the project detail sheet included in the department's submission.

General Administration Manual Directive #2.17 on Project Planning and Implementation should be consulted for further information regarding the planning and implementation processes for capital projects.

The Department of Highways and Public Works also reviews departmental computer workstation and systems development plans in order to provide advice to departments and identify impacts on systems and services under the responsibility of the Department of Highways and Public Works. Under the authority of General Administration Manual Directive #2.3 on Information Technology Management, the Department of Highways and Public Works usually issues instructions to departments on how and when to prepare computer workstation and systems development plans.



#### **2.4.5.6 Role of Department of Highways and Public Works**

Where Highways and Public Works is to be the performing department in accordance with General Administration Manual Directive #2.17, the department sponsoring the proposed capital project must obtain approval of the estimated cost of the project from the Department of Highways and Public Works before including it in the Capital Financial Plan. This approval is given by the Department of Highways and Public Works signing the project detail sheet included in the department's submission.

General Administration Manual Directive #2.17 on Project Planning and Implementation should be consulted for further information regarding the planning and implementation processes for capital projects.

The Department of Highways and Public Works also reviews departmental computer workstation and systems development plans in order to provide advice to departments and identify impacts on systems and services under the responsibility of the Department of Highways and Public Works. Under the authority of General Administration Manual Directive #2.3 on Information Technology Management, the Department of Highways and Public Works usually issues instructions to departments on how and when to prepare computer workstation and systems development plans.



## **2.4.6 Operation and Maintenance Estimates**

### **2.4.6.1 Definition of Operation and Maintenance Expenditures**

Operation and maintenance expenditures are defined in Chapter 5 of this manual.

### **2.4.6.2 Preparation of the Operation and Maintenance Budgets**

#### **Process and Procedures**

Each fiscal year, departments (excluding the Yukon Development Corporation) prepare and submit to Management Board detailed operation and maintenance budgets. Based on direction provided by Management Board, the Management Board Secretariat provides the departments with budget instructions (a call letter) which outline and explain what information is to be contained in the budget submission. Standard forms are usually provided to departments. Management Board Secretariat instructions may be complemented by departmental instructions to assist program managers in the budget preparation process.

Management Board sets a deadline by when departmental budget submissions must be received by the Management Board Secretariat. Departmental submissions must be approved by the Deputy Minister and Minister prior to submission.

#### **Direct Costs**

To the extent possible or practical, program budgets and project estimates should include all direct costs associated with them. Note that there are some types of expenditures that are directly related to program delivery but reported centrally in only one department (e.g., the Department of Highways and Public Works may budget and report all office space leases or fuel for pool vehicles).



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**Forecasting Expenditures**

When preparing the O&M budget, managers must, of necessity, forecast expenditures. Several factors can be considered when doing a forecast:

- organizational goals and priorities, and the alternatives to achieve those goals and priorities in an effective, efficient and economical manner;
- changes in eligible clients;
- changes in demographics of clients;
- past output volumes and performance levels versus forecast levels;
- general economic and industry conditions (e.g., Gross National Product, personal income, employment, inflation rates);
- seasonal variations in program demands; and
- relevant research, surveys, etc. that indicate such things as social conditions and trends.

**Personnel Costs**

Personnel costs are calculated using the number of full time equivalent (FTE) positions, classification levels and pay and benefit rates. An FTE for O&M purposes is calculated in the same manner as that for Capital purposes described in Section 2.4.5.3 of this Chapter.

**Disclosure of Grants and Contributions**

Departments must identify in their submissions, the amount of the grants and contributions including the name of proposed recipient(s) or group of recipients and, if applicable, the statutory authority for making the grant/contribution. (The dollar value of all grants and contributions will be identified under the heading "Transfer Payments" in the Main Estimates.) See Section 2.5.5.2 of this Chapter for a definition of grants and contributions.

**Revenue and O&M Recoveries**

Revenue and O&M recovery projections are an essential component of the O&M budget. These projections are incorporated into the Estimates to provide a complete financial picture of the Yukon Government. Unlike expenditure projections, revenue and recoveries are not voted by the Legislative Assembly although they may be discussed by the Legislature. Note that when preparing budgets all expenditures must be shown on a gross basis. In other words, recoveries or revenues cannot be netted against expenditures. See Chapter 7 of this manual for complete details on the accounting and control of revenues.



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**One Dollar Vote Items (\$1 vote)**

The Main and Supplementary Estimates will sometimes reflect "one dollar" budgets (\$1 vote) for specific items. The \$1 vote is a constitutional practice and courtesy to the Legislature that encourages the accountability of the Government (Cabinet) to the Legislative Assembly and the control of the Assembly over expenditures. The \$1 vote can be used in instances where it is the intention of Government to spend an unspecified, and presently unpredictable, amount of money on an item if the occasion requires. Management Board makes the final decision as to the appropriateness of using the \$1 vote for specific expenditure items. Once the amount of the expenditure is known, the amount is reflected in a department's variance report and, if required, in the associated Supplementary Estimates.

**Statistics**

The Main Estimates for the O&M budget include statistics pages. The statistics provide supplementary information related to the budget (e.g., number of students, number of beds available at different health care facilities, type and number of business licenses issued, etc.). The statistics should ideally include workload, activity indicators and performance indicators that can be used for program evaluation purposes.

**2.4.6.3 Review of the Operation and Maintenance Budget  
Submissions by the Management Board Secretariat**

The Management Board Secretariat's main role in analyzing and reviewing the O&M budget submissions is to ensure that the submissions are prepared in accordance with any direction given by Management Board. The Secretariat is also responsible for preparing the consolidated submission for Management Board.

**2.4.6.4 Management Board Approval of the Operation and  
Maintenance Estimates**

After the Management Board Secretariat completes its review, the Minister of Finance submits the Operation and Maintenance budgets to Management Board. The Board reviews and revises the departmental Operation and Maintenance budgets as required.

Once the final budgets are approved by Management Board, the Management Board Secretariat prepares the Operation and Maintenance Estimates for legislative tabling.



### **2.4.7 Legislative Approval of Supply**

After review and acceptance of departmental budget proposals by Management Board, the following documents are prepared to present the capital and operation and maintenance budgets for the new fiscal year:

- the Main Estimates (Capital and O&M Estimates may be separate documents or a single combined document);
- the Budget Address;
- press releases and other special information documents as required; and
- an Appropriation Act(s).

The Main Estimates, Budget Address and Appropriation Acts are tabled in the Legislative Assembly.

#### **2.4.7.1 Main Estimates (Capital and/or O&M Estimates)**

Once final budget submissions are prepared by departments and approved by Management Board, the Main Estimates are prepared by the Management Board Secretariat. The Main Estimates are then approved by Management Board for tabling in the Legislative Assembly.

The Main Estimates include previous years' actuals or forecasts for comparative purposes. If a reorganization causes programs or portions of programs to shift between organizational units, the previous years' actuals or forecasts are often "restated". This means that the previous years' numbers are changed to reflect the new, reorganized structure.

#### **2.4.7.2 The Budget Address**

When presenting the Estimates for the new year, it is tradition for the Minister of Finance to present the Government's financial plan in a budget address to the Legislative Assembly.

The budget address is prepared jointly by the Minister of Finance's office and the Department of Finance with input from departments as required. The budget address generally contains:

- a budget speech which includes highlights of the major government initiatives reflected in the budget; and
- a number of statistical analyses and presentations.



### **2.4.7.3 Press Releases and Special Information Documents**

Press releases are prepared by the Executive Council Office in conjunction with the Department of Finance and contain narrative summaries of the major policy initiatives of the Government for the coming year.

When the Main Estimates are tabled in the Legislature, they may be accompanied by other special information documents. These documents provide detailed information on specific topics (e.g., a detailed report of the size of the Government's workforce).

### **2.4.7.4 Appropriation Acts, Interim Supply Acts and Special Warrants**

Government expenditures must receive legislative authority before they can be incurred. This authority can be obtained through Appropriation Acts, Interim Supply Bills, or, when the Legislature is not sitting, through a Special Warrant.

#### **Appropriation Acts**

The Management Board Secretariat prepares draft Appropriation Acts to cover Main and Supplementary Estimates and forwards these to the Department of Justice for drafting. The Acts are then reviewed and approved by Cabinet. After approval by Cabinet, Appropriation Acts are tabled in the Legislative Assembly.

All Appropriation Acts receive three readings and debate in the Assembly. Detailed review and debate takes place in the Committee of the Whole where M.L.A.'s examine the Main Estimates document. This is often referred to as a "line by line" review.

Once the Appropriation Act for the Main Estimates has received third reading and Royal Assent, departments have authority to make commitments and incur expenditures for approved programs and activities in accordance with objectives and prescribed policies and procedures.

#### **Interim Supply Bills**

Appropriation Acts may be drafted for interim supply (referred to as Interim Supply Bills) should debate on the budget by the Legislature extend beyond the beginning of the fiscal year of the budget. Interim supply will grant spending authority to departments for the period of the new fiscal year during which the Main Estimates are being debated by the Legislature and are therefore not yet law. For example, if the Legislature was sitting in March and debate of the O&M Mains for the upcoming fiscal year was not going to be completed by March



31, an Interim Supply Bill could be tabled and passed for a specified period of time, e.g., the month of April. This would grant spending authority for the month of April while the Main Estimates continue to be debated. If the budget is not passed by the end of April, a second Interim Supply Bill could be prepared for approval by the Legislature for the month of May. This second Bill could either be incremental (i.e., add to the amounts approved in the Bill for April) or non-incremental (i.e., April's approvals lapse at the end of April and if the lapsing funds are required in May they would have to be included in the Interim Supply Bill for May).

### **Special Warrants**

Special warrants issued under the authority of the Commissioner grant legislative authority on a temporary basis should the need arise for expenditure approval while the Legislative Assembly is not in session. An Appropriation Act must be presented to the Assembly in the next legislative session to cover amounts approved in a special warrant.



## **2.5 BUDGETARY CONTROL**

Budgetary control refers to the process whereby the performance of an organization is monitored and evaluated. Budgetary control in a governmental setting has two major aspects:

- expenditures must be continuously monitored to ensure they do not exceed legislative Appropriations; and
- output results must be evaluated to ensure that resources are used in an efficient and effective manner in the delivery of services and reflect government and departmental goals and objectives.

Major systems and tools within the Yukon Government that can be used to monitor and control budgets include:

- the central FMIS including the Commitment Accounting System;
- financial reports (generated by a wide-variety of systems, e.g. FMIS and FIRM);
- performance indicators developed and used by departments;
- comprehensive reviews of departmental budgets;
- limits placed on the authority to transfer approved budget funds;
- revisions to budgets;
- audits of departmental spending by the Auditor General of Canada or Internal Audit; and
- review of government activities by the Public Accounts Committee.

### **2.5.1 Central FMIS Including the Commitment Accounting System**

Once the budget (supply) is approved per Section 2.4.7.4 of this Chapter, the budget amounts are input into the central computerized "Financial Management Information System" (FMIS). This system assists departments with monitoring and controlling implementation of their budgets throughout the fiscal year by recording and reporting on the financial transactions of the Government. This system consists of several financial applications including Accounts Payable, Accounts Receivable, Fund Accounting, and General Ledger.

Commitments are known or anticipated future expenditures (e.g., purchase requisitions, purchase orders, contracts, work orders). Departments can record commitments and decommitments in the commitment accounting system. It is important to account for



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commitments since this provides managers with information about future expenditures that must be taken into account when evaluating nominally free balances. Chapter 5 of this manual should be consulted for more information on commitment accounting.

### **2.5.2 Financial Reports**

Financial reports can be prepared using:

- the central financial management information system (FMIS) maintained by the Department of Finance; and
- specialized financial information systems maintained by departments (e.g., FIRM, and departmental SAS systems).

The reports must provide managers with the information they require to make informed, timely decisions and forecasts about their budgets and programs. Therefore, as a minimum the reports should:

- provide details of budget and actual amounts for recoveries, revenues and expenditures;
- compare "actual expenditures and commitments to date" with "budgets to date" and calculate a "variance to date";
- compare "actual expenditures and commitments to date" with "annual budgets" and calculate a "free balance" (budget not yet committed or spent).

Officers and managers preparing/using the reports should ensure that the budget amounts reconcile to the approved Estimates.

### **2.5.3 Performance Indicators**

Measuring results achieved (performance) is a key component of an accountability structure. One method to measure results is to develop performance indicators (targets or standards) and compare actual performance to these targets or standards.

A comprehensive central system of performance indicators is not available in the Yukon Government. Developing performance indicators and using them to measure performance is an on-going responsibility of the individual departments and program managers and the Department of Finance. The Bureau of Management Improvement in the Executive Council Office also provides management improvement and program evaluation services to the Yukon Government.



## **2.5.4 Comprehensive Budget Reviews**

Periodically, Management Board may instruct that a comprehensive review be undertaken of a department's budget or components of its budget. Depending on direction from Management Board, this review could be conducted by the Management Board Secretariat, the Bureau of Management Improvement or another agency. Ideally, however, such reviews are usually best done by the subject department with help from one of the just-mentioned agencies. The review would normally involve a detailed examination of the budget in conjunction with government and departmental goals, objectives and priorities.

## **2.5.5 Authority to Transfer Budget Funds**

Authority to transfer budget funds is controlled by the *Financial Administration Act* and by Management Board. **The restrictions placed on transferring budget funds by this Section 2.5.5 must be adhered to and, subject to the *Financial Administration Act*, can only be changed by Management Board.**

### **2.5.5.1 Vote Control**

A vote is defined by the *Financial Administration Act* as "that part of an appropriation Act identified as a vote and authorizing the payment of a specified amount from the consolidated revenue fund for specified purposes". Usually a department's O&M budget is defined as one vote and its Capital budget is defined as another vote.

**Per the *Financial Administration Act*:**

- only the Legislative Assembly may approve an increase in the money in a vote,
- the balance of a vote that is not spent or accrued at the end of a fiscal year lapses, and
- a payment cannot be made from a vote unless there is sufficient funds in the vote to make the payment.

### **2.5.5.2 Legislated Grant Control**

For the definition of a "legislated grant", refer to Chapter 5, subsection 5.9.1 of this manual.

Only the Legislative Assembly may approve a transfer of money into or out of a legislated grant.



### **2.5.5.3 Program Control**

#### **Minister's Authority**

Programs are identified in the Main Estimates. Subject to Sections 2.5.5.1 and 2.5.5.2 of this Chapter, a member of the Executive Council (Minister) may, in writing, authorize transfer of money between and within programs of a department for which the Minister is responsible.

#### **Delegation of Minister's Authority to the Deputy Minister**

A Minister may, in writing, delegate his/her authority to transfer funds to the Deputy Minister responsible for the budget. Note that, per Section 2.5.5.2 of this Chapter, only the Legislature can approve a transfer of money into or out of a grant so authority to transfer within or into/out of grants has not been delegated to the Minister or Deputy Minister. However, the authority to transfer budgeted amounts for contributions has been delegated to Ministers (see "Minister's Authority" section above) and this authority can be redelegated.

The delegation of authority from the Minister to the Deputy Minister to transfer budgeted funds shall be recorded by way of a letter signed by the Minister. The letter must clearly indicate the authority that is delegated (e.g., authority to transfer within and between all programs) and any restrictions placed on the delegated authority (e.g., authority to transfer budgeted funds is limited to a specified dollar amount or a certain period of time). A copy of the letter shall be sent to the Department of Finance (Management Board Secretariat).

#### **Delegation of Authority by the Deputy Minister**

The Deputy Minister may redelegate the authority to transfer within a program except insofar as grants are concerned. The Deputy Minister cannot redelegate the authority to transfer between programs. Departments are responsible for developing and administering any procedures they require related to authority under this Section 2.5.5.3 that the Deputy Minister redelegates. Departments are not required to advise the Department of Finance about these procedures.



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**Recording Budget Transfers**

Program transfers approved either by the Minister, or the Deputy Minister if authority is delegated, must be recorded in writing. Any transfers approved to move budgeted amounts within or into/out of contribution agreements must also be recorded in writing. A copy of the written record of these transfers shall be sent to the Deputy Minister of Finance.

Departments are responsible for developing and administering procedures for recording all other budget transfers.

**Tracking Budget Transfers in the Central FMIS between Supplementary Estimates**

Currently there are only two available budget fields (buckets) in the central FMIS and they are being used for Mains and Revised Estimates. Departments can use FIRM or other departmental SAS systems for recording and reporting budget transfers between Supplementary Estimates.

**2.5.5.4 Exemptions**

The Sections 2.5.5.2 and 2.5.5.3 of this Chapter do not apply to the Yukon Liquor Corporation, the Yukon Housing Corporation and the Yukon Development Corporation.

**2.5.6 Revisions to Budgets**

From time to time departments may have to revise their budgets. There are two ways departments can seek Management Board approval to revise budgets:

- individual Management Board submissions; and
- Variance Reports.

If Management Board approves increases to departmental budget levels or transfers (e.g., between O&M and Capital budgets or between departments), then Supplementary Estimates are prepared for approval by the Legislative Assembly. In certain circumstances a Special Warrant, granting increased vote authority, may be approved by the Commissioner. See Section 2.5.6.2 of this Chapter for more details on Special Warrants.



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**2.5.6.1 Management Board Submissions**

Departments can prepare Management Board submissions which request changes to budget levels or allocations during a fiscal year. Although Management Board does not have the authority to increase a department's budget (vote), the Board does have the authority to reallocate funds within votes and can make decisions to include increases to budget levels in Supplementary Estimates for approval by the Legislative Assembly or recommend to Cabinet that a Special Warrant be approved by the Commissioner.

Refer to Chapter 3 of this manual for further details on the Management Board submission process.

**2.5.6.2 Variance Reports and Supplementary Estimates**

**Purpose of Variance Reports**

Variance reports are prepared to compare forecasts of annual expenditures, recoveries and revenues to voted (budgeted) amounts. These reports identify, for Management Board's consideration, potentially significant variances between the budgeted amounts and the projected amounts. Variances usually result from:

- unforeseen changes in volumes or costs,
- changes to project implementation timelines,
- changes to mandates or objectives of programs, and
- new initiatives.

**Timing of Variance Reports**

Formal Variance Reports for Management Board review are to be prepared by departments, for the months of June, September, November, January, February and March with exception reports prepared as required. (Periods for the Variance Reports are: 03, 06, 08, 10, 11, 12.) Unless otherwise directed by Management Board, departments are to submit their reports to the Management Board Secretariat in the Department of Finance by no later than the 5th business day of each month. The Department of Finance will then prepare a submission for review by Management Board as quickly as possible. From time to time, Management Board may also direct that variance reports be prepared for additional or different time periods.



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**Approval of Variance Reports**

Reports are to be approved by the Ministers and/or Deputy Ministers as directed by Management Board. If Ministers are not required to approve the reports, departments should brief their Ministers on the content of the reports since Ministers will have to speak to the reports when they are reviewed by Management Board.

**Format and Content of Variance Reports**

Based on Management Board direction, the Management Board Secretariat provides departments with instructions regarding the format and content of the variance report submissions. Unless Management Board provides specific direction, departments have full discretion over the variances to be disclosed in the reports. For example, some departments may decide that variances under \$10,000 will not be reported. However, another department may decide that all variances over \$1,000 will be reported. When departments are deciding what variances to reflect in the reports factors to consider include:

- whether Management Board has already made a decision, based on an individual Management Board submission, regarding the variance (e.g., Management Board may have already approved for inclusion in the variance report a revision to the department's O&M budget).
- whether a vote increase will be or is likely to be required to cover the variance. Reports can include both variances that departments are certain will occur as well as variances that may occur.
- whether the variance will/could result in surplus funds available for reallocation.
- whether the variance is material. Factors to determine if a variance is material include:
  - the size of the variance taking into consideration that the variance may be combined with several variances of similar size (e.g., although a department may consider a variance of \$50,000 not material, if ten departments each have variances of \$50,000 the total is \$500,000); and
  - the size of the variance in comparison to the size of the department's budget.
- whether Management Board should be informed of the variance for another reason. For example:
  - even though a variance may not be material in size, the nature of the variance may warrant disclosure;



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- the department may want to inform the Board of a material variance funded from internal offsets;
- some internal transfers between allotments, programs, etc. may be of a nature that the department will want to advise the Board. The variance report can be used for this disclosure.

Departments are also responsible for deciding how much detail to provide when explaining the variances. The full content of the reports received by Finance will normally be submitted to Management Board. Therefore, to keep the reports to a reasonable size it is important to include only the essential information.

**Review of Variance Reports by Management Board**

Management Board Secretariat will prepare the Management Board submission and then it is submitted to Management Board for review. The submission will normally consist of summary pages that totals all the variances and the variance reports received from departments. A commentary or analysis prepared by the Management Board Secretariat may also accompany the reports. For funding requirements identified on the variance reports Management Board may decide to:

- accept the requirements for information and continue to monitor the situation;
- give departments specific direction regarding the funding requirements, including requesting departments to prepare more detailed submissions on specific items; or
- direct the Department of Finance to prepare a Special Warrant or Supplementary Estimates as appropriate.

If Management Board approves or denies the variances, departments must maintain or adjust the level of service accordingly.

**Preparing Supplementary Estimates based on the Variance Reports**

Management Board may approve "in principle" increases to departmental votes. However, even if these increases are offset by decreases in votes of other departments, the Legislature's approval is required for any of the vote increases.

To obtain the Legislature's approval, Supplementary Estimates are prepared. These Estimates usually reflect changes in revenues and recoveries and the increases and decreases to votes in order to provide a total revised financial position for the Government. The Estimates are tabled in the Legislature with an accompanying Appropriation Act. Once the Act is approved by the Legislature departments have legal authority for the increased vote levels.



**Chapter 2 Financial Planning and Budgetary Control**

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Since the Supplementary Estimates include details of O&M programs, capital programs and projects, and revenues and recoveries, departments will be requested to provide the Management Board Secretariat with detailed reports that reconcile to the approved variance reports. These detailed reports will need to show:

- revised budget balances of:
  - O&M programs, activities and allotments,
  - capital programs and projects,
  - individual grant and contribution items, and
  - individual revenue and recovery items.
- variance explanations for all items reflected in the Supplementary Estimates; and
- other information that may be required by Management Board.

The Secretariat will then use these reports to prepare draft Supplementary Estimates for review and approval by departments, Ministers and Management Board. These reports will also be used, as appropriate, to prepare the "forecast" column in the Main Estimates of the subsequent fiscal year.

**Preparing a Special Warrant for Supplementary Funding**

If the Legislative Assembly is not sitting and supplementary funding is required prior to its next sitting, a Special Warrant can be prepared. Special Warrants for supplementary funds reflect only vote increases. Special Warrants must be approved by Management Board and Cabinet and signed by the Commissioner. Once they are signed by the Commissioner they give departments official authority for the increased votes. The amount included in the Special Warrant must be submitted to the Legislature as part of an Appropriation Act at the next sitting of the Legislature.

Refer to the section on Special Warrants in the *Financial Administration Act* for more details of when a Special Warrant may be used.

**Updating the FMIS**

Once the Supplementary Estimates are passed by the Legislature, or a Special Warrant is signed by the Commissioner, the updating of the central FMIS to reflect the revised budgets is co-ordinated by the Department of Finance.



### **2.5.6.3 Revotes of O&M and Capital Funds**

A revote is defined as the re-appropriation of money that was appropriated for an O&M or capital project and that has lapsed (i.e., was unspent) in the previous fiscal year. Normally the revote is for work not completed on a specific O&M or capital project during the past fiscal year and the related lapsed funding is required in order to complete the project during the current fiscal year.

Management Board may ask departments to identify their revote requirements by way of a call letter (instructions) issued by the Management Board Secretariat. The revote submissions are then summarized by the Secretariat and reviewed and approved/rejected by Management Board. If a revote is not approved, departments have the options of deferring or cancelling the project or reallocating funds from other projects. Approved revotes are reflected in the first variance report of the subsequent year and the associated Supplementary Estimates.

#### **The following is an example of how the revote process works:**

Major capital renovations to an existing school are being undertaken in 1993/94 and scheduled for completion by year-end (March 31, 1994). The entire budget is reflected in the 1993/94 Main and/or Supplementary Estimates. Due to unforeseen project delays the renovations cannot be completed by year-end. The portion of funds not spent by year-end lapse (per the *Financial Administration Act*). The department could request the funds that lapsed be "revoted" in 1994/95 to finish the renovations. If the revote is approved by Management Board it would be included in the first Supplementary Estimates for 1994/95 for approval by the Legislative Assembly. Once approved by the Legislature, the department has the legal authority to spend the revoted funds.

## **2.5.7 Auditors**

### **Auditor General for Canada**

The Auditor General for Canada, appointed under the Yukon Act (Federal), examines the Government's accounts and prepares a report stating whether proper books of accounts have been kept and whether financial statements are consistent from year to year and if these statements are representative of territorial financial activities and in agreement with the books of account.

The Auditor General's "Report on Other Matters to the Yukon Legislative Assembly" discusses matters that, in the Auditor General's opinion, should be brought to the attention of the Assembly. This annual report is tabled in the Legislative Assembly and reviewed by the Public Accounts Committee. Departments are responsible for providing the Auditor General with information and for addressing the issues identified in the reports.



**Internal Auditor**

The authority of the Internal Auditor is established by the Financial Administration Act. Refer to Policy #1.13 in Volume 1 of the General Administration Manual for more information on the role of the Internal Auditor.

**2.5.8 Public Accounts Committee**

In December 1979, the Legislative Assembly established a Standing Committee on Public Accounts. The committee reviews the annual Public Accounts and the Auditor General's Report On Other Matters and makes recommendations to the Legislature.

It is empowered to examine, inquire into, and report on all matters concerning the financial administration of the Yukon Government and such matters as may be placed before it by the Assembly.

The committee may examine papers, records and call witnesses (e.g., departmental officials) as it deems appropriate, and report back to the Assembly from time to time.



**Chapter 3**  
**Operation of Management Board**

- 3.1 LEGISLATIVE AUTHORITY
- 3.2 MANUALS
- 3.3 HISTORY
- 3.4 GENERAL DESCRIPTION
- 3.5 DECISIONS
- 3.6 ADVISORY AND SUPPORT STAFF
- 3.7 ROUTING OF SUBMISSIONS
- 3.8 CONTENT OF SUBMISSIONS
- 3.9 ANALYSIS OF SUBMISSIONS
- 3.10 DISTRIBUTION OF ANALYSIS REPORTS
- 3.11 TIMING
- 3.12 DISTRIBUTION OF MANAGEMENT BOARD DECISIONS AFTER A  
MANAGEMENT BOARD MEETING
- 3.13 SUBCOMMITTEES OF MANAGEMENT BOARD



### **3.1 LEGISLATIVE AUTHORITY**

- Establishment pursuant to the *Financial Administration Act* (Section 3).

### **3.2 MANUALS**

- General Administration Manual (Volumes 1, 2, 3, and 4)
- Management Board Directives Manual.

### **3.3 HISTORY**

- In 1960, the *Yukon Act* was amended to bring into being an Advisory Committee on Finance, consisting of three members of the Territorial Council (now called Legislative Assembly) which was to be consulted by the Commissioner in the preparation of the budget.
- In 1968, Commissioner James Smith created the Budget Programming Committee which consisted of the Territorial Councillors who had been appointed to the Advisory Committee on Finance plus the two Assistant Commissioners and the Territorial Treasurer. This committee was made responsible for the preparation of the budget. In contrast, the Advisory Committee on Finance had only been allowed to review the budget prepared by the administration a few weeks prior to the spring sitting of the Legislative Assembly and was not permitted to make changes.
- In 1970, pursuant to a directive of the Minister of Indian Affairs and Northern Development, an Executive Committee was created consisting of the Commissioner, two Assistant Commissioners and two Members of the Territorial Council. The Executive Committee has been described as the “embryo” of the current Cabinet. The Budget Programming Committee was transferred into an agency of the Executive Committee and given the title Sub-Committee of Finance. It was clearly a forerunner to the present day Management Board as its principal functions were to make recommendations to the Executive Committee respecting:
  - the determination and control of the staff establishment;
  - expenditure plans and programs; and
  - the annual financial position of the government.
- A further transformation occurred in 1979 when the Cabinet became a fully-elected body and the Sub-Committee on Finance was renamed the Cabinet Committee on Finance. The powers of the committee remained purely advisory in nature.



**3.3 (Continued)**

- As of February 22, 1983, the Cabinet Committee on Finance became Management Board with enhanced decision-making powers. In essence, the Management Board composed of Ministers of the government, became the overall “general manager” of government operations.
- The decision to enhance the powers of Management Board was originally sanctioned through a policy directive of Cabinet in February, 1983. With the passage of the *Financial Administration Act* in April, 1984, the current Management Board, along with its powers, were established by statute.
- Management Board has evolved from a body which had limited authority and functioned in a purely advisory capacity to a fully-fledged decision-making body with its authority established in statute (the *Financial Administration Act*) and in Directives or Regulations pursuant to that statute.



### **3.4 GENERAL DESCRIPTION**

The Management Board is the management and financial committee of Cabinet established pursuant to Sections 3 and 4 of the *Financial Administration Act*. Subject to the *Financial Administration Act* and the direction of Cabinet, the Management Board determines its own rules and procedures and also issues Directives pertaining to areas noted below:

- (a) accounting policies and practices of the government, including the form and content of the Public Accounts;
- (b) government management practices and systems;
- (c) government financial management and control of revenue disbursements and assets;
- (d) evaluation of government programs as to economy, efficiency and effectiveness;
- (e) the management, control and direction of the public service, including organization and staff establishments;
- (f) internal audit procedures and methods; and
- (g) any other matters referred to it by the Cabinet.

More information on the Management Board is contained in Management Board Directive MBD#1/84.



### **3.5 DECISIONS**

Decisions of the Management Board are recorded in documents known as Minutes. Minutes usually pertain to specific decision topics (e.g. a request for signing authority) and extracts of Minutes are distributed to Deputy Heads in the government when Management Board decisions relate to their departments. In the case of decisions made on Management Board sub-committee reports, Minutes are distributed to the Chair of the appropriate committee.

Management Board also issues Directives related to the overall operation of Government. Directives are placed in the Management Board Directives Manual and are also published in the Yukon Gazette. Directives are added, deleted or amended regularly to reflect Management Board decisions. The Management Board Secretariat distributes updates to departments and it is important for holders of Management Board Directives Manuals to ensure that the manuals are kept up-to-date.

Where there is a discrepancy between the contents of a Management Board Directive and other administrative policies that exist, the Management Board Directive prevails.

It should also be noted that Management Board Directives are the subject of an ongoing process intended to co-ordinate government policies. As part of that process, Directives are gradually being replaced by policies in the General Administration Manual (GAM).



### **3.6 ADVISORY AND SUPPORT STAFF**

#### **A. SECRETARY TO MANAGEMENT BOARD**

The Secretary to the Management Board is appointed by Order-in-Council pursuant to Section 3(3) of the *Financial Administration Act*.

The Secretary to the Board is responsible for:

- ensuring that there is an analytical support function to Management Board (the Secretariat is located in the Department of Finance);
- reviewing and approving Management Board's agenda, in consultation with the Chair;
- anticipating future agendas in order to assist the Chair to determine priorities and manage the Board's work;
- working with the Premier and political staff to reconfirm government's priorities from time to time;
- participating in regular meetings with the Cabinet Secretary to review and ensure co-ordination of Cabinet and Management Board agendas;
- ensuring accurate minuting of the decisions of the Board;
- signing the official minutes of the Board for subsequent signature by the Chair; and
- presenting or organizing presentation of topics to the Board.

#### **B. DEPUTY HEAD OF FINANCE**

Pursuant to Section 7 of Management Board Directive #1/84, the Deputy Head of Finance is a permanent advisor to the Management Board. The Deputy Head provides advice and comment as required or requested on matters of a budgetary nature that are being discussed by the Board. Also, when the Management Board discusses budgetary items such as estimates or variance reports, there is representation from the Management Board Secretariat, Department of Finance.

#### **C. PUBLIC SERVICE COMMISSIONER**

The Public Service Commissioner is a permanent advisor to the Management Board, pursuant to Section 7 of Management Board Directive #1/84 and provides advice and comment pertaining to human resource decisions of the Board.



**3.6 (Continued)**

**D. DEPUTY HEAD OF HIGHWAYS AND PUBLIC WORKS**

The Deputy Head of Highways and Public Works provides advice and comment on Board decisions pertaining to the procurement and management of affordable facilities, informatics, goods and services.

**E. ADMINISTRATIVE SUPPORT**

The Management Board Secretariat provides the following administrative support:

- minute-taking;
- key-punching of the minutes;
- creation of the Management Board Minute extracts;
- creation and maintenance of files pertaining to requests to Management Board; and
- maintaining the Management Board Decision Data Base.

Support staff in the Executive Council Office are responsible for:

- distribution of Management Board agenda packages;
- distribution of Extracts of Minutes;
- receiving and logging original submissions to Management Board; and
- providing copies of submissions to the Management Board secretariat for analysis.

**F. FREQUENCY OF MEETINGS**

The frequency and scheduling of Management Board meetings vary depending on other commitments (for example, when the Legislative Assembly is in session, ministerial travel, etc.). Generally, however, meetings are held on a weekly basis, usually mid-week, and, on average, last approximately one to one and one-half hours.



### **3.7 ROUTING OF SUBMISSIONS**

Submissions to Management Board are routed from the office of the sponsoring Minister to the Assistant to the Cabinet Secretary in the Executive Council Office (ECO). The submissions are recorded and given an ECO log number, photocopied and then three copies of each submission are provided to the Management Board Secretariat in the Department of Finance.

Departments often send advance copies of submissions or memoranda to Management Board direct to the Management Board Secretariat in order that preliminary reviews may occur prior to receipt of the final, formal submission. This practise is encouraged particularly when dealing with complex submissions.



### **3.8 CONTENT OF SUBMISSIONS**

Submissions to Management Board are normally completed using the Application and Report to Management Board form (see Appendix A). This form is also available in electronic format from the Management Board Secretariat. Letters from Ministers to the Board and other documents may also be used.

When Management Board consideration of a Cabinet submission is required (which would occur where there are financial or other resource implications) it is unnecessary to reformat the signed Cabinet submission. Rather, when preparing the Cabinet submission Routing Sheet, clearly indicate that the submission is to be reviewed by both Cabinet and Management Board. However, if a department also wishes to prepare a separate Application and Report to Management Board form, it must also be signed by the sponsoring Minister, initialled by the Deputy Minister and attached to the Cabinet submission.

The content of Management Board submissions is determined in large part by the nature and complexity of the issue or topic. However, in all cases, submissions must contain all information necessary to support informed decision-making by the Board. The following important items should be considered.

- a) Regardless of the format used, the submission must be signed by the Minister (or the Minister's designate) and initialled by the Deputy Minister of the sponsoring department. If additional information relating to a submission is identified after a submission has entered the routing system, the sponsoring department must inform the Minister. If the Minister agrees that the additional information should form part of the submission, the submission must either be amended and signed again by the Minister and the Deputy Minister or the additional material must be signed or initialled by the sponsoring Minister and Deputy Minister.
- b) The submission should be clear and concise and the request phrased in straightforward language.
- c) All relevant background information in support of the request/proposal must be provided within the submission. In circumstances where a Management Board submission is also going forward to Cabinet for a policy decision, the appropriate format for Cabinet submissions should be used, together with an Application and Report to Management Board form, signed by the Minister and the Deputy Minister of the sponsoring department. Departments should consult with the policy branch in the Executive Council Office to confirm which format is currently being used for Cabinet submissions.



**3.8 (Continued)**

- d) Evasive or vague language should be avoided. For example, if the request is for retroactive approval to award a contract in excess of three years, this should be clearly stated in the submission.
- e) If Management Board or Cabinet has previously made a decision relevant to the issue being addressed in a submission, the minute number(s) should be cited and a summary of the content included.
- f) Where a submission involves a request for additional funding for a program area, reasonable options should be provided for the Board to consider. In particular, it is expected that such a submission would examine whether there are other program areas within the department that could be reduced to offset the cost of the proposed action.
- g) If there is a recoverable aspect to a request, copies of supporting documentation should be attached to the submission (for example, proposed contribution agreements, letters, etc.).
- h) Interdepartmental and public consultation must be referenced where applicable. Submissions should take into account the broad corporate perspective and the interests of other departments. For example, submissions should assess the public acceptability of a proposed initiative if relevant and if there is a difference of opinion or interpretation between departments, it should be noted.
- i) Where possible, and particularly where new program requests are involved, performance measures should be provided to facilitate performance assessment.
- j) In the case of a submission dealing with a complex issue, departments are strongly encouraged to send an unsigned copy of a draft submission to the Management Board Secretariat for review prior to the formal, signed submission entering the system.
- k) Even if the proposed action would not require additional funds, any related costs should be included in the financial effects section of the Application and Report to Management Board, clearly marked “for information purposes only”.



**3.8 (Continued)**

- l) The financial effects section of the Application and Report to Management Board should reflect the estimated impact on expenditures, revenues and recoveries as follows:
  - “Current Year” column: estimated impact in the remainder of the current year;
  - “Year 2” “Year 3” and “Year 4”: estimated impact in the following three fiscal years.
- m) When preparing Management Board submissions, departments may find it useful to refer to the information provided in Section 3.9 – Analysis of Submissions.



## **3.9 ANALYSIS OF SUBMISSIONS**

### **BACKGROUND**

Submissions going forward to Management Board for consideration are subject to analysis by the Management Board Secretariat, department of Finance. (please see Appendix B). This is a key point and should be clearly understood. In this context, the role that the Secretariat is instructed to fulfill by the Management Board is to support informed decision-making by the Board.

Based on the information provided by the sponsoring department, and taking into consideration factors such as government priorities and relevant corporate information, the Secretariat is responsible for reviewing and making recommendations on the merits of a proposal and for recommending an appropriate course of action to the Management Board.

Depending upon the nature of a submission and potential implications, a copy of a submission may be forwarded as follows:

- if there are human resource implications related to the content of a submission, a copy is sent to the Public Service Commission for review;
- submissions may be forwarded to the Department of Justice for review or for a legal opinion;
- where there are implications related to office space or computer systems, the Department of Highways and Public Works is provided an opportunity to comment on a submission.

Comments received from these departments may be attached to the Secretariat's Analysis Report when it is forwarded to Management Board.

The name of a contact person in the sponsoring department should always be provided along with a submission so that the Management Board Analyst who is reviewing the submission can follow up with any questions or concerns. Naming one contact person helps avoid a situation where different sections of the same department provide conflicting information to an analyst.

The level of analysis depends on the complexity and sensitivity of the issue being addressed in a submission, and on whether the submission contains all necessary and relevant information (please refer to Section 3.8 - Content of Submissions). The degree of analysis required is substantially reduced when a submission presents complete information in a clear and concise manner.



**3.9 (Continued)**

**THE ANALYSIS REPORT**

The Analysis Report

- sets out the essentials of a proposal under consideration in a concise, non-technical manner;
- makes recommendations on the merits of a proposal;
- may at times include corporate information that is related to the submission request, but not specifically noted in the submission.

The Analysis Report is divided into three sections:

**1. Issue**

- states the reason for the submission; generally a one sentence summation of the question/issue to be discussed and resolved by Management Board.

**2. Comments**

- presents the factors/information/analysis considered by the Secretariat in reaching the recommended action/solution

**3. Recommendation:**

- states the Secretariat's recommended solution/action.

Each of these sections corresponds to the three types of questions generally addressed by the Analyst completing the report. Examples of the types of questions are noted below.

**1. Issue**

- why is the submission coming forward to Management Board?
- what is being requested?
- what issue/problem/question needs to be discussed/resolved by Management Board?

**2. Comments**

- Is there relevant departmental and corporate information pertinent to this request that needs to be considered?
- Are there any anticipated pitfalls or problems?
- Does the proposed action support government priorities or policies?



**3.9 (Continued)**

- Will the proposed action require a policy decision by Cabinet?
- Are there legislative implications?
  - Would amendments to existing or new legislation or regulations be required?
- Is there an implementation plan in support of the proposed action?
  - Does the implementation plan clearly show how the proposed action will be implemented?
  - Does the implementation plan include an evaluation component?
- What time frames are involved?
- Are there options that offer a viable alternative to the action recommended by the department?
- What are the expenditure, recovery, revenue and human resource impacts in the current year?
  - How much will it cost to implement the proposed action in the balance of the current fiscal year?
  - Will there be any revenues or recoveries flowing to government in the current year? How much?
- Is the submission dealing with Capital versus O&M funding?
  - If O&M funding, is this one-time or on-going?
  - Is new funding being requested or will existing funding be sufficient to implement the proposed action?
  - Is a transfer of funds (between programs, allotments, departments or between Capital and O&M) involved?
- What are the full-year costs, revenue/recovery projections and human resource implications of this proposal in future years?
  - What is the total anticipated cost for a full year of operation?
  - What level of revenue/recoveries will flow to the government over a full year?
  - What are the full-year impacts with respect to FTEs?
  - Is office space required?
  - Are there additional computer system costs?
- Are there implications for the central agencies? If so, have central agencies been consulted on the proposed action? Do the costs appear reasonable based on the information provided?
  - Are the costs comparable with other jurisdictions or with similar programs within the Yukon government?



**3.9 (Continued)**

- Does the amount proposed seem reasonable in the context of broad government priorities?
- Are calculations correct?
- What assumptions are made in respect of the calculations?
  - What is the basis for those assumptions?
  - Are there cost implications related to the assumptions that are not identified in the submission?
- What is the impact of the proposed action? Are there implications re: formula financing?
  - Land Claims implications (pre- and post- implementation)?
  - Devolution (pre- and post Devolution)?
  - Decentralization (is it a factor any longer)?
  - inter-departmental considerations?
    - have departments been consulted and are concerns/comments addressed in the submission?
  - intergovernmental considerations?
  - political considerations?
  - environmental?
  - public acceptability?
  - government's overall financial position?
  - has a communications strategy been prepared?

**3. Recommendation**

In developing its recommendation, the Secretariat considers:

- the government's priorities and the broad corporate perspective;
- all of the known factors relating to an issue or topic, including previous Management Board Directives and Cabinet decisions.

On occasion, departments and the Secretariat will disagree on the recommendation included in the Analysis Report. When this occurs, it is helpful to provide the Minister of the sponsoring department with other back-up documentation to take to the Board meeting for presentation. Ministerial preparation is essential to prompt and informed decision-making by the Board and has a material influence on the decision itself.



### **3.10 DISTRIBUTION OF ANALYSIS REPORTS**

Analysis reports are distributed along with the agenda to Board members a minimum of five working days prior to a scheduled Management Board meeting at which a submission will be considered.

A copy of the Analysis Report is also sent to the Minister and Deputy Minister of the sponsoring department.

If items are placed on the agenda in an accelerated fashion, the Analysis Report may not be delivered to the Deputy Minister of the sponsoring department in advance of the meeting at which the submission will be considered by Management Board and the Minister may receive a copy of the Analysis Report prior to the Deputy. On rare occasions, when there is an urgent request to be considered by the Management Board, the Analysis Report may be distributed at the meeting.



### **3.11 TIMING**

Management Board packages are distributed to members five working days in advance of a meeting.

To accommodate this distribution schedule, signed submissions must be submitted to Executive Council Office for logging three weeks prior to the date of the meeting at which a submission will be considered.

- Complex submissions may require a longer lead- time and departments are advised to provide draft submissions on complex matters to the Management Board Secretariat for review.
- Incomplete or late submissions will be deferred.

Final agenda decisions are made by the Chair of the Board.

If the Chair removes an item from the agenda, the item will not be placed on any future agenda unless the Secretariat is advised to do so by the Chairperson.



### **3.12 DISTRIBUTION OF MANAGEMENT BOARD DECISIONS AFTER A MANAGEMENT BOARD MEETING**

Decisions of the Management Board are recorded in documents known as Minutes prepared by the Management Board Secretariat.

Following a Management Board meeting, Minutes are drafted for review and signature by the Chair and the Secretary to Management Board and are presented for adoption at the next Management Board meeting and subsequently forwarded for ratification by Cabinet. Extracts of Minutes are then distributed to the relevant Deputy heads.

Management Board Analysts advise departments electronically of decisions as soon as possible after a Management Board meeting, with the proviso that a formal Management Board Minute will follow in due course.



### **3.13 SUBCOMMITTEES OF MANAGEMENT BOARD**

Section 8 of Management Board Directive #1/84, provides for the establishment of several subcommittees of the Board.

These committees have the responsibilities outlined in their relevant directives. The existing committees of Management Board are:

NAME	APPLICABLE DIRECTIVE*
Audit Committee	GAM 1.13
Office Space Committee	MBD#17
Board of Survey	MBD#11

Also, the Information Technology Management Directive provides for the roles and responsibilities of the Information Resource Management Committee which reports to the Deputy Ministers' Review Committee (GAM 2.3).

For the most part, committee membership exists by appointment for a specified term except for those committees, which have permanent heads. Recommendations for appointment to the committees are made by the relevant Minister who is named in the applicable directive using the process outlined in the directive.

*	GAM	=	General Administrative Manual
	MBD	=	Management Board Directive
	GAM 1.13	=	Internal Audit Services and Activities
	GAM 2.3	=	Information Technology Management
	MBD #11	=	Management of Capital Assets and Disposal of Surplus Public Property
	MBD #17	=	Office Space Committee
	MBD #18	=	Committee Appointments





## Application and Report to Management Board

**Department**

**Subject**

**R D Reference** (if previously considered by  
Cabinet or Management Board)

**Request:** (attach additional pages if necessary)

**Estimated Financial Effects of Action Proposed:** (includes salaries/wages, costs indicated below)

	CURRENT YEAR	YEAR 2	YEAR 3	YEAR 4
Expenditure:				
Revenue:				
(including reimbursements)				

**Proposed Personnel Changes:**

	CURRENT YEAR	YEAR 2	YEAR 3	YEAR 4
Salaries/Wages:				
Person Years:				

**Planned Results and Significant Implications:** (administrative, policy, etc. If space is insufficient, attach additional pages)

**Recommended By:**

Deputy Minister's Initials

Date

**Approved By:**

Minister's Signature

Date





**CONFIDENTIAL DOCUMENT**

**Analysis**

**Report**

<b>Department/Corporation:</b>	<b>Meeting Date:</b>
<b>Submission Name:</b>	

**ISSUE:**

**RECOMMENDATION:**

**COMMENTS:**



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# ***Financial Administration Manual***

## ***Chapter 4 Financial Systems and Controls***

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### **Chapter 4 Financial Systems and Controls**

- 4.0 GENERAL POLICY STATEMENTS**
- 4.1 INTRODUCTION**
- 4.2 SYSTEMS OVERVIEW**
- 4.3 FUNCTIONAL RESPONSIBILITIES OVERVIEW**
- 4.4 CLASSIFICATION AND CODING OF FINANCIAL INFORMATION**
  - 4.4.0 Coding Policy
  - 4.4.1 Background
  - 4.4.2 Major Classifications of the Chart of Accounts
  - 4.4.3 Account Number Structure
    - 4.4.3.0 Position and Meaning of “Elements” in the Account Structure
    - 4.4.3.1 Account Break-out Pattern
  - 4.4.4 Coding Guidelines
    - 4.4.4.0 Mandatory Classification Requirements
    - 4.4.4.1 Optional Classification
    - 4.4.4.2 Application
    - 4.4.4.3 Maintenance Responsibility
- 4.5 CONTROLS IN FINANCIAL SYSTEMS**
  - 4.5.0 Overview
  - 4.5.1 Objectives
  - 4.5.2 Policy
    - 4.5.2.0 Responsibility
    - 4.5.2.1 Internal Controls
    - 4.5.2.2 Audit Trail
    - 4.5.2.3 Organization
    - 4.5.2.4 Systems Development
    - 4.5.2.5 Security
    - 4.5.2.6 Training
    - 4.5.2.7 Documentation



## ***Financial Administration Manual***

### ***Chapter 4 Financial Systems and Controls***

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- 4.5.3 Control Guidelines
  - 4.5.3.0 Nature & Scope
  - 4.5.3.1 Responsibility
  - 4.5.3.2 Control Considerations
  - 4.5.3.3 Role of Internal Audit

#### **4.6 FINANCIAL REPORTING**

- 4.6.0 Policy Statements
- 4.6.1 Introduction
- 4.6.2 Reporting Sources/Facilities Overview
- 4.6.3 Information Requirements Overview
- 4.6.4 Reporting Standards
- 4.6.5 The Reporting Process
- 4.6.6 Responsibilities



## **4.0 GENERAL POLICY STATEMENTS**

- Central financial system(s) shall be designed, developed, maintained, and managed by the Department of Finance to fulfill its responsibilities under the Financial Administration Act for accounting, control and reporting for the Consolidated Revenue Fund and the Public Accounts. All departments are required to use these central systems.
- Individual departments are responsible for developing, maintaining and managing unique systems/sub-systems required for their operations to assist managers in meeting their financial administration, reporting, and program delivery responsibilities. Notwithstanding this requirement, departmental financial systems shall be complementary to and compatible with the central systems.
- Central and departmental financial systems shall be developed and implemented with adequate and cost-effective internal controls. Central and departmental systems and controls shall be evaluated periodically jointly with Internal Audit to ascertain their adequacy and effectiveness.
- Additions and changes to departmental financial systems directly or indirectly impacting on the central systems shall be subject to review by the Department of Finance, and approval of departmental executive group.
- The Department of Finance, as the central agency, and other departments shall ensure that qualified and adequately trained staff are available in their financial operation areas to effectively utilize central and departmental system facilities and to properly carry out their functions in financial operations.
- Departmental Financial Officers shall ensure implementation of proper accounting controls on the basis of a thorough understanding of provisions in the FAA, MBD and this manual, as well as an understanding of the reporting requirements and the services provided by Department of Finance.



## **4.1 INTRODUCTION**

The central financial systems provided and maintained by the Department of Finance are the principal systems of the government. These systems process transactions maintain the financial records of the government and provide the data used in the preparation of interim financial statements and the public accounts. These systems also assist in departmental financial operations by providing information for monitoring and control of expenditures against appropriations of the Legislature.

Departments establish and maintain sub-systems to manage financial resources within their own areas. Such systems include those that are directly or indirectly linked with the central systems and are mainly used in budget preparation and analysis, in the tracking of authorizations and recording of expenditures, in recording and collection of revenues and in reporting financial and non-financial information for the evaluation of the efficiency with which departmental programs and activities are carried out.

Departmental systems/sub-systems are generally designed to provide additional information to assist managers in their effort to meet program objectives and to supply data/information required by central agencies. To this end, departmental financial systems may be considered as extensions of, and complementary to, the central systems.

YTG's Financial Information System is operated in a computerized environment with Mainframe applications and Micro facilities. Mainframe applications consist of packaged software and in-house-developed systems that are being used primarily for financial applications.

Without detailing the functions of specific systems or how they should be used, this section of the manual provides an overview of the systems. This overview outlines the policies and guidelines relating to data capture, controls and reporting considerations to assist users in planning, coordinating and implementing financial operations and systems activities within the computerized environment.



## **4.2 SYSTEMS OVERVIEW**

YTG's overall budget, commitment and actual expenditure transactions are collected and maintained in a General Ledger System managed by the Department of Finance. Prior to being captured in the

G/L, external charges and commitments are received, approved and coded by individual departments and are then processed through the Accounts Payable and Commitment Systems. Employee labour time and related costs are captured and processed in the Payroll System using appropriate codes for subsequent distribution to the General Ledger System. An automated system utilizing SAS programs and CMS files is used for compiling departmental budgets and for budget input to the G/L system.

Standard reports are produced from each sub-system on completion of job cycle runs and from the General Ledger System after month-end closing. On-request reports can be generated according to the desired needs of users, applying SAS programs, from transaction files provided and maintained by the Department of Finance.

A direct payroll deposit system, automated cheque reconciliation and equipment and labour cost distribution facility are also part of the computerized financial systems environment.

The General Ledger System and its related feeder systems are designed with adequate manual and automated control features, such that data integrity, completeness of information and maintenance of back-up files are established routines.



### 4.3 FUNCTIONAL RESPONSIBILITIES OVERVIEW

Under the existing operating environment, responsibilities for database maintenance, processing and reporting activities which form the overall financial system(s) are assigned as outlined below.

#### FUNCTIONAL RESPONSIBILITIES

SYSTEM/ACTIVITY	DEPARTMENT OF FINANCE	USER DEPARTMENTS
Budget Process	<ul style="list-style-type: none"><li>• Compile and prepare consolidated budget using SAS/CMS facilities.</li><li>• Load budget to G/L database.</li><li>• Variance analysis and reporting.</li><li>• Advising MB on financial planning and control</li></ul>	<ul style="list-style-type: none"><li>• Prepare detailed departmental budgets using posting level accounts, and utilizing computerized facilities.</li><li>• Provide departmental budget data to Finance as per directives.</li><li>• Variance analysis and reporting to departmental managers and central agencies.</li></ul>
Disbursement	<ul style="list-style-type: none"><li>• Process payments in accordance with established procedures and controls for all departments.</li><li>• Monitor implementation of signing authorities as per MB directives.</li><li>• Centralized maintenance of vendor master file.</li><li>• Generate disbursement and distribution entries to G/L.</li><li>• Maintain manual files for all paid documents.</li><li>• Monitor and maintain systems effectiveness.</li></ul>	<ul style="list-style-type: none"><li>• Preparation of cheque requisitions using appropriate distribution codes and in accordance with directives for authorization.</li><li>• Application of control procedures.</li><li>• Verification of payments against records/documents of request.</li><li>• Maintenance of manual files for all commitment documents.</li></ul>
Payroll Processing	<ul style="list-style-type: none"><li>• Maintain Payroll Master File, process payroll and deposit pays to employee accounts for all government employees.</li><li>• Maintain detailed payroll records.</li><li>• Generate payroll distributions to the G/L system.</li><li>• Remit payroll deductions to respective agencies.</li><li>• Issue annual T-4s.</li><li>• Monitor and maintain system effectiveness.</li></ul>	<ul style="list-style-type: none"><li>• Provide accurate and timely employee payroll data including related distribution accounts.</li><li>• Verify accuracy and reconcile reports with contents of related accounts in G/L.</li><li>• Perform labour costs analysis.</li></ul>



## **Financial Administration Manual**

### **Chapter 4 Financial Systems and Controls**

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#### **4.3 Functional Responsibilities (Continued)**

<b>SYSTEM/ACTIVITY</b>	<b>DEPARTMENT OF FINANCE</b>	<b>USER DEPARTMENTS</b>
Commitment Processing	<ul style="list-style-type: none"><li>• Monitor system and data integrity.</li><li>• Manage access and maintenance controls.</li></ul>	<ul style="list-style-type: none"><li>• Record (input) commitments using affected budgetary accounts to assist managers in making decisions with respect to expenditures.</li><li>• Ensure completeness and accuracy of commitment data in the system.</li></ul>
General Ledger Control	<ul style="list-style-type: none"><li>• Ensure integrity of financial database.</li><li>• Maintain accounts and relationships.</li><li>• Input/Output control.</li><li>• Maintain regular and monthly processing and reporting schedules.</li><li>• Liaise with and assist users in all aspects of database maintenance.</li><li>• Monitor and ensure accuracy of balances in balance sheet accounts.</li></ul>	<ul style="list-style-type: none"><li>• Develop required chart of account per coding guidelines and information requirements.</li><li>• Ensure accuracy and appropriateness of G/L contents in departmental accounts.</li><li>• Correct coding and other entry errors in departmental accounts.</li></ul>
Financial Reporting	<ul style="list-style-type: none"><li>• Develop, maintain and distribute standard management reports.</li><li>• Prepare and issue annual financial statements.</li><li>• Provide detail transaction files accessible by all users for their reporting needs.</li></ul>	<ul style="list-style-type: none"><li>• Develop and implement SAS report programs to meet specific departmental requirements and to provide information to central agencies.</li><li>• Provide financial reports as per requirements of central agencies.</li></ul>



## **4.4 CLASSIFICATION AND CODING OF FINANCIAL INFORMATION**

### **4.4.0 Coding Policy**

- The Department of Finance, in conjunction with departments and agencies, shall develop the system for coding transactions to capture financial data in the General Ledger and is responsible for the maintenance of the chart of accounts such that the needs of users are met within the limitations of the entire system.
- All financial transactions of departments and agencies, except those excluded by legislation, shall be recorded in the central systems using the coding structure provided by Department of Finance. For purposes of this requirement, budgets shall constitute financial transactions.
- Departmental senior managers shall ensure that personnel involved in financial operations are familiar with the framework governing classification and coding of financial data for departmental and global reporting.

### **4.4.1 Background**

The financial coding structure was introduced in April 1980 and revised in April 1986 as part of the Financial Management Information System implementation. The coding structure is designed to satisfy legislative requirements for financial reporting and control and to meet the information needs of departments and central agencies.

This section outlines the relationship of the account classification structure to the organizational structure and information requirements of the Government. It also describes how the coding system can meet the needs of the various users and authorities.

Conceptually, the design of the G/L database depicts the shape of a pyramid with a hierarchical structure of accounts. At the bottom of the hierarchy, posting level accounts accept transactions and provide the system with its basic level of detail. From this level, links are established between a number of base accounts and higher level summary accounts to provide summarization as defined by account relationships.

An all purpose 13 digit account code structure consisting of department, vote, program, activity, element, and object has been developed for use by all departments regardless of the nature of their operational functions.



In addition to the relationship approach, aggregation and disaggregation is also made possible based on account breakdown pattern.

More details on the coding structure and departmental classification of accounts are provided in the Coding Manual issued by Department of Finance under separate cover.

#### **4.4.2 Major Classifications of the Chart of Accounts**

The General Ledger developed for the Government contains three major categories of accounts.

##### **Assets and Liability accounts**

##### **Revolving funds**

##### **Revenues / Recoveries and Expenditure accounts**

Segregation of these groupings within the chart of accounts has been designed such that;

- assets and liabilities are identified by the first two numeric characters of account codes being '99' and followed by an '8' or '9' respectively,
- revolving funds are identified by the first two characters of account codes being in the range of 41 to 49 inclusive, and
- revenues/recoveries and expenditure accounts start with two digit numeric department codes followed by further breakdowns representing classifications discussed below under "account number structure".

The approach taken in the development process has been such that the chart of accounts comprises all possible major categories in each class (i.e. assets, liabilities, income and expenditures) with finer classifications within each class to meet legislative and operational reporting requirements. The design approach includes considerations to maintain an effective self-balancing set of accounts.

#### **4.4.3 Account Number Structure**

The account numbering structure consists of seven distinct elements, each of specific significance to the financial operations/activities of the Government. Coding of financial transactions for data capture, and subsequent reporting requirements at different levels, are met by the definition assigned to each element in the structure. The seven elements are entity (department), vote, program, activity, element, object and sub-ledger.



**4.4.3.0 Position and Meaning of “Elements”  
in the Account Structure**

Position: 1 2 3 4 5 6 7 8 9 10 11 12 13 14.....22

Element: A A B C C D D E E F F F F XXXXXXXX

<b>AA</b>	Represents a distinct reporting <b>entity/department</b> . The structure permits the establishment of 01 to 99 functional areas as separate entities within the G/L system.
<b>B</b>	Represents a <b>vote</b> being part of an Appropriation Act authorizing payment of public money for specific purposes.
<b>CC</b>	Represents <b>programs</b> which consist of groups of related activities designed to achieve specific objectives.
<b>DD</b>	Represents operational <b>activities</b> that are the basis on which departments request funds for programs and serve as the basis for planning and decision-making to achieve program objectives.
<b>EE</b>	Represents “elements” within activities, being sub-activities which serve as the basis for cost control and evaluation of efficiency by operational-level managers.
<b>FFFF</b>	Represents objects, being basic elements of cost (i.e. labour, material, etc.) into which financial information can be broken down for purposes of analysis and decision-making with respect to the operation of programs. It is the level at which budgets are reviewed to evaluate the impact of Government spending on the national economy.
<b>XXXXXXXX</b>	Represents <b>sub-ledger</b> field to facilitate data capture by unique departmental information requirements.

**4.4.3.1 Account Break-out Pattern**

The account number break-out pattern has been formatted as follows:

AAB-CCDDEE-FFFF-XXXX-XXXXX

This format allows for the listing of the entities (departments) sequentially in the order of codes assigned and performs department “breaks” when a sequential list of the Account Master is requested. Based on control record parameters, it is also possible to achieve totals and page breaks either where “-” is shown or other desired levels.



#### **4.4.4 Coding Guidelines**

In general, the coding system and account structure will be common to all departments utilizing the central financial information system of the Government, and will be used as the level of input for Public Accounts reporting process.

Since day-to-day departmental operations involve extensive use of the revenue/expenditure category of the chart of accounts, the focus in this section is to outline the guidelines for coding transactions affecting that category.

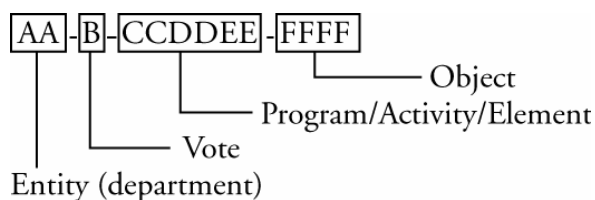
The classification structure for recording revenue and expenditure transactions consists of mandatory and optional fields. Mandatory coding classification fields reflect the organizational structure of the Government and the way funds are allocated by the Legislative Assembly to carry-on activities of the Government. This classification is aimed at identifying the sources and purposes of transactions and the nature of resources acquired or services rendered.

Optional coding classification fields (sub-ledger fields), on the other hand, are not pre-defined and may be used by departments for further breakdown of activities to meet information requirements in a uniquely aggregated or disaggregated manner.

Within the framework of the classification logic discussed above, the following guidelines apply to all users of the central systems.

##### **4.4.4.0 Mandatory Classification Requirements**

Governmental responsibilities are carried out through departments and agencies which execute program activities funded by votes of the Legislative Assembly. Financial transactions must, therefore, be identified to originating functional areas and traced to specific classification fields to establish accountability for financial operations and for reporting. Therefore, departments are required to use the first six elements in the account structure (department, vote, program, activity, element, object) in coding all financial transactions affecting revenues/expenditures as illustrated below.





#### **4.4.4.0 (Continued)**

i) Classification by Entity (department)

As financial transactions/operations need to be identified with department/agencies to which funds are allocated by the Legislative Assembly, the element in the account structure representing department becomes a required field in coding financial transactions.

ii) Classification by Vote

Since the Legislative Assembly authorized funding of programs by “vote”, and because departments are accountable for recording and reporting their financial operations within each “vote”, the second element in the account structure shall be used for this purpose.

iii) Classification by Program

Programs are the basic expenditure grouping debated in the Legislature and must be financed by at least one “vote”. Financial transactions on all votes relating to program(s) need to be captured and reported such that financial information for a program is made available in total. The third element in the account structure shall be used for this purpose.

iv) Classification by Program-Activity

Since programs embrace sizeable areas of operation and require many resources, they are broken down into “activities” for presentation to the Legislative Assembly, recording of transaction and subsequent reporting. “Activity” levels represent identifiable levels of output for which costs can be determined thus providing the basis for planning and control of program operations. The fourth element in the account structure shall, therefore, be used to identify “activities”.

v) Classification by Activity-Element

Breakdown of programs into activities cannot always meet the necessary or desirable attributes of the program. Therefore, it is necessary to further refine activities into “elements” to provide details to operational- level managers for exercising effective operational control and evaluation of efficiency.



**4.4.4.0 (Continued)**

vi) Classification by Object Code

Using “object” code classification, financial information is broken down into types of resources required for the operation of programs. “Object” codes identify the nature of goods and services for which funds are expended or the nature of government services rendered in exchange for funds. “Object” codes essentially represent economic objects and are the required level of information for economic analysis. Therefore, departments must ensure that financial transactions are coded to this level.

**4.4.4.1 Optional Classification**

This classification is often referred to as the sub-ledger field and consists of the last nine characters in the account structure. Classification by sub-ledger is useful for identification and reporting of measurable output of program objectives where coding of such factors at the mandatory classification level has not been met.

The lowest level of measurable output for which cost should be determined can vary between departments and even between programs within a department. Output may refer to units of production, operations, processes, projects, geographical regions, locations, etc.

The choice as to whether or not a department should use the sub-ledger field is dependent upon the nature of financial information required by different levels of its management. Where aggregation/disaggregation of data for reporting and classification for cost allocation are required in addition to the use of mandatory fields, the sub-ledger is a useful tool.

**4.4.4.2 Application**

- i) The account classification and structure shall be used by all users of the FMIS in all transaction coding including budgets, commitments and actuals.
- ii) Departments and “votes” are created by statute or the Cabinet/Management Board. Program/activity/element fields are identified within departmental boundaries and are defined by departmental authorities. “Object” codes are defined by the Department of Finance in co-operation with the users. Full or partial use of the sub-ledger code field is left to the discretion of the users.



**4.4.4.2 (Continued)**

- iii) Where financial sub-systems are used by a department for such items as inventory, accounts receivable, grants/contributions, securities, etc., control accounts should be set up in central systems following the classification and structure format requirements.

**4.4.4.3 Maintenance Responsibility**

User departments should submit request for creation, change or inactivation of accounts via a standard maintenance form issued by the Department of Finance. The actual account maintenance in the Account Master File is the responsibility of the Department of Finance to ensure consistency in the application of the rules in structure and relationship.

All account maintenance requests should be approved by individuals at the financial operations management level of the user department and reviewed by the Department of Finance.



## **4.5 CONTROLS IN FINANCIAL SYSTEMS**

### **4.5.0 Overview**

The usefulness of any financial system is dependent not only upon its performance efficiency and ability to provide information, but also on the effectiveness of controls that should be developed and exercised as an integral part of the system. Appropriate standards of organizational responsibility, authority, completeness and accuracy need to be established and applied with consistency to ensure legitimacy and usefulness of financial information, and to safeguard the assets of the organization.

Adequate controls have to be implemented based on a thorough assessment of their significance in terms of their contribution to meeting financial control requirements identified in related Acts, Directives and Regulations of the Government, and on the efficiency/effectiveness with which they can be applied.

Where financial systems are computerized, electronic controls are designed with complementary manual controls to ensure that there are no gaps; with due considerations to avoiding duplications and to achieving desirable levels of effectiveness as economically as possible.

Controls are established concurrently with the development of systems (manual or automated) and need to be maintained through all stages of manual, mechanical and electronic processing.

Control considerations in financial systems generally include:

- i) Application control procedures which involve:
  - Assignment of authority and responsibility with respect to activities resulting in financial transactions;
  - Determination of flow and appropriate sequencing of transactions processing;
  - Application of pre-processing checks and verification procedures;
  - Application of post-processing checks and balancing procedures;
  - Periodic testing and check of the control features of each system; and
  - Analyzing errors and taking remedial actions to maintain effectiveness.
- ii) General EDP controls which provide a framework of controls for systems development/acquisition, systems conversion, organization of users and systems activities, data/information processing, system security and documentation.



Since details of accounting/administrative control procedures are covered in other chapters of this manual, the emphasis in this section is to outline the considerations relating to the above areas.

#### **4.5.1 Objectives**

The material in this section is aimed at identifying control responsibilities with respective functional areas, and at providing guidance to financial and EDP personnel involved in the development and maintenance of financial systems to ensure that appropriate controls are implemented as standard practices within YTG's operating environment.

#### **4.5.2 Policy**

##### **4.5.2.0 Responsibility**

- i) The Department of Finance is responsible for ensuring adequacy and effectiveness of controls in the central financial systems and for monitoring their performance. Enhancements and revisions to central systems or sub-systems shall be developed and implemented under the supervision of the office of the Deputy Minister of Finance.
- ii) Senior departmental managers are responsible for ensuring adequacy and effectiveness of controls in systems developed and used for their unique requirements, and for monitoring performance of such systems. They must actively participate in the planning, development and implementation of controls in central and departmental systems.
- iii) Systems and Computing Services is responsible for the planning, co-ordination and monitoring of existing and proposed EDP facilities and resources for the government to provide assurance that:
  - Appropriate EDP facilities and resources are made available to users in the most cost effective manner;
  - Alternatives are adequately evaluated so that the best solutions are selected in view of relevant technical and cost considerations.
- iv) All additions and enhancements to the central financial systems including additions and enhancements to a department's system



that interface with any of the central systems shall be subject to approval of the Department of Finance.

**4.5.2.1 Internal Controls**

Central and departmental financial systems shall be developed and implemented with adequate and cost effective internal controls to achieve:

- Completeness and accuracy in processing only authorized transactions;
- Regular and timely processing of data, and availability of meaningful financial reports;
- Safeguarding of assets.

**4.5.2.2 Audit Trail**

Central and departmental systems/sub-systems shall provide an audit trail of all transactions processed.

**4.5.2.3 Organization**

Senior managers are responsible for establishing organization plans that ensure segregation of duties and responsibilities. In a computerized financial systems environment, such plans include:

- i) Segregation of users, systems development, processing/operation and system support activities and responsibilities;
- ii) Ensuring that transactions are processed against properly tested and approved programs only;
- iii) Ensuring that personnel familiar with processing or development functions do not bypass security and control procedures to change programs or data;
- iv) Ensuring that personnel responsible for protecting data integrity cannot process live data or change programs.

**4.5.2.4 Systems Development**

An established systems development methodology must be in place and followed such that:

- i) Development or change requirements are approved at the appropriate level after review and evaluation of cost/benefit analysis;
- ii) Required additions and changes are selected or developed in accordance with established standard and user objectives;



- iii) Implementation occurs only after adequate testing and conversion processes prove the efficiency and effectiveness of processing, operation and controls.

#### **4.5.2.5 Security**

All users, system support personnel, programmers and operations staff are responsible for observing security guidelines provided in this section with respect to application systems, and those issued by S&CS on the use of computer facilities and systems software.

#### **4.5.2.6 Training**

Departments are responsible for ensuring adequacy of training of their employees in financial operations and for the effective use of the financial systems in place by providing in-house training in conjunction with the Department of Finance, and by making available up-to-date systems, procedures and policy manuals to all functional areas involved.

#### **4.5.2.7 Documentation**

Departments are required to develop and maintain systems and procedures documentation for all financial systems/sub-systems under their ownership and responsibility. Documentation on systems/sub-systems interfaced with any of the central systems shall be reviewed by the Department of Finance to ensure compliance with requirements of the related central system(s). Copies of all departmental financial systems/sub-systems documentation, whether or not directly related to the central systems, shall be provided to Department of Finance for use as sources of reference for requirements analysis in current/future systems development efforts.

### **4.5.3 Control Guidelines**

#### **4.5.3.0 Nature & Scope**

The material in this section outlines the general control guidelines and does not cover detailed control procedures. Since accounting/administrative guidelines are addressed in other relevant sections, more emphasis is given here to application and EDP controls. Detailed procedures covering all aspects of control will be made available in a "Financial Systems and Control Procedure Manual".



**4.5.3.1 Responsibility**

Senior level managers of departments using computerized financial information systems, facilities and resources should develop written statements identifying assignment of responsibility for specific activities within their various functional areas.

In the YTG environment, the Department of Finance should develop and provide such written statements with respect to the central systems.

In general, control responsibility at a higher level may be assigned as follows:

- i) Senior management should be responsible for defining overall objectives of systems, for preparing strategic and operational plans and for monitoring processing and security activities;
- ii) User managers should be responsible for defining their information needs and for designing and monitoring control procedures to ensure completeness, accuracy, authorization and timeliness of data and information;
- iii) System managers should be responsible for developing and supporting systems, monitoring and evaluating systems performance, providing systems and detailed procedures manuals and for researching and identifying ways to improve services to the organization.

**4.5.3.2 Control Considerations**

**a) General**

User control procedures at the application level, programmed application controls and general EDP controls provide the framework for effective financial systems control in a computerized environment. Once developed and implemented, their use and effectiveness must be reviewed regularly. Detail procedures need to be developed along control guidelines and made available to users at the operational level. Guidelines and detail procedures have to be updated concurrently with changes in policies, operations and systems.

**b) Organizational Controls**

A system of internal controls which allows for the segregation of duties and responsibilities within user and processing departments, and which provides for effective application controls, is required.



- i) There should be adequate segregation of duties and responsibilities within user departments:
  - For custody of assets and their related record-keeping and to prevent situations where an individual may initiate transactions and approve payments;
  - To provide for physical arrangements that prevent unauthorized access to assets and accounting records;
  - To facilitate proper supervision of work performed in daily operations and to allow the use of work performed by one person to be used as a check on the work of another;
  - Providing for specific responsibilities for initiation and maintenance of transactions and accounting records.
- ii) There should be adequate segregation of duties within computer processing activities such that:
  - Processing support personnel may not update data files or run application programs;
  - Maintenance personnel have no access to and do not run systems in production;
  - Data processing, maintenance and development functional areas are separate.
- iii) Application controls must include the following considerations:
  - That all transactions are initially approved and recorded;
  - That all recorded transactions are authorized;
  - That all transactions authorized and recorded are processed accurately;
  - That all outputs are reviewed by users for completeness, accuracy and consistency;
  - That controls are properly enforced.

#### **c) Input/Output Controls**

Manual and automated input/output controls have to be developed as an integral part of each system/sub-system and exercised regularly to ensure accuracy and completeness. Techniques such as data validation, batch balancing, programmed checks, job scheduling, authorization checks and the use of prenumbered forms should be considered in developing detailed input/output control procedures.



**4.5.3.2 (Continued)**

- Input data should be initially recorded in a manner allowing for an audit trail, subjected to independent verification and edited/validated prior to being accepted into the financial database.
- Input/output control logs, data transmittal forms, independent verification and subsequent balancing procedures should be developed and used on an ongoing basis.
- Automated systems should have features for data validation, input/output record count and batch balancing.
- Input/output cycles should follow established processing schedules and cut-offs to ensure that all period transactions have been received and entered on time.
- In addition, an organized system of physical maintenance of input/output documents and reports should be in place for user and audit reference.

**d) Processing Controls**

Processing steps and procedures should be designed with a view to establishing controls through the segregation of duties and responsibilities.

Procedures should be established such that appropriate controls are exercised through all stages of receipt of source documents, input preparation, data entry and output verification

The flow of documents and data through the various stages in processing have to be controlled using special purpose forms. Establishing processing time frames and job scheduling that permit efficient utilization of resources, and that ensure availability of financial information on a timely basis, are essential considerations.

To ensure effectiveness and efficiency in processing, senior managers are required to conduct regular reviews of:

- processing requirements to assess whether or not system facilities and resources satisfy present and future financial information needs;
- Systems operations to ensure that effective processing and maintenance controls are in place, and that transactions are processed accurately on a timely basis;
- Use of systems facilities to ensure systems are accessed only by authorized personnel with adequate training;
- Overall processing activities and procedures in view of changing operational conditions.



**4.5.3.2 (Continued)**

**e) Error Handling**

Financial systems and procedures should be developed such that instructions on error detection, handling of corrections and resubmission of corrected data/transaction are clearly identified and understood by users. These requirements should be reassessed periodically to ensure effectiveness and timeliness with which errors are being handled. Periodic analysis of error frequency and status follow-up procedures should be adopted for the determination of systematic corrective measures. Steps should be taken to avoid potential errors and irregularities in reprocessing source documents, incorrect input coding, submission of unauthorized input or loss of input/output.

**f) Development Controls**

Systems development plans should be prepared for each new financial system/sub-system and for each major addition and revision to existing systems. Such a plan should, in general, include:

- Statement of objectives of the project;
- Description of the components and phases of the project;
- Indication of timing considerations for each phase of the project including staff training;
- Indication of estimated cost savings by project phase and in aggregate;
- Indication of the level of involvement of the Department of Finance.

The project plan is useful in monitoring progress during development/enhancement and for establishing accountability. To this effect, the plan should:

- Assign defined project responsibilities to groups and individuals;
- Require re-evaluation of anticipated benefits and costs at the completion of each phase of the project;
- Provide for submission of progress reports and for final report to management on completion.

Department of Finance will base the degree of involvement to monitor development/enhancement of departmental financial systems on:

- Objectives of the system;



**4.5.3.2 (Continued)**

- Nature and degree of impact on the central system(s); and
- Adequacy of resource at its disposal for assignment to such development, testing, and implementation efforts.

Senior management should provide the following approvals for all systems development projects, depending on their significance in terms of requirements and objectives:

- Approval in principle after review of project objectives and development plans;
- Approval after completion of each phase of the project;
- Final approval after sufficient testing and implementation of the overall system.

**g) Testing**

Computer systems and programs should be adequately tested prior to implementation using:

- i) Integrated tests which are performed by users applying data designed to test an entire system to ensure that:
  - The system is operating as expected and can process anticipated volumes;
  - Interfaces are operating properly with all modules functioning as desired;
  - Reports generated meet information requirements of users properly;
  - Adequate back-up and recovery procedures are available.
- ii) Acceptance tests which are performed by users and operations to test the adequacy of operating procedures applying simulated transactions to ensure that:
  - The system effectively processes transactions in the user environment;
  - Required controls and procedures are in place and work effectively;
  - Users are adequately trained and familiar with the detail controls and procedures.

**h) Conversion**

Conversion of existing data to a new or modified system should be controlled to ensure the data is completely and accurately transferred.



#### **4.5.3.2 (Continued)**

Successful completion of a conversion process usually involves the following considerations:

- Assignment of conversion responsibility to specific individuals;
- Developing time schedules for the conversion and establishing a cut-off date so that all transactions are processed to proper accounting period;
- Taking printed copy of data stored on the existing system immediately before conversion and comparing to data on new or modified system;
- Running parallel for a reasonable period subsequent to conversion to ensure processing accuracy and completeness by the new or modified system; and
- Obtaining formal sign-off from user managers to indicate system acceptance.

#### **i) Security**

Security policies and procedures should provide assurance that:

- Only authorized users can access systems;
- Adequate safeguards are provided to prevent accidental errors or deliberate actions that result in loss of data/information or cause damage to systems;
- Only authorized transactions are processed on systems;
- Updates to system programs are made only by authorization and that adequate safeguards exist to prevent unauthorized changes;
- Adequate emergency back-up and recovery plans are established and well understood by personnel responsible for performing the functions; and
- Adequate safeguards are provided to avoid damage or destruction to physical facilities.

#### **j) Documentation**

Financial Systems procedure documentation must be tailored to meet the requirements of specific systems and the user departments. Although all systems and procedures have individual requirements and additional documentation may be needed, on average, consideration should be given to including:

- Systems Narrative which describes a system from the point of view of the user;



**4.5.3.2 (Continued)**

- Interface Description which narrates how the system relates to other systems;
- Production Timetable listing all jobs within the system and showing when they should be run;
- Description of user procedures and tasks dealing with details of functions and identifying responsibility for each activity;
- Description of valid input data and forms to be used, including detailed instructions on how to handle different scenarios and use the required forms;
- Error recognition and correction procedures which should list all error messages and describe edits and error reports as well as corrective actions;
- Report descriptions of all printed outputs including explanations of purposed and uses of the reports;
- Descriptions of systems controls and audit features which should include detailed instructions on how to use them.

In addition, there should also be complete sets of system documentations and operations manuals, which are technical in nature, for use in managing the systems and for personnel in operations.

**k) Maintenance**

System software and hardware maintenance activities must be carried out based on plans and schedules. Maintenance contracts should be reviewed regularly to ensure adequacy of services and to investigate better alternatives.

**4.5.3.3 Role of Internal Audit**

While primary responsibility for the establishment and operation of a system of internal controls is that of Department of Finance, with Departmental Managers and Financial Officers being responsible for ensuring application, Internal Audit performs evaluation of systems as an independent body. Although the nature and scope of its activities depend on management directives, it should in general:

- Review, evaluate and report on the adequacy of the financial control framework;
- Examine and evaluate performance in relation to the established control framework and report the extent of compliance or non-compliance;



**4.5.3.3 (Continued)**

- Review, in advance, any system being developed to ensure that designers have provided adequate consideration of audit trails and internal controls; and
- Appraise and evaluate reliability of accounting systems, degree of adherence to policies and legislations and provisions for the protection of assets.



## **4.6 FINANCIAL REPORTING**

### **4.6.0 Policy Statements**

- As a central agency with responsibility for the monitoring and control of overall financial activities, as well as for the operation and maintenance of the central financial systems, the Department of Finance shall provide the global reports and statements required by different levels of government and external agencies.
- Individual departments and agencies shall be responsible for providing detail and summary financial reports required by their management and by central agencies.
- The Department of Finance will assist and advise departments in the development of reports and the application of reporting facilities. Primary responsibility for using available financial reporting sources and services, however, rests with the user departments.
- Financial reports produced by central systems shall include information on budgets, actuals and commitments. In addition to information extracted from the central systems, reports produced by individual departments shall include details for items such as inventory, forecasts and statistical data.
- Although the extent to which accrual accounting is practiced by individual departments during the year is left to their discretion, it is mandatory that year-end financial reporting be on an accrual basis.
- It shall be a requirement that all financial reports meet standards defined in this section.
- The Department of Highways and Public Works, through its Information and Communications Technology branch, shall ensure availability and maintenance of adequate reporting facilities and will assist users in the application of such facilities.

### **4.6.1 Introduction**

This section outlines the data sources for reporting, the reporting process, standards and responsibilities. These sources and processes are addressed with the assumption that transaction data will be maintained in the database(s) in accordance with classification requirements outlined in the preceding section. Thus, the usefulness of information reported is closely linked to the accuracy and consistency of classification applied during data capture.

Within the limitations of available sources and facilities, financial reports are generated to meet information needs of users at different levels of the organization. In general, the principal reporting objectives are:



#### **4.6.1 (Continued)**

- to facilitate operational control by providing detailed and current information on a regular and timely basis;
- to enhance operational management decision making and control processes by periodically providing comparative data on budgeted and actual performance;
- to meet the strategic information needs of management by providing summary-level actual, budgeted, and forecast data on a quarterly or as required basis.

The Financial Management Information System(s) has been designed in light of these objectives and to accommodate specific departmental requirements so that information needs can be extracted in formats desired by users.

#### **4.6.2 Reporting Sources/Facilities Overview**

A number of standard and customized reports are produced from central financial systems files. While some of these reports are generated as a result of regular transaction processing, others are user initiated period-end reports.

A variety of detail and summary level account balances and comparative reports can be extracted from the data bank of the G/L which contains budgetary data allocated to periods based on anticipated actuals for each period, commitment balances by account, cash receipts, expenditures and transfers between appropriations. This data bank is the source for producing trial balances for reporting in the Territorial Accounts and for extracting specialized financial reports required at the management level.

The Central Systems, which include the G/L and its sub-systems (A/P, Payroll, Fund Accounting) containing detail transactions, provide the database from which reports required for monitoring and control of financial activities can be generated.

Standard reports from the central systems are initiated by the Department of Finance and distributed to users on a regular basis. Such reports include those that are system-generated and global management reports developed by the Department of Finance.

On-request reports can be initiated by departmental users depending upon their security level of access to each application system.

Customized and ad-hoc type reports can be created by individual users through SAS applications from daily-updated data warehouse. The Department of Finance assists in such endeavors based on analysis of requirements.

In addition to printed reports, on-line inquiry facilities are available to users for viewing data/information in the G/L, A/P and Fund Accounting Systems.

A diagrammatic overview of the financial systems and reporting basis is included at the end of this section as appendix A.



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### **Chapter 4 Financial Systems and Controls**

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#### **4.6.3 Information Requirements Overview**

Financial information requirements include those that are relevant for decision-making processes at different levels of responsibility centres in the organization and those that serve day-to-day operational needs.

Depending on organizational structure and the nature of the operations of individual departments/agencies, the concept of responsibility centre may apply to a Program, Project within Program, Activity, Element, or a combination of any of these levels in the account structure. While information requirements of Responsibility Centre Managers may vary depending on the scope of accountability based on departmental organizations, it is assumed that the current system of transaction coding and data storage will meet their needs. This section outlines the basic information requirements as follows:

#### **INFORMATION REQUIREMENTS**

<b>INFORMATION REQUIREMENTS</b>	<b>PURPOSE</b>	<b>USERS</b>	<b>FREQUENCY</b>
Year-to-date budgets, commitments, and actuals summarized by activity/ element and object breakdown for each program. Comparisons of year-to-date actuals and planned expenditures.	For control of expenditures and determination of corrective measures.	Responsibility centre managers	Monthly and on-request
Summary financial transactions by activity, element, and object for each level of responsibility centre.	To ensuring spending activities remain within budgetary constraints and to evaluate performance in terms of expectations.	Functional area supervisors	Monthly and on-request

(Continues)



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#### **4.6.3. (Continued)**

Appropriations/allotments, disbursements to date, commitments and free balances for each responsibility centre by allotments.	As a basis for cash forecasts and expenditure control at department level.  To monitor global expenditures by allotment within appropriations.  For Legislative Assembly review.	Financial Officers  Dept. of Finance  Legislative Assembly	Monthly and on-request
Variance analysis of planned and actual expenditures on periodic and cumulative basis for each responsibility centre, department and global with narrative explanations.	For analysis of causes and future impact of variances, for the projection of year-end positions and to initiate measures to prevent over expenditures.	Res. Centre Man.  Financial Officers  Finance	Quarterly and on-request
Summary of financial resources, commitments and obligations by date/due date.	For cash management	Dept. of Finance	Weekly, monthly, and as required
Detail financial transactions, account balances and system edit/audit.	To verify accuracy of all other reports and for detailed analysis.  Maintenance of system integrity and data accuracy.	Managers  Financial Officers  Operational staff at all levels	Daily and as required
Financial Statements	For overall evaluation of financial performance and to meet statutory reporting requirements.	Legislative bodies  Dept. of Finance  External agencies	Annually

The above outline is an overview of information requirements that would, in one form or another, be necessary in the financial operation process of the government. Detailed descriptions of report formats and contents are to be provided in “Systems & Procedures Manuals”.



#### **4.6.4 Reporting Standards**

Reports are the tool for the conversion of financial data into information, for the expression of the accountability of different levels of management and for exercising financial operations control.

In order for financial reports to be of maximum benefit to users, the following basic standards should be met.

##### **Completeness**

Reports should provide complete information for period(s) covered. For example, report cut-off dates that do not coincide with accounting period-end dates can result in the omission of significant information, or relevant explanations may be missing. Reports should be developed with a view to providing complete information to satisfy the objectives they are required for.

##### **Accuracy**

All financial data presented must be checked and verified for accuracy prior to distribution.

##### **Reliability**

Reliability of information in a report has to be established by cross references to sources and other related reports.

##### **Usefulness**

Reports should cover the information requirements of users at desired levels and be available on time for their needs. They should provide a clear picture of performance and serve as guides to action.

##### **Timeliness**

To be of maximum use, financial information should be in the hands of users as promptly as possible.

Reports that relate to a specific period need to be produced and made available to users immediately after that period end. Reports required daily for monitoring and control of transactions and system activities should be produced and made available routinely.

##### **Consistency**

Terminologies should be established and used consistently to promote clarity and usefulness. Changes in accounting policies and methods should be explained along with their impact on the information reported. Comparisons must be based on criteria applied consistently.



#### **Simplicity**

Reports should present information concisely and avoid unnecessary details. Supporting details should be available in format(s) easy to relate to the contents of reports.

#### **Accountability**

Responsibility should be clearly shown on all reports by including originating functional areas as part of the report title or at the bottom of the report.

#### **Disclosure**

Any limitations and recent changes should be clearly disclosed to the users.

#### **4.6.5 The Reporting Process**

Data is input to the central systems for processing based on approved transactions. Edit reports are generated for verification of accuracy and input-output reconciliations are performed by users. Errors are identified and corrections are initiated for input. At this stage, input control logs, along with transaction documents and edit reports, provide the basic control information at the operational level.

Once all errors are corrected and further processing has occurred, other standard and on-request systems reports as well as management reports developed by Finance are produced and distributed to users.

Application systems reports from G/L, A/P, Payroll and commitments include information on current and historical detail transactions by distribution account and commitment type. The standard management reports developed by Finance consist of "Statement of Appropriations", "Statement of Allotments" and "Expense Analysis".

Departments can create customized reports using CMS/SAS facilities to meet financial information requirements of their different functional areas. for this purpose, the Department of Finance provides computer data files which contain:

- Current and previous year actuals and budgets with current year commitments for each account, by period
- Current year detail G/L transactions.
- Current year detail disbursement transactions and obligations.
- Current year detail commitment transactions.



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In addition to financial information that departments can extract from these files in formats and levels of detail desired by specific users, they can also create their own SAS data files for statistical reporting.

The standard application systems reports are produced at the end of each successful processing while the on-request systems reports are user-initiated. The standard management reports are produced monthly. Reports developed by departments can be produced as required.

With the exception of reports from the commitment system which are routed to departmental printers, all standard reports from other central systems are produced at the main computer area and issued to users based on distribution lists.

Information extractions from the computer data files via reports created by departments can be executed at any time for printing and distribution in their own areas.

#### **4.6.6 Responsibilities**

Financial information reporting and report maintenance responsibilities rest with:

- i) Department of Finance to the extent of designing and developing standard management reports, preparation of statements on Public Accounts and distribution of reports to users; for the retention of all financial transactions data, statements and reports as required by policies and regulations.
- ii) Individual Departments and Agencies to the extent of identifying special information requirements of their functional areas and central agencies, developing reports to meet the requirements identified and the retention of reports as sources for reference in financial operations, control and budget preparation.
- iii) Information & Communication Technology Branch of the Department of Highways and Public Works to the extent of ensuring that adequate and cost-effective facilities are available for the retention of financial data and production of information as per user specifications



**Chapter 5**     *Accounting and Control of Expenditures*

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**Chapter 5**  
**Accounting and Control of Expenditures**

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### 5.1 INTRODUCTION

This chapter describes the policies, procedures, practices and guidelines within which departments receive authority to initiate and approve expenditure transactions for which they are responsible.

It also sets out some of the responsibilities of service departments for controlling expenditure transactions, including their responsibilities for cheque preparation, control and delivery.

There must be proper financial authority and control for all government expenditures. Authority granted by statutes generally may be amplified by regulations, directives and guidelines issued by the Executive Council, the Deputy Minister of Finance or other specified authorities. Departments and agencies, in initiating and approving expenditures, are obliged to meet the requirements prescribed.

Managers having operational responsibility and budgetary spending authority may initiate expenditures to carry out their responsibilities, as outlined in this manual and as prescribed by other government policies and procedures.



## **5.2 ACCOUNTING SYSTEMS**

### **5.2.1 Policy**

All accounting systems shall conform to the requirements prescribed by the Department of Finance. The government maintains a centrally-administered accounting system known as the Financial Management Information System. Specialty accounting systems which may operate within departments require prior approval of the Department of Finance to ensure the systems are compatible with the central system and meet government accounting requirements.

### **5.2.2 Accounting Practices**

Departments must utilize the Government accounting and reporting services in processing their financial transactions.

The Financial Management Information System has a database recording all departmental accounting transactions. This database is the basis for Government of Yukon financial statements.

Departmental accounting transactions are recorded using standardized accounting codes. While the accounting code structure is standardized across the government, there is built-in flexibility that allows departments to meet their unique needs. Transactions are further identified by reference codes which may include:

- a) supplier reference codes,
- b) contract and transfer payment agreement numbers,
- c) batch numbers, and
- d) journal entry numbers.

The main cheque issuing centre is within the Department of Finance. Cheque issuance is computerized, although manual cheques are issued on an emergency basis. The use of manual cheques must be limited because they are costly to prepare.

Subsection 28(1) of the *Financial Administration Act* requires every public officer to keep records of commitments for the expenditures chargeable to each vote or fund for which the officer has been assigned responsibility. The objective of this requirement is to ensure departments do not exceed their budgetary appropriation or fund balances by anticipating future expenditures. The Financial Management Information System provides a commitment accounting system to assist departments in tracking and the record keeping of commitments.



### **5.3 ACCOUNTING POLICY**

Section 33 of the *Yukon Act* states the Government of Yukon financial statements must be prepared in accordance with accounting principles recommended for the public sector by the Canadian Institute of Chartered Accountants or its successor. Consequently, the Government's accounting policy follows the standards issued by the Public Sector Accounting Board of the Chartered Public Accountants (CPA) of Canada. These standards are collectively called the CPA Public Sector Accounting Handbook.

The Financial Administration Manual contains various accounting policies that are based on CPA public sector accounting standards but tailored to the Government of Yukon and approved by Management Board.



## **5.4 ACCOUNTING CONTROLS**

### **5.4.1 Overview**

Accounting controls ensure the integrity of the accounting system. Accounting control involves ensuring that only authorized data is entered and accepted into the system and that this information is entered, processed and reported properly.

Accounting control must be established during system development. These controls must be instituted and maintained throughout the system. Control techniques include, but are not limited to:

- Proper system documentation
- Segregation of duties
- Adequate form design
- Job descriptions that accurately document responsibilities
- Documented procedures
- Pre-numbered forms
- Control totals
- Proper training

### **5.4.2 Accounting Control Procedures**

The accounting system must have adequate controls to ensure the completeness, accuracy and authority for and of all information. The accounting control procedures used must satisfy both legislative and management needs in the control of public funds.

A most important element of financial control is that exercised on individual transactions as expenditures are contemplated, committed and authorized. Departmental management are primarily responsible for controlling individual expenditure transactions. The basic elements of expenditure control are as follows:

- Departments must ensure that before an expenditure is initiated there is a sufficient unencumbered balance available in the relevant appropriation, allotment, or item included in the estimates to discharge the commitment.
- Departments must certify with respect to each payment that the relevant services have been performed or goods received at prices that are either in accordance with contract terms or are reasonable.
- Departments must not requisition a payment that would be an unlawful charge against an appropriation; would result in an



#### 5.4.2 (Continued)

expenditure in excess of the appropriation; or would reduce the balance in the appropriation so that it would not be sufficient to meet the commitments charged against it.

- Where a payment is to be made before completion of the work, delivery of the goods or rendering of the service, as the case may be, departments must ensure that the payment is in accordance with the contract.

Departments must utilize the centralized accounting and reporting services of the Department of Finance to obtain detailed accounting information.

After payment authority has been exercised, payment requisitions should be immediately forwarded to the Department of Finance to expedite the processing of transactions. This ensures that payment will be prompt and that financial reports are current. The accounting system must be designed to permit the periodic entry and reporting of information on undischarged commitments. This permits officers exercising signing authority or financial control to be aware of free balances for each appropriation and allotment on a periodic basis.

In addition, the accounting system must be designed to provide accurate, periodic cost information on the activity elements involved in carrying out departmental programs. This requirement provides for:

- Relating costs to benefits.
- Comparing efficiency over a period of time or among similar responsibility centres.
- Determining the amounts to be recovered when services for which a charge is appropriate are provided to the public or other governments.
- Comparing revenues recovered against related costs.

Accrual information must be entered into the accounting systems to facilitate the provision of cost information and to meet statutory requirements.

Accounting controls must be established over inventories of materials and equipment wherever there is a need:

- Because of the value or nature of the inventories.
- For independent control.
- For providing information on changes in inventory levels.
- For asset recording and evaluation purposes in connection with year-end financial statements and schedules.



In summary, the accounting and internal control system should be designed to include, as an integral part of the system, adequate accounting controls to ensure the completeness, accuracy, and authority of all information provided by the system.

#### **5.4.3 Commitment Control**

The commitment system is an important management tool for financial control. It assists in the decision-making process as it allows management to plan for the future. It assists in ensuring that adequate funds are available to pay for all goods and services received in a fiscal year, and to ensure that required administrative policies and procedures have been followed in advance of disbursement. The recording of a commitment in advance of the disbursement reduces the free balances of budgetary allocations and ensures funds are reserved for future expenditures.

The commitment accounting process involves the recording of obligations to make future payments at the time they are foreseen.

Under the Financial Administration Act, Deputy Ministers are responsible for ensuring that they have an effective system of commitment control.

Finance has provided, as a part of the Financial Management Information System, a mechanism to be utilized by all departments in recording commitments.

A commitment can be recognized at any of the following stages;

- i) When goods or services are formally requisitioned internally, but no actual contractual obligation is made,
- ii) when the actual contractual obligation is made, or
- iii) when there is a need to reserve funds to fulfill a future obligation eg. grant payments.

Commitments should be recorded as early in the process as possible.

Commitments, including adjustments to an amount previously committed must be authorized by a public officer with commitment authority. Commitment authority is the ability to initiate an expenditure sanctioned under Section 24 of the Financial Administration Act. This authority is required prior to entry into the commitment system.

Commitments recorded in the Financial Management Information System must only pertain to the current fiscal year. Commitments that are expected to result in expenditures in future years must not be recorded as encumbrances against current year's appropriations.



#### 5.4.3 (Continued)

Commitment control in the Financial Management Information System requires that all Requisitions for Supplies, Purchase Orders and other proposed future expenditures not expected to be decommitted within thirty calendar days be committed on the system.

If the amount of a payment exceeds a commitment created by a purchase order, the transaction will be rejected unless the excess is within tolerated levels. The size of the tolerance for invoices that exceed purchase order amounts is ten percent or \$100, which ever is least. The tolerance is used to facilitate processing and is intended to accommodate slight changes in prices or quantity which are acceptable to the spending department.



## **5.5 SIGNING AUTHORITIES**

### **5.5.0 Policy Statement**

#### Authority

On March 13, 2002, the Management Board revoked MBD #6/84 "Signing Authorities" and replaced it with subsections 5.5.0 to 5.5.3 of this manual (MBM#2-08-04). The policy outlined in subsections 5.5.0 to 5.5.3 is issued pursuant to Sections 21, 23, 24, 29, 30 and 31 of the *Financial Administration Act*, and can be revised only with the approval of the Management Board.

This policy is referred to as the Signing Authorities Policy.

#### Effective Date

Original Policy - April 1, 2002

Revisions to 5.5.1 and 5.5.3.3 - March 7, 2012

#### Application

The Signing Authorities Policy applies to all departments except as exempted by Item #8 of subsection 5.5.2.

#### Objective

The *Financial Administration Act* requires certain certifications to be made by appropriate public officers prior to any payments being issued from the consolidated revenue fund. The objective of the Signing Authorities Policy is to set out the policy for assigning financial signing authorities to public officers of the government, and to provide instructions regarding the responsibilities and limits associated with those signing authorities.

### **5.5.1 Definitions**

- a) "Section 23 (contracting) authority" means the signing authority pursuant to Section 23 of the *Financial Administration Act*, and is the authority to enter into a contract on behalf of the government.
- b) "Section 24 (certification prerequisite for contracts) authority" means the signing authority pursuant to Section 24 of the *Financial Administration Act*. It is the authority to certify that:
  - i) every payment out of the consolidated revenue fund contemplated by the contract is in accordance with the *Financial Administration Act* and any other Act; and
  - ii) there is sufficient money in the vote or fund from which the payments are made.

This authority is also referred to as "commitment authority".



**5.5.1 Definitions (Continued)**

- c) "Section 29 (certificate of performance) authority" means the signing authority pursuant to Section 29 of the *Financial Administration Act*. It is the authority to certify that:
  - i) the proposed payment is in accordance with the contract; and/or
  - ii) all conditions precedent to the making of the payment have been met.
  
- d) "Section 30 (requisition for payment) authority" means the signing authority pursuant to Section 30 of the *Financial Administration Act*. It is the authority to certify that:
  - i) the payment may be lawfully made from the vote or fund;
  - ii) the making of the payment does not contravene any directive or policy of the Management Board;
  - iii) there is sufficient money in the vote or fund to make the payment;  
and
  - iv) the making of the payment will not reduce the balance of the vote or fund so that it would not be sufficient to meet commitments for other payments to be made from the vote or fund.
  
- e) "Assignment authority" means the authority to sign documents used to:
  - i) assign responsibility from a sponsoring department to a performing department for a specific project;
  - ii) certify pursuant to Section 24 of the *Financial Administration Act* maximum allowable expenditures in the fiscal year for the assigned project; and
  - iii) delegate from the sponsoring department to the performing department limited authority under Sections 23, 29 and 30 of the *Financial Administration Act* to carry out the project.

Those documents include the Project Authorization and inter-departmental service agreements.
  
- f) "Authorization for travel" means the authorization to undertake travel on government business in accordance with the policy and directives set by the Management Board.
  
- g) "Contract" means any agreement or undertaking providing for the expenditure of public money or the giving of any consideration in exchange for goods and services, and includes purchase orders, service contracts, construction contracts, employment contracts and contribution agreements.



**5.5.1 Definitions (Continued)**

- h) "Loans and guarantees" means the undertaking under the authority of an Act to provide a loan or to guarantee a debt or other obligation.
- i) "Payment authority" is the same authority as the "Section 30 (requisition for payment) authority" - see d).
- j) "Public officer" means a public officer as defined in section 1 of the *Financial Administration Act*, and does not include a person hired on a consulting or service contract.
- k) "Requisition for goods or services" is a document that is certified by a public officer of a department pursuant to Section 24 of the *Financial Administration Act*, which enables the purchasing or contracting officer of the government to enter into a contract on behalf of the department. Examples of those documents are the Request for Purchase and the Request for Transportation.
- l) "Spending authority" means the authority pursuant to Sections 24 (certification prerequisite for contracts), 23 (contracting) and 29 (certificate of performance) of the *Financial Administration Act*.
- m) "Transfer payments"-refer to the definition in subsection 5.9.1 of this manual.



**5.5.2 Policy**

1. No payment out of the consolidated revenue fund shall be made without the certification by appropriate public officers pursuant to Sections 24 (certification prerequisite for contracts), 23 (contracting), 29 (certificate of performance) and 30 (requisition for payment) of the *Financial Administration Act*.
2.
  - (a) A Minister and a Deputy Minister may sign pursuant to Sections 24 (certification prerequisite for contracts), 23 (contracting), 29 (certificate of performance) and 30 (requisition for payment) of the *Financial Administration Act* in an amount not exceeding the limits set out in subsection 5.5.3.3 "Signing Authorities Limitations Chart".
  - (b) A Minister and a Deputy Minister shall deliver a sample signature to the Deputy Minister of the Department of Finance and to the Deputy Minister of the Department of Highways and Public Works.
3. A Deputy Minister may delegate to a public officer of his/her department part of his/her signing authorities.\* Such delegation shall be made to appropriate organizational positions in the department rather than to individuals.
4. Delegation of signing authorities by a Deputy Minister shall be in writing. A copy of such delegation and a sample signature of the public officer to whom the delegation has been made shall be delivered to the Deputy Minister of the Department of Finance and to the Deputy Minister of the Department of Highways and Public Works.
5. Signing authority delegated by a Deputy Minister shall not be re-delegated.
6. A public officer shall not sign under Section 29 (certificate of performance) and Section 30 (requisition for payment) for the same payment.
7. Pursuant to Section 31 of the *Financial Administration Act*, the Deputy Minister of the Department of Finance shall reject a requisition for payment where he/she is of the opinion that the requisition does not comply with the provisions of the Signing Authorities Policy.

Items # 2(b), 4 and 7 above do not apply to the Yukon Housing Corporation, the Yukon Liquor Corporation, the Yukon Workers' Compensation Health and Safety Board, the Yukon Development Corporation and the Yukon Lottery Commission.

\* On April 3, 2013, Management Board authorized public officers of the Yukon Legislative Assembly departmental office to be deemed public officers of the Child and Youth Advocate Office and the Elections Office (MBM#13-08-03)



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**5.5.3 Signing Authorities Limitations**

**5.5.3.1 Interpretations**

1. The limitations represent the upper limit of authority that may be delegated by a Deputy Minister. Lower levels may be delegated.
2. The application of financial signing authority limits is based on the concept of a single transaction. Where a financial document, e.g. cheque requisition, contains more than one transaction (e.g. two or more unrelated invoices), the limits stated apply to each financial transaction, not to the total document amount.
3. The limits specified for Sections 23 and 24 authorities apply to the total value of a particular obligation, including the amounts of any increases or decreases of the obligation, except for construction contracts noted in Item # 2 of subsection 5.5.3.2 "Exceptions".
4. A public officer exercising contracting authority must follow Directive 2.6 of the General Administration Manual, "Contracting Directive", and any other policies or directives issued by the Cabinet or the Management Board with regard to entering into a contract with a third party.
5. Project planning and implementation shall comply with Directive 2.17 of the General Administration Manual, "Project Planning and Implementation".

**5.5.3.2 Exceptions**

1. A purchase contract, aircraft charter, contract for printing and publications, real property lease and third party equipment rental (e.g. heavy equipment rental including the provision of operators) must be entered into through the Department of Highways and Public Works except that the Deputy Minister of the Department of Highways and Public Works may delegate to a department the appropriate authority. Such delegation shall be in writing.
2. Where a construction contract amount exceeds the Deputy Minister's limit, the Minister may delegate authority to approve change orders for the specific construction contract. The Deputy Minister may re-delegate this authority to a public officer, only if expressly permitted to do so in the delegation from the Minister. These delegations must be in writing, and copies of such delegations must be sent to Contract Services of the Department of Highways and Public Works and to the Department of Finance.
3. A Deputy Minister may not delegate the signing authority for public officers to travel out of Territory except where specifically exempted in the travel policy or directive set by the Management Board.



### 5.5.3.3 Signing Authorities Limitations Chart (Effective April 3, 2013 – MBM #13-08-03)

DEPARTMENT		<-----SPENDING AUTHORITY----->							Sec ion 29 (Certificate of Performance) Authority	PAYMENT AUTHORITY Section 30 (Requisition for Payment) Authority
		<-----Sec ion 24 (Certificate Prerequisite for Contracts) Au hority ----->								
		<-----Section 23 (Contracting) Authority ----->								
		CONTRACTS FOR GOODS OR SERVICES*	LOANS & GUARANTEES	TRANSFER PAYMENTS	AUTHORI- ZATION FOR TRAVEL	REQUEST FOR GOODS OR SERVICES	ASSIGNMENT AUTHORITY			
Legislative Assembly	MIN DM	No Limit 35,000	- -	No Limit 5,000	No Limit 5,000	No Limit 35,000	No Limit 35,000	No Limit No Limit	No Limit No Limit	
Child And Youth Advocate Office	MIN DM	No Limit 35,000	- -	No Limit 5,000	No Limit 5,000	No Limit 35,000	No Limit 35,000	No Limit No Limit	No Limit No Limit	
Elections Office	MIN DM	No Limit 35,000	- -	No Limit 5,000	No Limit 5,000	No Limit 35,000	No Limit 35,000	No Limit No Limit	No Limit No Limit	
Office of the Ombudsman	MIN DM	No Limit 35,000	- -	No Limit 5,000	No Limit 5,000	No Limit 35,000	No Limit 35,000	No Limit No Limit	No Limit No Limit	
Executive Council Office	MIN DM	No Limit 100,000	- -	No Limit 500,000	No Limit 10,000	No Limit 100,000	No Limit 100,000	No Limit No Limit	No Limit No Limit	
Community Services	MIN DM	No Limit 1,000,000	No Limit 500,000	No Limit 1,000,000	No Limit 5,000	No Limit 500,000	No Limit 1,000,000	No Limit No Limit	No Limit No Limit	
Economic Development	MIN DM	No Limit 100,000	No Limit 100,000	No Limit 500,000	No Limit 5,000	No Limit 100,000	No Limit 50,000	No Limit No Limit	No Limit No Limit	
Education	MIN DM	No Limit 500,000	No Limit 6,000	No Limit 250,000	No Limit 5,000	No Limit 500,000	No Limit 1,000,000	No Limit No Limit	No Limit No Limit	
Energy, Mines and Resources	MIN DM	No Limit 150,000	No Limit 500,000	No Limit 500,000	No Limit 10,000	No Limit 100,000	No Limit 50,000	No Limit No Limit	No Limit No Limit	
Environment	MIN DM	No Limit 150,000	- -	No Limit 500,000	No Limit 5,000	No Limit 150,000	No Limit 150,000	No Limit No Limit	No Limit No Limit	
Finance	MIN DM	No Limit 50,000	No Limit 100,000	No Limit 500,000	No Limit 5,000	No Limit 50,000	No Limit 50,000	No Limit No Limit	No Limit No Limit	
Finance Votes 18, 19 and 22	MIN DM	- -	No Limit 10,000,000	No Limit 10,000,000	- -	- -	- -	No Limit No Limit	No Limit No Limit	
Finance Vote 20	MIN DM	- -	No Limit 2,000,000	- -	- -	- -	- -	No Limit No Limit	No Limit No Limit	
French Language Services Directorate	MIN DM	No Limit 50,000	- -	No Limit 50,000	No Limit 5,000	No Limit 50,000	No Limit 50,000	No Limit No Limit	No Limit No Limit	
Health and Social Services	MIN DM	No Limit 750,000	No Limit 10,000	No Limit 750,000	No Limit 5,000	No Limit 200,000	No Limit 500,000	No Limit No Limit	No Limit No Limit	
Highways and Public Works	MIN DM	No Limit 1,000,000	- -	No Limit 50,000	No Limit 5,000	No Limit 500,000	No Limit 1,000,000	No Limit No Limit	No Limit No Limit	
Justice	MIN DM	No Limit 250,000	- -	No Limit 500,000	No Limit 5,000	No Limit 250,000	No Limit 100,000	No Limit No Limit	No Limit No Limit	
Public Service Commission	MIN DM	No Limit 75,000	- -	No Limit 50,000	No Limit 5,000	No Limit 75,000	No Limit 50,000	No Limit No Limit	No Limit No Limit	
Tourism and Culture	MIN DM	No Limit 100,000	- -	No Limit 500,000	No Limit 5,000	No Limit 100,000	No Limit 100,000	No Limit No Limit	No Limit No Limit	
Women's Directorate	MIN DM	No Limit 50,000	- -	No Limit 50,000	No Limit 5,000	No Limit 50,000	No Limit 50,000	No Limit No Limit	No Limit No Limit	

Yukon Housing Corporation, Yukon Liquor Corporation, Workers' Compensation Health and Safety Board, Yukon Development Corporation and Yukon Lottery Commission – as authorized by the Corporation/Board/Commission

\* Except for as restricted by Exception 1 of 5.5.3.2



**Chapter 5 Accounting and Control of Expenditures**

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**5.5.4 Procedures**

The procedures outlined in subsection 5.5.4 of this manual are issued by the Deputy Minister of the Department of Finance under the authority of the *Financial Administration Act* Section 7. The purpose of these procedures is to help departments interpret and comply with the Signing Authorities Policy (5.5.0 to 5.5.3 above).

Any changes to this subsection, therefore, require approval of the Deputy Minister of the Department of Finance.

**5.5.4.1 General**

Responsibility for the control and spending of public funds is placed on Ministers and Deputy Ministers by the Legislative Assembly through *Appropriation Acts*, and through the *Financial Administration Act* and regulations.

While Ministers and Deputy Ministers are responsible for the control of expenditures, in practice, this role is carried out by delegation. Deputy Ministers may delegate financial signing authority within their organizations in accordance with the Signing Authorities Policy. One of the objectives of delegating signing authority is to make individual managers primarily responsible for expenditures charged to their budgets.

Signing authorities for financial transactions may be divided into two main areas of responsibility, i.e. spending authority and payment authority.

Spending and payment authorities should not be exercised by the same person with respect to a particular payment. This policy recognizes the need for a division of duties to maintain internal control. Public officers should be granted either spending or payment authority, but not both. However, it is recognized that, in a small department, this may not be always possible. In such circumstances, it may be necessary to delegate to one particular officer both types of signing authority. When this is done, that officer must not exercise both types of authority on the same payment.

**5.5.4.2 Spending Authority**

Spending authority is created by Sections 23, 24 and 29 of the *Financial Administration Act*. These Sections make the Deputy Minister and his/her delegate accountable for all expenditures initiated against their vote or fund.

Spending authority should be granted in relation to a position's budgetary responsibility. Public officers with spending authority are required to indicate their approval of each requisition for goods or services and formulation of a contract, confirming that sufficient funds are available. Later in the process, these officers are required to confirm contract performance and/or receipt of goods, thereby indicating that payment should be made.

Spending authority is usually delegated to public officers with program responsibilities, i.e. program managers, and who are independent of those officers granted payment authority. Responsibility to implement the process of account verification (see 5.7 "Account Verification") and to enforce related financial controls rest with those officials who have delegated payment authority. However, primary responsibility for verification of individual accounts rests with those officials who are given spending authority.



#### **5.5.4.2 Spending Authority (Continued)**

Public officers with spending authority have the responsibility to prepare and obtain all supporting documentation necessary for the account verification process including service contracts, purchase orders, contribution agreements, lease agreements, receipt documentation and other back-up. These documents are essential to verify the extent of commitment involved, agreed prices for the goods or services, precise specifications or requirements, agreed contract conditions and complete expenditure coding.

Spending authority consists of three areas of authorities and associating responsibilities.

##### **1. Section 24 (Certification Prerequisite for Contracts) Authority**

This authority is also referred to as "commitment" authority, and is exercised when decisions are made to obtain goods or services that will result in the eventual expenditure of the government's funds. Examples of such decisions are:

- to hire staff
- to requisition supplies or services
- to authorize travel
- to enter into some other expenditure arrangements with other departments for program purposes.

When a public officer signs the certification prerequisite for contracts, he/she is certifying that:

- (a) every payment out of the consolidated revenue fund contemplated by the contract in the then current fiscal year is authorized by the *Financial Administration Act* or another Act; and
- (b) there is sufficient money in the vote or fund from which the payments are to be made.

##### **2. Section 23 (Contracting) Authority**

No government contract should be entered into, or enforceable against the government, unless it is entered into by a public officer with the appropriate contracting authority. Contracting authority should not be exercised unless a certification pursuant to Section 24 has been made.



**Chapter 5 Accounting and Control of Expenditures**

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**5.5.4.2 Spending Authority (Continued)**

**3. Section 29 (Certificate of Performance) Authority**

This is the authority to confirm contract performance and price. By signing under this authority, a public officer is certifying that:

- (a) in the case of a payment for goods that have been supplied or services that have been performed under a contract, a statement to that effect, and a statement that the proposed payment is in accordance with the contract;
- (b) in the case of a payment for goods that have yet to be supplied or services that have yet to be performed under a contract, a statement to that effect, and a statement that the proposed payment is in accordance with the contract;
- (c) in the case of a payment not provided for in (a) or (b), a statement as to the purpose of the proposed payment, and a statement that all conditions precedent to the making of the payment have been met; and
- (d) in any case, such further statements as the Management Board, by directive or policy, may require.

A certification of performance should be made on a form authorized by the Deputy Minister of the Department of Finance.

**5.5.4.3 Payment Authority**

Payment authority is created by Section 30 of the *Financial Administration Act*. A public officer who has delegated payment authority certifies that:

- (a) the payment may be lawfully made from the vote or fund;
- (b) the making of the payment does not contravene any directive or policy of the Management Board;
- (c) there is sufficient money in the vote or fund to make the payment; and
- (d) the making of the payment will not reduce the balance of the vote or fund so that it would not be sufficient to meet other financial commitments.

These certifications entail verifying that the payment is for the purposes of the appropriation as recorded in the Main and Supplementary Estimates, as well as verifying compliance with the enabling legislation of the program concerned. It is also necessary to confirm that the payment is in accordance with any other statute, regulation or directive.

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.

For these reasons, payment authority should be delegated to financial officers, who are sufficiently senior to have the experience and judgment necessary for exercising payment authority.

Financial officers with payment authority also should understand principles of internal control. In addition to examining specific transactions, they should satisfy themselves that various administrative processes and approvals given to them provide sufficient segregation of duties and independence in order to preclude any likelihood of improper or



#### **5.5.4.3 Payment Authority (Continued)**

inaccurate payments taking place.

For example, in order to exercise an appropriate internal control (or segregation of duties), payment authority should not be delegated to positions where the primary duties require close involvement in the preparation of cheque requisitions, performance certification or data input into the accounts payable system.

A requisition for payment should be made on a form authorized by the Deputy Minister of the Department of Finance.

#### **5.5.4.4 Rejection of Requisitions for Payment**

Pursuant to subsection 31(1) of the *Financial Administration Act*, the Deputy Minister of the Department of Finance may reject a requisition for payment when he/she is of the opinion that the requirements of any Act have not been complied with. The Deputy Minister of the Department of Finance may reject a requisition for payment:

- (a) if a requisition for payment has not been signed by a public officer authorized to do so in accordance with the Signing Authorities Policy; or
- (b) if the Department of Finance has not received a sample of the signature of the public officer; or
- (c) if he/she is of the opinion that the requirements of any Act have not been complied with.

When the Deputy Minister of the Department of Finance rejects a requisition for payment under this authority, he/she must, at the request of the Deputy Minister responsible for the relevant vote or fund, state the reason in writing (subsection 31(2) of the *Financial Administration Act*).

Subsection 31(4) of the *Financial Administration Act* provides the Deputy Minister of the Department of Finance the authority to delegate any employee of any department the function of reviewing payment requisitions.

Based on this authority, the Deputy Minister of the Department of Finance has delegated the function described in subsection 31(1) of the *Financial Administration Act* to those public officers granted payment authority. The Deputy Minister then instructed the Department of Finance to perform post-audit of accounts payable transactions in order to ensure that this function is exercised properly.

#### **5.5.4.5 Delegation Process**

Through written delegation of financial signing authorities, Deputy Ministers delegate responsibilities bestowed upon them by legislation or regulations to appropriate public officers in the departments.

Delegation of signing authority by a Deputy Minister to officers of his/her department is primarily intended to facilitate the process of spending the funds that are made available for departmental programs. Such delegation, however, also accompanies the responsibility to ensure that all the related managerial and financial controls are



**5.5.4.5 Delegation Process (Continued)**

effectively enforced and that all the normal requirements of probity and prudence are observed. It is important, therefore, that the delegation of financial signing authorities be carried out and controlled by the Deputy Minister with the objective of achieving the most effective control over spending.

Pursuant to the Signing Authorities Policy, the following rules apply to the delegation of financial signing authorities:

1. The right to delegate signing authorities is limited to Deputy Ministers, and such delegation must be made in writing.
2. Signing authorities must be delegated to positions rather than to individuals.
3. The signing authorities of a position may be exercised by a public officer who is acting in the position, only if (a) a written notification of the acting appointment has been issued by his/her supervisor and such notification has been received in the Department of Finance; and (b) a specimen signature of the public officer has been received in the Department of Finance.
4. Public officers may not exercise signing authorities with respect to a payment from which they or their relative may benefit. This includes any payments made payable to themselves for the purpose of travel or courses.

For delegation of signing authorities, the following steps should be followed.

**Step 1: Deputy Minister's Delegation**

Deputy Minister's delegation should be in the format shown in 5.5.4.6. Form A - "Delegation of Financial Signing Authority Chart". Signing authorities must be delegated to appropriate organizational positions in the department rather than to individuals. Amendments to this delegation will only be required for changes in organizational structure and responsibility. Amendments will not be required for personnel changes.

When there is a change of delegating authority, i.e. a new Deputy Minister, a new delegation chart must be approved and signed by the new Deputy Minister.

Departments must then submit the signed delegation to the Department of Finance and the Department of Highways and Public Works by the method prescribed by the respective Department. The signed Delegation of Financial Signing Authority Chart should be accessible by all units and branches in the department where signing authorities must be verified.

**Step 2: Filling Out a Specimen Signature Card**

A Specimen Signature Card (5.5.4.6. Form B) must be used to provide a sample of the incumbent's signature. A Specimen Signature Card also serves to clearly indicate to the delegate the responsibilities and limitations associated with the delegated signing authorities.



**5.5.4.5 Delegation Process (Continued)**

A Specimen Signature Card should be filled out as soon as a new incumbent assumes the position with delegated signing authorities. Departments must then submit the Specimen Signature Card to the Department of Finance and the Department of Highways and Public Works by the method prescribed by the respective Department. The incumbent should also retain a copy to ensure that signing authorities are exercised appropriately.

When a public officer acts in a position with delegated signing authorities, the supervisor of the position must issue a written notification of the acting appointment, (Note: the Deputy Minister may issue a written notification of the acting appointment for his/her own position), and a copy of such notification must be submitted to the Department of Finance. The department must also ensure that a Specimen Signature Card for the acting position is in place for the public officer.

Departments must submit written notifications to the Department of Finance and the Department of Highways and Public Works, to revoke the card as soon as the incumbent ceases to be in the respective position.

**Review and Maintenance of Signing Authorities Delegation Documents**

Deputy Ministers must arrange for an annual review of delegated signing authorities to determine their continuing validity.

Departmental administrators should ensure that all signing authorities delegation documents are valid at all times. Departmental administrators must also ensure that branches and units have access to the most current signing authorities delegation documents.

In keeping with the Deputy Minister of Finance's role and responsibilities under the *Financial Administration Act*, the Department of Finance is responsible for retaining the official records of signing authority delegation for control and audit purposes.

**5.5.4.6. Signing Authorities Forms**

Form A - Delegation of Financial Signing Authority Chart

(If there are multiple pages, every page requires signatures.)

Form B - Specimen Signature Card



















### **5.5.5 Interpretation Guidelines**

#### **5.5.5.1. Equipment Lease Contracts**

When a department has determined that leasing as opposed to owning a piece of equipment represents the best value, and therefore wishes to enter into an equipment lease contract, the department must, first of all, determine if the lease is considered to be an operating lease or a capital lease.

In accordance with generally accepted accounting principles, an equipment lease would be considered to be a capital lease if one or more of the following conditions are present:

- a) There is reasonable assurance that the government will obtain ownership of the leased equipment by the end of the lease term. Reasonable assurance would be present when the terms of the lease would result in ownership being transferred to the government by the end of the lease term or when the lease provides a bargain purchase option\*.
- b) The lease term is of such duration that the government will receive substantially all of the economic benefits expected to be derived from the use of the leased equipment over its life span. The government, as a lessee, would normally be expected to receive substantially all of the economic benefits when the lease term is equal to a major portion (usually 75% or more) of the economic life of the leased equipment.
- c) The lessor would be assured of recovering the investment in the leased equipment and of earning a return on the investment as a result of the lease agreement. This condition would exist if the present value, at the beginning of the lease term, of the minimum lease payments, excluding any operating costs (e.g. insurance, maintenance costs, etc.), is equal to substantially all (usually 90% or more) of the fair value of the leased property, at the inception of the lease.

\*Bargain purchase option is defined as a provision allowing the government, at its option, to purchase the leased equipment for a price that is sufficiently lower than the expected fair value of the equipment at the date the option becomes exercisable, that exercise of the option appears, at the inception of the lease, to be reasonably assured.



**5.5.5.1 Equipment Lease Contracts (Continued)**

If an equipment lease is determined to be an operating lease, this contractual agreement is considered to be a service contract. However, if an equipment lease is determined to be a capital lease, this lease agreement must be considered to be a purchase contract. In this instance, the department must forward a Request for Purchase with the proposed lease agreement to Supply Services. Supply Services will review the lease agreement and sign the lease as the contracting authority.

As for the application of the Contracting Directive, an operating lease is deemed to be a price-driven contract while a capital lease is deemed to be a goods procurement contract. The dollar value, in applying the sourcing thresholds under section 18 of the Contracting Directive, must be based on the total lease payments under the lease, not the present value.

Regardless of whether a lease is considered to be operating or capital, departments should forward all equipment lease agreements to Supply Services for their review before signing.

If (a) an equipment lease is considered to be a capital lease, and (b) the present value of minimum lease payments is over the threshold for capitalization, the equipment must be capitalized and reported in accordance with subsection 8.7.3.9 of the Tangible Capital Assets Accounting Policy, "Capital Lease".



## **5.6 EXPENDITURE INITIATION**

Expenditure initiation refers to any action taken by a Minister, Deputy Minister or public officer which will result in an obligation to make a disbursement of government funds.

Expenditure initiation may involve:

- A requisition for goods.
- A memorandum directing the payment of a grant or contribution.
- An application or requisition for an accountable advance.
- Authority for travel or removal documentation.
- Hiring of an employee.
- Other procurement action.

Departments must acquire their goods and services in accordance with government policies and procedures. Purchases of goods and service must be in accordance with Cabinet and Management Board policies and directives.

Whatever method is used for initiating expenditures, such initiation must have the written approval of the responsible spending official who has authority for the budgetary allocation to be charged. The approval of the spending authority at this point indicates that the proposed expenditure is necessary for the conduct of government business and that funds are available in the budget for which he or she has signing authority.

If dollar or other limits are placed on the signing authority of the spending officer for initiating expenditure transactions, these limits must be adhered to.

At the beginning of each fiscal year, once the Appropriation Act is passed, the relevant budget amounts are entered into the Financial Management Information System and this defines the limits within which Program Managers must work.

Expenditures are controlled by comparison to the budget by program/activity and standard object of expenditures as recorded within the Financial Management Information System.

Expenditures shall not be initiated which exceed budgetary allocations or which lack specific approvals where such approvals are prescribed.



## **5.7 ACCOUNT VERIFICATION**

### **5.7.1 General**

The expenditure process within the government must be conducted with a high degree of probity at all times. This is especially important in the approval for payment process. Confirmation of contract performance and price by the program manager and payment authority by the finance officer are critical functions.

To achieve and maintain a high standard of probity in their payment functions, Deputy Ministers should establish a division of duties and responsibilities throughout the entire chain of procurement of goods and services - confirmation of contract performance, account verification, cheque requisition preparation and cheque requisition signatures. The division of duties is recognized as the principal and most effective means of preventing, or at least diminishing, the possibility of fraud or errors.

A second important principle in establishing and maintaining high standards of probity in the payment functions is to establish appropriate procedures that must be followed for the verification of accounts before payment.

### **5.7.2 Responsibility for Account Verification**

Program Managers

Program Managers must confirm contract performance and price ensuring that all payments are:

1. In accordance with all relevant acts, regulations, directives, and policies and procedures.
2. In accordance with the terms, conditions and specifications as contained in contracts, agreements or other arrangements.
3. For work that has been performed, goods supplied or services rendered, as applicable.
4. Accurately requisitioned and complete in terms of having all necessary supporting documentation including contracts, leases, purchase orders, program arrangements and receipt documentation.
5. Identified correctly.
6. Authorized by appropriate levels or authority.
7. A proper charge against the appropriation, or if not an expense item, that the payment is for the purpose for which its money was made available.
8. Available within the dollar limits of an appropriation and that payment will not reduce the balance to a level less than the commitments charged against it.



### **5.7.2 Responsibility for Account Verification (Continued)**

#### **Financial Officers**

Financial officer is responsible for ensuring that all account verification procedures have been carried out and that the information appearing on a cheque requisition is accurate.

The primary responsibility for the enforcement of the financial procedures and controls rests with the departmental financial officer.

Section 30 of the *Financial Administration Act* requires that no payment shall be requisitioned by a department that would not be a lawful charge against the appropriation. This entails verifying that the payment is for the purposes of the appropriation, as defined in the Main or Supplementary Estimates, and includes verifying compliance with the enabling legislation of the program concerned. It is also necessary to confirm that the payment is in accordance with any other statute, regulation or policy directive.

The review of documents by the financial officer exercising payment authority constitutes the final departmental check in the process of expenditure initiation, account verification and payment requisitioning.

Signing by the financial officer under Section 30 of the *Financial Administration Act* means that:

1. Sections 23, 24 and 29 of the *Financial Administration Act* have been properly exercised.
2. Account verification procedures (see 5.7.3) have been adequately carried out.
3. The charge is within the authority of the appropriation.
4. Adequate funds exist in the budget to pay the charge.
5. Contracts, purchase orders or other procurement arrangements were duly executed.
6. Generally accepted accounting principles for handling the financial data have been adhered to.
7. Accounting principles involved in processing the accounts have been applied on a basis consistent with that of the preceding year.
8. Authority has been exercised according to the delegated signing authority documents.
9. Where a debt has been assigned, the payment is requisitioned in favour of the assignee.
10. The appropriate coding is identified on the requisition.

Officers who exercise payment authority should carry out adequate test checks to assess the quality of the review at the primary level of responsibility. However, care should be taken to avoid introducing a duplicate verification process.



### **5.7.3 Account Verification Procedures**

#### **General**

The process of account verification should begin at the earliest possible moment. The procurement process for goods and services may be relatively short and simple, eg. requisitioning a simple purchase through Supply Services, or it may be protracted and complex, eg. entering into a construction contract.

#### **Receipt of Accounts**

All invoices received by departments or agencies should be date-stamped by the mail clerk when received and immediately passed to the invoice clerk for processing.

#### **Action by Invoice Clerk**

Persons responsible for invoice processing should take the following action:

- Confirm that invoices have been date stamped.
- Compare invoices with procurement orders and receipt documents to confirm that the goods were received and that the description, quantity, and prices are in agreement with the relevant purchase orders, contracts or other procurement documents.
- Compare invoices being processed with previous payments to ensure that the supplier has not received settlement for any item shown on the invoice being processed for payment, and that the invoice is not a duplicate of an invoice previously passed for payment.
- When an invoice is for services, obtain certification of satisfactory performance from an appropriate signing authority.
- Check arithmetical correctness of invoices.
- Segregate "discount" invoices, process them promptly and ensure they are forwarded for payment without delay.
- When an invoice does not include a discount although the applicable contract or agreement provides for one, normal discount action should be taken and the invoice processed accordingly.
- When an invoice is adjusted for any reason, the original figures recorded on the invoice should not be altered. The adjusted amounts, with an appropriate explanation, should be written in "red" beside the original figures.
- Consolidate invoices for the same supplier under one cheque requisition.
- Complete Cheque Requisition form YG358 and staple it to the front of the invoice and related back-up.



**5.7.3 Account Verification Procedures (Continued)**

**Credit Notes**

When feasible, credit notes should be deducted from the total of the related invoice. However, when the related invoice has been processed for payment before the credit note is received, the note may be deducted from another invoice of that supplier or submitted separately if the supplier receives payments regularly.

When a credit note cannot be applied against an invoice as outlined above, a government invoice must be raised and forwarded to the supplier.

**Payment Requisition Procedures**

When cheque requisitions are received from the invoice clerk, the supervisor should review all the documents to ensure that the actions outlined in Section 5.7.3 were followed. The appropriate signing authorities must then be obtained.

On completion of payment certification, the invoices and supporting documents should be returned to the invoice clerk for batching and accounts payable data processing.



#### **5.7.4 Preparation and Verification of Journal Entries**

In this section, the term “journals” is used to mean “journal entries” or “journal vouchers”. General ledger entries for payroll transactions through the payroll system and accounts receivable general ledger entries through the creation of government invoices in the accounts receivable module are excluded from this section.

##### **5.7.4.1 Application of Signing Authorities**

1. As noted in the Policy Statement of the Signing Authorities Policy (subsection 5.5.0 of this manual), the Signing Authorities Policy was issued pursuant to Sections 21, 23, 24, 29, 30 and 31 of the *Financial Administration Act*. These sections apply to payments out of the consolidated revenue fund; therefore, the Signing Authorities Policy does not apply to journals that do not result in issuance of payments.
2. Departments, however, must apply Sections 29 (certificate of performance) and 30 (requisition for payment) authorities on journals as a means of internal control. That is, the relevant components of control expressed in these Sections must be utilized for the certification of journals.

For the purpose of complying with the dollar limits associated with Sections 29 and 30 authorities, in a journal, each line is considered to be a transaction. Care should be taken in how a journal is prepared so that the intent of these Sections is appropriately applied.

##### **5.7.4.2 Procedures**

The objective of this set of procedures is to ensure that journals are properly managed, authorized and accounted for accurately and in an efficient manner.

Primarily, procedures should be established such that:

- all journals are created as soon as they are recognized as being required. They should not be left to accumulate, particularly if the amounts involved are material.
- if there are material effects to the budget, appropriate recording of the changes in commitments should be recorded and tracked.

Secondly, procedures should be established such that all staff who manage a budget:

- and who have appropriate signing authority either directly approve the journal that affects their budget, or
- are properly informed of such journals that will affect their budget in a timely manner.



#### **5.7.4.2 Procedures (Continued)**

Journals are to be properly coded and period-dated, ensuring that there is appropriate supporting documentation.

As noted under subsection 5.7.4.1, for internal control purposes, signatures certifying approval of a journal under Section 29 (certification of performance) and Section 30 (requisition for payment) of the *Financial Administration Act* must be appended prior to the journal being posted to the general ledger.

#### **5.7.4.3 Inter-departmental Journals**

For an inter-departmental journal, each department must approve its own general ledger codes, unless the journal transactions fall within a valid “Standing Assigned Journal Authority” (see below).

##### **Standing Assigned Journal Authority**

###### **(i) Definitions**

“Standing Assigned Journal Authority” means that, for specified types of system-generated chargeback journals, the Deputy Minister of the sponsoring department has made a standing assignment of Section 29 (performance certification) and Section 30 (requisition for payment) authorities under the *Financial Administration Act* for his/her department to the Deputy Minister of the performing department.

“Sponsoring department” means a department which has budget authority for a project or services to be rendered.

“Performing department” means the department which performs work on a project or renders services.

###### **(ii) Objective**

The objective of the Standing Assigned Journal Authority is to facilitate timely processing of low-risk chargeback journals generated from a sub-system.

###### **(iii) Rules for Exercising Standing Assigned Journal Authority**

1. The “Standing Assigned Journal Authority” only applies to journals. It must not be used for issuing of payments, i.e. cheque requisitions. The Signing Authorities Policy (subsection 5.5 of this manual) prohibits the Deputy Minister of a department to delegate his/her signing authorities for payments outside his/her department.



**5.7.4.3 Inter-departmental Journals (Continued)**

2. The sponsoring department must identify the standing assignment of Sections 29 (performance certification) and 30 (requisition for payment) signing authorities for electronic chargeback journals to the Deputy Minister of another department on its Delegation of Financial Signing Authority Chart (Form A).
3. A chargeback is considered to be low-risk when the dollar amount is relatively low and the performing department is anticipating the charge prior to its actual posting. That is, there are no surprises.
4. The “Standing Assigned Journal Authority” is only operative if a valid Section 24 (commitment authority) assignment has been executed for the transaction, e.g. Central Stores Requisition, Fleet Vehicle Request, Pool Vehicle Service Agreement, etc.

Section 24 (commitment authority) assignment will at a minimum indicate:

- the type of goods or services to be provided,
  - the expected cost or a maximum committed cost,
  - GL code of the sponsoring/requesting department; and
  - the indication of Section 24 sign-off by the appropriate public officer.
5. The Deputy Minister of the performing department may delegate the Standing Assigned Journal Authority to public officers of his/her department. This delegation must be done by utilizing the Delegation of Financial Signing Authority Chart (Form A).
  6. During the process of electronic chargebacks, there must be auditable evidence of Sections 29 (performance certification) and 30 (requisition for payment) signing authority executions by two separate public officers who have the appropriate Standing Assigned Journal Authority.
  7. The Deputy Minister of the sponsoring department may unilaterally withdraw all or part of the standing assignment journal authority at any time by issuing a memo that indicates what authorities have been withdrawn and noting the reason.



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(iv) A Sample Memo for Establishing Standing Assigned Journal Authority

**From:** << Name of DM >>  
Deputy Minister  
Name of the Sponsoring Department

**To:** << Name of DM >>  
Deputy Minister  
Name of the Performing Department

**Re:** Standing Assigned Journal Authority

This memo assigns limited authority for approving Sections 29 and 30 of the *Financial Administration Act* on our Department's entries on inter-Departmental journals. The limitations are that this assignment is valid only for (1) the Expenditure types listed below or attached and (2) when a Section 24 Assignment for the transaction(s) has been executed.

This form records (check box):

- Set-Up (new) ☒
  - Changes:
    - Addition ☐
    - Withdrawal ☐ (noting reason for change)
- (Reason: \_\_\_\_\_)

**Date Effective:** 02/Dec/2009

**Date to Renew:** None, as Indefinite (optional for date)

**Type of Expenditures (Description)** (or appended List)

Type of Expenditure
(Sample)
FVA - Pool Vehicle monthly/annual Rental
FVA - Pool Vehicle Kilometer Charges
FVA - Vehicle Fuel Costs
FVA - Vehicle daily/weekly Rentals
Central Stores Costs

**Signed:** \_\_\_\_\_ **Date:** \_\_\_\_\_  
<< Name of DM >>  
Deputy Minister of Sponsoring Department (Assigning)

CC: Department of Finance



**Yukon**

This form is effective upon approval and until  
cancellation. Activation information is retained and  
available in the Signing Authorities App

**FORM A**[illegible]

Every officer of the Department appointed to a position listed above, including any officer appointed officially on an acting basis, and upon completion of the Specimen Signature Card for this position, is hereby granted financial signing authority in respect to the area of the Department for the functions as indicated.

Recommended: \_\_\_\_\_  
Date Departmental Administrator

NL = No limit

Approved: \_\_\_\_\_  
Date Deputy Minister

*Your personal information is being collected under the Financial Administration Act and S. 15(a) of the ATIPP Act for the purpose of verifying your authority to allocate government funds. For further information, contact Financial Accounting at 667-5850*

Work Flow: upon signature original document is retained within the Department as per finance branch instructions. Scanned copy is uploaded into the Signing Authorities App



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## **5.8 PAYMENT TIMING**

### **General**

No payment should be made prior to the date on which payment is due unless an early payment discount is available. Discounts taken must be credited to the program.

The Department of Finance can modify the payment terms on individual cheques for financial management purposes if necessary.

### **Invoices for Goods and Services**

Invoices are due 30 days after receipt of the invoice or of the goods or services, whichever is later.

### **Construction Contracts**

Payments are due 30 days after authorization of the engineer responsible for the project, except where different timing is specified in the contract.

### **Refunds**

Refunds are due thirty days following receipt of claim or determination of overpayment by supplier.

### **Loans and Investments**

Loans and Investments are due on the date specified by the loan agreement or contract.

### **Grants and Contributions, Accountable Advances, and Social Program Payments**

These payments are due on the date determined by legislation, agreement or by an individual with appropriate spending authority.

Exceptions to these payment due dates must be specifically approved by the Deputy Minister of Finance.



## **5.9 GOVERNMENT TRANSFERS**

### **5.9.0 Policy Statement**

#### Authority

Subsections 5.9.0 to 5.9.4 of this manual were approved by Management Board on February 20, 2008 (MBM #08-04-03); therefore, these subsections can be revised only with the approval of Management Board.

Subsections 5.9.0 to 5.9.4 of this manual shall be referred to as the “Government Transfers Policy”.

#### Effective Date

April 1, 2008 with a transitional period of one year

#### Application

This policy applies to all “departments” as defined in subsection 1(1) of the *Financial Administration Act*.

This policy applies to all government transfers as defined in subsection 5.9.1.c).

#### Objective

The objective of this policy is to ensure that all government transfers are authorized, delivered, accounted for and evaluated in an accountable manner and in accordance with public sector generally accepted accounting principles, while serving recipient and stakeholder needs and effectively managing risks.

### **5.9.1 Definitions**

- a) **Exchange transactions** are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.
- b) A **funding program** is a program, the goal of which is to enable departments to achieve their departmental and program objectives by providing funding to entities outside government. In a funding program, program guidelines such as eligibility criteria, application and approval processes, and the determination of funding amounts, are available to the public. (See subsection 5.9.5.3 of the Guidelines for examples of funding programs.)
- c) **Good standing** means that a transfer payment recipient has fulfilled any obligation it may have to register and complete annual or other filings required to maintain compliance with an act. The preferred method of confirming compliance is by obtaining a certificate of status from the Yukon Corporate Online Registry (YCOR). This can be



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done free of charge by employees of the Yukon government. Note that not all transfer payment recipients will be required to register under an act.

- d) **Government transfers** are transfers of money or non-monetary assets (such as inventories and tangible capital assets) from the government to an individual, an organization or another government for which the government does not receive goods or services directly in return, as would occur in a purchase/sale or other **exchange transactions**.

It is assumed, however, the government uses transfers as a means to carry out its mandate and achieve its goals and objectives; hence, the government would benefit from making those transfers. The government may, as a condition of a transfer, require receipt of a product such as a report or a sample of the developed product, as proof of performance. Government transfers do not include loans, loan guarantees, transfers made through a tax system, settlements of lawsuits or other types of legal compensation provided by the government or investments.

- e) A **legislated grant** is a type of **transfer payment** where the government must make the transfer payment if the applicant meets specified eligibility criteria. Such transfers are non-discretionary in the sense that both: (i) “who” is eligible to receive the transfer; and (ii) “how much” is transferred; are prescribed in legislation and/or regulations. Examples of legislated grants are social assistance payments and grants to secondary school students who meet the predetermined eligibility criteria. (See subsection 5.9.5.3 of the Guidelines for other examples of legislated grants.)
- f) **Municipality** means any part of the Yukon established as a city or town under the *Municipal Act*.
- g) **Not-for-profit (or non-profit) organizations** are entities, normally without transferable ownership interests, organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose.
- h) A **non-government organization (NGO)** is a not-for-profit organization that is not controlled by a government and pursues matters of interest of its members by lobbying or direct action. NGO is generally used for arts, social cultural, legal or environmental advocacy groups.
- i) **Operational funding** is funding directed to an organization’s operations as a whole rather than to particular projects (**project funding**). If an organization has separate programs, departments or divisions, support for a particular program is also considered to be operational funding. Operational funding generally runs on an annual basis.
- j) **Project funding** is support directed to a specific project which has a start date and an end date.



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- k) A **results-based management approach** is an approach that focuses on results, i.e. output and performance, as well as evaluation and reporting requirements to measure those results. (See also subsection 5.9.5.2 of the Guidelines.)
- l) A **risk-based (or risk management) approach** 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. Risk factors can be either financial, non-financial or both. In a funding agreement, typically performance evaluation requirements and level of monitoring will be adjusted to mitigate estimated risks. (See also subsection 5.9.5.2 of the Guidelines.)
- m) A **transfer payment** is a monetary payment made by the government to a recipient for a specific purpose, namely to further a government program objective, which does not result in the procurement by the government of tangible capital assets, inventories, goods or services, as would occur in an **exchange transaction**. A transfer payment is commonly referred to as a “grant”, “contribution”, “funding”, or “assistance”.
- n) A **transfer payment agreement** is a written agreement that legally binds the government (as the transferor) and the recipient as to the amount, terms and conditions of the transfer payment. (See also subsection 5.9.5.4 of the Guidelines.)

**5.9.2 Policy**

1. Government transfers are one of the vehicles that are used to achieve government’s goals and objectives. Before making a decision to establish a funding program or entering into a transfer agreement (either part of or outside of a funding program), departments must ensure that it is an appropriate vehicle to achieve departmental goals and objectives.
2. All funding programs shall be approved by Management Board. Any significant subsequent changes to the program, e.g. changes to terms and conditions of the program, program parameters, eligibility criteria, etc., including termination of the program must be approved by Management Board. Departments shall review and evaluate funding programs in accordance with the results-based guidelines laid out in section 5.9.5.2. A report of such evaluation must be submitted to Management Board.
3. Any legislated grant program shall be established by an act. Budgets for legislated grants must be approved by the Legislative Assembly. Only the Legislative Assembly may approve an increase or decrease to the budget for a legislated grant program.
4. Departments must use a results-based and risk-based management approach in designing a funding program and drafting a transfer payment agreement, while adopting a citizen-focused approach to managing funding programs and individual transfer payment agreements. (Refer to subsection 5.9.5.2 of the Guidelines.)
5. Any transfer payment agreement with a term in excess of three years shall be approved by Management Board.



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6. Departments shall make transfer payments with due regard for the government's cash management practices as well as the recipient's cash flow requirements. Installment payments and advance payments, if required, shall be made in accordance with subsection 5.9.5.4 of the Guidelines. Any exception to this directive must be approved by Management Board.
7. Notwithstanding the above, no advance payment in excess of \$10,000 shall be made to a recipient in one fiscal year when the related expenditures of the recipient are not likely to be incurred until the following fiscal year. Advances required for the expenditures that are to be incurred in the following fiscal year must be issued as of April 1 and charged to an appropriation in the new fiscal year.
8. A transfer of a tangible capital asset shall be recognized as an expense at the net book value of the tangible capital asset and reported as a government transfer.
9. Any prospective recipient of a transfer payment, except for a legislated grant, must declare any amounts owing to the Yukon Government. In principle, an entity that owes a debt to the government should not receive funding from the government. This directive does not apply to social assistance payments or to an entity that has arranged a mutually agreed upon repayment schedule with the government and is in good standing.
10. In accordance with the General Administration Manual Policy 3.39 "Conflict of Interest", government employees must disclose and address their involvement in application organizations, either in their capacity as officers or representatives, and absent themselves from any discussion, decision making process, or any other capacity that could be perceived to be in a conflict of interest situation. A Yukon Government employee who holds an executive position in the recipient organization should refrain from signing the funding agreement as there may be perception of possible influence over the funding decision.
11. Departments shall enter all transfer payment agreements, except those classified as legislated grants, into a corporate system in the manner instructed by the Department of Finance.
12. All transfer payments shall be reported in the Public Accounts in a format determined by the Department of Finance.
13. If the recipient of the transfer payment is a society, a certificate of status shall be obtained from the Registrar of Societies certifying that the Society has filed the documents required to be filed under the *Societies Act*. If the recipient of the transfer payment is a company, a certificate of status shall be obtained from the Registrar of Companies certifying that the company has filed the documents required to be filed under the *Corporations Act*.



### **5.9.3 Corrective Actions**

1. If the Deputy Minister of the Department of Finance assesses that a department failed to comply with requirements of this policy and guidelines, the Deputy Minister of the Department of Finance shall recommend that the Deputy Minister of the department:
  - a) conduct an audit or an evaluation. The cost of such an audit or evaluation shall be paid by the department; and/or
  - b) take corrective action based on the recommendations made by the Deputy Minister of the Department of Finance.
2. If the Deputy Minister of the Department of Finance assesses that a department has failed to conduct an audit or evaluation and/or to implement the corrective action pursuant to paragraph 1 of this subsection, the Deputy Minister of the Department of Finance may recommend to Management Board further corrective actions to be taken, which may include:
  - a) reducing the spending authority of the respective Deputy Minister; or
  - b) suspending the funding program pending further evaluation.

### **5.9.4 Responsibilities**

#### **1. Cabinet**

Cabinet is responsible for:

- approving draft legislation to establish or amend all legislated grant programs for tabling in the Legislative Assembly.

#### **2. Management Board**

Management Board is responsible for:

- approving a government transfer policy and any changes to the policy;
- approving the creation, changes to and termination of all funding programs;
- approving a transfer payment agreement that has a term in excess of three years; and
- directing corrective actions to be taken as recommended by the Deputy Minister of the Department of Finance.



**3. Minister of a Department**

The Minister of a department is responsible for:

- ensuring funding programs and transfer payment agreements are designed, approved and delivered in accordance with this policy and guidelines;
- recommending approval to Management Board and, if it is a legislated grant program, to Cabinet, on the design, redesign or termination of funding programs and the corresponding financial control framework and the program terms and conditions based on a results and risk-based management as well as a citizen-focused approach;
- authorizing transfer payment agreements that are above the Deputy Minister's spending authority limit; and
- ensuring that appropriate and timely corrective actions are taken within the department when any provisions of this policy and guidelines have not been adequately applied.

**4. Deputy Minister of the Department of Finance**

The Deputy Minister of the Department of Finance is responsible for:

- issuing, repealing or amending, from time to time, guidelines in support of the Government Transfers Policy;
- monitoring, evaluating and advising on departments' compliance with this policy and guidelines;
- recommending to the Deputy Minister of a department that the department take corrective actions, which are within his/her authority, in relation to any transfer payment arrangement that has been determined to be in violation of this policy and guidelines; and
- recommending to Management Board corrective actions to be taken when departments have not responded to his/her recommendations in relation to this policy and guidelines.



**5. Deputy Minister of a Department**

The Deputy Minister of a department is responsible for:

- ensuring funding programs and transfer payment agreements are designed, approved and delivered in accordance with this policy and guidelines;
- advising the Minister on the requirements of this policy and guidelines;
- recommending to the Minister the design, redesign or termination of funding programs and the corresponding financial control framework, the system of internal controls, the program terms and conditions based on a results and risk-based management as well as a citizen-focused approach;
- authorizing transfer payment agreements in accordance with this policy and guidelines;
- ensuring that the departmental staff remain independent and at arm's length from recipients and that any departmental representative on a recipient's advisory committee or board be excused from any decision making process pertaining to the transfer;
- ensuring departmental capacity exists to effectively deliver and administer the funding program and/or transfer payment agreements including monitoring and training;
- providing a report on a timely basis to the Deputy Minister of the Department of Finance regarding significant events of contractual default or wrongdoings such as fraud or the inappropriate use of funds that comes to his or her attention; and
- ensuring that appropriate and timely corrective actions are taken within the department when any provisions of this policy and guidelines have not been adequately applied.

**6. Director of Finance or Equivalent of a Department**

The Director of Finance of a department is accountable to the Deputy Minister for:

- advising the Deputy Minister on the application of this policy and guidelines;
- advising program officers on the application of this policy and guidelines; and
- establishing a process of internal control and financial management.



**7. Program Managers**

Program managers are accountable to the Deputy Minister for:

- designing and redesigning funding programs and transfer payment agreements, as well as the corresponding financial control framework, the system of internal controls, the program terms and conditions based on a results-based, risk-based and citizen-focused approach.
- exercising approval authority delegated by the Deputy Minister in accordance with financial management policies and procedures of the government;
- administering funding programs and transfer payment agreements in accordance with this policy and guidelines;
- monitoring and reviewing funding programs and transfer payment agreements to ensure they are meeting program objectives.
- evaluating a funding program in accordance with the results based guidelines laid out in section 5.9.5.2 and submitting a report to the Deputy Minister.



### **5.9.5 Guidelines**

#### **5.9.5.0 Introduction**

The guidelines outlined in subsection 5.9.5 of this manual are issued by the Deputy Minister of the Department of Finance under the authority of Section 7 of the *Financial Administration Act*.

These guidelines are issued to aid program officers who design and manage funding programs and/or transfer agreements as well as financial officers who seek budget approval and account for those government transfers. These guidelines are intended to assist those officers in the following areas but are not limited to:

- Correctly choosing between goods or service contracts and transfer payment agreements;
- Ensuring the prospective recipient is a legal entity and has the power to enter into a contractual agreement;
- Making decisions to fund a requested project;
- Effectively designing a transfer payment agreement;
- Effectively designing a funding program;
- Seeking appropriate approval;
- Accurately accounting for government transfers; and
- Evaluating funding programs and transfer payment agreements.

Some of the key aspects that both program and financial officers must observe in delivering a funding program and transfer payment agreements are as follows:

- i) A transfer payment agreement must establish clear performance expectations;
- ii) A funding program must contain precise eligibility and assessment criteria;
- iii) Program officers must undertake due diligence prior to approving a transfer;
- iv) Payments must be made in accordance with terms and conditions;
- v) Terms and conditions of a transfer payment agreement must be established following the risk-based approach, which is described further in these guidelines;
- vi) Project performance problems must be resolved quickly;
- vii) Program officers must ensure that each agreement is followed up to ensure all requirements are met; and
- viii) The departments must collect money promptly if the recipient has not met the terms and conditions of the transfer payment agreement.



### **Decision to use a government transfer**

Paragraph 1, subsection 5.9.2 of the Government Transfers Policy states:

*“Government transfers are one of the vehicles that are used to achieve government’s goals and objectives. Before making a decision to establish a funding program or entering into a transfer agreement, departments must ensure that it is an appropriate vehicle to achieve departmental goals and objectives.”*

#### **Why?**

Before making a decision to create a funding program or enter into a transfer agreement, the department must consider, at a minimum, the following questions:

- Does the contemplated program or transfer of resources further the government’s priority and/or department’s program objectives?
- If operational funding, is it going to be perceived as precedent setting?
- Is the amount of funding requested reasonable? Request the most recent financial statements as well as disclosure of other sources of funding.

#### **How (Is a transfer payment the right way to pay?)**

Once it is determined that the contemplated payment or program satisfies the “Why” section above, departments must examine and establish if a planned action should be carried out through a transfer payment agreement or other vehicles such as a service contract. If the government is acquiring services, goods or an asset, the contractual agreement must be classified as a service or goods contract, regardless of the form used.

#### **Goods/service contracts versus transfer payment agreements**

The definition of a government transfer states that the Government does not receive any goods or services directly in return in exchange of resources transferred.

At times, however, the Government may acquire goods or services as a “by-product”. Departments should examine the substance of the intended outcome. Does the Government receive approximately equal value of goods or services in exchange for the money provided (see “exchange transaction” in subsection 5.9.1 Definitions)? If so, the agreement is likely to be a procurement contract even if the transaction may benefit the contracting party, e.g. economic development, job training opportunities, etc.

A government transfer is, as the word literally indicates, a transfer of resources from a government to another organization or an individual with an intended result of carrying out its mandate and achieving its objectives. In other words, benefits to the government are inherent in all government transfers, which makes the differentiation between a service contract and a transfer payment agreement difficult at times.



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The following is a decision tree that may assist in determining whether the contemplated agreement is a service/goods contract or a transfer payment agreement:

1. Does the government directly receive goods or services and is the value of the goods/services approximately the same as the payment made by the government?

If the answer is “Yes”, it is likely to be a goods/service contract.

Answer is “No” – go to the next question.

2. Could the invoicing by the contracting party be assumed to include profit margin for the entity? (The government can only “assume” if the contract amount is based on a quote or proposal without a disclosure of actual expenses to deliver those services/goods by the contracting party.)

If the answer is “Yes”, it is likely to be a goods/service contract.

Answer is “No” – it is likely to be a transfer payment agreement.

**Whom (What party do we pay?)**

1. Departments must ensure the recipient is a **legal entity in good standing** with the power to contract.

There are several types of entities. Departments will be required to classify transfer payment recipients into one of the following categories when they enter the information into a corporate system.

**A. Individuals**

A group of individuals that is not incorporated under any act is not a legal entity. The legal entity in this case would be each individual.

**B. Business**

Business refers to a commercial enterprise whose primary aim is to earn profits. Departments must identify which of the following types the business recipient is and draft an agreement with the correct legal entity and business name. If the contractual agreement is with a local business, departments should check the Corporate Affairs Registry in the Department of Community Services to ensure it is registered as business and is in good standing.



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**B.1 Sole proprietor** — A sole proprietor is an individual who carries on business by him/herself, with or without employees. This method of doing business allows the person to extend their rights as an individual to make contracts and buy or sell property, and requires only the registration of the "trade" or business name, and a business licence.

When a department is entering into any form of contract with a sole proprietor operating under a business name, e.g. "John Smith o/a Smith's Mechanical", the department must ensure that the payment is made to the payee including the business name.

**B.2 Partnership** — When two or more persons decide to combine their qualifications, skills, energy and resources to go into business together, they form a partnership. Each partner is the agent of the other, and may commit the partnership to contracts with or without the other partners' consent. The partners are "jointly and severally" liable for all debts of the partnership, which means that creditors may seize the business assets, or the personal assets of one or more partners to pay outstanding debts.

**B.3 Limited Partnership** — This type of partnership consists of one or more limited partners and at least one general partner. In this case the general partner (a limited company) has unlimited liability and the limited partner is liable only up to the amount of his investment. The limited partner must not have anything to do with the management of the business, and can only share in the profits of the business as determined by the partnership agreement.

**B.4 Corporation** — a corporation is a legal entity separate from the individual owners. It has all of the rights of a natural person: it may enter into contracts, own property, and may sue or be sued.

**C. Not-for-profit organizations**

Not-for-profit organizations are entities, normally without transferable ownership interests, organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose.

NGOs, community associations and industry associations are not-for-profit organizations.

In these Guidelines, colleges, universities and hospitals are classified as not-for-profit organizations.

The majority of not-for-profit organizations are established under the *Societies Act*. Before making a decision to fund, departments should check any local not-for-profit organization applicant with the Corporate Affairs Registry, verify its correct legal name and ensure the organization is in good standing.



**D. Municipalities and governments**

See the definition in the Government Transfers Policy (5.9.1 of this manual) for the definition of “municipality”.

Local Advisory Councils are created by Orders In Council under the *Municipal Act* to act solely in an advisory capacity and do not have the power to enter into contracts in their own name. Section 44 of the *Municipal Act* empowers the government to provide them with operational funding. No other funding may be provided to Local Advisory Councils.

A School Board or School Council has the legal capacity to contract pursuant to the *Education Act*.

Government corporations such as the Yukon Housing Corporation, Yukon Liquor Corporation, Yukon Development Corporation and the Workers’ Compensation, Health and Safety Board are classified as government organizations.

**E. First Nations**

**E.1 Self-governing First Nations** - Self-governing Yukon First Nations (Kwanlin Dun First Nation, Kluane First Nation, Carcross/Tagish First Nation, Ta’an Kwach’an Council, Teslin Tlingit Council, First Nation of Nacho Nyak Dun, Little Salmon Carmacks First Nation, Tr’ndek Hwech’in, Selkirk First Nation, Champagne and Aishihik First Nations, and Vuntut Gwitchin First Nation) have the power to contract as if they were a person because of the territorial and federal *Self-Government Acts*.

**E.2 Indian Act Bands** – In the Yukon, there are three remaining Indian Act Bands. They are the Liard First Nation, White River First Nation and Ross River Dena Council. The Indian Act provides these bands with the legal capacity they have.

**E.3 Council of Yukon First Nations**

**E.4 First Nations outside the Yukon** – The government may at times enter into agreements with First Nations other than those identified in E.1 to E.3 such as the Taku River Tlingits, Tahltan Tribal Council, Kaska Dena Council, the Dene/Metis of the Northwest Territories, the Inuvialuit Regional Council and the Gwich’in Tribal Council.

**E.5 First Nation (development) corporations** are business corporations. As with any other businesses, departments should verify its status on the Corporate Affairs registry before entering into an agreement.



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Departments must research and ensure compliance with other Yukon government policies and guidelines depending on the applicant.

For example, follow GAM 1.12 “First Nations Relations” for agreements with First Nations including the Council of Yukon First Nations and any corporation owned or controlled by a First Nation. If it is an intergovernmental agreement, the department must comply with GAM 1.5 “Inter-governmental Relations Policy”.

2. Pursuant to paragraph 9, subsection 5.9.2 of the Government Transfers Policy:

*“Any prospective recipient of a transfer payment, except for a legislated grant, must declare any amounts owing to the Yukon Government. In principle, an entity that owes debts to the government should not receive funding from the government. This directive does not apply to social assistance payments or to an entity that has arranged a mutually agreed upon repayment schedule with the government and is in good standing.”*

3. As stated in paragraph 10, subsection 5.9.2 of the Government Transfers Policy, “in accordance with GAM Policy 3.39 Conflict of Interest:

*government employees must disclose and address their involvement in applicant organizations, either in their capacity as officers or representatives, and absent themselves from any discussions, decision making process or any other capacity that could be perceived to be in a conflict of interest situation. A Yukon Government employee who holds an executive position in the recipient organization should refrain from signing the funding agreement as there may be perception of possible influence over the funding decision.”*

**Who can make a final decision?**

Generally, authority to approve a transfer payment is tied to the public officer’s signing authorities under Section 24 (prerequisite for contracting) and Section 23 (contracting authority) of the *Financial Administration Act*.

If it is a transfer payment within a funding program, there is an established approval process in the program guidelines.

In addition, as directed in paragraph 5 subsection 5.9.2 of the Government Transfers Policy, any transfer payment agreement with a term in excess of three years must be approved by Management Board.

A transfer of a public property to an entity outside the government is considered to be disposal and is subject to MBD #11/93 “Management of Capital Assets and Disposal of Surplus Public Property”.



### 5.9.5.2 Results-based, risk-based and citizen focused approach

Paragraph 4, subsection 5.9.2 of the Government Transfers Policy directs departments that:

*“Departments must use a results-based and risk-based management approach in designing a transfer payment program and drafting a transfer payment agreement, while adopting a citizen-focused approach to managing programs and individual funding agreements.”*

#### A. Results-based management approach

A results-based management approach should help achieve a number of goals related to accountability and evaluation. It should:

- set clear roles and responsibilities for the main partners involved in delivering the program, project or initiative (a sound **governance structure**);
- ensure clear and logical design that ties resources (input) to expected results (output) that shows a logical sequence of resources, activities, outputs and key results (a **results-based logic model**);
- have a sound **performance measurement plan** that allows managers to track progress, measure results, support subsequent evaluation work, learn and make ongoing adjustments for improvements:

A sound performance measurement plan should cover:

- Main activities of the program or project (*what activities should occur?*)
  - Clients or target population (*who are intended beneficiaries?*)
  - Expected results (*what is to be achieved?*)
  - Performance indicators (*how will we objectively know?*)
  - Data source (*where will we get the information?*)
  - Logistical considerations (*how will we measure and analyze, and at what cost?*);
- set out any **evaluation work** that is expected to be done over the life cycle of the program or a particular funding; and
- ensure adequate **reporting** on results.



**B. Risk-based (or risk management) approach**

Risk management is a systematic approach to identifying the risks that could result in the program or funding not meeting its goals, defining the level of risk that is acceptable, and providing the tools to manage risks. Risk factors to be considered include, but are not limited to:

- the amount of money involved;
- credibility and track record of the recipient;
- complexity of the project;
- the sensitivity of the project as perceived by the public;
- the events or circumstances that could significantly prevent the recipient from achieving the project's objectives; and
- size and capacities of the recipient organization.

The following table is an example of risk-based management model for transfer payments.

**Transfer Payments Risk Management Model**

Risk in relation to the project (Note A)	Assessed Risk		
	Low to Medium Risk	Medium to High Risk	High Risk
<b>High</b>	Low to Medium Risk	Medium to High Risk	High Risk
<b>Medium</b>	Low to Medium Risk	Medium Risk	Medium to High Risk
<b>Low</b>	Low Risk	Low to Medium Risk	Low to Medium Risk
	<b>Low</b>	<b>Medium</b>	<b>High</b>
	<b>Risk in relation to the capacity of recipient (Note B)</b>		

**Note A – Risk in relation to the project** should be determined based on a number of factors such as:

- the amount of money involved
- complexity of the project
- the sensitivity of the project as perceived by the public
- community support for the project



**Note B - Risk in relation to the capacity of the recipient** should be determined based on a number of factors such as:

- credibility and track record of the recipient
- skills, experience, expertise, etc. of the recipient for achieving the goals of the transfer payment
- size and sophistication of the applicant organization
- project management skills of the recipient
- accounting and record management skills of the recipient
- whether the organization's accounting records are regularly audited

**Action based on assessed risk**

Low risk – Low risk funding agreements would entail standard terms and conditions that apply to all agreements with minimal reporting requirements.

Medium risk – At this level of risk, 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 the final payment is made.

Medium to high risk – The concerns for this level of funding should be the identification of the performance measures, expected results and outcomes. The programming may be more complex and performance information requirements more extensive. In some cases, non-audited financial statements prepared by an independent accountant and/or audited financial statements of the project would be required after project completion.

High risk – The concerns at this level should be the execution of the project and its evaluation upon completion. A high risk project and high risk recipient should be monitored closely, e.g. frequent accounting and reporting requirements, monthly progress reports, on-site inspection by program officers, etc.

(Also refer to subsection 5.9.5.4 (xi) of the Guidelines.)

Departments should have two program officers assessing risks on the same project and documenting rationale for the assessed risk in order to maintain objectivity and verifiability.



**C. Citizen-focused approach**

While it is important to design programs and funding agreements based on results and performance measures, departments should also consider the size and capacities of the recipients. For example, if it is considered to be a low-risk project, reporting requirements could be simplified so that they will not be unnecessarily onerous to the recipient. If there is a performance measurement reporting requirement, the requirement should be realistic and measurable in practical terms.

Some other measures departments could take in order to incorporate a citizen-focused approach are:

- reduce the number of cost categories in funding agreements;
- identify the circumstances where operational funding is a cost-effective supplement to project-specific funding; or
- consider consolidated audit planning for recipients who have received funding from more than one funding program.

**5.9.5.3 Creation and management of a funding program**

The Government Transfers Policy defines a **funding program** as a program, the goal of which is to enable departments to achieve their departmental and program objectives by providing funding to entities outside government. In a funding program, program guidelines such as eligibility criteria, application and approval processes, and the determination of funding amounts, are available to the public.

Examples of funding programs are: assistance programs such as Social Assistance, Post-Secondary Student Grants, and Homeowners' Grants; and project funding programs such as the Community Development Fund, Film and Sound Incentive Program and Arts Fund.

As stated in paragraphs 2, subsection 5.9.2 of the Government Transfers Policy:

- 1) **All funding programs must be approved by Management Board. Any subsequent changes to the program, e.g. changes to terms and conditions of the program, program parameters, eligibility criteria, etc., including termination of the program must be approved by Management Board.**
- 2) **Departments shall review and evaluate transfer payment programs in accordance with the results based guidelines laid out in section 5.9.5.2. In any case, a report of such evaluation must be submitted to Management Board.**



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Furthermore, if the contemplated funding program is to provide transfer payments that are non-discretionary in the sense that both: (i) “who” is eligible to receive the transfer; and (ii) “how much” is transferred are prescribed, it is considered to be a legislated grant program. Pursuant to paragraph 3, subsection 5.9.2 of the Government Transfers Policy, any legislated grant program must be established by an act or a regulation pursuant to an act

Examples of legislated grants are social assistance payments, Yukon Grants to students, Home Owners’ Grants and Seniors’ Income Supplements.

**A. Designing a funding program:**

Creating and designing a new funding program is a very complex task. Consultation and communication with and between stakeholders is critical to develop a successful funding program. Consultation should include operational and functional staff and branches or departments with experience in delivering similar funding programs.

- i) Before deciding to set up a funding program, departments must ensure that it is an appropriate vehicle to achieve government objectives.
- ii) Define objectives of the new funding program. The objectives must be clearly tied to departmental objectives and priorities.
- iii) Identify and define the target group that will benefit from the funding program.
- iv) Define expected results and outcomes. Once expected results and outcomes are identified, the department may proceed with program design such as assessment criteria, selection processes, format of transfer payment agreements, monitoring and payment systems, and evaluation of outcome.
- v) Define the program’s terms and condition. Terms and conditions of a program should contain, at the minimum, the following items:
  - A short summary of the program

The terms and conditions will become a stand-alone document for use by departmental staff. It will be helpful to them in working with potential recipients and in drafting agreements to place the program in the proper context.
  - A clear statement of the funding program’s objectives and expected results and outcomes.



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- A clear identification of the recipient or definition of the class of eligible recipients.
  - The proposed limit of the total government assistance (e.g. XX% of eligible project costs).
  - To ensure that a department is only providing the necessary amount of funding to undertake the project successfully, consider the funding amount the recipient is receiving from:
    - other Yukon government departments;
    - other government sources (federal, municipal); and
    - the recipient's own contributions to the project.
  - The method used for determining repayments by the recipient for cases where such assistance exceeds the anticipated funding level.
  - A description of the supporting material required in an application from a prospective recipient, including a statement from Yukon government employees, elected officials and Cabinet and caucus employees on their board or otherwise involved in their project that they have appropriately addressed any perceived or real conflict of interest.
  - Identification of the type and nature of expenditures considered eligible costs under the transfer program for reimbursements.
- vi) Administration framework should reflect the conscious weighing of the costs of controls versus (a) administrative costs and (b) losses in program effectiveness.

**B. A Management Board submission (and a Cabinet submission, if it is a legislated grant program) for a new funding program should include the following:**

- i) a clear statement of the objectives of the funding program;
- ii) a clear statement of how the transfer payments further program objectives, including identification of expected results and outcomes;
- iii) a clear identification of the recipient or definition of the class of eligible recipients;
- iv) proposed stacking limits, i.e. specific limits to the total Government assistance, for example, a certain percentage of eligible project costs;
- v) a description of the supporting material required in an application from a prospective recipient, including but not limited to:
  - a requirement to disclose the involvement of public servants on the recipient's board or committee, which may be perceived as being in a conflict situation; and
  - a requirement to disclose any debts owed to the government;



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- vi) identification of the type and nature of eligible costs for funding purposes;
- vii) the maximum amount payable to each recipient;
- viii) description to demonstrate departmental systems, procedures and resources are in place for effective management and administration of the program;
- ix) if additional resources are required for viii), the identification of the total cost and FTE to run the program, how much can be absorbed internally, and how much additional budget resources and FTEs are requested;
- x) the parameters for authorization and approval process, e.g. committee review and approval of all applications, signatories for agreements (e.g. director up to a certain amount, Deputy Minister and Minister up to certain amounts), etc.
- xi) the basis and timing of payments, including such details as a schedule of advance and progress payments and applicable holdback provisions;
- xii) a results-based accountability framework including: performance indicators, expected results and outcomes, methods for the reporting on performance, and evaluation criteria to be used in the assessment of the effectiveness of the transfer payments;
- xiii) a risk-based framework for audit of recipients of transfer payments, a program evaluation plan of the program, including expected funds to be budgeted for costs related to these requirements; and
- xiv) the Management Board submission must include a communication strategy as predetermined assessment criteria for a funding program must be made public and applied in a consistent manner.

**5.9.5.4 Drafting a Transfer Payment Agreement**

A transfer payment agreement is commonly called a “Funding Agreement”, “Contribution Agreement”, “Grant Agreement”, or “Memorandum of Undertaking”.

A transfer payment agreement can be a negotiated agreement that is signed by the government and the recipient, or it can consist of various documents exchanged between the parties, including a signed application form and a letter signed by a public officer who has the appropriate authority approving the transfer payment.

A transfer payment agreement is a contractual agreement; therefore, it must contain all elements of a legally binding contract such as an offer and an acceptance as well as a clear description of terms, conditions and obligations of the contracting parties. If it is considered that high risk exists as determined in subsection 5.9.5.2 of these Guidelines, e.g. a high dollar amount, complexity of the funded project and its implications, sensitivity, etc., the department must request a review of the agreement by the Department of Justice prior to entering into an agreement.

Departments should consider, at a minimum, the following factors while drafting a transfer payment agreement:

- i) A transfer payment agreement must identify clear objectives and expected results.



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- ii) Transfer payment agreements should reflect the principle whereby transfer payment assistance is provided for projects only at the minimum level to further the attainment of the stated objectives and expected results.
- iii) For transfer payments involving lower risks and materiality, the use of application forms and exchange of correspondence, e.g. a letter informing the award to the recipient signed by a public officer who has the sufficient Section 24 and 23 signing authorities, is acceptable.
- iv) For project funding, because the objective of the funding is to achieve intended results as proposed and agreed upon by the recipient and the government, the recipient must be required to account for the use of the funds received from the government and report on the results actually achieved. The recipient must also declare for all funds received from all sources for a given project before the agreement commences, as well as upon completion of the project. The agreement for this type of transfer should include a clause that the department has the right to undertake an audit.
- vi) Project funding agreements should call for at least an interim and a final accounting of the use of funds and the results achieved, except for smaller amounts of funding (e.g. less than \$10,000) of short duration (e.g. less than four months) where the minimum requirements would be a final accounting, including reporting against performance objectives.
- vii) Departments should determine the required frequency of accounting by recipients that minimizes the administrative costs of the department and the recipient, taking into account appropriate risk factors, the likelihood of failure or diversion of funds by the recipient to other purposes, and the department's previous experience with the recipient.
- viii) To properly control advance payments, timely accounting must be obtained from recipients. When it is a high dollar project, an advance should be accounted for before any further advances are issued. Where an advance is issued, there must be at a minimum quarterly accounting of the advance until it is cleared.
- ix) Departments are responsible for determining whether recipients have complied with the terms and conditions applicable to the transfer payment. This responsibility includes the audit of recipients when deemed necessary.

Departments should develop a risk-based audit framework for the audit including:

- Determining which recipients are to be audited;
- Selecting appropriate auditors or indicating the acceptability of auditors when retained by the recipient;
- Determining whether the scope, frequency and scheduling of audits meet program requirements;



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- Coordinating audits with others involved in the audit of the same recipients; and
- Determining follow-up action required on audit findings.

x) Payment method

Paragraphs 6, subsection 5.9.2 of the Government Transfers Policy states:

*“Departments shall make transfer payments with due regard for the government’s cash management practices as well as the recipient’s cash flow requirements. Installment payments and advance payments, if required, shall be made in accordance with subsection 5.9.5.4 of the Guidelines. Any exception to this directive must be approved by Management Board. “*

Installment payments of operational funding

Operational funding must be paid in installments corresponding to the cash flow requirements of the recipient. The minimum number of installment payments is determined according to the total value of the operational funding as follows:

Total value of annual funding	Minimum number of installments
Up to \$75,000	one
\$75,001 - \$150,000	Two
Over \$150,000	Four

Advance payment of project funding

Project funding is normally paid on the basis of performance or as reimbursement of expenditures incurred. Where advance payments are necessary, they should be limited to the immediate cash flow requirements of the recipient and must not exceed the following percentage of the total value of the funding:



Total value of funding	Duration of Agreement		
	Less than 4 months	4 months or longer	
		Initial Advance	Subsequent Advances
Up to \$10,000	up to 100%	up to 90%	Balance payable upon completion of the project and submission of the final reporting.
\$10,001 - \$100,000	up to 75%	Estimated cash flow requirement for the first 4 months.	Every 4 months based on estimated cash flow requirement for the following 4 months
Over \$100,000	up to 50%	Estimated cash flow requirement for the first 4 months.	Every 4 months based on estimated cash flow requirement for the following 4 months

Departments must note, however, that paragraphs 7, subsection 5.9.2 of the Government Transfers Policy further directs:

*“Notwithstanding the above, no advance payment in excess of \$10,000 shall be made to a recipient in one fiscal year when the related expenditures of the recipient are not likely to be incurred until the following fiscal year. Advances required for the expenditures that are to be incurred in the following fiscal year must be issued as of April 1 and charged to an appropriation in the new fiscal year.”*

xi) The following provisions must be included in a transfer payment agreement:

Legislated grants and low-risk transfers

- The recipient name;
- The purpose of the funding and the expected results;
- The effective date, the date of signing and the duration of the agreement;
- The maximum amount payable;
- The conditions to be met before payment is made and the schedule or basis of payment; and
- Procedures to be followed to recover payments, should the recipient be in default of the provisions of the contribution agreement;



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Note: For an award or scholarship type of transfer to an individual where the payment is not conditional on submission of receipts proving actual expenses incurred, the department must obtain the individual's social insurance number and report the payment as part of the calendar year-end T4A listing and submit it to the Department of Finance. For further clarification, contact the Accounting Services Branch of the Department of Finance.

**Medium to high-risk transfers**

In addition, for medium to high risk transfers, the following provisions should be included in the agreement:

- Requirements for the department to receive periodic, e.g. quarterly and/or annually, and final financial and performance reports from the recipient, certified by an officer of the organization, including March 31 financial reporting if it is a multiple year agreement;
- A repayment requirement if the recipient fails to meet the terms and conditions of the agreement;
- A requirement to report all revenues relating to the project;
- Allowable costs or the types of expenditures eligible for reimbursement;
- A provision for the department to terminate the agreement and withdraw from the project if the original objectives are not being met;
- A clause to limit the liability of the government in the case where the recipient is entering into a loan, a capital lease or other long-term obligation in relation to the project for which the contribution is provided;
- The government's right to conduct an audit, even though an audit may not always be undertaken;
- Provisions for cancellation or reduction of future year contributions in the event that departmental funding is not appropriated by the Legislative Assembly;
- An indemnification clause for the benefit of the government;
- A clause that requires the recipient not to represent itself, including in any agreement with a third party, as an agent of the Yukon government;
- A consequence of or restriction on the disposition of any assets acquired through the contribution;
- A requirement for the recipient to repay overpayments, unexpended balances and disallowed expenses and a declaration that such amounts constitute debts due to the Government;
- A clause stating the recipient agrees that no current public officer holder or public servant who is or may be perceived to be in conflict of interest situations shall not derive any direct benefit from the agreement; furthermore, the recipient will provide written statements from government employees, elected officials and Cabinet and caucus employees on their board or otherwise involved in their operation/project that they have appropriately addressed any perceived or real conflict of interest; and



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- Name, title and address of the representatives of the department and the recipient who have the authority to sign and execute the agreement. The representative of the department must have sufficient Sections 24 (commitment authority) and 23 (contracting authority) signing authorities.

xii) Multiple-year agreements

Paragraph 5, subsection 5.9.2 of the Government Transfers Policy states that: *“any transfer payment agreement with a term in excess of three years shall be approved by Management Board.”*

A multiple-year agreement must have the following clause:

*“The Government of Yukon will only issue payments under this agreement if the Department of \_\_\_\_\_ receives money (appropriation) from the Yukon Legislative Assembly for the fiscal year in which any payment is to be made.”*

A multiple-year agreement must identify committed amounts for each fiscal year.

### **5.9.5.5 Budgeting and Accounting**

#### **A. Budgeting Government Transfers**

Departments must follow Chapter 2 “Financial Planning and Budgetary Control” for budgeting government transfers.

An additional restriction is placed on legislated grants by paragraph 3, subsection 5.9.2 of the Government Transfers Policy, which states:

*“... Budgets for legislated grants must be approved by the Legislative Assembly. Only the Legislative Assembly may approve an increase or decrease to the budget for a legislated grant program.”*

Departments must request approval to reallocate budget to/from a legislated grant program through variance reporting exercises or a separate submission to Management Board for inclusion in Supplementary Estimates.

#### **B. Transfer of a Tangible Capital Asset**

As stated in paragraph 8, subsection 5.9.2 of the Government Transfers Policy, a transfer of a tangible capital asset must be recognized as an expense at the net book value of the tangible capital asset and reported as a government transfer.



**C. Accounting of Over-payment**

The amount of money remaining from an advance payment at the end of a contribution agreement and the amount of any disallowed disbursements are debts due to the government and must be recorded as receivables and recovered. Where a recipient has failed to provide financial reporting in accordance with the terms and conditions of the agreement or has not used the fund for authorized purposes, a demand for repayment must be issued.

Refunds or recovery of overpayments must be credited to the vote to which the payment was originally charged when the refund is received in the same fiscal year. When a refund is received in a subsequent fiscal year, the refund must be credited to prior-year expenditure recovery.

**5.9.5.6 Administration**

**A. Central database**

As directed by paragraph 11, subsection 5.9.2 of the Government Transfers Policy, department must enter all transfer payment agreements, except for legislated grants, into a corporate system in the manner instructed by the Department of Finance.

**B. Making payments**

Departments should periodically verify the eligibility of a recipient especially in the case of legislated grants, normally prior to making any payment including a progress payment.

Progress payments in project funding should be made on the basis of performance; that is, as a reimbursement of eligible costs incurred or expenditures made by a recipient.

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.

**C. Implication**

Generally, when transfer payments are made in the public interest or for charitable purposes, the Canada Revenue Agency does not regard them as payment for a supply, and, as such, there is no GST on the payment.

However, the recipient of a government transfer may be subject to GST on their purchases of goods or services. The government may provide additional transfer payments to deal with the recipient's unrecoverable portion of GST (e.g. net of rebate) and include this as an eligible cost in the transfer payment agreement.



**5.9.5.7 Reporting**

**A. Main Estimates**

In the Main Estimates, the schedule of transfer payments shall report transfer payments in the following two categories: “Legislated Grants” and “Other” transfer payments.

A funding program approved by Management Board may be reported by total, rather than listing all planned recipients. In addition, departments may report transfer payments by initiative or a group of anticipated recipients. Departments should consult with the Management Board Secretariat if they are not clear on the reporting method of certain types of transfer payments. The department should also consult with the Management Board Secretariat if it contemplates to transfer a non-monetary asset such as a tangible capital asset to a party outside the government.

**B. Public Accounts**

In the Public Accounts, the schedule of government transfers shall report government transfers in the following three categories: “legislated grants”, “other transfer payments” and “transfers of non-monetary assets” (if any). Transfers of non-monetary assets include donations of tangible capital assets or inventories that have been recorded as assets as well as a transfer of a tangible capital asset to a third-party at a consideration that is significantly below the asset’s fair value.

A funding program approved by Management Board may be reported by total, rather than listing all recipients. A transfer payment that was made outside approved funding programs should be reported individually.

If there is uncertainty as to the reporting method of a certain government transfer, the department should consult with the Financial Accounting unit of the Department of Finance.



## **5.10 PURCHASING OF GOODS AND SERVICES**

The purchase of goods and services is subject to the Contract Regulations and Contracting Directive. Section 39 of the *Environment Act* also states: "Ensure that standards for conservation of the environment and sustainable development are incorporated in the purchasing policies and practices of the Government of the Yukon." Specific guidelines are outlined in the Supply Services Manual. The Department of Highways and Public Works purchases all material required by the Government. However, the Deputy Minister of the Department of Highways and Public Works may assign direct purchasing authority to departments. This authority is delegated where there is an advantage to this method over the more costly requisitioning and purchase procedures.



**5.11 TRAVEL**

All government travel must be carried out in accordance with the Management Board Directive on Government Travel. Employees are required to complete the Travel Authorization and Claim form YG440 as outlined in the directive.

All Travel Advances must be accounted for within 10 working days of return from trip. All previous advances must be accounted for prior to issuance of any further advances. Only one advance can be issued for any particular employee.

Payroll deduction may be initiated for the full amount if any travel advance is outstanding more than thirty days from date of return from the trip. Departmental finance officers are responsible for initiating this payroll deduction. The employee must be warned in writing twenty days prior to a payroll deduction that failure to produce a travel claim will result in such a deduction.



## **5.12 OPERATIONS AND MAINTENANCE AND CAPITAL EXPENDITURES**

Governments have typically used the classification of “Operations and Maintenance” expenditures and “Capital” expenditures for budgeting and reporting purposes. In general, if an item meets the definition of a tangible capital asset (see subsection 8.7 of this manual), it would be a capital item. Any other items would be Operations and Maintenance.

The Government may, however, choose to vote certain items as Operations and Maintenance, and certain items, which may not necessarily meet the definition of tangible capital assets, as Capital. As this is based on budget decisions of the Management Board, departments should seek direction from the Management Board Secretariat if it is not clear whether a certain item should be budgeted and reported as an Operations and Maintenance expenditure or a Capital expenditure.

In the Public Accounts of the Government, except for the expenditures that are considered to be balance sheet transactions, both Operations and Maintenance expenditures and Capital expenditures are reported as expenses.

The expenditures that are considered to be balance sheet transactions include:

- Acquisition and development costs of tangible capital assets;
- Development costs of land held for sale;
- Loan advances made pursuant to an Act; and
- Principal portion of loan or capital lease payments.



## **5.13 PAYMENTS**

### **5.13.1 Payments Directive**

#### **5.13.1.0 General**

##### Authority

On March 7, 2012 (MBM #12-05-01), Management Board revoked MBD #10/84 “Payments Directive” and replaced it with subsection 5.13.1 “Payments Directive” of the Financial Administration Manual. This Directive is issued pursuant to section 38(1) of the *Financial Administration Act*, and can be revised only with the approval of Management Board.

##### Application

This Directive applies to every payment made out of the Consolidated Revenue Fund.

##### Objective

The objective of this Directive is to provide direction with respect to the form in which payments from the Consolidated Revenue Fund are to be made and authenticated, as well as procedures to deal with issued payments.

#### **5.13.1.1 Definitions**

- (a) “bank” means:
  - (i) in respect of any matter in Canada, a bank to which the *Bank Act* (Canada) applies and any branch thereof; and
  - (ii) in respect of any matter outside Canada, an institution that carries on the business of banking.
- (b) “cheque” means a negotiable instrument in the paper form drawn on a bank account established in accordance with this Directive and the *Financial Administration Act*.
- (c) “Corporation” means the Yukon Liquor Corporation, the Yukon Housing Corporation or the Yukon Development Corporation.
- (d) “electronic funds transfer” means the electronic exchange or transfer of money from one account to another, either within a single financial institution or across multiple institutions, through computer-based systems. An electronic funds transfer may be sometimes referred to as a direct deposit or a wire transfer.



**5.13.1.2 Directive**

1. Pursuant to Order-In-Council 1990/123 made under section 12 of the *Financial Administration Act*, only the Deputy Minister of the Department of Finance may open or close a bank account for the Consolidated Revenue Fund.
2. Every payment out of the Consolidated Revenue Fund shall be made by the method authorized by the Deputy Minister of the Department of Finance, except a payment by a Corporation, and in respect of a payment of a Corporation, by the method authorized by the Chief Financial Officer of the Corporation.
3.
  - (1) Except in the case of a payment by a Corporation, the Deputy Minister of the Department of Finance shall be responsible for the procurement and safekeeping of cheques and equipment that issues and authenticates payments.
  - (2) The Chief Financial Officer of a Corporation shall be responsible for the procurement and safekeeping of cheques and equipment that issues and authenticates payments made by the Corporation.
4.
  - (1) Every cheque issued out of the Consolidated Revenue Fund, except for those issued by a Corporation, shall bear the signatures of the Minister and the Deputy Minister of the Department of Finance.
  - (2) A cheque issued by the Yukon Liquor Corporation shall bear the signatures of the Minister of the Department of Finance and the President of the Corporation.
  - (3) A cheque issued by the Yukon Housing Corporation shall bear the signatures of the Chairperson of the Board of Directors and the President of the Corporation.
  - (4) A cheque issued by the Yukon Development Corporation shall bear the signatures of the Chairperson of the Board of Directors and the Chief Executive Officer of the Corporation.
5.
  - (1) A cheque may be issued by means of equipment capable of reproducing facsimiles of the signatures of persons authorized to sign cheques under this Directive.
  - (2) If there is a change in the persons authorized to sign a cheque under this Directive, the facsimiles of the signatures then in use for a cheque issued by equipment shall remain valid for ninety days after the change.



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6. Every cheque shall:
  - (a) include the words “to the order of” and “Yukon Consolidated Revenue Fund”;
  - (b) bear the name of the payee;
  - (c) be for a specified amount of money set out in both words and figures;
  - (d) bear no alterations or erasures in the amount of money or in the name of the payee; and
  - (e) unless the Deputy Minister of the Department of Finance, or, in the case of a Corporation, the Chief Financial Officer of the Corporation, otherwise directs, bear the date of the day on which the cheque is issued.
7.
  - (1) If a cheque is reported by the payee not to have been received or delivered to the payee or it has been lost, destroyed or stolen, a replacement cheque may be issued in the name of the payee on completion by the payee of an affidavit or statutory declaration in a form approved by the Deputy Minister of the Department of Justice containing:
    - (a) a statement that the cheque has not been received or delivered to the payee; and
    - (b) an undertaking that, if the original cheque is received or is delivered to them, the payee will return it to the Deputy Minister of the Department of Finance.
  - (2) Despite subsection 7(1), the Deputy Minister of the Department of Finance may authorize the issue of a replacement cheque if a cheque payable to a bank for the credit of a third party is reported by the bank not to have been received or delivered.
  - (3) Subsections 7(1) and 7(2) do not apply to a Corporation. A Corporation shall establish procedures with respect to handling of lost, destroyed or stolen cheques, and issuing of a replacement cheque.
8.
  - (1) If it is necessary to cancel a cheque or electronic funds transfer for any reason, the cheque or a document that substantiates the transfer shall be marked “CANCELLED” across its face in bold letters.
  - (2) Every cancelled cheque and cancelled electronic funds transfer shall be accounted for.
9.
  - (1) If a cheque has not been cashed by a payee and has not been returned within twelve months of the date of issue, the amount of the cheque may be credited to the Consolidated Revenue Fund.
  - (2) If a cheque has not been cashed by a payee and has been returned as undeliverable, the cheque may be cancelled and the amount of the cheque may be credited to the Consolidated Revenue Fund.



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- (3) If a cheque has not been cashed by a payee or has been cancelled as undeliverable in accordance with this section, the right of the payee to collect the amount of the cheque is not extinguished.
- 10. (1) The Deputy Minister of the Department of Finance may open or close a bank account based upon a written request from the Deputy Minister of a department, demonstrating that the current banking arrangement does not meet the department's operational requirements.
- (2) Sections 3(1), 4(1), 5, 6(a) and 7 do not apply to a cheque issued for the payment of money from a bank account established in accordance with subsection 10(1). The Deputy Minister of the department that has requested a bank account shall be responsible for internal controls and management of the bank account.
- (3) A cheque issued from a bank account established in accordance with subsection 10(1) shall bear the signatures of two public officers. The department that maintains a bank account shall deliver to the Department of Finance the names and titles of public officers who are authorized to sign for the bank account. The department shall notify the Department of Finance in writing of any subsequent changes to the names or titles of public officers within ten working days from the date of the change.
- (4) The department that maintains a bank account shall deliver to the Department of Finance the bank reconciliation as at March 31 of every fiscal year and as required. The department shall also provide to the Department of Finance any information on the bank account as requested.
- (5) Subsections 10(1), (2), (3) and (4) do not apply to a Corporation.



### **5.13.2 INTEREST ON OVERDUE PAYMENTS**

The payment or charging of interest on overdue account is subject to the Regulation entitled "Interest on Overdue Accounts and Payment of Interest."

This regulation does not apply to a debt obligation or an account where the payment or receipt of interest is specified under another act, agreement or contract.

Interest shall not be paid or charged where the obligation results from invoices improperly prepared or addressed.

Interest shall not be paid to enterprises or governments which do not pay interest to the Government of the Yukon.

#### **Definitions**

"contract" means a contract as defined in the Financial Administration Act;

"debt obligation" means any invoice, statement, voucher or other document claiming payment that is lawfully due and payable by the government under a contract, but does not include interest on borrowed money;

"vote" means that part of an appropriation Act identified as a vote and authorizing the payment of a specified amount from the consolidated revenue fund for specified purposes

"government" means the Government of the Yukon.

"past-due" means that a period of thirty days or more has elapsed from the date of the satisfactory receipt of goods or services by the government under a contract or the date that the debt obligation was received by the government, whichever is later.

#### **Payment of Interest**

Interest shall be paid on a debt obligation that is past-due.

Interest shall be paid from the same vote as the debt obligation to which the interest applies.

Interest on a debt obligation that is past-due shall be calculated at the current Bank of Canada rate.

No interest shall be paid on a debt obligation that is past-due, to a municipality, a provincial government or the Government of Canada.



**5.13.2 (Continued)**

Calculation

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$$I = A \times R \times (P-30)/365$$

I = Interest

A = Invoice amount

R = Bank of Canada rate in effect on the day the calculation is being made. This rate is provided by the Department of Finance.

P = Period outstanding. This is from the date of receipt of the invoice or receipt of the goods, whichever is later, to the date of release of the cheque.



## **5.14 CREDIT CARDS**

### **5.14.1 General**

The Government of Yukon currently utilizes fuel cards for purchases of fuel for government vehicles, the corporate travel system card for airline and hotel reservations, and acquisition cards for the purchasing of low-dollar value goods and services.

The Department of Highways and Public Works administers fuel cards, while the Department of Finance is responsible for any other type of corporate credit card programs.

### **5.14.2 Acquisition Card Policy**

This policy was reviewed and approved by Management Board for general application in the Government (MBM#01-02-05). This policy can be revised only with the approval of Management Board, with an exception of the authority to amend the dollar amount associated with the "low-dollar value purchase" defined in subsection 1.6 of the policy, which has been delegated to the Deputy Minister of the Department of Finance (MBM#01-36-03).

#### **1. Definitions**

- 1.1 The "Card" is a credit card issued under a Yukon Government acquisition card program.
- 1.2 The "Card Program Coordinator" is the designate of the Department of Finance who oversees Yukon Government's acquisition card program.
- 1.3 A "Card Administrator" is the departmental designate who is responsible for the administration of a Yukon Government acquisition card program. Prior to the implementation of the Card program, the deputy minister of the department must designate a Card Administrator and send a copy of the designation to the Department of Finance and the Department of Highways and Public Works, Supply Services, Procurement Services Unit.
- 1.4 A "Cardholder" is an employee of the Government of Yukon who has been issued a Yukon Government acquisition card, and who has signed the cardholder's agreement.
- 1.5 The "Card Issuer" is the financial institution that issues Yukon Government acquisition cards.
- 1.6 "Low-dollar value purchase" is a purchase of goods or services within the Yukon Territory that is \$1,000 or less.



**5.14.2 (Continued)**

2. Scope and Limitation
- 2.1 The use of the Card is limited to low-dollar value purchases as defined in 1.6, except as provided for in 2.3 and 2.4.
- 2.2 The Card may be only used within the Cardholder's delegated authorities pursuant to Sections 23 (contracting authority) and 24 (certification prerequisites for contracts) of the *Financial Administration Act*.
- 2.3 The Card may be used for direct purchases outside the Yukon if it is in accordance with the existing Department of Highways and Public Works' purchasing policies and authorizations.
- 2.4 In exceptional cases, such as when an employee purchases goods frequently on standing purchase orders, the deputy minister of the department may raise the transaction limit to in excess of \$1,000. The Card Administrator shall maintain a list of those standing purchase orders and the names of the employees with the limit over \$1,000 for verification purposes.
- 2.5 The outstanding balance of the charges made to the Card at any time shall not exceed \$10,000, except as authorized by the deputy minister of the department.
- 2.6 The Card must not be used for the following types of expenses:
  - cash advances
  - travel related expenses, e.g. accommodation, meals, purchase of air tickets, car rental (see 2.11 regarding an exemption for forest fire crew)
  - expenses relating to the operation and maintenance of vehicles used for government business purposes, e.g. fuel and repair
  - entertainment expenses
  - payment of invoices – the Card is intended for making payment at the point of sale
  - payment of course fees that is a taxable benefit
  - personal use
- 2.7 Only the person whose name appears on the Card may use it.
- 2.8 A Cardholder may use the Card only for the expenses that are within the expenditure codes and merchant categories as authorized in the application form.
- 2.9 For authorized acquisition card purchases, if a potential vendor accepts the acquisition card, the Card shall be used.
- 2.10 The Card will have an imprint specifying that the Yukon Government is GST exempt. A Cardholder must provide a copy of the clause that certifies the Yukon Government is GST exempt when requested by the supplier.



**5.14.2 (Continued)**

2.11 In July 2005, Management Board authorized an exemption to the restriction of travel related expenses for Wildland Fire Management Unit, Protective Services Branch, Department of Community Services, as follows (MBM#05-18-15):

- This exemption applies only to expenses incurred by Wildland Fire Management Unit, Protective Services Branch, the Department of Community Services, arising from fire crews travelling to or from fires, base changes and repositioning and related fire fighting training. Cards will be issued to crew leaders who will be responsible for paying for all allowable expenses for their entire crew. Cards will not be issued to individual crew members for this purpose. A blanket travel authorization will be issued covering the crew. The travel authorization must identify all the names of the individuals working as part of the crew. Travel claims will not be submitted for meals and accommodation when using the Acquisition Card for fire crew travel.
- Allowable travel expenses include accommodation, meals, rental vehicles, laundry and taxis. Accommodation must be obtained at the government rate and the cost of meals per individual must not exceed the daily meal allowance as specified in the Travel Directive (MBD#13/84). Payment for laundry expenses must be reasonable and receipts must be provided. Phone calls home are not covered by this exemption. Employees claiming reimbursement for phone calls must submit a single claim for the fire season with receipts attached.
- GST/HST does not apply to these bulk purchases made by Wildland Fire Management Unit crew leaders. (Amended per MBM #12-11-03, May 23, 2012)
- The following documentation must be submitted with the Acquisition Card reconciliation:
  - Signed (acknowledging the receipt of goods/services) receipts;
  - Details of purchases, e.g. itemized restaurant bills; and
  - Names of individuals whose expenses are paid.



**5.14.2 (Continued)**

- Financial controls, performed by the Department of Community Services, must include:
  - Training all cardholders;
  - Ensuring appropriate signing authorities are delegated to cardholders;
  - Monitoring monthly transactions on the Card and paying the balance on time; and
  - Performing periodic reviews of these expenditures.
- The Department of Finance is directed to continue to monitor card use and has authority to rescind this exemption if Cards are not used in accordance with the directions contained herein.

3. Responsibilities of the Card Program Coordinator

- 3.1 The Card Program Coordinator coordinates and manages Yukon Government's acquisition card program at the corporate level and is the contact with the Card Issuer.
- 3.2 The Card Program Coordinator reviews new Card applications and requests for changes for completeness and reasonableness, and forwards them to the Card Issuer for processing.
- 3.3 The Card Program Coordinator forwards Card cancellation notices received from departments to the Card Issuer.



**5.14.2 (Continued)**

4. Responsibilities of the Card Administrator

- 4.1 The Card Administrator approves new Card applications, changes and cancellations for the department responsible. The Card Administrator then forwards those documents to the Card Program Coordinator in the Department of Finance.

In approving Card applications, the Card Administrator ensures that the following information is provided:

- name of the individual
- per transaction dollar limit and credit limit
- budgetary area that the applicant is authorized to charge to, i.e. name of the department, program and unit if applicable
- other case-by-case restrictions (such as merchant category)
- statement address
- applicant's signature
- authorizing signature of the applicant's supervisor

Upon termination or transfer of the Cardholder, the Card Administrator must cancel the Card immediately.

- 4.2 In approving the application, the Card Administrator must ensure that the applicant has the appropriate Section 23 (contracting) and 24 (commitment) signing authorities.
- 4.3 The Card Administrator must ensure that payments to the Card Issuer be processed in a timely manner to avoid paying interest and to maximize the rebates payable to the Yukon Government.
- 4.4 The Card Administrator must maintain a list of the Cardholders' names and signed Cardholder agreements, and monitor the appropriate use of the Card. The Card Administrator may issue internal policy and procedures to ensure economical, efficient and secure use of the Card. The Card Administrator may revoke the Card if a Cardholder misuses or willfully disregards the Card policy.



**5.14.2 (Continued)**

- 5. Responsibilities of the Cardholder
  - 5.1 The Cardholder must read and sign the Cardholder Agreement.
  - 5.2 The Cardholder must keep the issued Card safe and secure, along with any documents that indicate the Card number and/or the Cardholder's signature.
  - 5.3 The Cardholder must ensure that the Card is used in accordance with the policies and procedures outlined in Section 2.
  - 5.4 The Cardholder must maintain a log of Card purchases with the associating purchase records, such as sales slips and credit card copies, and is required to reconcile his/her monthly purchases with monthly statements. The Cardholder must forward the reconciled statement with appropriate expenditure codes along with the supporting purchase records for a requisition of payment in a timely manner to avoid paying interest.
  - 5.5 The Cardholder must resolve any billing disputes without delay.
  - 5.6 The Cardholder may not pass on the Card to any other employee. This also applies to a situation where another employee is acting in the Cardholder's position.
  - 5.7 The Cardholder must report a lost Card immediately to the Card Issuer and the Card Administrator.
  - 5.8 The Cardholder must notify the Card Administrator immediately of any changes in name, business address or telephone number.
  - 5.9 If the Cardholder is transferred or leaves the department, he/she must return his/her Card to the Card Administrator for immediate cancellation and action to pay the outstanding balance.
  - 5.10 The Cardholder is to ensure GST is not charged. The Cardholder must provide a copy of the clause that certifies the Yukon Government is GST exempt if requested by the supplier.



## **5.15 ASSIGNED DEBTS**

### **5.15.1 General**

This section outlines the procedures to be followed in order to make payments to assignees when authorized to do so. Assignment of debt is subject to the "Assignment of Debt" Regulations.

It is of paramount importance that, once the assignment of a debt has been acknowledged by the Deputy Minister of Finance, all future payments against that debt are made to the assignee until the debt has been discharged. Any payments made to anyone other than to the acknowledged assignee could place the Government of the Yukon in the position of being legally liable to the assignee for the payment and responsible for the recovery of the unauthorized payments.

### **5.15.2 Definitions**

The following definitions are used with respect to the assigned debt procedures outlined in this section.

#### **Assignment**

The transfer of all rights, title and interest in a debt owed by the Government of the Yukon, made by the assignor to the assignee.

The assignment must be a transfer of the whole amount owing; a portion of a debt cannot be assigned.

#### **Contract**

Means a contract involving the payment of money by the Government of the Yukon.

#### **Debt**

Means any existing or future debt due or becoming due by the Government of the Yukon.

#### **Garnishment and Third Party Demands**

Garnishment and third party demands are legal processes whereby one person, pursuant to a court order, can attach money due to a second person which is in the hands of a third person.

#### **Paying Officer**

Means any person designated as such by regulation.



**5.15.2 (Continued)**

Prescribed

Means prescribed by regulation.

Notice of Assignment

Notice in the prescribed form of an assignment shall be given to the Government of the Yukon by serving it on or sending it by registered mail to the Deputy Minister of Finance, together with a copy of the assignment accompanied by such other documents completed in such manner as may be prescribed.

Notice of Acceptance

Service of the notice of acceptance is not effected until acknowledgement of the notice, in prescribed form, is sent by the Deputy Minister to the assignee by registered mail.

**5.15.3 Debt Assignment**

General

Except as provided in the Financial Administration Act or any other act of the Yukon:

- A Government of the Yukon debt is not assignable
- No transaction purporting to be an assignment of a Government of the Yukon debt confers on any person any rights or remedies in respect of such debt.

Generally speaking, the only Government of the Yukon debt that may be assigned is a debt that is an amount due or becoming due under a contract. This does not include a security deposit furnished under a contract.

As prescribed by regulations:

- The government is not bound by an assignment of salary or wages or any other debt unless the Deputy Minister of Finance gives his consent,
- When consent is given by the Deputy Minister of Finance for any assignment, it is the policy of the government to accept assignments to a chartered bank only.

Action by Departments

When a notice of assignment is received by a department from a bank or other assignee, it should be immediately forwarded to the Deputy Minister of Finance for acknowledgement and necessary action.



**5.15.3 (Continued)**

Action by Department of Finance

On receipt of a notice of assignment a Department of Finance official will take the following action:

- Obtain legal advice where necessary,
- Acknowledge receipt and, if desired, acceptance of the assignment in accordance with regulations,
- Ensure that all payments that would have otherwise been made to the creditor (assignor) are stopped.
- Ensure the assignment is in the proper format and signed as follows:
  - i) Sole Proprietor:  
Signed by the sole proprietor with his/her normal signature in the presence of a witness who also must sign. If operating under a business name this name must be printed above the proprietor's signature.
  - ii) Partnership:  
One or more of the partners must sign the contract in their normal signatures in the presence of a witness who also must sign. If operating under a business name, it too must be printed above the signature(s).
  - iii) Limited Company:  
Signed by duly authorized signing officers of the company in their normal signatures designating against each signature the official capacity in which the signing officer acts. The corporate seal of the company must also be affixed to the contract. If the contract is signed by officials other than the president and secretary of the company or the president and secretary-treasurer of the company, a copy of a by-law or resolution of the board of Directors authorizing them to do so must be submitted with the contract documents.
- Ensure that the assignee forwards the original or a notarized certified copy of the actual assignment together with necessary supporting documentation.
- Ensure that all applicable future payments against the debt are made to the assignee. If a payment is made to someone other than the acknowledged assignee, the government may remain legally liable to the assignee for the payment.

When an assignment is received for a creditor who already has an assignment, garnishment or third party demand against them, the matter must be referred to the Department of Justice for legal direction.

All assignments and garnishments for the Government of the Yukon, are centrally controlled by the Department of Finance. Departments should refer any inquiries on these subjects to the Department of Finance.



**Chapter 6**  
**Accounting and Control of Payroll**

- 6.1 PAYROLL OVERVIEW
- 6.2 BUDGETARY AUTHORITY
- 6.3 PAYROLL PROCESS
- 6.4 PAYROLL RESPONSIBILITIES
- 6.5 PAYROLL DEDUCTIONS
- 6.6 PAYROLL REPORTING



## **6.1 PAYROLL OVERVIEW**

The objective of this section is to give guidance to departments in respect of payroll expenditures and to outline certain responsibilities, procedures and controls.

Employees, other than casual and some auxiliary employees, hired in accordance with the Public Service Commission Act are paid a fixed periodical payment through the payroll system, which continues on a recurring basis until changes are authorized.

Casual and some auxiliary employees are paid at hourly rates of pay in accordance with the official pay plan. Normally, these employees are excluded from pension and group benefit plans and receive their holiday and vacation pay in addition to their regular earnings according to the employment contract in force.

The payroll system also serves other functions that do not fall within the general definition of payroll expenditures, such as:

- Payments pursuant to various pension acts.
- Payments to Ministers and Ministerial Assistants.
- Payments to certain individuals who are not public servants, the production of historical reports of earnings required to be made periodically to external agencies and for costing purposes.

Payroll requires specialized processing procedures. This section describes how payroll transactions are processed and the responsibilities of those participating in the process.

The procedures described apply to all recurring payments made through the payroll system. All employees of the Government of the Yukon are required to be paid through the payroll system.

Payments to individuals who are not employees are generally made through the accounts payable system.



## **6.2 BUDGETARY AUTHORITY**

Budgetary requests for personnel funds (ie. the personnel allotment) are supported by details of positions and person-years required.

General pay reviews and merit increases are budgeted as part of the annual estimates of salary and related costs.

Budgetary allocations for salaries, wages, personal service contracts, allowances and supplementary benefits are aggregated for budgetary control purposes, and expenditures are controlled for personnel costs as a whole, at the program level.

All indeterminate and term person years, must receive budgetary approval prior to hire, either at the time of Main or Supplementary Estimates approval or subsequently, as must the total personnel cost including the cost of casual and auxiliary employees.

Employee pay is produced and charged to departments routinely on a bi-weekly basis without prior verification that sufficient funds are available in the budgetary allocations.

Budget managers and financial management personnel must monitor payroll expenditures very closely, particularly towards fiscal year-end, to ensure that budgetary allocations are not exceeded. If it appears that personnel budgetary allocations are inadequate, appropriate steps should be taken to transfer additional funds into the relevant allotment.

Financial officers should monitor the hiring of casual and other temporary employees to ensure that total person-years as well as budgetary allocations are not exceeded.

Funds that accumulate due to vacancies may only be transferred to another program with the approval of the Management Board.

Prior to requesting a transfer from budgetary allocations for personnel costs, managers must demonstrate that the remaining funds are sufficient for all personnel cost requirements to the end of the fiscal year.



## **6.3 PAYROLL PROCESS**

### **Static Nature of Salary Data**

The payroll system operates on the basis that the salary data used remains constant until changed by action of the employing department or some other authority. Personal particulars of the employee and employment status are recorded on hire and are changed only on requests being made by the department or other authority.

Employees who are placed in an approved position are paid at a set salary and that pay can only be changed by the action of the department or through general pay adjustments authorized by the Public Service Commission. By contrast, casual employees require their hours of work to be input to the system each pay period.

Deductions are based on calculations varying with remuneration or are fixed amounts. Specific changes are initiated by the department, the employee, the Payroll Section, or the Public Service Commission.

The integrity of the system depends on the accuracy of the information received. In order that the payroll system function reliably, all changes should be input and processed promptly. Both those responsible for initiating changes and those responsible for processing them must act promptly if employees are to be paid what they are entitled and the financial data is to be accurate and up-to-date.

Once a position receives budgetary approval it is classified and assigned an appropriate pay rate by the Public Service Commission. All contracts of service and any changes, extensions, or amendments thereto require the approval of the Public Service Commission.

Positions which have been classified are assigned a pay grade in the salary system. The establishment of the position includes identification of the input code to which the position is to be charged. The form used to establish the position is approved by a personnel officer who verifies that the input code to which the position is charged is appropriate.

### **Payroll Initiation**

When an employee is hired the Public Service Commission assigns an employee number and forwards the notice of employment to the Payroll Section of the Department of Finance. Payroll verifies the employment authorizations and proceeds with payroll preparation for the employee.

A new employee joining a department completes information needed for deductions from earnings. Any changes during employment are



**6.3 (Continued)**

made by the Payroll Section for statutory and compulsory deductions without reference to the employee except when personal information is required to make the change.

Changes of employment status, salary rate, increments, lost time, retroactive increments and other supplementary adjustments must be initiated by the authorized officer in the department and forwarded by the finance officer to the Public Service Commission. In all instances these changes will require approval by the Public Service Commission. Forms for these purposes are part of the system. These reports and input forms should be completed correctly and on time to ensure that the employee receives the correct pay and proper deductions are made. Responsibility for this action rests with the employing department and the Public Service Commission.

**General Pay Adjustments**

On completion of salary negotiations and approval by Management Board, the Public Service Commission gives written notice to the Deputy Minister of Finance and requests the Department of Finance to update personnel payroll files to record the new pay scales and applicable earning rates.

**Bi-weekly Pay**

Government of the Yukon employees are paid on a bi-weekly basis. Every second Wednesday is considered pay day.

**Terminations**

When an employee terminates, the departmental finance officer should request the Public Service Commission to prepare the necessary documentation and payroll data. The responsible program manager should ensure that all time sheets, and other necessary documents, are submitted to the Public Service Commission for completion and transmission to the Payroll Section of the Department of Finance.

In computing termination pays departments must ensure that any outstanding advances are brought to the attention of the Public Service Commission so they can be recovered.

**Attendance Reporting**

Certain categories of employees are required to report hours of work and reasons for absences. Authorized officers should verify these reports, initialling that they have done so. These records, with the



**6.3 (Continued)**

exception of time certificates for hourly wage earners are retained by the personnel officers of departments.

**Payroll Processing**

Except as otherwise directed, all departmental payroll transactions should be processed through the Public Service Commission for necessary verification and approval and then forwarded to the Payroll Section of the Department of Finance.

The Payroll Section carries out the following action with respect to payroll documentation:

- Review the documentation, make necessary calculations and prepare the payroll for computer processing.
- Ensure that payroll expenditures are authorized.
- Ensure that payroll expenditures are charged to the user code and element for which there is authority and the appropriate mandatory object-of-expenditure code.
- Ensure that salary positions have received necessary approvals.
- Ensure that salaries and wages are paid in accordance with applicable personnel regulations and at pay rates set by the official pay schedule, personal service contract or other authority.
- Ensure that deductions are appropriately withheld.

Transactions that do not meet these criteria will be rejected and returned to the initiating department.



## **6.4 PAYROLL RESPONSIBILITIES**

### **General**

The responsibilities of those participating in the payroll process are described as follows:

### **Public Service Commission**

The Public Service Commission carries out classification reviews; allocates positions to classes; conducts collective bargaining; recommends pay for non-union employees; approves exceptional salary transactions per regulations; approves individual employment contracts; recommends and regulates all other employee benefits, allowances and employment conditions; and applies the regulations and collective agreements.

### **Employing Departments and Agencies**

Departments determine staff and positions needed for their program requirements and, where applicable, initiate pay action when the position is filled; report the information necessary to compute the employee's pay; direct the allocation of the payroll expenses; provide necessary information for any withholdings; and receives and distributes pay cheques and information slips to employees.

### **Department of Finance - Payroll Section**

The Payroll Section in the Department of Finance is responsible for:

- Ensuring that payroll expenditure transactions are in accordance with the Financial Administration Act.
- Verifying the positions, rates of pay, gross pay, allowances and deductions and ensuring the documents are correct on completion.
- Ensuring that payroll transactions are processed correctly.
- Authorizing the release of payroll cheques.
- Ensuring that employee deductions are remitted and accounted for.
- Withholding those amounts required by statute, agreement or employee election.
- Maintaining employee histories to provide information for: the employer, individual pay review, financial analysis, classification review and the employee's own information.
- Reporting and accounting to the appropriate agencies for all amounts withheld.
- Preventing improper or unauthorized payments through segregation of duties within the payroll system.



**6.4 (Continued)**

- Providing information for use in setting pay rates and allowances for permanent and temporary employees.
- Allocating personnel costs and established positions to programs.
- Preparing T4 information slips for employees.

**Responsibilities of Program Managers with Spending Authority**

The requirements of the Financial Administration Act apply to payroll expenditures in the same way as to other expenditures, including the need to designate responsible officers.

Subject to limitations prescribed by the *Public Service Commission Act*, program managers are responsible for employee recruitment and termination.

Program managers entrusted with spending authority should approve and verify all payroll expenditures charged to their budgetary allocations.

All changes to payroll, except for those initiated by the Public Service Commission or the employee in respect of voluntary deductions, require the approval of a program manager. This is provided prior to the preparation of the payroll. Program managers are also responsible for verifying attendance, hours of work, leave and absence.

Another responsibility of program managers is to check all charges to the budgetary allocations for which they are responsible.

The persons responsible for managing a program or any portion thereof should be the managers with spending authority since only they can certify that the expenditure is fair and just.



**6.4 (Continued)**

Responsibility of Public Service Commission Personnel Officers

Public Service Commission Personnel Officers are responsible for ensuring that:

- There is authority to hire and that a position is established and classified.
- Hiring is carried out in accordance with the Public Service Commission Act.
- Attendance is recorded.
- Personnel regulations and the collective agreement are correctly interpreted and applied.

Responsibility of Departmental Financial Officers

Financial officers receive payroll documentation, approve it and forward it to the Payroll Section in the Department of Finance.

Their responsibilities include determining that:

- Proper spending authority has been provided for all payroll transactions.
- Personnel officers have verified the documentation to ensure that the Public Service Commission Act, regulations and policies have been adhered to.
- The transactions are for the purposes and within the limits of the appropriations to which they are charged.

The finance officer should make certain there is adequate internal control. This includes ensuring that those on whom he relies are sufficiently independent, have performed all necessary checks, have the qualifications and knowledge to perform their duties, and are assigned duties in such a way that the work of each employee is independently checked by others. In this way, the financial officer can certify that the transaction is appropriate.

Procedures must be in place to ensure that employees receive all their entitlements and are paid promptly. Time records and other documentation should be reviewed to ensure that employees have performed their duties and are not receiving more than they're due. Necessary computations should be made for input to the payroll system and documents should be batched, forwarded to the departmental financial officer for authorization and then sent to the Payroll Section in the Department of Finance. Individuals performing these checks and calculations report to the departmental financial officer.

Departmental finance officers should receive a copy of the payroll



**6.4 (Continued)**

registers in respect of each pay period. New payroll registers should be compared to those of the prior period to ensure that all changes requested on input data forms have been made and that the new payroll is reasonable. These officers should sign each payroll register after review.

The Finance officer receives and ensures that payroll cheques and information slips are properly controlled and distributed. Persons assigned by the finance officer to distribute cheques and information slips should identify employees to ensure correct distribution. Those distributing should not normally be involved in initiating or processing payroll transactions.



## **6.5 PAYROLL DEDUCTIONS**

Withholdings from employees are made by statutory requirement, as a condition of employment, by legal process or at the direction of the employee. During a temporary leave of absence an employee may continue to participate in certain payroll plans and receive benefits by making payments in lieu of deductions.

The Payroll Section is responsible for accounting for all deductions from employees.

Remittances of amounts withheld are requisitioned to satisfy requirements of the payee. Employer contributions, if applicable, are also remitted at this time. Some withholdings eg. garnishees are held in trust and remitted as soon as possible directly to the payee.

It is the Payroll Section's responsibility to ensure that all amounts received from employee withholdings, and employer contributions, are paid and fully accounted for. Reconciliations are made monthly of deduction accounts.

At the end of the calendar year the Payroll Section summarizes payroll data to show gross pay, taxable allowances and benefits and details of withholdings. This information is used to prepare T4 information slips for employees. The aggregate of amounts remitted to Canada Revenue Agency must agree with the amount withheld and the employer's contributions.



## **6.6 PAYROLL REPORTING**

The payroll system, in addition to its primary function of preparing payroll cheques, produces a number of financial reports. Reports showing details of charges to input codes and object-of-expenditure codes are prepared.

Various reports are also available which inform outside agencies of the deductions made on their behalf. These reports show, by name of employee, the amount withheld in respect of each plan and are prepared monthly.

Then payroll section receives a report from the payroll system enabling it to control changes during ensuing pay periods. This report displays employee number, date of appointment, anniversary month, birth date, pension plan membership, social insurance numbers, Canada Pension Plan contributions, union membership, group insurance plan contributions and the amount of Canada Savings Bond deductions.



**Chapter 7**  
**Accounting and Control of Revenues and Accounts Receivable**

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## **7.0 POLICY STATEMENTS**

### *Assignment of Responsibilities*

Financial officers are responsible for the collection, management and accounting for revenue under the direction of the deputy head of their departments, and within the financial control and cash management policies of the Deputy Head of the Department of Finance.

### *Identifying and Claiming Revenue*

Departments should ensure that there is enabling legislation or other authorities for the collection of revenues and that related procedures are in accordance with these authorities.

Departments should consider whether charges should be levied taking into account the intent of their legislation, the purpose of the goods and services being provided and their cost, as well as the cost of collecting such revenue.

Revenue should be collected whenever possible before or at the time services are rendered or goods supplied.

Systems should effectively ensure that all revenue to which the government is entitled is claimed.

### *Control of Cash Receipts*

All cash received should be properly safeguarded, promptly deposited, appropriately recorded and regularly accounted for.

### *Billing, Controlling and Collecting Accounts Receivable*

If cash cannot be collected before or at the time services are rendered or goods supplied, and when there is no other authority, Department of Finance approval should be obtained to require deposits or extend credit, and appropriate accounts receivable records should be established.

Department of Finance should establish procedures for reviewing and collecting accounts receivable; The Accounts Receivable unit is charged with the collection of non tax accounts receivable. Tax accounts receivable other than those levied under the Assessment and Taxation Act and the Liquor Tax Act are the responsibility of the Revenue Branch of the Department of Finance. Collection of taxes under the Assessment and Taxation Act is the responsibility of the Department of Community and Transportation Services. Collection of taxes under the Liquor Tax Act is the responsibility of Yukon Liquor Corporation.

Accounts Receivable that are uncollectible should be written-off in



**7.0 (Continued)**

accordance with the provisions of the Management Board Directive dealing with write-offs where applicable, should be obtained to write-off the accounts that are uncollectible. Where the amount of the write-off exceeds the authority of the Treasurer, Commissioner's approval of the write-off is required.

**Standard Reporting Procedures**

Revenues collected/charges levied should be recorded in the General Ledger system for analysis, and reporting.

Accounts receivable outstanding at the end of the fiscal year should be reported for review and inclusion in the Territorial Accounts.

**Cost-Sharing Programs**

Costs incurred under cost-sharing programs should be recorded gross, with costs recovered being recorded as recovery.



## **7.1 INTRODUCTION**

### **7.1.1 Purpose**

The purpose of this Chapter is to document and communicate government policies, practices and procedures for departments to follow, for determining, claiming, recording, controlling and reporting earned revenue and recoveries of expenditures; and for the handling of public funds and funds entrusted to our care.

Accounting and control of revenue and accounts receivable should receive the same attention and dedication as the accounting and control of expenditures.

### **7.1.2 Policy Objectives**

The *Financial Administration Act* requires that all revenue shall be paid into the Yukon Consolidated Revenue Fund, unless otherwise specifically authorized by appropriate legislation.

It is the government objective to claim revenue as prescribed in applicable legislation, regulations, agreements or other appropriate authority; and to ensure that when public funds are received that they are adequately accounted for, safeguarded and deposited to the credit of the Yukon Government as quickly as possible.

### **7.1.3 Revenue Process**

The revenue process involves the following:

- Identifying the taxes, fees, fines, goods, or services, permits or licences for which fees are or should be charged.
- Identifying and recognizing other appropriate external funding opportunities available to the Government of Yukon for developing existing or creating new initiatives and programs.
- Obtaining legislative or other appropriate authority for claiming the revenue.
- Claiming revenues as they arise.
- Collecting, recording and depositing revenues collected.
- Recording, collecting and controlling accounts receivable.
- Controlling, safeguarding and reporting all revenues received.

### **7.1.4 Definitions**

The following terms are defined for purposes of this chapter.

Revenue

The gross proceeds from taxes, fees and charges levied for goods and



**7.1.4 (Continued)**

services provided, regulatory fees, fines and penalties, returns on investments, and transfers from other levels of government except for those identified in subsection 7.2.2.3 of this manual.

**Claiming**

The process of establishing the Government's right to revenue for services rendered or goods supplied to the public and/or others.

**Revenue Officer/Official**

Any person engaged, appointed or employed for the purpose of collecting, managing or accounting for public money.

**Accounts Receivable**

Amounts owing to the Government which become receivable when the debtor's obligation arises.

**7.1.5 Classification of Revenue**

Revenue is classified as either tax revenue, non-tax revenue, expenditure recoveries or transfers from other governments.

Tax revenue includes all monies collected through taxation. Non-tax revenue includes principally those monies arising from fees, charges levied for goods and services provided, regulatory fees, fines and penalties, interest earned and return on investments.

The Public Accounts classify revenue by source which corresponds closely to that presented in the annual Main Estimates.

Classification of revenue is the responsibility of the Department of Finance.

**7.1.6 Assignment of Responsibilities**

The responsibilities of various participants in the revenue process may be set out specifically in legislation or may be delegated. The principal participants and their responsibilities are outlined as follows:

**Department of Finance**

- Formulates and communicates general financial policies pursuant to the *Financial Administration Act* relating to affairs of the government.
- Prepares appropriate regulations and issues relevant directives prescribing the procedures and conditions for the collection, recording, deposit and reporting of government revenue.
- Maintains overall responsibility for the collection, control and management of all government revenue and receivables.



**7.1.6 (Continued)**

- Provides guidance to departments and agencies in accounting for and control of revenue.
- Maintains classification control of revenue and recoveries.
- Pursuant to the Financial Administration Act, requires every public employee, public official, personal service contractor, revenue officer or agent of the government, involved in the collection of public funds, to keep adequate financial records, and make these available to the Deputy Head of Finance, or his/her representative as may be necessary from time to time.
- Maintains the principal financial records of the Government in respect of revenue and receivables.
- Prepares the Public Accounts which, amongst other things, must include all revenues and receivables.
- Maintains central cashier facilities and services for the government, including, receipts and deposit of funds and other banking operations.
- Collects and monitors accounts receivable, including assistance from departments, as may be required.
- Prepares cash flow projections and analysis.
- Controls the cash budget requirements.
- Carries out surplus cash investments and other money market operations.

**Deputy Ministers**

All departments and agencies must have adequate and effective documented systems for claiming, accounting and control of public monies and accounts receivable that come under their jurisdiction.

Normally, deputy ministers will carry out their responsibilities by delegation through their financial officials. Such financial officials may be responsible for any or all of the functions involving claiming, collection, accounting, control and reporting of departmental revenue and receivables.

Senior departmental financial officials should:

- Regularly review services provided to the public to determine if charges are appropriate, should be introduced, or should be adjusted due to increased costs, etc.
- Ensure that other departmental financial staff are aware of and follow appropriate policies and procedures for claiming, accounting and control of public revenue and receivables.



## **7.2 IDENTIFYING AND CLAIMING REVENUE**

### **7.2.1 Charging Fees for Services**

#### **7.2.1.1 Categories**

Services provided to the public under departmental programs fall into two categories; those that are provided because of collective political choice (public goods), and those that are provided on the basis that the use of services requires payment of a price (service to the public).

##### **Public Goods**

These are services which satisfy the needs of the public as a whole, and from which everyone stands to benefit. Since everyone benefits, it is considered equitable that the costs of the services be borne through general taxation. An example of public goods are services related to education or highways.

##### **Services to the Public**

These are services of public importance rendered by government to individuals or groups of individuals, either at their specific request or arising from the actions. Since the services are usually rendered at the option of identifiable individuals or groups of individuals, the cost of the service or at least some portion of it, should be borne by them. Examples of services to the public are the issuance of certificates, licences and permits.

##### **Other Services**

In addition to those services to the public which are rendered on request, there are other services which are principally of a regulatory nature for which the individual who receives the service receives a personal benefit, and so may be required to pay for it. Examples are inspection services and the granting of certain licences and permits.

#### **7.2.1.2 Proposals for Introducing or Changing Fees and Charges**

Where services to the public are being provided, departments should annually submit proposals for introducing or changing fees and charges. Normally, these proposals should be forwarded to the Budget Bureau prior to budget submissions, and should include details as follows:

- The pricing policy proposed.
- Components of cost on which prices will be based.
- The computation of the first changes from any statutory rates it is intended to implement if the proposal is approved.
- The proposed time period for a cyclical review of costs and charges.



### **7.2.1.3 Proportion of Costs Recovered**

Normally charges for a service to the public should first be considered in the light of rates which will recover the full cost of the service. However, recovery of total costs cannot be justified in all circumstances. Where a service is of a regulatory nature, or is partially of a regulatory nature, a fee or charge fixed on a total cost basis may not be warranted.

Accordingly, departments should ensure that all factors are considered when establishing or proposing fee or charge structures. Some of the factors that should be considered are:

- Relationship between costs of regulatory services and fees charged.
- Comparison of fees charged by other jurisdictions, which provide similar services, under comparable conditions or circumstances.
- Estimated value to the public of the service.
- Fair market value.
- Ability to pay.
- Current rate of inflation and other monetary pressures.

### **7.2.1.4 Periodic Review and Adjustment**

Where services to the public are being provided, departments should regularly review fees and charges to determine whether charges should be introduced, or adjusted in light of changes in the cost of the service. Fees and charges should remain reasonably relative to present day costs.

Reviews of this nature are best done at Program Forecast time annually. This is the time that all program elements should be reviewed and the next year's budget is being formulated.

### **7.2.1.5 Management Board Secretariat**

Circumstances vary considerably between departments and situations. Whenever departments are in doubt on the pricing policy to adopt they are encouraged to and should seek assistance and advice from the Department of Finance, Budget Bureau.

### **7.2.1.6 Claiming Revenue**

It is accepted government policy and practice, that departments will, whenever economically and administratively feasible, charge for all goods and services provided to the public and to other governments, unless there are specific exemptions under applicable legislation, regulations or other authorized arrangements.

Revenue is collected under many different conditions and circumstances, and as a consequence, the action to be taken to establish the government's claim to revenue will vary considerably from program to program.



**7.2.1.6 (Continued)**

Normally, government employees who are required to collect funds directly from the general public do so before providing the service or before issuing the permit, certificate or other regulatory document unless approval to grant credit has been authorized.

In other cases, as in the issuance of a driver's licence, failure to pay the required fee along with the application results in the service being withheld.

Where payments can be collected only after services have been provided, certain controls are essential to ensure:

- that a billing is issued promptly;
- that each billing is complete and covers all the services or goods supplied; and
- that the billing is computed at the correct rates.

The controls to ensure that these objectives are achieved must be built into the operational system of the service concerned. Paperwork generated through operational systems should be integrated with the financial system to ensure that all revenue is billed.

For example, in the case of the sale of goods from central stores, the system must ensure that every issue from stock is made solely on the authority of a prenumbered requisition or invoice; that every requisition or invoice is accounted for through serial number control by an appropriate billing section; and that a billing is raised at correct rates for every requisition from stock.

**7.2.1.7 Methods of Claiming Revenue**

**Self-Assessment**

In certain instances, members of the public are required to complete forms periodically which are used as a basis for collecting revenue. Usually the completed form identifies the number of units produced/sold or consumed during a given period. The applicable rate of fees/tax is then used to compute the amount of revenue which should be remitted.

Typically, a self-assessing procedure is used to collect taxes or royalties. Subsequently, the correctness of such returns is verified by auditors employed by the responsible departments or through independent verification of the items reported.

**Exchange for Services and Goods**

Revenue often can be claimed when the service or goods is provided and normally should be collected at that time. for example, revenue should be claimed and collected at the time:

- a document is registered,
- a licence or permit is issued,
- an application for a service is received.



**7.2.1.7 (Continued)**

Similarly, whenever any goods are sold to the public the revenue should be claimed and collected at the time of the sale.

When cash is not collected, a claim for revenue should be made and proper billing procedures are required.

**Intangible Services**

Some departments receive revenue from intangible services, for example; agreements or regulations. Another example is a penalty charge for failure to register a document within a specified period.

The above services are usually covered by agreements, regulations or legislation which specify when such revenue should be claimed.

**7.2.1.8 Adequate Controls**

**Identification of Payors**

There should usually be no difficulty identifying the individual or organization responsible for payment for services or goods rendered. Typically, it is the person at the counter or the person applying who pays any fees. When services or goods are delivered elsewhere, individuals or companies in receipt of such services or goods would normally be expected to pay.

Under certain circumstances a third party may be required to collect and remit revenue to the government. An example of this is:

- fees for fishing licences collected by issuing agencies and subsequently remitted to the Government of the Yukon.

In all cases a continuing record of sources of revenue and of potential payors must be kept.

**Verifying Self-Assessments**

When self-assessment is used to collect revenue, the department should ensure that information received is verified as to validity and correctness. Some of the methods used to verify self-assessment include:

- periodic audits on those individuals or companies being assessed,
- comparison and verification of opening and closing balances on reports from month to month,
- use of information supplied by other government agencies or regulatory bodies,
- checking clerical accuracy of reports,
- comparison of actual amount paid with amount calculated as due,
- investigation of substantial variations between periods,
- the check-off of returns received against a list of those required to file returns.



**7.2.1.8 (Continued)**

Controls over Services and Goods

If revenue is to be collected in exchange for services and sale of goods, proper controls should be maintained to ensure that all revenue is duly recorded/collected. It is difficult to formulate controls which apply in all instances, but the following should be considered.

In respect of permits and licences:

- prenumbered permits and licences,
- a record of permits and licences received from printer and sent to issuing offices,
- periodic returns from issuing offices accounting for continuity of numbers,
- reconciliation of permits and licences issued with revenue collected and remitted, and
- periodic inventory of permits and licences on hand.

In respect of other services:

- assignment of consecutive numbers of each service as performed - for example - document registration number,
- use of prenumbered work orders or other forms,
- on applicable work orders recording of costs incurred in performing a service.

In respect of the sale of goods:

- restricted access to goods,
- assignment of custodial responsibility,
- use of prenumbered requisitions,
- use of bin cards for each item held for sale on which all purchases and sale are recorded,
- periodic inventory counts and comparison with balances per bin cards, use of prenumbered sales invoices



## **7.2.2 Transfers from Other Governments**

Transfers from other governments are made based on inter-governmental agreements. Departments must refer to the General Administration Policy 1.5 “Intergovernmental Relations Policy” whenever they contemplate entering into an inter-governmental agreement.

### **7.2.2.1 Grants from Canada**

The federal government provides transfer payments to provincial/territorial governments for general operational purposes or for specific initiatives. If these transfer payments are made without any requirements for expenditure reporting or repayment obligation, these transfers are classified as grants from Canada. Examples of grants from Canada are the Formula Financing grant and other social and health related grants.

These transfers are accounted for as revenues when the authorization for transfer is supported by approved legislation and/or when authorization is exercised by signing a transfer payment agreement. If the agreement stipulates installment payments, e.g. monthly cash transfer, revenue is recorded when the cash is received with a possible adjustment at year-end based on the entitlement for the fiscal year.

### **7.2.2.2 Cost-share Agreements**

Governments frequently enter into agreements to cost-share expenditures (as much as 100%) for delivering certain initiatives, programs or projects. For example, the federal government implements many of its objectives and initiatives through funding agreements with provincial/territorial governments.

Under a cost-share agreement, the funding is to be provided based on the reporting of actual expenditures and, furthermore, any excess funding is to be returned to the funding government. Under this type of arrangement, revenue is recorded when the recipient government incurs eligible expenditures and a corresponding recovery claim is processed by the administering department. If the funding government provides advances, the unspent portion of advances will be reported as a liability of the recipient government at year-end.



### **7.2.2.3 Flow-through Arrangements**

Flow-through arrangements are based on agreements between two levels of governments where a government agrees to act merely as an intermediary to administer funds on behalf of another party and has no ability to make decisions regarding the use of the funds. In this type of arrangement, the transferring government has stipulated in the agreement the names of the beneficiaries as well as how much each beneficiary is entitled to receive.

A flow-through arrangement is accounted for as a trust (as defined in the *Financial Administration Act*), and not as revenue of the government.

### **7.2.2.4 Transfer of Tangible Capital Assets from Other Governments**

Tangible capital assets transferred from other governments at no cost to the Yukon government must be accounted for in accordance with subsection 8.7 “Tangible Capital Assets” of this manual, particularly 8.7.3.2.d).



## **7.3 BILLING, CONTROLLING AND COLLECTING ACCOUNTS RECEIVABLE**

### **7.3.1 General**

If cash is collected when services or goods are provided or sold, accounts receivable do not arise. Funds determined by departments to be owing to the Government of the Yukon or by the Government of the Yukon on account of pre-payments are to be recorded in appropriate records and subjected to effective controls and collection activity.

An accounts receivable system should include:

- a billing for all services or goods supplied;
- an accounts receivable record showing the amounts due;
- an accounts receivable control account showing the total receivables; and,
- prompt and vigorous action to collect all claims.

Deposit accounts may be used rather than extension of credit, particularly when the charges for services or goods are relatively small and services are rendered on a continuing basis. Use of such accounts eliminates difficulties in collecting outstanding accounts or in controlling small amounts of cash. Procedures involve:

- obtaining a deposit from the individuals or companies involved;
- recording each deposit received in an account;
- recording charges and applying them against the deposit; and,
- providing a periodic statement to the customer showing credits and charges to each deposit account and the remaining balances.

### **7.3.2 Billing Procedures**

Billing should be by means of pre-printed and pre-numbered invoices maintained under effective numerical control. The following information should be included on the billings:

- name and address of the issuing department,
- name and address of debtor involved,
- date of the billing, and date on which goods or services were supplied,
- a clear indication of the amount owing,
- an explanation of the billing, including relevant information and dates,



### **7.3.2 (Continued)**

- a notation indicating terms of payment which normally should be payment due on receipt of billing,
- a notation specifying that payment should be drawn in favour of the Government of the Yukon,
- a notation specifying the revenue/recovery coding.
- Goods and Services Tax registration number.
- a statement showing how much GST is included in the invoice.

Since it is government policy to require payment of fees and charges at the commencement of the provision of a service to the maximum extent feasible, and billings are supplied only where collection before service is not practicable, deferred terms of payment should be rare.

Billings should be submitted promptly after the completion of services or delivery of goods. Where services are rendered on a continuing basis, or over a lengthy period of time, billings should be submitted on a continuing or progressive basis.

### **7.3.3 Accounting for Receivables**

It is the responsibility of every department to ensure that every claim for non-tax revenue is entered promptly in the accounts until collection from the debtor in full. Such accounts are an integral component of the department's accounts and should never be regarded as memorandum accounts.

Whether the record of an account receivable is in a ledger maintained manually, mechanically or electronically, or is in an open file of unsettled billings, it is essential that it be kept by the name of the debtor in such a manner that his total indebtedness can be quickly determined on an aged basis.

It is also essential that accounting control be maintained over the total accounts receivable. This can be achieved by the operation of an accounts receivable control account in the department's principal accounting system. The total amount of billings and cash receipts should be entered in the control account on a daily, weekly or other appropriate basis. Adjusting entries, such as authorized deletions of accounts, should also be entered in the control account, and each month the total of all the outstanding balances in the individual accounts should be reconciled with the balance in the control account. Supervisory officers should pay particular attention to this reconciliation operation as it is a key control function in the revenue process.

The individual accounts receivable records must be maintained by persons other than those responsible for the handling of cash and



other payments, and from those responsible for the maintenance of the accounts receivable control accounts.

Normally, the detailed accounts receivable transactions are not recorded in the Territorial Accounts; however, at the end of each year, the Deputy Head of the Department of Finance reflects in the accounts the accounts receivable balances. Departmental accounts receivable should be reconciled with the general ledger accounts of the Department of Finance.

Although departments are required to maintain accounts receivable records in respect of their own program operations, the Department of Finance has overall responsibility for the accounts receivable for the Government as a whole.

#### **7.3.4 Collection of Receivables**

Departments must take prompt and vigorous action to collect every account receivable in respect of their program operations. Collection action will differ depending on the nature and the circumstances of the debts concerned.

##### **Normal Action**

In most instances, routine collection action should be taken on a progressive basis. Where warranted, monthly statements should be instituted, and where payment is slow they should be submitted on an aged basis to keep debtors fully advised as to both the extent and the condition of their indebtedness.

##### **Supplementary Action**

In addition to the use of statements, it is essential that supplementary collection action be taken by letter, telephone or personal contact.

This should be carried out by having progressively higher level officers in the department address their peers in the debtor organization. Where tangible services or goods are being supplied, senior operational personnel of the branch supplying the services or goods should be brought into the collection activity at a relatively early stage.

Where senior levels in the financial and operating branches become involved in direct contact with the debtor, their efforts should be directed towards establishing an understanding for continuing future prompt settlement, rather than just concentrating on the settlement of accounts outstanding at that time.



**Monthly Review**

All accounts receivable should be reviewed on an aged basis monthly by an officer higher than the person responsible for the maintenance of the accounts receivable, and quarterly by senior management. This review should be the basis of a summary report to progressively higher levels in the organization on the aging of all receivables, together with individual reports on more difficult and significant debtors.

**Department of Finance Action**

All departments are responsible for assisting the Department of Finance in implementing effective collection procedures for accounts receivable that are difficult to collect. Procedures should minimize the incidence of uncollectible accounts and maximize the resulting cash flows to the Government of the Yukon.

**Interest**

Interest is to be charged on past-due accounts, in accordance with the regulations pertaining to interest on overdue accounts unless the terms of the contract/agreement specify rates other than that which is provided for in the regulations

**Liaison**

Close liaison is imperative between departments and the Department of Finance to avoid duplication of effort in accounting for and collection of accounts receivables.

**7.3.5 Bankrupt Debtors**

Where a debt is owed by a person who, since the debt was incurred, has declared bankruptcy, the creditor department must file a proper claim with the trustee in bankruptcy and make every effort to recover the amount from the bankrupt estate in accordance with normal procedures.

If the bankruptcy proceedings have reached the stage where the trustee has been discharged, but no order of discharge has been granted to the bankrupt, the possibility of collection of the debt should be investigated through bankruptcy officials. If an order of discharge has been granted to both the trustee and the bankrupt, the department should follow normal write-off procedures for accounts receivable.



**7.3.6 Missing Debtors**

All reasonable action must be taken to locate a missing debtor, taking into account the amount of the obligation, and the administration and collection expenses that may be incurred.

There are a number of tracing sources available to departments to assist them in locating debtors. Department should utilize those that are most effective and economical.

**7.3.7 Cost Sharing with Other Governments/Expenditure Recoveries**

These particular accounts receivable differ from other similar accounts in that, in many instances, the amounts originally determined and claimed by the Territory may eventually be adjusted. Such adjustments can be either favourable or unfavourable for the Territory. Lengthy delays in repayments to the Territory sometimes occur due to the extended period necessary to reach agreement on amounts to be paid, or for the necessary audit to be carried out

Cost-sharing recovery claim must be prepared by the department concerned, in accordance with the terms and conditions of the applicable agreement. The Department of Finance will record these claims as a receivable and take the necessary collection and follow-up action as may be required.



**7.3.8 Write-off of Uncollectable Debts****7.3.8.1 Policy**

On May 9, 2007, Management Board revoked MBD # 5/84 “Write-off of Uncollectible Debts” and replaced it with subsection 7.3.8.1 of this manual (MBM#07-11-04). The policy outlined in subsection 7.3.8.1 is issued pursuant to Section 14 of the *Financial Administration Act*, and can be revised only with the approval of Management Board.

This policy is referred to as the Write-off Policy.

1. The following persons are authorized to write off all or part of a debt or obligation that is due or owing to the government up to the amounts specified.
 

Minister of Finance .....	\$2,000
Deputy Minister of Finance .....	\$1,000
Deputy Minister of Community Services .....	\$1,000(a)
Yukon Housing Corporation.....	\$1,000
Yukon Liquor Corporation.....	\$1,000
Yukon Development Corporation.....	\$1,000

(a) Relates to Property Tax Receivable only.
2. Every write-off of all or part of a debt or obligation that is due or owing to the government in excess of the limits listed above shall be approved by Management Board.
3. No debt or obligation that is due or owing to the government shall be written off within one year of the date of the debt or obligation.
4. The write-off of all or part of a debt or obligation to the government does not extinguish the right of the government to collect the debt or obligation written off.
5. This policy does not apply to a remission of any tax, royalty, fee, forfeiture, fine or other sum imposed or authorized to be imposed by any Act.
6. Every debt or obligation written off in accordance with this policy shall be reported in the Public Accounts for the fiscal year in which the account is written off.



### **7.3.8.2 Procedures**

The following procedures are issued by the Deputy Minister of the Department of Finance pursuant to Section 7 of the *Financial Administration Act*. Any changes to these procedures, therefore, require approval of the Deputy Minister of the Department of Finance.

- **Debt Write-off**

No debt, or any portion thereof, shall be written off from the accounts of a department pursuant to the Write-off Policy unless an authorized officer listed under Policy # 1 under subsection 7.3.8.1 of this manual is satisfied that:

- (a) all reasonable collection action has been taken and all possible means of collection have been exhausted; and
- (b) there is no possibility now or no known potential in the foreseeable future of collection through offset; and
- (c) the appropriate Minister, or appropriate officer, is satisfied on reasonable grounds that:
  - (i) further administrative expense or other costs of collecting the debt are not justifiable in relation to the amount of the debt or the probability of collection, or
  - (ii) the debtor is not resident in Canada, there are no apparent means of collecting the debt and there is no evidence that the debtor has a family or business concerns in Canada that could lead the debtor to return to Canada, or
  - (iii) the debtor cannot be located, or
  - (iv) evidence of the debt is lost or destroyed and the debtor denies that a debt exists, or
  - (v) the debtor is a corporation and the corporation has ceased to exist and without assets or in bankruptcy, or



**7.3.8.2 Procedures (Continued)**

- (vi) the debtor is an undischarged bankrupt corporation and
  - (A) the corporation is without assets and the trustee has been discharged, or
  - (B) the trustee has confirmed in writing that the trustee does not foresee any further payments to the Yukon Government, or
- (vii) the debtor is an undischarged bankrupt individual and
  - (A) the trustee has been undischarged, or
  - (B) the trustee has confirmed in writing that the trustee does not foresee any further payments to the Yukon Government, or
- (viii) the debtor is deceased and the estate has been probated.

- **Forgiveness**

It is not a common practice for the Yukon Government to forgive a debt. Pursuant to section 15 of the *Financial Administration Act*, Cabinet may authorize the remission of any tax, royalty, fee, fine, penalty or other sum that is paid or payable to the government and that is imposed or authorized to be imposed by any Act, if Cabinet considers it in the public interest to do so.

A debt owed to the Government may be only forgiven or settled by approval of Cabinet. Every debt forgiven by Cabinet shall be reported in the Public Accounts for the fiscal year in which the forgiveness or settlement is made.



**7.3.8.2 Procedures (Continued)**

- **Required Information**

The following information must be provided when a request for write-off is submitted to Management Board for its consideration.

- 1) Name of debtor – name or names of the person(s), or the limited company
- 2) Current or last known address – where “last known address” is given, indicate the year in which the debtor was last residing at the address shown
- 3) Name of guarantor – if applicable
- 4) Type of security – a description of the security, e.g. promissory note, chattel mortgage, property mortgage
- 5) Other outstanding accounts owed to the Yukon Government by the debtor
- 6) Account detail:
  - i) original amount – principal amount actually disbursed
  - ii) date of disbursement
  - iii) interest rate
  - iv) total collected – principal and interest
  - v) outstanding principal
  - vi) outstanding interest
- 7) History of account:
  - i) reason for disbursement
  - ii) events that caused the default and the last recovery date
  - iii) summary of measures taken to recover the debt
  - iv) condition of the securities and the possibility of recovery
- 8) Rationale for write-off as a course of action
  - i) legal opinion should be provided as necessary
  - ii) significance/implications of writing-off the debt



## **7.4 CONTROL OF CASH RECEIPTS**

### **General**

Under the Financial Administration Act, all public money received must be deposited to the credit of the Yukon consolidated Revenue Fund in banks designated by the Commissioner (Cabinet). This Act also provides that every person who collects or receives public money:

- shall deposit such public money to the credit of the Yukon Consolidated Revenue Fund and,
- shall keep a record of receipts and deposits.

### **Departmental Responsibility for Procedures**

Departments are responsible for determining the precise procedures to be followed and auxiliary records to be maintained to ensure that all receipts of public money are adequately accounted for. If different procedures and records are required for different programs, locations, or organizational units, the department should proceed accordingly. However, at all times and places, the system used should provide adequate records, control and be fully documented.

### **7.4.1 Cash Handling/Receipt of Cash**

For purposes of this section “cash” means negotiable instruments and currency, including coin, paper money, cheques, money orders, bank drafts and other negotiable instruments. Departments must ensure the existence of adequate internal controls over cash. To fulfill this requirement, departmental systems of control must conform to directives issued by the Department of Finance and incorporate to the extent possible the following guidelines:

- a) Cash receipts must be recorded immediately;
- b) A receipt must be issued when currency is received;
- c) Each day’s cash receipts must be deposited daily, except in situations where this practice is not economical;
- d) Each day’s cash receipts must be deposited intact. Disbursements may not be made directly from cash receipts;
- e) Personnel handling cash should not be responsible for the maintenance of accounting records;
- f) No one person should handle a transaction from beginning to end. If this is not possible at certain locations the collection of cash and disbursement of services or receipts must be closely



**7.4.1 (Continued)**

monitored at the central office.

- g) The function of receiving cash should be centralized as much as possible;
- h) Petty cash funds may not be mixed with cash receipts and must be operated in accordance with section of this manual.

Proper control over cash receipts requires an effective system of internal control to ensure that all receipts are properly recorded and deposited. Internal control also helps to ensure that information provided by the accounting records is accurate and properly reflects the operations of the department or branch. A system of internal control includes three main elements:

- segregation of duties,
- accounting controls,
- safekeeping devices.

The division of duties is important in discouraging fraudulent practices related to the receipt and deposit of public money.

If division of duties is impractical because of limited accounting staff, there should be greater management supervision.

It is essential that the accounting system used, captures the revenue as soon as it is collected. If currency is involved, the minimum precaution should be to record it initially by means of a mechanical cash register, pre-numbered receipt, or some other form of document which incorporates or can serve the purpose of providing a permanent record. If receipts are issued, official government receipts must be used.

All incoming mail should be opened, whenever possible, by at least two persons, in the presence of each other, who have no other cash recording function than that of recording, in a cash blotter, particulars of all mail cash received. The record provides a control of all mail cash received and its subsequent handling. The record, once prepared, should be separated from the actual cash and thereby provide an independent control over its subsequent handling. Incoming cheques, money orders and drafts should be promptly stamped "For Deposit Only to the Credit of the Yukon Consolidated Revenue Fund (Territorial Corporations, boards or agencies)".

Officers should always issue a receipt or other acknowledgment for any currency received, but when the paying instrument provides an adequate record for the payor, this need only be done on request.

Effective February 4, 2013, the Government of Canada is phasing out the penny from Canada's coinage system. While pennies are not available for purchase as of February 4, 2013, banks will accept pennies indefinitely. The Government of Yukon will also accept pennies indefinitely.

Where pennies are not available, cash transactions will need to be rounded to the nearest five-cent increment. Rounding on cash transactions is only used on the final amount payable after the calculation of GST. On the cash blotter, differences due to rounding will be totaled and coded to cash short/over. For each cash receipt transaction, the rounding difference will not be any more than 2 cents. Each receipt issued and the cash register entry must show the correct



**7.4.1 (Continued)**

revenue and GST charged, rather than the actual cash receipt amount.

**7.4.2 Recording of Cash Receipts**

The person who collects or receives public money should record it in such form and manner as to ensure proper control over receipts. Cash receipts take many forms and the documents which record them are accordingly varied. The more common forms are:

- official government prenumbered duplicate receipts,
- cash register tapes or cash register imprints on documents,
- cash blotters,
- copies of permits or licences having space for the recording of receipts.

Forms, such as duplicate receipts, cash register imprints or licences and permits, should be adequately controlled to preclude improper use. This can be accomplished by maintaining inventory records of pre-numbered forms, reconciling receipt forms to deposits, and ensuring that all forms have been accounted for. Access to cash register totals should be restricted to those persons independent of the cashier.

**7.4.3 Custody of Cash Receipts**

In some departments, the deposit of receipts on a daily basis is impractical because of the lack of proximity of banking facilities, or the amounts of funds received.

When receipts are received after banking hours and no night deposit service is available, departments should safeguard receipts overnight. The amount of receipts on hand will dictate the types of safekeeping facilities needed. Facilities can include:

- locked cash boxes stored in inconspicuous places for small amounts of cash receipts,
- small one-combination locked devices for larger amounts,
- large two-combination vaults protected by special alarm systems.

Custody or access to these devices should be limited to properly independent officers. Office vault combinations should be changed at least once a year and whenever staff changes or suspected cash shortages occur.

Although the general rule is to deposit all cash and cheques promptly this may not always be appropriate—for example, the issue of certain licences may be limited and applications may eventually exceed that limit. Cheques temporarily held should be deposited if not returned promptly to the payee.



#### **7.4.4 Deposit of Cash Receipts**

The method of depositing receipts will depend upon the location of the officer and the dollar volume of receipts.

Receipts may be deposited either:

- directly to the Department of Finance cashiers, or
- directly to a financial institution in an approved account.

The authority to open and close bank accounts in the name of the government flows from Section 12 of the Financial Administration Act. For practical purposes this authority has been delegated to the deputy head of finance through an Order in Council. In general, cashier facilities of the Department of Finance should be used by nearby departments with large volume of receipts.

When the deposit is to the Department of Finance, or to a daily transfer bank account, there are standard forms which are used to make the deposit. The forms are:

- Consolidated Revenue Account - Daily Cash Blotter to the Department of Finance,
- Trust Account - Daily Cash Blotter to the Department of Finance.

In all cases, two parts of each form should be sent to the Department of Finance with one remaining in the department.

Upon verification, the Department of Finance will return one copy of the form to the Department. This should be matched to the original kept on file in the department. Weekly follow-up of the file will ensure all deposits have been correctly processed. All deposit documents are to remain as part of the financial records of the department or branch.

Deposits should be completed under dual control.

- All cash amounts should be verified by actual count by two persons who should sign or initial the correctness of the cash figures on the deposit slip.
- The same two persons should place the deposit in the canvas bag and then it should be locked.
- Once locked, the bag is not to be re-opened unless in the presence of the two persons responsible for the deposit. If re-opened, the deposit must again be verified by the same two persons before the bag is locked again.

Deposits may be made using documents provided by the financial institution to which the deposit is being made. These documents should be properly completed and kept as part of the records of the department or branch.



#### **7.4.4 (Continued)**

Funds deposited in approved accounts in other financial institutions should be transferred periodically. In some instances a revenue transfer account may be established. To ensure that funds do not remain in banks over an extended period of time, transfers should be effected as soon as the balance in such account exceeds \$1,000, or otherwise at least monthly.

To ensure proper control over cash receipts, the deposit of funds should be made on time and intact. Deposits should include all receipts on hand at that point in time. The deposit of funds intact facilitates record keeping and reconciliation.

If it is administratively feasible, deposits should be made daily when \$100 or more is on hand, or on the day when \$100 is reached, and in any case, not less frequently than once each week when a lesser amount is involved.

If staff time, or the expense of complying with these policies is considered to be excessive, the Treasurer may extend the time within which public money is required to be deposited. Departments which receive such extensions should ensure that adequate safekeeping facilities are available.

Funds received which are to be held in trust—for example, funds of specific groups, or personal monies taken for safekeeping from persons admitted to hospitals or other institutions—should be deposited to the General Trust bank account of the Government of the Yukon. Appropriate coding may be obtained from the Department of finance for new trusts. Funds should be deposited with the cash blotters, with the Department of Finance cashiers.

If identifications of the nature of a cash receipt at the time of receipt is not possible, they should not be held pending identification. Departments should deposit the receipt promptly and should credit a suspense account as an interim measure. Items in the suspense account should be investigated and cleared on a current basis.

#### **7.4.5 Reconciliation Procedures**

The Department of Finance is responsible for reconciling Consolidated Revenue, General Trust, transfer and other regulated fund bank accounts.

If departments or branches maintain transfer accounts as a means of depositing funds, the Department of Finance should ensure that monthly reconciliations are prepared reviewed by management, and kept as part of the financial records. Reconciliations should be prepared by revenue officers who have no access to cash receipts and disbursements.



#### **7.4.5 (Continued)**

At the fiscal year end, reconciliations of all bank accounts must be completed by the 15th of the month following year end.

#### **7.4.6 Cash Overages/Shortages**

Overages should be deposited in the same manner as other cash pending disposition.

Cash shortages are not acceptable. However, should a cash shortage occur, it must be investigated immediately by the responsible supervisor and reported to the Deputy Minister concerned and to the Department of Finance, Director of Accounting Services.

If the shortage is in excess of \$100.00, a full written report must be submitted to the Deputy Head of the Department of Finance, who will determine what further action should be taken.

Problems of recurring cash shortages should be resolved wherever possible by re-allocation of duties among staff.

#### **7.4.7 Credit/Debit Cards and E-commerce**

##### **7.4.7.0 Policy Statement**

###### Authority

Policy sections 7.4.7.0 to 7.4.7.2 were approved by Management Board on July 9, 2013 (MBM#13-15-03) and may be revised only with the approval of Management Board.

###### Effective Date

July 9, 2013 Approval date is effective date.

###### Application

This policy applies to all departments as defined in the *Financial Administration Act* including Yukon Housing Corporation, Yukon Liquor Corporation, Yukon Lotteries and Yukon Development Corporation. This policy does not apply to Yukon Workers' Compensation Health and Safety Board.

Government credit cards issued to employees are not within the scope of this policy. See subsection 5.14 Government Credit/Charge Cards in Chapter 5 of this manual for government credit/charge card policies.

###### Objectives

The objectives of this policy are:

- to ensure credit and debit card revenue transactions of the Government are collected, transmitted and stored in a consistent, secure and controlled manner that complies with **merchant services industry standards** and the Government's **merchant services** contracts; and



**7.4.7.0 (Continued)**

- to standardize the procurement and administration of merchant services and the procurement of **e-commerce payment solutions** within the Government.

**7.4.7.1 Definitions**

Definitions applicable to this policy appear in 7.4.7.3 Guidelines. Definitions are amended as required by the Deputy Minister of Finance as part of the Guidelines and per *Financial Administration Act* Section 7. Defined terms appear in **bold** font when first used in this policy and the Guidelines.

**7.4.7.2 Policy**

1. This policy applies to all methods of credit card and debit card acceptance including but not limited to **point-of-sale devices**, e-commerce online web applications, and mobile payment applications.
2. Departments may accept, as a means of payment, credit cards and debit cards in accordance with the requirements of section 7.4.7 in its entirety. Failure to follow these requirements may result in the Deputy Minister of Finance revoking the department's ability to accept credit and debit card payments.
3. All merchant services contracts are procured and administered by the Department of Finance. Departments may accept only those credit and debit card types authorized by the Department of Finance.
4. It is the responsibility of departments to collect, transmit and store credit card and debit card data in a manner that complies with all applicable Government policies and guidelines.  
Departments are responsible for costs incurred to obtain and maintain compliance with Government policies and guidelines. Departments are liable for any costs, including damages, resulting from non-compliance with these policies and guidelines. Costs will be charged against the department's appropriation.
5. The Deputy Minister of Finance is responsible for maintaining Guidelines that ensure the Government is compliant with merchant services industry standards.
6. Government does not permit:
  - a. electronic storage of credit card and debit card **cardholder data** and **sensitive authentication data**;
  - b. transmission or receipt of credit card and debit card cardholder data via electronic transmission methods including but not limited to email, text, and instant messaging;
  - c. manual imprinting of credit cards;
  - d. paper storage of sensitive authentication data and debit card cardholder data; or



**7.4.7.2 (Continued)**

- e. paper storage of credit card cardholder data except with the prior approval of the Deputy Minister of Finance.  
Authorized point-of-sale devices and approved fax machines are excluded from above.
- 7. Departments may accept debit cards for all types of payments. Government does not offer **cash back** to customers paying by debit card.
- 8. Departments may accept credit cards as a method of payment with the following exceptions:
  - a. payments to the Yukon Housing Corporation with respect to mortgage payments, rental payments, land purchases and payments on agreements for sale;
  - b. the purchase of developed and undeveloped land through the Government of Yukon land disposition system;
  - c. the payment of taxes or other monies collected by a third party on behalf of the Government, e.g. fuel taxes and tobacco taxes collected by distributors; and
  - d. the payment of loans receivable including agreements for sale.

The purchase price and GST are considered one transaction and may not be split.
- 9. Government e-commerce payment solutions must comply with merchant services industry standards and be approved by the Deputy Minister of Finance before the solution is deployed. The department requesting the e-commerce payment solution is responsible for all cost related to ensuring that solution complies with merchant services industry standards when implemented for the Government.
- 10. Security awareness education is required for all employees involved, directly or indirectly, with the acceptance of credit and debit card payments. Security awareness education includes information and training on the secure handling of credit/debit cards and cardholder data.
- 11. The Deputy Minister of Finance may request that a department demonstrate its compliance with this policy including specific merchant services industry standards. The Deputy Minister may require that the department demonstrate compliance by completing an **attestation of compliance** or other similar document that is validated by an auditor/assessor that is recognized by the merchant services standard setting organization.
- 12. Departments must immediately notify the Deputy Minister of Finance of any non-compliance with this policy or the Guidelines. If non-compliance includes a privacy breach, then immediate notification shall also be made to the deputy minister of the affected department.  
Notification shall be made in accordance with the Guidelines in 7.4.7.3 section 16.



### **7.4.7.3 Guidelines**

Section 7.4.7.3 "Guidelines" is issued by the Deputy Minister of Finance under the authority of the *Financial Administration Act* Section 7. Any changes to this section require the approval of the Deputy Minister of Finance.

The purpose of these guidelines is to help departments interpret and comply with the Credit/Debit Card and E-commerce Policy (sections 7.4.7.0 to 7.4.7.2).

Definitions appear in the glossary at the end of this guideline.

#### Guidelines

1. It is a contractual obligation of the Government that:
  - a. all credit card transactions comply with the **Payment Card Industry Data Security Standard**; and
  - b. any agent or third-party service provider that the Government uses to store, process or transmit cardholder data must also comply with these standards and be registered with the applicable credit/debit card associations.
2. The credit card types authorized by the Department of Finance are Visa credit, MasterCard credit, and American Express. The following are examples of credit cards that are not accepted: Discover, JCB and Diners Club.

The debit card type authorized by the Department of Finance is Interac debit. Visa debit and MasterCard debit cards are not accepted.
3. Electronic storage of credit card and debit card cardholder data and sensitive authentication data is not permitted. This applies to all possible methods and formats of electronic storage, regardless of encryption or security precautions. Examples of prohibited electronic storage methods include, but are not limited to, documents, emails, spreadsheets, software programs, databases, text messages, flash drives, portable hard drives, personal computers, and mobile devices.
4. There is no need to retain credit card cardholder data in paper format after a transaction has been authorized and processed. Paper storage of credit card **truncated primary account numbers** is permitted.



**7.4.7.3 (Continued)**

5. The retention of credit card **primary account numbers** is highly restricted for security reasons. In exceptional circumstances there may be a compelling business need to keep credit card primary account numbers, expiry dates and/or cardholder name in paper format for future recurring transactions. Paper storage of credit card primary account numbers is permitted only with the prior written approval of the Deputy Minister of Finance.
  - a. Primary account numbers must be kept secure at all times and access to this data must be controlled. Security and access controls must meet the **PCI DSS** physical security requirements. For approved storage locations, security and access controls must be documented by the department storing the primary account numbers and submitted to the Deputy Minister of Finance.
6. Debit cards must be processed only as card-present transactions at Government point-of-sale devices. Paper storage of debit card cardholder data is not required and is prohibited.
7. **Card validation codes** must not be recorded or retained in any format.
8. Point-of-sale devices must be kept secure at all times and inspected on a regular basis to protect against tampering.
9. Credit card primary account numbers, expiry dates and cardholder names may be received from a cardholder by a Government fax machine if the Government fax machine is:
  - a. a stand-alone machine that is not connected to a computer network (e.g. not a fax/printer machine connected to YNet) and
  - b. located in a secure location with controlled access.A fax/printer machine connected to the Government's computer network is not a stand-alone fax machine and must not be used.
10. Government employees are not permitted to send credit card primary account numbers from a Government fax machine except for receipts from a point-of-sale device that show a truncated primary account number. These receipts may be faxed to a cardholder at their request.
11. Government does not accept credit card payments by email, text or other similar electronic transmission methods because these methods are not secure. Credit card payments received by electronic transmission methods may not be processed. If the payment is processed by the Government, we are "accepting" the credit card data by electronic transmission and this is not permitted. Cardholder data contained in the electronic transmission must be securely deleted. Obtain secure deletion instructions from the Department of Highways and Public Works Information and Communications Technology division.



**7.4.7.3 (Continued)**

12. **PCI compliant** procurement is technically complex and high risk. When conducting a business needs analysis and prior to beginning any procurement process for an e-commerce payment solution, departments must obtain approval from the Director Investment and Debt Services (Department of Finance) and the Corporate Information Security Officer (Department of Highways and Public Works) regarding PCI requirements. E-commerce payment solutions must be PCI compliant for the specific payment processing that the Government plans to use. It is highly desirable to use a payment solution that has been assessed as complying with the **Payment Application Data Security Standard**.

Before deploying an e-commerce payment solution, the deploying department must obtain proof of current compliance prior to requesting the Deputy Minister of Finance's approval of the e-commerce payment solution. Proof of compliance must be in a recognized form such as an attestation of compliance or other validation provided by a **qualified security assessor**.

13. Security awareness education is required for employees that accept credit and debit card payments including front line employees and supervisors. Additionally all employees that handle or see credit and debit card data require security awareness education. This can include:
- a. branch managers,
  - b. departmental finance employees (reviewing cash blotters),
  - c. Department of Finance employees that process cash blotters, file cash blotters or reconcile deposits, and
  - d. information technology (IT) employees that are involved in planning, implementing, maintaining, or updating applications that interface with, or are themselves, credit card processing systems. For example, IT employees that work with the motor vehicles registration renewal system must have security awareness education. This is because the application interfaces with Beanstream, a credit card processing system.

Security awareness education materials are provided by the Department of Finance. Departments are responsible for coordinating and documenting the security awareness education completed by their employees.

14. When the Deputy Minister of Finance requests a department demonstrate its compliance as per Policy 7.4.7.2 section 11, he/she will determine:
- a. the type and scope of the compliance validation document such as a **self-assessment questionnaire**; and
  - b. the requirement for review of the compliance validation document by an auditor/assessor, such as a qualified security assessor, that is recognized by the merchant services standard setting organization.



**7.4.7.3 (Continued)**

The scope may vary, and could target just one e-commerce payment application or extend to credit and debit card payment processing at multiple locations. Costs for completing the compliance validation document, including any auditor/assessor costs, are the responsibility of the department completing the documentation.

15. A department accepting credit and debit cards shall follow the operating terms (**Credit and Debit Card Operating Terms**) issued by the Department of Finance that detail the operational department's responsibilities. The operating terms do not replace the requirements of this policy or the Guidelines but provide additional direction and information at an operational/processing level. The operating terms may be updated by the Department of Finance from time to time as standards and requirements change.
16. If a department is non-compliant as described in Policy 7.4.7.2 section 12 any public officer, as defined in the *Financial Administration Act*, shall provide notification as follows:
  - a. notification shall be made immediately to the Director Investment and Debt Services, Department of Finance, by email to [pci-notices@gov.yk.ca](mailto:pci-notices@gov.yk.ca); and
  - b. if non-compliance includes a privacy breach or a breach is suspected:
    - i. in addition to notifying the Director Investment and Debt Services (a) above and the deputy minister of the affected department, immediate notification shall also be made to the Chief Information Officer, Department of Highways and Public Works, by email to [pci-ict@gov.yk.ca](mailto:pci-ict@gov.yk.ca);
  - c. details of the non-compliance should include departmental contact names and contact details (include at least two contacts), date of suspected non-compliance and details of non-compliance including whether a paper or electronic privacy breach is suspected.



**Glossary**

These definitions apply to the entirety of section 7.4.7. Defined terms are listed in alphabetical order.

- a. "Attestation of compliance" is a declaration of compliance status with the Payment Card Industry Data Security Standard. The document is produced by the Payment Card Industry Security Standards Council and completed by a **merchant**.
- b. "Cardholder data" is at a minimum the primary account number. Cardholder data also consists of primary account number plus any of the following: cardholder name, expiry date and/or magnetic-stripe service code.
- c. "Card validation code" is a code uniquely associated with each individual physical card that ties the primary account number to the physical card. It can refer to either **magnetic-stripe data** or a printed security code. These codes, also referred to as card verification value (CVV), card validation code (CVC) or card identification number (CID), differ by credit card. Visa and MasterCard print a three-digit code in the signature panel area on the back of their cards. American Express cards have a four-digit unembossed number printed above the credit card number on the card face. The code is commonly used in card-not-present transactions to validate possession of the physical card by the cardholder.
- d. "Cash back" is a transaction where an amount is added to the total purchase price paid by debit card and the customer receives the added amount in cash.
- e. "Credit and Debit Card Operating Terms" are issued by the Department of Finance to govern the operational processes related to merchant services, credit and debit card processing and e-commerce payment solutions. The Credit and Debit Card Operating Terms work in conjunction with the Guidelines and the policy to provide operational direction and guidance to departments.
- f. "E-commerce payment solution", also known as a payment application, is any application that stores, processes, or transmits cardholder data as part of payment authorization or settlement. Payment applications supplied by service providers are included.
- g. "Magnetic-stripe data" is also known as track data. It is data encoded in a credit or debit card's magnetic stripe or chip that is used for authentication and/or authorization during a payment transaction.
- h. "Merchant" is any entity that accepts credit/debit cards for payment of goods and services.
- i. "Merchant services" are services that enable the Government to accept a payment by use of a customer's credit or debit card.
- j. "Merchant services industry standards" are standards relating to credit or debit card payments. Standards are set by both governments and industry associations. An example of a government standard is the Canadian Code of Practice for Consumer Protection in Electronic Commerce. An industry association is the Payment Card Industry Security Standards Council that sets various standards including the Payment Card Industry Data Security Standard and the Payment Application Data Security Standard.
- k. "PCI" is Payment Card Industry.



**Glossary (Continued)**

- l. "PCI compliant" means compliant with the standards set by the Payment Card Industry Security Standards Council including but not limited to the Payment Card Industry Data Security Standard and the Payment Application Data Security Standard.
- m. "PCI Security Standards Council" is an open global forum, launched in 2006, that is responsible for the development, management, education, and awareness of the PCI Security Standards, including the Data Security Standard, Payment Application Data Security Standard, and PIN Transaction Security requirements (PIN is personal identification number).
- n. "Payment Application Data Security Standard" (PA DSS) is set by the **PCI Security Standards Council**. A payment application is any application that stores, processes, or transmits **payment card** cardholder data as part of payment authorization or settlement.
- o. "Payment Card Industry Data Security Standard" (PCI DSS) is set by the PCI Security Standards Council. It is an industry standard that sets technical and compliance standards for protecting payment card cardholder data. PCI DSS is supported by Visa, MasterCard, Discover, JCB International and American Express and applies to merchants that store, process, or transmit payment card cardholder data.
- p. "Payment card" includes a credit or debit card that shows a logo of Visa, MasterCard, American Express, Discover or JCB International (these organizations are the founding members of the PCI Security Standards Council).
- q. "Point-of-sale device" is a payment terminal that accepts credit and/or debit cards. Devices often include optional attached PIN pads.
- r. "Primary account number" (PAN) is the unique number appearing on a credit or debit card that identifies the issuer and the particular cardholder account. Primary account numbers are 15 or 16 digits. See also "truncated primary account number".
- s. "Qualified Security Assessor" (QSA) is an employee of a company qualified by the PCI Security Standards Council to conduct PCI DSS on-site assessments. Both the employee and the company must be certified by the PCI Security Standards Council to validate an entity's adherence to the PCI DSS.
- t. "Self-Assessment Questionnaire" (SAQ) is a tool used by a merchant to validate its own compliance with the PCI DSS. For greater quality control and verification, a Qualified Security Assessor can assist with the validation and completion of a Self-Assessment Questionnaire.
- u. "Sensitive authentication data" is security-related information used to authenticate cardholders and/or authorize payment card transactions. It includes card validation codes, full magnetic-stripe data and personal identification numbers (PINs).
- v. "Truncated primary account number" is a primary account number that is truncated to show a maximum of first 6 digits and last 4 digits of a credit card's PAN. For security reasons, the preferred disclosure is the last 4 digits only.



## **7.5 REPORTING OF REVENUE**

### **General**

The objective of the financial reporting process for revenue, like expenditure, is to summarize revenue transactions to reflect the revenue activities of government.

Reports are based on:

- modified cash basis of accounting for taxes and accrual basis of accounting for other revenues and recoveries,
- centralized collection and subsequent reporting.

### **7.5.1 Content of Reports**

Reports should contain sufficient information for central agency and departmental decision-making purposes and for presentation in the Territorial Accounts. To ensure that revenues are reported on a uniform basis within government, there is a standard coding system, described in the chapter “Classification and Coding of Financial Information”.

### **7.5.2 Use of Reports**

#### **Departmental**

The deputy minister of each department should be aware of all sources of revenue within his responsibility and receive financial information showing how actual revenue compares with that forecast. These reports should be sufficiently descriptive and timely for use in decision making.

#### **Department of Finance**

The Department of Finance requires revenue reports for the preparation of annual Public Accounts. The Department of Finance also uses revenue data for each forecasting, cash management and fiscal planning. Part of the annual estimates by the Department of Finance are based on revenue forecast information received from the various collection areas within government.

### **7.5.3 Reconciliation of Revenue**

The Department of Finance uses the cash blotters to record all revenues received. These reports should be reconciled to the records retained by the department and these reconciliations should be kept. Reconciliations should be prepared by revenue officers having no access to cash receipts or accounting records.



#### **7.5.4 Cost-Sharing Programs**

Some departments are involved in cost-sharing programs with other levels of government, principally the Federal Government.

The policy of the Government of the Yukon is that gross costs should be used in resource allocation between programs regardless of the proportion of the cost that can be recovered from federal or other sources.

Accordingly, gross costs are reflected in departmental reports and costs recovered from the Federal Government and other sources are shown in the Consolidated Revenue Fund as revenue.



## **7.6 REFUNDS**

### **7.6.0 General**

#### Authority

On June 18, 2015, Management Board revoked MBD #4/84 “Refunds Directive” and replaced it with subsection 7.6 of this manual (MBM #15-16-03). The directives outlined in subsection 7.6 are issued pursuant to sections 13(2) and 18(2) of the *Financial Administration Act*, and can be revised only with the approval of the Management Board.

Subsection 7.6 of this manual may be referred to as the Refunds Directive.

#### Effective Date

June 18, 2015

#### Application

This Directive applies to all “departments” as defined in section 1(1) of the *Financial Administration Act*.

#### Objective

The objective of this Directive is to ensure that all refunds from the Consolidated Revenue Fund are authorized and accounted for with good internal control and consistent process across departments.

### **7.6.1 Definitions**

- a) “public officer” means a public officer within the meaning of the *Financial Administration Act*;
- b) “refund” means a payment of money by a department where the money has been received or collected under a mistake as to the entitlement of the department to receive or collect it, or as a deposit to ensure the doing of anything where the purpose of the deposit has been fulfilled, and includes bail, a deposit for the performance of a contract, security for the sale, loan, lease or other use of an asset, and the provision of services by the department.



### **7.6.2 Approval Authority**

1. Subject to the provisions of this Directive, a Deputy Minister is authorized to make refunds.
2. A Deputy Minister may delegate the authority to make refunds in writing to a public officer or to a person who is authorized to receive or collect money on behalf of the department.
3. A public officer or a person to whom a Deputy Minister has delegated authority to make refunds shall not redelegate such authority.

### **7.6.3 Directives**

1. A refund shall not exceed the amount of money originally received or collected for the purpose for which it was collected or received.
2. A receipt shall be obtained from the recipient of every refund in cash.
3. No interest shall be paid on a refund unless specifically provided for in an Act, in a Directive of the Management Board, or in the contract or agreement pursuant to which the refund is made.



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**Accounting and Control of Assets and Liabilities**

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## **8.1 INTRODUCTION**

The purpose of this chapter is to provide guidance in accounting for specific assets and liabilities grouped under the following categories. These represent the basic categories into which the statement of financial position of the Government is divided:

**Financial assets** are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations.

Financial assets consist of the following main categories:

- a) Cash, cash equivalents and temporary investments include the sum of all bank accounts, cash on hand and temporary investments.
- b) Accounts receivable and due from Government of Canada are amounts expected to be received within one fiscal year.
- c) Loans receivable and portfolio investments are amounts receivable beyond one fiscal year.
- d) Advances to Corporations owned by the government.
- e) Land inventory consists of land held for sale to third parties.

**Liabilities** are financial obligations to outside organizations and individuals as a result of past transactions and events on or before the accounting date. They are the result of contracts, agreements, and legislation in force at the accounting date, that require the government to repay borrowing or to pay for goods and services acquired or provided prior to the accounting date.

Liabilities consist of the following categories:

- f) Accounts payable, accrued liabilities and due to Government of Canada represent amounts payable within one fiscal year.
- g) Unearned revenues represent funding or fees received in advance of required performance.
- h) Long-term debt represents the government's borrowings that have repayment periods over one year.
- i) Environmental liabilities consist of estimated costs related to the remediation of contaminated sites that government has remediation responsibility.
- j) Asset retirement obligations liabilities are the estimated costs of future asset retirement activities that Government has obligations to perform.
- k) Post-employment benefits are benefits earned by the government employees, which are expected to be provided after employment but before retirement. These benefits include severance benefits, unused vacation leaves and portion of sick leave paid out.
- l) Retirement Benefits include retirees extended health and life insurance benefits.
- m) Liabilities for leased tangible capital assets.



## **8.1 (CONTINUED)**

**Net financial assets (net debt)** is calculated as the difference between financial assets and liabilities.

n) Net financial assets is reported when the government's financial assets exceed its liabilities. Net debt is reported when the government's liabilities exceed financial assets.

**Non-financial assets** are acquired, constructed or developed assets that do not normally provide resources to discharge existing liabilities, but instead: are normally employed to deliver government services; may be consumed in the normal course of operations; and are not for sale in the normal course of operations.

Non-financial assets include:

- o) Inventories of supplies that are held in stock for later issue to departmental programs.
- p) Tangible capital assets, which represent all the physical assets owned by the Government as defined on 8.7.1 a).
- q) Prepaid expenses.

**Accumulated surplus (deficit)** is calculated as the difference between assets and liabilities. These figures are indicators that can be used to determine whether a government's financial position improved or deteriorated.

- r) Accumulated surplus represents the cumulative excess of revenues over expenses, or excess of assets over liabilities. Accumulated deficit represents the cumulative excess of expenses over revenues or excess of liabilities over assets.



## **8.2 CASH AND TEMPORARY INVESTMENTS**

### **General**

The cash management, banking and investment functions of the Government of the Yukon are centralized within the Department of Finance.

A central cash management system provides information for:

- fiscal planning,
- budget preparation,
- investment policy,
- current financial operations, and
- debt planning.

Under the *Financial Administration Act*, the Deputy Minister of Finance is responsible for the management and control of the revenues and disbursements of the Government of the Yukon. The various branches of the Department of Finance are responsible for ensuring that these responsibilities are met. These central functions gather, co-ordinate and analyze financial information.

### **8.2.1 Cash**

In accordance with the *Financial Administration Act*, all public money must be deposited to the Government of the Yukon Consolidated Revenue Fund.

All bank accounts must be authorized by the Deputy Minister of Finance. Transfer accounts may be established by the Deputy Minister of Finance for the deposit of public money which is to be held until it is transferred to the Consolidated Revenue Fund. Bank reconciliations must be performed monthly on all bank accounts.

Departments handling cash must ensure that adequate safeguards exist for all cash funds under their supervision. The following must be adhered to:

- Offices in Whitehorse shall deposit funds daily by forwarding cash blotters and funds to the Department of Finance. If this is not operationally possible, all efforts should be made to deposit funds at least every other day. Any monies not involving cash, e.g. credit card slips and cheques, can be mailed to the Department of Finance on a daily basis.
- Offices outside Whitehorse should make deposits to non-chequing bank transfer accounts in accordance with the above schedule.
- All monies held in offices overnight or over weekends must be kept in a safe or locked file cabinet. Keys to these should be kept in the possession of a responsible official and not left in offices or office drawers.



**8.2.1 (Continued)**

Any loss not due to fraud, embezzlement or theft should be dealt with as follows:

1. The employee having custody of the asset must inform his supervisor.
2. The employee having custody of the asset must prepare a report detailing the circumstance of the loss and attach a cheque requisition for reimbursement if the loss involves cash.

If the loss is of a minor nature (under \$5.00 and is part of a continuing cash over/under situation) then the report may be held until the total loss accumulates to \$25.00 or 3 months has elapsed, whichever is sooner.

3. The report and cheque requisition must be forwarded to the attention of the Deputy Minister of Finance. The cheque requisition must include the required signing authorities charging the department's appropriation.

Subsection 69(1) of the *Financial Administration Act* states:

"Where public money is lost or is not collected through the misconduct, neglect of duty or negligence of a person responsible for handling public money, the person is liable for the money and it may be recovered from them as a debt due to the government."

Cash shortages must not be offset by cash overages. Cash overages should be coded to program revenue.

**8.2.2 Loss of Cash or Other Assets**

This section provides guidance where there has been a loss of cash or other assets.

Any loss due to fraud, embezzlement or theft should be dealt with as follows:

1. The RCMP should be notified by the appropriate Deputy Minister if a break-in is involved. Nothing in the area should be disturbed until the RCMP have completed their initial investigation.
2. The Deputy Minister of Finance must be notified as the department will assist in determining the amount of loss and how to account for it.
3. The department must prepare a report and forward it along with a cheque requisition or journal voucher to the Deputy Minister of Finance. The cheque requisition or journal voucher must include the required signing authority charging the department's appropriation.



## **8.2.3 Accountable Advances**

### **8.2.3.0 General**

#### Authority

On June 18, 2015, Management Board revoked MBD #7/84 “Advances Directive” and replaced it with subsections 8.2.3.0 to 8.2.3.3 of this manual (MBM #15-16-03). The directives outlined in subsections 8.2.3.0 to 8.2.3.3 are issued pursuant to section 27 of the *Financial Administration Act*, and can be revised only with the approval of the Management Board.

Subsections 8.2.3.0 to 8.2.3.3 of this manual may be referred to as the Advances Directive.

#### Effective Date

June 18, 2015

#### Application

This Directive applies to every accountable advance from the Consolidated Revenue Fund.

#### Objective

The objective of this Directive is to provide direction to public officers on obtaining or issuing accountable advances for the purpose of paying necessary expenses that could reasonably be expected to be incurred while the person is engaged in government business.

### **8.2.3.1 Definitions**

- a) “accountable advance” means money paid to a person for any purpose authorized by an Act for which that person undertakes to repay or provide an accounting and includes a float, a petty cash advance, a standing advance, and a travel advance, but does not include advance payments pursuant to a transfer payment agreement or contract;
- b) “corporations” means the Yukon Housing Corporation, the Yukon Liquor Corporation, and the Yukon Development Corporation;
- c) “float” means an accountable advance held in cash to make change;
- d) “petty cash advance” means an accountable advance held in cash for expenditures on behalf of the government;



**8.2.3.1 (Continued)**

- e) “standing advance” means an accountable advance paid to a person who is required to incur expenditures on a continuing basis for any purpose authorized by an Act and to whom reimbursement to the full amount of the advance is made each time the expenditures made from the advance are accounted for and approved; and
- f) “travel advance” means an accountable advance made to a person who is required to incur expenditures for travel on government business in accordance with the Travel Directive.

**8.2.3.2 Approval Authority**

1. The Minister responsible for the Department of Finance may approve a petty cash, cash float, or a standing advance not exceeding \$5,000.
2. The Deputy Minister of the Department of Finance may approve a petty cash, cash float, or a standing advance not exceeding \$3,000.
3. Every advance in excess of the limits above shall be approved by the Management Board.
4. The Deputy Minister of Department of Finance may delegate authority to approve an accountable advance to a public officer in the Department of Finance. A public officer authorized by the Deputy Minister of Department of Finance to approve an accountable advance shall not re-delegate such authority.
5. The directives in this subsection do not apply to the corporations.

**8.2.3.3 Directives**

1. A travel advance shall be issued and accounted for in accordance with the Travel Directive issued by the Management Board.
2. No accountable advance shall be issued in cash.
3. The amount of each advance shall be kept to a minimum, making allowance for a reasonable time to obtain reimbursement of expenditures.
4. Advances which are no longer required shall be refunded to the Department of Finance.
5. Except as provided for in Item #1, every person to whom an accountable advance has been issued shall account for it in such a manner as the Deputy Minister of the Department of Finance may determine.



**8.2.3.3 (Continued)**

6. Every person to whom an accountable advance has been issued shall refund the advance in full if it is lost, stolen, destroyed or cannot be accounted for.
7. No expenditure from a petty cash advance shall exceed \$100.00 for any one purchase.
8. No cheque shall be cashed with money from a petty cash advance.
9. Any accountable advance issued by the corporations shall be in accordance with this Directive and their respective Acts. Items #4 and #5 in this subsection do not apply to the corporations.

**8.2.3.4 Procedures**

The procedures outlined in subsection 8.2.3.4 of this manual are issued by the Deputy Minister of the Department of Finance under the authority of the *Financial Administration Act* Section 7. The purpose of these procedures is to help departments interpret and comply with the Advances Directive (8.2.3.0 to 8.2.3.3 above).

Any changes to this subsection, therefore, require approval of the Deputy Minister of the Department of Finance.

**1. General**

Departments may requisition accountable advances from the Consolidated Revenue Fund. Public officers on obtaining proper authorization from a department may requisition accountable advances for the purpose of paying travelling and other necessary expenses that could reasonably be expected to be incurred while the person is engaged in public business.

The legislative authority for providing accountable advances is found in Section 27 of the *Financial Administration Act*.

There are four types of accountable advances available to employees. They are float, petty cash, travel, and standing advance.

This section does not cover advances under transfer payment agreements or contracts. These advances, coded as such until accounted for, are specific to the agreement or contract.

**2. Floats**

Normally only one float should be applied for in respect of one location.

Deputy Ministers are responsible for assessing the need for determining the amount of any particular float.



#### **8.2.3.4 (Continued)**

Special safekeeping devices must be used when floats are held on hand within a department. The float is issued to an individual who is responsible for the proper handling of the cash. The amount of cash on hand must equal the total float at all times.

##### Accounting and Control of Floats

The departmental finance officer should ensure that proper financial controls exist for floats. Such controls include:

- Designation of a cash fund custodian that is a public officer who does not have payment authority under Section 30 of the *Financial Administration Act*.
- Formal reconciliation of the fund monthly.
- Management review to ensure that the custodian does not cash cheques or accept I.O.U.'s of any kind out of the fund.
- Management review and approval of fund reconciliations and cash counts.
- Unannounced cash counts.
- Procedures that ensure that miscellaneous cash receipts are not to be added to the fund, but are deposited to the Consolidated Revenue Fund.
- Management review of the advance to ensure that it meets the needs of the branch or department and has been used only as intended.
- The transfer of responsibility for floats should be processed using the Petty Cash/Float Transfer form.

##### Procedures for Obtaining Floats

When a department determines that a float fund is necessary for its operations the following action should be taken:

- Prepare a cheque requisition naming the responsible individual for the float and the amount required.
- Support the cheque requisition with suitable explanation as to the need and intended uses of the fund, including an indication of the appropriate Deputy Minister's approval.
- Submit the cheque requisition and supporting documentation to the Deputy Minister of Finance or his/her delegate for review and approval.

##### Periodic Verification

The departmental financial or administrative officer, or someone on their behalf, shall conduct a periodic unannounced count of the float to determine the proper use of the funds, to ensure they are adequately protected against loss or misuse and are properly accounted for. This periodic verification should be carried out at least once each quarter.

Other periodic counts of floats may also be made by the Internal Auditor or Department of Finance staff at the discretion of the Deputy Minister of Finance.

The custodian of a float will certify possession of the advance as required by the Department of Finance.



**8.2.3.4 (Continued)**

**3. Petty Cash Advances**

Normally, all disbursements of public funds are made by cheque or direct deposits. However, there are instances where minor expenditures can be more expeditiously made from petty cash. Deputy Ministers are responsible for assessing the need for and determining the amount of petty cash advances.

The amount of a petty cash account should not be in excess of the sum necessary to finance the contemplated expenditures for a five-week period, taking into consideration the reimbursement cycle.

Petty cash will be held by the individual to whom the advance is issued.

Accounting and Control of Petty Cash

The custodian of petty cash shall:

- Be a permanent full-time employee of the Government of the Yukon.
- Not be an employee to whom payment authority has been delegated under Section 30 of the *Financial Administration Act*.
- Not be an employee whose duties include the receipt and deposit of money or handling of accounts receivable.
- Not cash cheques or accept I.O.U.'s of any kind out of the fund.
- Be responsible for operating the petty cash account and ensure that a petty cash voucher is completed for each purchase. The voucher should state the purpose of the expenditure, the date the amount paid and have the signature of the person receiving the money when appropriate.
- Ensure that the petty cash box always contains cash and/or vouchers totaling the exact amount of the fund.
- Ensure the proper custody, control and safekeeping of the petty cash fund.
- Petty Cash advances should be used only for purchases which do not exceed \$100.00.
- Effective February 4, 2013, the Government of Canada is phasing out the penny. After that date, when a cash purchase is made, businesses will round up or down to the nearest five cents where pennies are not available. If a difference originates due to the rounding used by a retailer, the department will code the difference to a departmental O&M expense code with Object 0220.



**8.2.3.4 (Continued)**

Deputy Ministers should apply the following criteria in assessing the need for, and the amount and control of, petty cash advances:

- Petty cash expenditures generally should be made for those items where it is not practical to pay by cheque or acquisition card.
- Subject to maximum limitations, the petty cash fund should be sufficient such that replenishment will be required no more frequently than every three weeks.
- Petty cash funds should not be deposited in banks.
- Petty Cash advances should not be used for regular purchases for which suppliers normally submit invoices.
- Petty Cash funds should not be used for making personal loans to employees or for cashing cheques.
- The transfer of responsibility for petty cash should be processed using the Petty Cash/Float Transfer form.
- All vouchers submitted in support of a request for reimbursement should be cancelled in a manner that will preclude any possibility of their reuse.
- Where extensive coding is required, a sheet should be attached showing the coding and expenditure distribution.

Periodic Verification

The departmental financial or administrative officer, or someone on their behalf, shall conduct a periodic unannounced count of the petty cash advance to determine the proper use of the funds, to ensure they are adequately protected against loss or misuse and are properly accounted for. This periodic verification should be carried out at least once each quarter.

Other periodic counts of petty cash advances may also be made by the Internal Auditor or Department of Finance staff at the discretion of the Deputy Minister of Finance.

The custodian of petty cash will ensure that all vouchers are submitted for reimbursement at fiscal year-end, and will certify possession of the advance as required by the Department of Finance.

The petty cash and any vouchers should be safeguarded in a lockable cash box which should be kept in a secure locking filing cabinet or safe.



**8.2.3.4 (Continued)**

Procedures for Obtaining Petty Cash Fund

When a department determines that a petty cash fund is necessary for its operations, the following action should be taken:

- Prepare a cheque requisition naming the individual responsibility for the fund and the amount required.
- Support the cheque requisition with suitable explanation as to the need and intended uses of the fund, including an indication of the appropriate Deputy Minister's approval.
- Submit the cheque requisition and supporting documentation to the Deputy Minister of Finance for review and approval.

Replenishment

Receipts must be obtained for all items purchased and should show the details of the purchase.

When replenishment of the fund is required, the department will submit a cheque requisition, in the amount of the expenditures and supported by the applicable receipts.

**4. Travel Advances**

Application for this type of advance may be made when the employee requires funds for a specific trip.

For employees with standing advances, a travel advance will not be issued unless the estimated expenses for the trip exceed the amount of the standing advance. In this case the amount of the travel advance should be the difference between the estimated travel expenses and the amount of the standing advances. If it is necessary to apply frequently for travel advances for this purpose, it would be advantageous to apply instead for an increased standing advance.

Advances issued to employees are not to be used for purposes other than travel expenses.

Procedures for Obtaining a Travel Advance

An employee may obtain a travel advance by completion of a Travel Authorization and Claim form and obtaining the approval of an appropriate signing authority.

After approval by the appropriate authority the advance can be processed.



#### **8.2.3.4 (Continued)**

##### Accounting for a Travel Advance

The holder of a travel advance is required to submit a claim to cover their expenses within the time constraints outlined in the Travel Directive.

As stated in the Directive, within 10 days after completion of the trip, a travel expense account should be submitted together with a personal cheque made payable to the Government of the Yukon for the amount, if any, by which the advance exceeds the actual expense.

Individuals holding travel advances are required to comply with the year-end instruction issued by the Department of Finance.

#### **5. Standing Advances**

Departments may apply for a standing advance when funds are required for government purposes and it is not practical for payments to be made through the normal cheque issue system. Standing advances are made to individual public employees. The funds must be reimbursed through the regular payment system.

Generally, the amount of a standing travel advance should not exceed the average requirement for five weeks' expenditures.

##### Procedures for Obtaining a Standing Advance

An employee may apply for a standing advance by formal request to their Deputy Minister. The request must be in writing and must set out the following information:

- The purpose of the advance and a brief explanation as to why temporary advances would not suffice.
- An indication as to the volume of expenditures to be processed through the account on a five-week basis.
- The amount of the advance requested.
- The full name, position, and exact business address of the prospective custodian of the advance.

If the Deputy Minister supports the request for a standing advance they will so indicate and forward the request, together with the necessary cheque requisition, to the Deputy Minister of Finance.

Changes to the amount of a standing advance (i.e. an increase or decrease) must be applied for and routed in the same manner as the original request.



**8.2.3.4 (Continued)**

Accounting and Control of Standing Advances

The custodian of standing advances must:

- Be a permanent full-time employee of the Government of the Yukon as defined by the Public Service Commission.
- Not be an employee to whom payment authority has been delegated under Section 30 of the *Financial Administration Act*.
- Not be an employee whose duties include the receipt and deposit of money or handling of accounts receivable.

Departments must maintain adequate records and implement appropriate procedures to achieve control over standing advances. They should ensure that:

- Advances cover expenses incurred only while performing government business.
- The advance is recovered immediately when an employee is no longer eligible or terminates.
- Those holding advances are advised periodically of the balances owing.

Departments may achieve these controls by conforming to the following requirements:

- Applications for standing advances should be made well in advance of the date the funds are required.
- A record of advances should be kept on employee personnel files.
- Long-outstanding advances should be reviewed and followed up periodically.
- Procedures should exist to reassess the need for each standing advance. Review of reimbursements to employees with standing advances would accomplish this requirement. If the frequency and amount of the reimbursement of standing advances are small, the employee should be requested to repay the advance or the advance should be reduced.
- All employees holding an advance should be requested to sign an acknowledgement of indebtedness form at the end of the fiscal year.
- Periodic reports should be provided to the Deputy Minister with respect to existing standing advances in the department.

The most common type of standing advances is those for travel purposes.

An employee granted a standing advance for travel purposes is expected to submit travel expense accounts within 10 days of completing the trip as outlined in the Travel Directive. This accounting serves to restore the standing advance to its original amount.

The custodian of a standing advance will certify possession of the advance as required by the Department of Finance.



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### **8.3 ACCOUNTS RECEIVABLE**

The Department of Finance ensures that accounts receivable are properly recorded and collected. This responsibility is carried out by assisting departments in meeting this objective.

The Department of Finance is responsible for:

1. Monitoring all receivables.
2. Ensuring that adequate collection procedures and systems are implemented.
3. Providing assistance in collecting delinquent accounts.

Departments are responsible for:

1. Claiming and collecting revenues for the government.
2. Ensuring that established procedures are followed.
3. Ensuring that claims for all goods supplied and services rendered are issued promptly and forwarded to the Department of Finance for input into the Financial Management Information System.

When a department is having difficulty collecting a receivable or becomes aware that a debtor has commenced bankruptcy proceedings, the collection efforts of the Department of Finance should be utilized.

#### **Charging of Interest on Accounts Receivable**

##### **Definition**

“account” means any invoice, statement, voucher or other document claiming payment that is lawfully due and payable to the government.

Where payment of an account has not been received by the Government of Yukon within thirty days of the date of the account, interest shall be added to the account.

The interest added to an account shall be calculated at the current Bank of Canada rate.

Interest shall be credited to accounts receivable interest revenue.

No interest shall be added if the total of all accounts from a specific client is \$100 or less.

No interest shall be charged on a debt obligation that is past-due from a municipality, a provincial government or the Government of Canada.

Interest charges apply to overdue repayments on loans.

The debtor shall be advised of all interest charges to an account by separate invoice or monthly statement.



## **8.4 LOANS RECEIVABLE**

Loans are a special category of receivable and require records and procedures that are similar to those used for normal accounts receivable.

Loans include any money owed to the Government of the Yukon that is evidenced by a promissory note. The authority to disburse funds for this purpose must be established by legislation.

When a government department is responsible for controlling loans made directly to third parties it should ensure that:

- Adequate records are maintained detailing the borrower, repayment terms, interest rate, amount and other information as may be required.

Any collateral is adequately insured.

Loans are made according to the terms of the applicable legislation or regulations authorizing such loans.

Procedures exist to collect overdue amounts.

All payments are deposited in the Consolidated Revenue Fund.



## **8.5 LAND HELD FOR SALE**

In order for an asset held for sale to be recognized as a financial asset, all of the following criteria must be met:

- (a) the government has been committed to selling the asset;
- (b) the asset is in a condition to be sold;
- (c) the asset is publicly seen to be for sale;
- (d) there is an active market for the asset;
- (e) there is a plan in place for selling the asset; and
- (f) it is reasonably anticipated that the sale to a purchaser external to the government will be completed within one year of the reporting date.

The plan in place for selling the asset must identify all significant actions to be taken to sell the asset. Actions required by the plan will begin as soon as possible after the commitment to sell is made.

The Yukon Government holds land inventories for sale to third parties. Land held for sale comprises the costs of acquiring, planning and developing serviced lots. As it meets all the criteria above, land inventories for sale are accounted for as a financial asset.

The accounting and control procedures for land held for sale are basically the same as for regular expenditures. Additional procedures are required, however, to account for and control the continuing cost of the inventory.

Departments responsible for land inventories for sale should have sub-systems that integrate with the main accounting system. This integration includes the establishment of a control account to which the detailed records are balanced. All entries in subsidiary systems are recorded, in total, in central control accounts. The operation of a control account provides independent control over the detailed inventory records and serves to ensure that assets are not disposed of, or written off, without appropriate authority.

Land inventory for sale must be periodically reviewed to see if it continues to meet the criteria outlined above. If any part of the inventory no longer satisfies all of the criteria, the department should consider removing or writing down the value of the inventory.



## **8.6 INVENTORIES OF SUPPLIES**

Inventories of supplies are paid materials that are held for consumption in the government's normal course of operations. Therefore, they are classified as non-financial assets.

Accounting controls must be established over inventories of materials to provide independent control of these subsidiary systems and to provide information about the level of materials on hand.

The accounting and control procedures for the purchase of inventory materials are basically the same as for regular expenditures. Additional techniques are required, however, to account and control for the continuing cost of inventories until they have been consumed or disposed.

The objectives of inventory control are:

- To minimize the investment in inventories and associated warehousing and other costs while maintaining sufficient inventory to support operations.
- To minimize losses from damage, obsolescence, perishability, theft or misuse.
- To ensure efficient and effective control over inventory issues, receipts and storage.
- To ensure that the most economical purchasing practices are followed.
- To supply accurate and timely data for accounting and management purposes and to facilitate the forecasting of inventory requirements.

Departments responsible for inventories should have systems to ensure that all physical assets are in safe custody to protect against loss through theft or misuse. Internal control will be strengthened if the duties of inventory custodians are segregated from the record-keeping function. Departmental inventory record-keeping systems should be integrated with the main accounting system. This integration includes the establishment of a control account to which the detailed records are balanced. The operation of a control account provides independent control over the detailed inventory records and serves to ensure that assets are not disposed of, or written off, without appropriate authority.

All entries in subsidiary systems are recorded, in total, in central control accounts.

All inventory should be accounted for using the perpetual method.

Subsidiary records should be reconciled monthly with the control account.

The cost of purchases (excluding freight) will be charged against the appropriate account and stock issues will be:

- Priced by the moving-average method (in which the cost of the goods on hand before invoicing plus the cost of the goods on the invoice is divided by the total number of items).
- Charged to user departments by the moving average method.
- Credited to the appropriate inventory account.



**8.6 (Continued)**

All entries in the perpetual inventory system are recorded in the Financial Management Information System and the two systems should be reconciled monthly. These entries include the costs of all goods receipted and issued, quantity shortages or overages identified through physical stock counts and deletions of obsolete, damaged or excess stocks.

There is a need to perform physical counts to prove there have been no serious lapses in either physical custody or accounting controls.

Physical counts should be performed, summarized and verified with inventory records by persons who are independent of the inventory custodians. Departmental financial officers should participate directly in the planning, performance and review of physical counts to ensure independence in the physical count and valuation of inventories. Details on year-end stock taking procedures are issued annually by the Department of Finance as part of the Year-End Instructions. Departments and agencies are obliged to follow these instructions.

Adjustments to inventory for shortages or overages must identify the type of discrepancy as:

- Physical count differences.
- Dollar valuation differences.

Shortages shall be charged to an appropriation and overages credited to a revenue account.

Departmental Program Managers

Responsibilities of departmental program managers include ensuring:

- That inventories are maintained and accounted for as prescribed in regulations and directives.
- That adequate physical control over inventories is provided to protect against loss, theft, damage and misuse.
- That maximum working capital (revolving fund/inventory levels) set by legislation are not exceeded.
- That inventories and associated costs are minimized.
- That inventories are maintained at the appropriate levels required to support departmental operations.
- That inventory accounting practices and procedures are as prescribed by the Deputy Minister of Finance



**8.6 (Continued)**

Departmental Finance Officers

Departmental financial officers should ensure:

- That the requirements for accounting, financial and physical control over inventories are communicated to all operational managers having custody of inventories, or other personnel affected by these requirements.
- That consistently prepared, reliable and timely cost information relative to the operation of inventories is provided when preparing budget estimates and financial reports.

Finance officers should also participate directly in the planning, performance and review of physical counts to ensure validity in the determination of quantities, physical condition and value of inventories.



## **8.7 TANGIBLE CAPITAL ASSETS**

### **8.7.0 Objective and Application**

#### Authority

Subsections 8.7.0 to 8.7.2 of this manual were approved by the Management Board on January 23, 2004 by MBM#04-03-05 and amended on March 7, 2012 by MBD#12-05-01 and on November 30, 2022 by MBM#22-036-03, and can be further amended only with the approval of Management Board

This policy may be referred to as the Tangible Capital Assets Accounting Policy.

#### Objective

The objective of this policy is to ensure that tangible capital assets of the Government are accounted for and reported in accordance with the Public Sector Accounting Board recommendations.

#### Application

This policy applies to all departments. It does not apply to the Yukon Housing Corporation, the Yukon Liquor Corporation, the Yukon Development Corporation or the Workers' Safety and Compensation Board.

#### Effective Date

Original Policy - April 1, 2004

Amendment – April 1, 2012

Amendment – April 1, 2022

Approval History

January 23, 2004 (MBM#04-03-05)

March 7, 2012 (MBD#12-05-01)

November 30, 2022 (MBD#22-036-03)

### **8.7.1. Definitions**

- a) "Tangible capital assets" are physical assets that are acquired, constructed or developed and:
  - i) are held for use in the production or supply of goods and services;
  - ii) have useful lives extending beyond one fiscal year and are intended to be used on a continuing basis; and
  - iii) are not intended for sale in the ordinary course of operations.



**8.7.1. (Continued)**

Tangible capital assets include such diverse items as land, buildings, vehicles, equipment, computer hardware and software, roads, bridges, airstrips, leasehold improvements, assets acquired by capital leases or through devolution and includes any applicable asset retirement obligation assets..

Tangible capital assets do not include:

- i) assets acquired by Right, such as Crown lands, forests, water and mineral resources;
- ii) work of arts and historical treasures or heritage assets; or
- iii) feasibility studies.

**Other definitions**

- b) "Accretion expense" relates to the expense recognized when there is an increase to the asset retirement obligation liability due to the passage of time. This expense is recognized when a liability is measured at its present value and adjusted for the passage of time using a discount rate at the financial reporting date.
- c) "Asset retirement activities" relate to all activities both at retirement and at post-retirement necessary to retire an asset. These may include decommissioning or dismantling a tangible capital asset, remediation of contamination from normal use of a tangible capital asset, and post-retirement monitoring. These activities also include the construction or acquisition of other tangible capital assets for the sole purpose of using them for the retirement of an asset.
- d) "Asset retirement cost" is the estimated monetary amount of all required asset retirement activities. Asset retirement costs are a necessary and integral part of owning and operating the related capital asset. These costs increase the carrying amount of the related tangible capital asset
- e) "Asset retirement obligation" is a legal obligation to perform asset retirement activities.
- f) "Asset retirement obligation asset" is the recognized value of estimated cost of the asset retirement activities related to a tangible capital asset. It increases the assets' recorded value.
- g) "Asset retirement obligation liability" is the recognized liability for the estimated value of the cost of the future asset retirement activities as adjusted on an annual basis.
- h) "Betterment" is a cost incurred to enhance the service potential of a tangible capital asset. Service potential is enhanced when there is an increase in the previously assessed physical output or service capacity, where associated operating costs are lowered, the useful life is extended, or the quality of the output is improved. Replacements or maintenance and repairs that maintain the pre-determined service potential of a tangible capital asset for a given useful life are not considered to be betterments.



**8.7.1. (Continued)**

- i) "Contributed assets" are tangible capital assets that have been transferred from Canada or other third parties at a nominal or no cost to the Government.
- j) "Capital lease" is a lease that, from the point of view of the Government as lessee, transfers substantially all the benefits and risks incident to ownership of property to the Government.
- k) "Cost" is the amount of consideration given up to acquire, construct, develop or better a tangible capital asset, and includes all costs directly attributable to acquisition, construction, development, or betterment of the tangible capital asset, including installing the asset at the location and in the condition necessary for its intended use.
- l) "Cost-shared assets" are tangible capital assets for which the Government has received some funding to offset the cost.
- m) "Disposals" of tangible capital assets may occur by sale, destruction, loss or abandonment.
- n) "Economic benefit or future economic benefit" refers to benefits embodied in assets that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide cash inflows or to reduce cash outflows that allow the Government to achieve its objectives of providing public goods and services.
- o) "Fair value" is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.
- p) "Net book value" of a tangible capital asset is its original cost, less both accumulated amortization and the amount of any write-down. If applicable, net book value also includes asset retirement obligation cost less related accumulated amortization.
- q) "Nominal value" is an amount deemed to be financially inconsequential based on a professional opinion.
- r) "Productive use" means the tangible capital asset is held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance, or repair of other tangible capital assets.
- s) "Promissory estoppel" is the principle that a promise made without the exchange of consideration may nonetheless be enforced to prevent injustice if the promiser should have reasonably expected the promisee to rely on the promise and the promisee did actually rely on the promise to their detriment.



**8.7.1. (Continued)**

- t) "Retirement of a tangible capital asset" is the permanent removal of the asset from service. This could involve the sale, abandonment, or disposal in some other manner of the asset but not its temporary idling.
- u) "Residual value" is the estimated net realizable value of a tangible capital asset at the end of its useful life to the Government.
- v) "Useful life" is the estimate of the period over which a tangible capital asset is expected to provide economic benefit to the Government. The life of a tangible capital asset may extend beyond its useful life.. The useful life of a tangible capital asset, other than land, is finite. "Useful life" may also be referred to as "economic life".
- w) "Work-in-progress" consists of costs related to construction or development of a tangible capital asset that is not yet in productive use.
- x) "Write-down" is the reduction of the cost of a tangible capital asset to reflect the decline in the asset's value, when the value of the future economic benefits associated with a tangible capital asset is less than its net book value. It reflects a partial impairment of the value of an asset.
- y) "Write-off" is used to reflect 100 percent impairment in the value of an asset. Tangible capital assets are written-off in instances where they are destroyed, stolen, lost or obsolete. It includes reducing the value of the tangible capital asset and related accumulated amortization to nil.



**8.7.2. Policy**

- |  | <u>Reference</u> |
|--|------------------|
| 1. The Government shall capitalize tangible capital assets that are above the thresholds as set by the Deputy Minister of the Department of Finance.   | 8.7.3.1          |
| 2. Tangible capital assets should be recorded at cost.<br><br>The cost of a contributed tangible capital asset that was transferred from Canada or another third party is considered to be equal to its fair value at the date of transfer. An equal value of revenue must be recognized for the contributed asset.<br><br>Cost-shared tangible capital assets are to be recorded at gross costs. Revenue will be recognized as the Government expends funding in accordance with the terms and conditions of the contribution agreement.  | 8.7.3.2          |
| 3. The Government will amortize a tangible capital asset with a limited life over its useful life using the straight-line method.<br><br>The amortization expense must be reported in the Government's Statement of Operations.  | 8.7.3.3          |
| 4. Inter-departmental transfers of tangible capital assets must be recorded at net book value. The receiving department must record the asset at its original cost and accumulated amortization and the transferring department must remove the capital asset's original cost and accumulated amortization from its books. Any asset retirement obligations (if applicable) must be included in the transfer. As a result, the transfer will not produce a gain or loss and this accounting treatment will result in no impact at the government-wide level.                             | 8.7.3.5          |
| 5. On disposal of a tangible capital asset, any gain or loss on disposal is recorded as a revenue or expense.  | 8.7.3.6          |
| 6. When conditions indicate that a tangible capital asset no longer contributes to the Government's ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is less than its net book value, the cost of the tangible capital asset must be written down to reflect the decline in the asset's value.<br><br>A write-down shall not be reversed.<br><br>A write-down of a tangible capital asset will be reported as a program expense against departmental vote 4 authority but not as an amortization expense. | 8.7.3.7          |



**8.7.2. (Continued)**

Reference

7. When tangible capital assets are disposed, destroyed, stolen, or lost, they must be written off. This includes reducing the value of the tangible capital asset and related accumulated amortization to nil. 8.7.3.8

Approval to write-off assets must be in accordance with MBD#11/93-Management of Capital Assets and Disposal of Surplus Public Property.

8. A capital lease must be accounted for as an acquisition of a tangible capital asset and an assumption of a long term liability. 8.7.3.9
9. An asset retirement obligation liability must be recognized when, as at the financial reporting date all the following four conditions are met: 8.7.4.1
- i. there is a legal obligation to incur retirement costs related to a tangible capital asset (includes leased assets);
  - ii. the past transaction or event giving rise to the obligation has occurred;
  - iii. it is expected that the Government will have to give up future economic benefits; and
  - iv. a reasonable estimate of the amount (cost) can be made.
10. The Government shall record asset retirement obligation liabilities for tangible capital assets (including leased assets) when the conditions in 8.7.2.9 to recognize the liability have been met, as follows:
- i. When the liability relates to an asset that is in productive use, the recognition of a liability is accompanied by a corresponding increase to the carrying amount of the tangible capital asset to which the obligation relates and amortized over the remaining useful life of the asset.
  - ii. When the liability relates to a tangible capital asset that has been fully amortized but is still in productive use, the cost base of the tangible capital asset is increased. The revised value of the asset should be amortized over its revised remaining useful life.
  - iii. When the liability relates to a tangible capital asset that is not in productive use, the liability should be expensed as a prior year adjustment.



**8.7.2. (Continued)**

Reference

- iv. When the liability relates to an asset not recorded on the Government's tangible capital asset listing, for example heritage assets, the obligation should be expensed in the same financial year the liability is recorded.

11. When the cash flows and timing required to fulfill the asset retirement obligation can be reasonably estimated, a present value technique shall be used to cost the obligation. The liability is discounted to its present value upon initial recognition and adjusted yearly for accretion. 8.7.4.2

12. When there is uncertainty about the amount or timing of cash flows to fulfill the asset retirement obligation, the present value technique may not be used. Any such uncertainty must be disclosed in notes to the financial statements.

13. The carrying value of the liability is adjusted each fiscal year by the accretion expense. Over time, the balance of the liability increases as it approaches its estimated future value.

The Government must recognize the yearly accretion expense on the statement of operations.

If the estimated future value of the liability changes, this change in estimate is captured by an equal change in the value of the asset retirement obligation asset and the asset retirement obligation liability.

14. When the Government will recover some of the asset retirement costs from another party, it must account for the recovery in accordance with section 8.7.4.4 Recoveries. 8.7.4.4

15. At year-end, departments must provide to the Department of Finance the following schedules of information 8.7.3.1

- i. A schedule for each classification of tangible capital asset:
  - opening cost, accumulated amortization and net book value of tangible capital assets;
  - opening value, accumulated amortization and net book value of asset retirement obligation assets;
  - cost of acquisitions, development and betterments of tangible capital assets and related asset retirement obligations during the year if any;
  - cost and accumulated amortization of the tangible capital assets and related asset retirement obligations that were disposed of,



**8.7.2. (Continued)**Reference

retired, written-off or transferred to another department during the year as well as the amounts of proceeds, if any;

- annual amortization expense amounts;
- write-downs, if any;
- write-offs, if any;
- changes in estimate of asset retirement obligation assets, if any;
- closing cost, accumulated amortization and net book value of tangible capital assets; and
- closing value, accumulated amortization and net book value of asset retirement obligation assets.

ii. A schedule for each asset retirement obligation liability: 8.7.4.2

- opening value of the asset retirement obligation liability; 8.7.4.3
- annual accretion expense amounts;
- cost of retirement obligation activities performed;
- impacts of changes in estimates to the asset retirement obligation liability, if any; and
- closing value of the asset retirement obligation liability.

iii. Recoveries related to asset retirement obligation costs, if any. 8.7.4.4

16. Although works of art and historical or heritage assets are not reported as part of tangible capital assets, departments must disclose and report the existence of such property to the Department of Finance. 8.7.3.10

At year-end, departments must provide to the Department of Finance a schedule by asset type showing:

- opening value of works of art and historical or heritage assets;
- acquisitions made during the year;
- disposals made during the year;
- write-downs; and
- closing value of works of art and historical or heritage assets

17. The estimate of the remaining useful life of each individual tangible capital asset must be reviewed on a regular basis and revised when the appropriateness of a change can be clearly demonstrated. 8.7.3.1

At year-end, departments must provide to the Department of Finance a report showing:

- listing of all tangible assets whose remaining useful life has been reviewed; and
- revisions made to remaining useful life, if any.



**8.7.2. (Continued)**

Reference

Department of Finance will assess impact on asset retirement obligations estimates and make adjustments as required to the asset retirement obligation asset, asset retirement obligation liability, amortization and accretion.



### **8.7.3. Guidelines- General Management of Tangible Capital Assets**

Subsection 8.7.3 through 8.7.5 “Guidelines” are issued by the Deputy Minister of the Department of Finance under the authority of the *Financial Administration Act* Section 7. The purpose of these guidelines is to help departments interpret and comply with the Tangible Capital Assets Accounting Policy (8.7.0 to 8.7.2).

Certain tangible capital assets are in complex in that they are actually an integration of multiple tangible capital assets that may not have identical life spans. Where applicable and data is available, complex tangible capital assets should be recorded as the sum of the component assets that comprise the parent asset. For example, a school (parent asset) would be classified as a building asset consisting of several component assets, the foundation, the roof, the HVAC/Mechanical system, the exterior finishes, etc.

As for control and management of capital assets, departments must refer to and follow MBD #11/93 “Management of Capital Assets and Disposal of Surplus Public Property”.

Departments will be required to maintain appropriate supporting documentation to support the decision to capitalize certain expenditures while expensing others. These decisions will be subject to testing by the Office of the Auditor General during its annual financial statement audit or during any value for money audits conducted.

#### **8.7.3.1 Classification and Thresholds**

Departments must follow the classification and thresholds below to report tangible capital assets as well as component assets. For complex tangible capital asset thresholds below should be applied to the sum of the components rather than for each individual component. The estimated useful life of the individual component assets need not be the same as the parent asset.

Departments that wish to use an estimated useful life outside the range that is recommended below must be able to demonstrate the rationale, e.g. a documented opinion from a qualified professional.

In determining the estimated useful life, departments must take into account:

- i. expected future usage;
- ii. effects of technological obsolescence or development;
- iii. expected wear and tear from use or the passage of time;
- iv. the maintenance program;
- v. studies of similar items retired; and
- vi. the condition of existing comparable items.



**8.7.3.1 (Continued)**

<u>Classification</u>	<u>Estimated Useful Life at Acquisition</u>	<u>Threshold</u>
Land	Indefinite	None
Buildings	50 – 100 years	\$50,000
Portable classrooms and housing trailers	10 – 40 years	\$50,000
Leasehold improvements <sup>(a)</sup>	Lease term	\$50,000
Heavy equipment <sup>(b)</sup>	7 – 30 years	\$10,000
Operating equipment <sup>(c)</sup>	5 – 25 years	\$10,000
Vehicles <sup>(d)</sup>	6 – 20 years	\$10,000
Computer Hardware	3 – 7 years	\$10,000
Computer software <sup>(e)</sup>	3 – 20 years	\$100,000
Forestry access roads	5 – 10 years	\$50,000
Resource access roads	life of mine	\$50,000
Transportation infrastructure <sup>(f)</sup>	5 – 75 years	\$100,000
Land improvements and fixtures	5 – 50 years	\$50,000
Landfills	25 – 80 years	None
Sewage and water systems	5 – 50 years	\$50,000
Mobile radio system infrastructure	5 – 20 years	\$100,000
Network Transmission Systems	20 – 40 years	\$100,000

Note: For greater certainty, betterments and replacements have the same classification as the asset to which it relates.



**8.7.3.1 (Continued)**

- (a) In order for a betterment made to a leased property to be categorized as a leasehold improvement, the lessee must directly pay for the betterment. If the expenses are the responsibility of the lessor, then it will not be considered to be a leasehold improvement.
- (b) Includes forklifts, tractors, utility trailers, heavy duty trucks, loaders, graders, fire trucks, ferries, etc.
- (c) Includes tools, workshop equipment, printing equipment, fire equipment, lab/medical equipment, generators, survey equipment, snowmobiles, all-terrain vehicles, boats, storage tanks and containers, office furniture, photocopiers, etc.
- (d) Includes cars, light duty trucks, other passenger moving vehicles, etc.
- (e) Includes software and consulting costs to develop the system to the implementation stage. Useful life to be based on expected usage of the system before overhaul.
- (f) Includes highways, bridges, and airstrips.

**8.7.3.2 Cost**

- a) Departments must clearly identify the method of estimation if the cost of a tangible capital asset is reported at a cost other than its historical cost.
- b) The cost of a tangible capital asset includes the purchase price of the asset and other acquisition costs such as installation costs, design and engineering fees, legal fees, survey costs, site preparation costs, freight charges, transportation insurance costs, and duties, but not feasibility study or training costs (e.g. for systems implementation) to bring a tangible capital asset into productive use. The cost of a constructed asset would normally include direct construction or development costs (such as materials and labour), and overhead costs directly attributable to the construction or development activity.
- c) The cost of each tangible capital asset acquired as part of a single purchase (e.g. the purchase of a building and land for a single amount) is determined by allocating the total price paid to each one on the basis of its relative fair value at the time of acquisition.
- d) When, at the time of acquisition, a portion of the acquired tangible capital asset is not intended for use, its costs and any costs of disposal, net of proceeds, are attributed to that portion of the acquired tangible capital asset which is intended for use. For example, the cost of acquired land that includes a building which will be demolished, is comprised of the cost of the acquired property and the cost of demolishing the building.



**8.7.3.2 (Continued)**

- e) A third party such as the Government of Canada may transfer tangible capital assets at no cost to the Government. The cost of a transferred (contributed) asset is considered equal to its fair value at the date of transfer. Fair value of a contributed tangible capital asset may be estimated using market or appraisal value. In unusual circumstances where an estimate of fair value cannot be made, the tangible capital asset would be recognized at a nominal value. An amount equal to the capitalized amount of a contributed asset should be recorded as revenue in the year of the transfer (contribution).
- f) On many occasions, the Government acquires or develops tangible capital assets on a cost-share basis; e.g. the Government of Canada provides funding towards the cost of a tangible capital asset. The cost of a cost-shared tangible capital asset must be reported on a gross basis. The amount of the funding should be accounted for as revenue in the year any performance obligation is fulfilled.
- g) A capital lease is recorded as an acquisition of a tangible capital asset. The lesser of the present value of the minimum lease payments, excluding the portion relating to operating costs, and the property's fair value at the beginning of the lease is recorded as the cost of the asset.
- h) Costs of betterments are considered to be part of the cost of a tangible capital asset, but should be recorded as a component of the original tangible capital asset they improved.
- i) Estimated cost of an asset retirement obligation is considered to be part of the cost of the tangible capital asset and should be recorded as a component asset of the related asset.

**8.7.3.3 Amortization**

- a) The objective of amortization is to provide a systematic and rational basis for allocating the cost of a tangible capital asset over its useful life. The Government's accounting policy is to use the straight-line method which is to expense the historical cost in equal annual amounts over the useful life of the asset.
- b) In using the straight-line method of amortization expense calculation, departments may disregard any nominal residual value of a tangible capital asset.
- c) Departments must classify tangible capital assets and use the respective estimated useful life range indicated in subsection 8.7.3.1 "Classification and Thresholds".
- d) All assets will be amortized half their annual amortization rate in the year the tangible capital asset is put into productive use. This is regardless of the date within the fiscal year they are put in productive use.



- e) The estimate of the remaining useful life of each tangible capital asset should be reviewed on a regular basis and revised when a need for change can be clearly demonstrated. Events that may indicate a need to revise the estimate of the remaining

**8.7.3.3 (Continued)**

useful life of a tangible capital asset include:

- vii. a change in the extent to which the tangible capital asset is used;
- viii. a change in the manner in which the tangible capital asset is used;
- ix. removal of the tangible capital asset from service for an extended period of time;
- x. physical damage;
- xi. significant technological obsolescence and development;
- xii. a change in the demand for the services provided through use of the tangible capital asset; and
- xiii. a change in the law or environment affecting the period of time over which the tangible capital asset can be used.

All changes shall be applied prospectively (on a go forward basis) on implementation.

**8.7.3.4 Work-in-progress**

- a) A tangible capital asset that is work-in-progress should be disclosed separately. Work-in-progress must not be amortized.
- b) A tangible capital asset is no longer a work-in-progress when the asset comes into productive use, e.g. the building is occupied or the system is put into production, even if construction or development of the asset is not complete.
- c) Asset retirement obligations (if applicable) are recognized when a tangible capital asset comes into productive use.

**8.7.3.5 Inter-departmental Transfers**

- a) Assets transferred to another department will be transferred by way of an inter-departmental journal entry that transfers both the total cost and accumulated amortization of the asset.
- b) Transfer of a surplus asset to Asset Management of Supply Services will be transferred by way of an inter-departmental journal entry that transfers both the total cost and accumulated amortization of the asset.
- c) Transfer must include any asset retirement obligations or other component assets related to the asset transferred.



- d) If the transfer included an asset retirement obligation component asset, then the corresponding asset retirement obligation liability should also be transferred.

#### **8.7.3.6 Disposals**

- a) Disposals of tangible capital assets must be in accordance with MBD#11/93-Management of Capital Assets and Disposal of Surplus Public Property.
- b) On disposal of a tangible capital asset, the cost and accumulated amortization of the asset and any related components must be reduced to zero, and any balance/difference is recorded as a gain or loss on disposal.

#### **8.7.3.7 Write-downs**

- a) A department would write down the cost of a tangible capital asset only when it can demonstrate that the reduction in future economic benefits is expected to be permanent. Conditions that may indicate that the future economic benefits associated with a tangible capital asset have been reduced and a write-down is appropriate include:
- a change in the extent to which the asset is used;
  - a change in the manner in which the asset is used;
  - significant technological development;
  - physical damage;
  - removal of the asset from service;
  - a decline in or cessation of, the need for the services provided by the asset;
  - a decision to halt construction of the asset before it is complete or in usable or saleable condition;
  - a change in the law or environment affecting the extent to which the asset can be used.
- b) The persistence of such conditions over several successive years increases the probability that a write-down is required unless there is persuasive evidence to the contrary. Regardless of any change in circumstances a write-down cannot be reversed.
- c) A write-down expense must be recorded as a program expense, not as an amortization expense.
- d) Write-downs must be reviewed and approved by the Department of Finance prior to being recorded.

#### **8.7.3.8 Write-offs**



**Chapter 8 Accounting and Control of Assets and Liabilities**

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- a) The write-off of a tangible capital asset requires approval per MBD#11/93-Management of Capital Assets and Disposal of Surplus Public Property Clause 13.
- b) Tangible Capital Assets are written-off in instances where they are disposed, destroyed, stolen or lost.

**8.7.3.9 Capital Leases**

- a) A lease is considered to be a capital lease when, under the terms and conditions of the lease, substantially all of the benefits and risks incident to ownership are, in substance, transferred to the Government without necessarily transferring legal ownership.
- b) A lease would normally transfer substantially all of the benefits and risks of ownership to the Government when, at the inception of the lease, one or more of the following conditions are present:
  - (1) There is a reasonable assurance that the Government will obtain ownership of the leased asset by the end of the lease term. Reasonable assurance would be present when the terms of the lease would result in ownership being transferred to the Government by the end of the lease term or when the lease provides for a bargain purchase option.
  - (2) The lease term is of such a duration that the Government will receive substantially all of the economic benefits expected to be derived from the use of the leased asset over its life span. The Government, as a lessee, would normally be expected to receive substantially all of the economic benefits when the lease term is equal to a major portion (usually 75% or more) of the economic life of the leased asset.
  - (3) The lessor would be assured of recovering the investment in the leased asset and of earning a return on the investment as a result of the lease agreement. This condition would exist if the present value, at the beginning of the lease term, of the minimum lease payments, excluding any operating costs (e.g. insurance, maintenance costs, property taxes, etc.), is equal to substantially all (usually 90% or more) of the fair value of the leased asset, at the inception of the lease.
- c) A capital lease must be accounted for as an acquisition of an asset and an assumption of a liability.

The asset value and the amount of the liability recorded at the beginning of the lease term, would be the present value of the minimum lease payments, excluding the portion relating to operating costs. The amount relating to operating costs included in the minimum lease payments would be estimated if not known to the Government. The discount rate used in determining the present value of minimum lease payments would be the lower of the Government's rate for incremental borrowing and the interest rate implicit in the lease, if practicable to determine. In any event, the value recorded for the asset and liability may not exceed the leased asset's fair value.



- d) The capitalized value of a depreciable asset under a capital lease would be amortized over the period of expected use (i.e. lease term), on a basis that is consistent with this policy for other similar capital assets. If the lease contains terms that allow ownership to pass to the Government or a bargain purchase option, the period of amortization would be the estimated useful life of the asset.

#### **8.7.3.9 (continued)**

- e) Where a lease agreement requires asset retirement activities to be performed at the end of the lease, an asset retirement obligation must be recognized as set out in 8.7.4.1.
- f) Lease payments would be allocated to a reduction of the liability, interest expense and any related operating costs.
- g) In order to distinguish between tangible capital assets that the Government owns and those that the Government only has the right to use, assets leased under capital leases shall be disclosed separately.

#### **8.7.3.10 Works of art and historical treasures or heritage assets**

Works of arts, historical treasures or heritage assets are property that have cultural, aesthetic or historical value that is worth preserving perpetually. These assets would not be recorded as tangible capital assets in the financial statements as a reasonable estimate of the future benefits associated with such property cannot be made. However, a disclosure is made in the notes to the financial statements of their existence.

- (1) Costs for acquisition, restoration and maintenance of these assets should be expensed when incurred.
- (2) Renovations to historical treasures or heritage assets to allow for modern use of the asset (i.e. heritage building is renovated for use as office space) that are beyond restorative work, should be evaluated in the same manner as a betterment. Such renovations may give rise to a tangible capital asset.



### **8.7.4 Guidelines - Asset Retirement Obligations**

Asset retirement obligation guidelines supplement the Tangible Capital Assets policy and provide further guidance regarding the treatment of retirement obligations under Public Sector Accounting Standard PS 3280. These guidelines apply to all productive, unproductive, owned, controlled, leased, unamortized, and fully amortized tangible capital assets with an asset retirement obligation. No guideline can be all inclusive and professional judgment must be exercised in applying these guidelines to each circumstance.

#### **8.7.4.1 Recognition**

An asset retirement obligation liability must be recognized when, as at the financial reporting date all the following four conditions are met:

1. there is a legal obligation to incur retirement costs related to a tangible capital asset (includes leased assets);
2. the past transaction or event giving rise to the obligation has occurred;
3. it is expected that the Government will have to give up future economic benefits; and
4. a reasonable estimate of the amount (cost) can be made.

A legal obligation establishes a clear duty or responsibility to another party that justifies recognition of a liability. An obligation can result from

1. agreements or contracts;
2. legislation of another government;
3. government's own legislation; and
4. a promise made to another party that could be legally enforced.

Events that create an asset retirement obligation are typically:

1. the acquisition, construction, development of a tangible capital asset (e.g. the Government acquires an X-ray machine or a building containing asbestos, the obligation to retire it in a prescribed manner results from its acquisition);
2. the normal use of the tangible capital asset (e.g. the Government opens a landfill, the obligation to complete closure and post closure activities under the environmental approval is activated when the site starts operating or accepting waste);
3. contractual obligations that require the Government to undertake retirement activities to terminate a lease or contract. (e.g. remove buildings on leased land, or renovate a building to a certain standard, as a condition of terminating the lease); or
4. promissory estoppel that requires the Government to perform retirement activities on tangible capital assets that belong to the Government or third parties.



**8.7.4.1 (Continued)**

If the contract, agreement, promissory estoppel or legislation that creates the obligation comes into existence at a date after the acquisition of a tangible capital asset, then the event that results in a liability is the creation of the contract, agreement, promissory estoppel or legislation.

Asset retirement activities may include, but are not limited to:

- i. decommissioning or dismantling of the tangible capital asset.
- ii. disposal or remediation of hazardous materials or contamination occurring from normal use of the tangible capital asset.
- iii. post retirement activities, such as monitoring, included in the disposal and remediation process
- iv. cost to acquire, construct or develop other tangible capital asset required to complete post-retirement activities

NOTE: Only costs related to obligated retirement activities are to be included in the calculation of the asset retirement obligation. For example, when a building is demolished, only the demolition costs for the removal of hazardous materials are eligible asset retirement costs.

The following are not considered asset retirement costs:

- i. **Acquisition:** Original costs to acquire, construct or develop the related tangible capital asset.
- ii. **Replacement:** Costs relating to routine replacement of tangible capital assets. For example, infrastructure such as roads and bridges are normally not permanently removed from service, rather they are replaced at the end of their useful life.
- iii. **Maintenance:** Costs relating to routine maintenance of tangible capital assets. These costs shall be expensed as incurred.
- iv. **Remediation of contamination:** Remediation of contamination that is not related from normal use of the tangible capital assets, for instance unexpected contaminations from spills. Contamination that is beyond the threshold set by environmental regulations is accounted for in accordance with 8.9.2 Environmental Liabilities.
- v. **Catastrophic events:** Costs resulting from catastrophic events such as flooding or fires.
- vi. **Repurposing:** Costs relating to the preparation of a tangible capital asset for an alternate use.
- vii. **Clean-up and by-products:** Costs related to clean-up of waste or by-products produced by the tangible capital asset's normal use. These costs represent routine operations and are not associated with the retirement of the asset.
- viii. **Improper use:** Costs caused by improper use of an asset.
- ix. **Sale or disposal:** Costs that only arise from a voluntary plan to sell or dispose of a tangible capital asset.



### **8.7.4.2 Measurement**

- a) The estimate of the asset retirement obligation must include all costs that are associated directly with the retirement activities as best estimated at the financial reporting date. The estimated costs should reflect all costs directly attributable to the retirement requirements outlined in the underlying contract, agreement, promissory estoppel or legislation. These costs may include but are not limited to:
  - i. materials and equipment
  - ii. payroll and benefits
  - iii. directly attributable overhead costs
  - iv. legal and professional fees
  - v. post-retirement operation, maintenance, and monitoring of landfills
  - vi. cost of new tangible capital assets acquired solely for asset retirement activities. For example, as part of retiring a landfill, new water monitoring wells might be constructed.
- b) Sources of cost information to estimate the asset retirement obligation may include:
  - i. third party proposals and quotes for performing the activities required;
  - ii. external quotes and market data on costs of similar activities;
  - iii. historical costing information on similar activities completed by the Government for other tangible capital assets.
- c) When the cash flows and timing required to fulfill the retirement obligation can be reasonably estimated, a present value technique shall be used to quantify the obligation. The liability is discounted to its present value upon initial recognition and adjusted yearly for accretion expense.
- d) When there is uncertainty about the amount or timing of cash flows to settle the retirement obligation, the present value technique may not be used. Uncertainties about timing or amount to settle an asset retirement obligation does not remove the obligation but will affect its measurement. Any such uncertainty must be disclosed in the notes to the financial statements.

### **8.7.4.3 Re-measurement**

- a) The estimate of the asset retirement obligation should be based on the best available information on the financial reporting date.
- b) Over time, as new information becomes available, estimates used to calculate the asset retirement obligation are likely to change. Estimates (including the amount and timing of retirement costs and, if applicable, the discount rate used) should be reviewed every fiscal year and appropriately reflected in the financial statements.



## 8.7.4.3 (Continued)

- c) The table below presents how estimates used to calculate the asset retirement obligation asset and liability (for a tangible capital asset in productive use) may change and the associated accounting treatment.

Reason for Change	Impact	Accounting Treatment
<b>Change due to passage of time</b>	Asset retirement obligation liability is revised each fiscal year to account for the passage of time and adjust the present value of the liability to account for the future cash out flows occurring sooner.	Record the increase in liability as an accretion expense in the fiscal year the adjustment relates to. DR: Accretion expense CR: Asset retirement obligation liability

*Example:*

- *At the beginning of the fiscal year an asset retirement obligation liability is recognized at a present value of \$1,000, at a discount rate of 10%. At the end of the fiscal year the accretion expense is recognized at 10%, resulting in a \$100 increase in the liability.*

**Material change to the tangible capital asset or related retirement activities due to:**

<b>Revised remaining useful life of the related asset</b>	Revisions to timing of retirement activities will impact the retirement obligation asset in addition to the asset retirement obligation liability.	Statement of Financial Position: Adjust the cost base of the underlying tangible capital asset and the asset retirement obligation liability in the fiscal year of revision.
<b>New information about the cost of retirement activities</b>	Revisions to the amount of the original estimate of undiscounted cash flows will impact the retirement obligation asset in addition to the asset retirement obligation liability	Statement of financial operations: Reflect change in amortization and accretion expense prospectively. (fiscal year following revision)
<b>Change in discount rate</b>	Revisions to the discount rate will impact the asset retirement obligation asset in addition to the asset retirement obligation liability	

*Examples:*

- *If the useful life of a tangible capital asset that has an asset retirement obligation is extended, this would defer the cost of asset retirement obligation further into the future.*
- *New environmentally cleaner parts become available that reduce the Government's future asset retirement costs.*
- *The Government's applicable discount rate changes resulting in a change to the present value of the Government's future obligations.*



**8.7.4.3 (Continued)**

- d) When a tangible capital asset is no longer in productive use, all subsequent changes in the estimate of the related asset retirement obligation liability should be recognized as an expense in the fiscal year the estimate is changed.
- e) The liability for an asset retirement obligation continues to be recognized until it is settled or otherwise extinguished.
- f) On retirement of a tangible capital asset;
  - i. asset retirement costs should be deducted from the asset retirement obligation liability as the related cash flows are incurred.
    - If the actual cash flows are higher than the asset retirement obligation liability recognized by the Government, the excess cash flows should be expensed in the period incurred.
    - If the actual cash flows are less than the asset retirement obligation liability recognized by the Government, the excess liability should be offset by a prior year recovery.

**8.7.4.4 Recoveries**

- a) If a portion of the asset retirement costs are recoverable by the Government from another party, the recovery must be accounted for. The amount recovered will be accounted for as revenue in the fiscal year it is received.
- b) A recovery related to asset retirement obligation liability should be recognized when:
  - i. the recovery can be appropriately measured;
  - ii. a reasonable estimate of the amount can be made; and
  - iii. it is expected that future economic benefits will be obtained.
- c) A recovery shall not be netted against the liability.
- d) The sale of an asset on retirement may qualify as a recovery if the criteria in 8.7.4.4 b) are met, however a plan to sell an asset in the future would not be sufficient to confirm that future economic benefits will be received or result in a reasonable measurement of the recovery.



**8.7.5. Interpretation Guidelines**

Interpretation guidelines supplement the Tangible Capital Asset policy and provide further guidance on various topics. No guideline can be all inclusive and professional judgment must be exercised in applying these guidelines to each circumstance.

**8.7.5.1 Interpretation Guideline # 1 – Classification of Landscaping and Other Costs**

The following is a guideline for the classification of certain building construction related costs:

Cost Type	Asset Category	Rationale
Land for government use transferred via cost journal entry from Community Services	Land	Equivalent of purchasing serviced lots from third party
Site preparation	Building	Eligible construction cost
Utility connection	Building	Eligible construction cost
Landscaping such as: Paving sidewalks and parking area Parking area lights Planting trees and grasses  • If it is done at the same time as the building construction, • If it is done subsequent to the building construction as a separate project, or if it makes sense to capitalize as a different asset category with its own useful life.	Building  Land Improvement	Component asset of the building asset  Separate asset with its own estimated useful life
Architectural and engineering fees	100% to Building	Eligible construction cost
Project management	100% to Building	Eligible construction cost



**8.7.5.2. Interpretation Guideline # 2 – Betterment vs. Replacement vs. Maintenance**

**Betterment** - The cost incurred to enhance the service potential of a tangible capital asset is a betterment. Service potential is enhanced if one of the following occurs:

- there is an increase in the previously assessed physical output or service capacity;
- associated operating costs are lowered;
- the original useful life is extended; or,
- the quality of output is improved.

Betterments are treated as tangible capital assets and amortized accordingly.

**Replacement** - This is a substitution of a component of the asset with one of similar quality. Replacements are treated as ordinary operating expenditures, unless the component being replaced was initially capitalized.

Betterments and replacements include additions to a tangible capital asset or a substitution of a component part of a tangible capital asset. The distinguishing feature between a betterment and a replacement is that a betterment is a substitution with a better quality component for the one currently used. A replacement on the other hand, is a substitution with a similar component.

**Maintenance and Repairs** - The cost incurred in the maintenance of the service potential of a tangible capital asset is a repair, not a betterment.

Ordinary repairs are expenditures made to maintain assets in operating condition; they are charged to an expense account in the period in which they are incurred. Replacement of minor parts, lubricating and adjusting of equipment, repainting and cleaning are examples of the type of maintenance charges that occur regularly and are treated as ordinary operating expenses.

**General Discussion:**

A number of factors must be considered when determining if an expenditure meets the criteria to be set up as a tangible capital asset.

**Betterments**

An expenditure that meets the definition of a betterment but does not extend the original useful life of the tangible capital asset must also meet the threshold of the related class to be set up as a tangible capital asset. Therefore there may be situations where betterments are not capitalized due to the low dollar value of the expenditure. Betterments should be recorded as a component of the tangible capital asset they improve.



**8.7.5.2. (Continued)**

Replacements

When the components method is used to record complex tangible capital assets, a replacement of a component should be capitalized and amortized over the remaining useful life of an asset.

Some replacements that were not recorded as components of complex tangible capital assets may still qualify as new component asset rather than being expensed. Those replacements that meet the criteria of being a betterment should be recorded as a betterment.

For example, a major roof replacement near the end of the useful life of a building enables the building to be used for a number of years past its originally estimated useful life. This replacement may be of similar quality to the old roof but would meet the definition of a betterment based on the criteria. At the same time, the useful life of the building should be evaluated and revised. On the other hand, if a major roof replacement is done only to maintain the initially estimated useful life of the building, these expenditures will not qualify as a betterment. Therefore, it is important to review the expenditure in relation to the criteria to determine if it should be capitalized.

Maintenance and Repairs

In order for tangible capital assets to reach their estimated useful life, periodic maintenance is required over the life of the asset. The “normal” maintenance schedule of an asset may require maintenance every month or year, whereas others may require maintenance every five years or a combination of both. For some assets, this maintenance may be quite extensive and expensive but it would not qualify as a betterment due to the nature of the work performed.



**8.7.5.3 Interpretation Guideline # 3 – Landfills**

A solid waste landfill site is a defined area of land or excavation that receives waste that may include household waste, commercial solid waste, non-hazardous sludge, and industrial solid waste.

Solid waste landfills typically have an associated retirement obligation. A landfill operator must agree to perform certain retirement activities and post-retirement monitoring before being approved to operate.

Certain activities are required before a landfill site opens, during its operating life, when it stops accepting waste, and after its closure. The Government is required to establish an asset retirement obligation asset and liability only for the closure and post-closure care activities.

Closure activities include all activities related to closing the landfill site once it can no longer accept waste. These may include:

- (a) final cover and vegetation; and
- (b) constructing facilities for:
  - (i) drainage control features;
  - (ii) leachate monitoring;
  - (iii) water quality monitoring; and
  - (iv) monitoring and recovery of gas.

Post-closure care activities include all activities related to monitoring the site once it is closed and closure activities completed. These may include:

- (a) acquisition of additional land for buffer zones;
- (b) treatment and monitoring of leachate;
- (c) monitoring ground water and surface water;
- (d) gas monitoring and recovery; and
- (e) on-going maintenance of various control systems, drainage systems, and final cover.

Yukon's *Environment Act – Solid Waste Regulations* specifies requirements for closure and abandonment of landfill sites.

When the obligation for closure and post-closure care activities are first assumed (typically when the landfill site is opened to receive waste), an asset retirement obligation liability must be recognized on the financial statements along with an increase to the landfill tangible capital asset.

Subsequently, the liability, asset, and associated changes to them are accounted for as described in the general asset retirement obligations guidelines. The Government must recognize the full asset retirement obligation liability upon acquisition, construction, development, or normal use of the asset, when the four conditions under 8.7.2.9 are met. Typically, the asset retirement obligation liability is recognized when the site starts accepting waste.

The asset retirement obligation asset will be amortized using straight-line method.

At least once every three years a comprehensive review of the landfill capacity should be



**8.7.5.3 (Continued)**

completed to determine if the useful life of the landfill requires revisions based on total capacity and utilization rates. Treatment of revisions should be in accordance with section 8.7.4.3 (c)

Closure and post-closure care activity(s) expenditures should be deducted from the reported liability when they are made. Treatment of the expenditures should be in accordance with section 8.7.4.3(f).



## **8.8 DISPOSITION OF PUBLIC REAL PROPERTY DIRECTIVE**

### **8.8.0 Policy Statement**

#### Authority

On July 15, 2016 the Management Board approved the “Disposition of Public Real Property Directive” (MBM#16-14-06). The directive outlined in subsections 8.8.1 to 8.8.8 is issued pursuant to section 41 of the *Financial Administration Act* (FAA) and can be revised only with the approval of the Management Board.

This Directive is referred to as the Disposition of Public Real Property Directive.

#### Effective Date

July 15, 2016

#### Application

The Disposition of Public Real Property Directive applies to all departments and government corporations except where another enactment or regulation contains provisions granting them authority over public real property.

Leases for leasing government space in Signature Buildings shall be issued in accordance with GAM Policy 2.21 “Signature Building Leasing”.

#### Objective

The *Financial Administration Act* states that no disposition or loan of public property shall be made to any person without authorization under this or another Act and that the Management Board may issue directives regarding the custody and control of public property, and the sale of public property. The objective of the Disposition of Public Real Property Directive is to set out the policy for assigning custody and control of public property, and to provide instructions regarding the responsibilities associated with those activities.

### **8.8.1 Definitions**

In this Directive

*“building” means a publicly owned structure located on real property constructed for human habitation, storage, or a department program-specific use.*

*“certificate of title” has the same meaning as used in the Land Titles Act.*

*“control” means the right to sell or lease, but does not include the authority to enter into licences of occupation.*



**8.8.1 (continued)**

*“custody” means rights of access, generally including possession and/or occupancy, and day to day administration including authority to enter into licences of occupation.*

*“fair value” means the amount at which that asset could be bought or sold or leased in a current arm’s length transaction between knowledgeable, willing parties who are under no compulsion to act or in the case of real property that is not a tangible capital asset, as outlined in the Territorial Lands (Yukon) Act or Lands Act.*

*“FAM” means the Financial Administration Manual.*

*“GAM” means the General Administration Manual.*

*“improvement” includes any publicly owned structure, supporting infrastructure or other development located on, in or under, public real property.*

*“land inventory” means land that is undeveloped or developed by the Government, and held for eventual sale or disposition. Land held for sale is comprised of the costs of acquiring, planning and developing lots. In any case, land inventory, whether untitled or titled, will not be included in the definition of a tangible capital asset.*

*“licence of occupation” (licence) means an agreement that allows temporary use of real property or a building, including the right to post advertising signage, for a specified period of time but that does not establish a proprietary interest in the real property or building.*

*“MBD” means the Management Board Directive.*

*“real property” means land for which a certificate of title has been issued to the Commissioner, the Government of Yukon, or a government corporation.*

*“tangible capital assets” has the meaning assigned to it within FAM 8.7.1 but in this Directive shall include real property, buildings and improvements that are acquired, constructed or developed and are not intended for sale in the ordinary course of operations.*

*“untitled land” means untitled land administered and controlled pursuant to the Lands Act or the Territorial Lands (Yukon) Act.*

**Terms not listed above shall have the same meaning as defined in the Financial Administration Act (FAA).**



### **8.8.2 Policy**

This Directive establishes how departments may sell, lease or license real property, buildings and improvements under their custody and/or control. GAM Policy 2.8 “Building and Equipment Maintenance”, GAM Policy 2.21 “Signature Building Leasing” or MBD # 11/93 “Management of Capital Assets and Disposal of Surplus Public Property” should be read and consulted when using this Directive.

### **8.8.3 Governance framework**

The Minister of Highways and Public Works shall have control of all real property, buildings or improvements on titled land that are or will become tangible capital assets upon transfer/completion.

The Minister of Highways and Public Works shall have custody of all real property, buildings or improvements on titled land that are or will become tangible capital assets upon transfer/completion, that are primarily office space.

The Minister of Energy, Mines and Resources shall have custody and control of all real property that are not tangible capital assets (e.g. land inventory), including any buildings and improvements located thereon and must sell or lease the real property in the same manner as set out in the Lands Act or Territorial Lands (Yukon) Act.

All Ministers shall have custody of real property, buildings and improvements used by their departments primarily for service or program delivery.

Every Deputy Head shall establish procedures to carry out the custodial duties conferred on that department.

### **8.8.4 Delegation**

In accordance with the Government Organisation Act Section 2.4 (1) a department may, by mutual agreement, delegate elements of custody to another department by way of letter of delegation, which shall be signed by the department’s Minister or delegate who shall be a public officer. The letter shall specify which element(s) of custody is being delegated, the duration of the delegation and termination provisions, and shall be countersigned by the receiving department’s Minister or delegate approving and accepting the delegation.

### **8.8.5 Certificate of title**

Prior to all new buildings or new developments on untitled land, title to that property shall be registered to the Commissioner, except highways, as defined under the Highways Act.



### **8.8.6 Leases**

Departments with control of real property are responsible for the co-ordination and administration of all leases.

#### **8.8.6.1 Leases for real property, buildings and improvements that are tangible capital assets**

Leases shall be at fair value except where approval is obtained to enter into a lease agreement at an amount that is less than fair value.

Management Board approval is required for all leases:

- with a term in excess of 3 years, including renewal terms and/or
- at an amount that is less than fair value

#### **8.8.6.2 Leases for real property, buildings and improvements that are not tangible capital assets**

Leases of real property shall be at the same rates and under the same terms as prescribed in the *Territorial Lands (Yukon) Act* or *Lands Act*.

### **8.8.7 Licenses**

Departments with custody of real property, buildings and improvements are responsible for licences with respect to that property. Each department having custody of real property may set their own policies and procedures for issuing licences. Departments may grant licences at less than fair value.

### **8.8.8 Sale of Real Property, Buildings and Improvements**

All sales of real property, buildings and improvements, not classified as surplus, which are tangible capital assets shall be approved by Management Board. No certificate of title shall be transferred until the purchase price of the real property has been paid in full, and any covenants or conditions have been performed or fulfilled.

Sales of real property that are not tangible capital assets shall be conducted in the manner as prescribed in the *Territorial Lands (Yukon) Act* or *Lands Act*.



## **8.9 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

### **8.9.1 Accounts Payable**

An accounts payable liability arises under any of the following circumstances:

1. The work has been performed.
2. The goods have been received.
3. The service has been rendered.
4. The amount is owing in accordance with a contractual arrangement.

This definition is especially important during year-end cut-off in order to adhere to the accrual method of accounting.

All cheque requisitions for paying invoices should be forwarded to the Department of Finance to ensure that the supplier is paid promptly and to ensure the Financial Management Information System provides current information.

At year-end it is necessary to accrue charges where a liability has occurred, as per the above definition, but for which no invoice has been received. In these circumstances if the amount of the liability is not known an estimate should be accrued.



## **8.9.2 ENVIRONMENTAL LIABILITIES**

### **8.9.2.0 Objective and Application**

#### Authority

This policy was approved by Management Board on February 28, 2007 (MBM # 07-04-04). Amendments were approved by Management Board on November 30, 2022 (MBM#22-036-03), and can be further amended only with the approval of Management Board.

#### Objective

The objective of this policy is to ensure the liabilities associated with the remediation of contaminated sites are properly, consistently, and accurately identified, accounted for, and disclosed in the Government's financial statements in compliance with Public Sector Accounting Standard-PS3260 – Liability for Contaminated Sites.

#### Application

This policy applies to all departments. It does not apply to the Yukon Housing Corporation, the Yukon Liquor Corporation, the Yukon Development Corporation or the Workers' Safety and Compensation Board.

#### Effective Date

Original Policy – February 28, 2007

Amendment – April 1, 2022

#### Approval History

February 28, 2007 (MBM#07-04-04)

November 30, 2022 (MBD#22-036-03)

### **8.9.2.1 Definitions**

- a) "Contaminants"- are any physical, chemical, biological or radiological substances in air, soil, water or sediment that, being not naturally occurring in the environment or, in sufficient concentrations, can adversely affect living organisms.
- b) "Contaminated Site" – as defined under the [\*Environment Act\*](#) (Yukon) or other applicable environmental standard.
- c) "Contamination" – the introduction into air, soil, water or sediment of a chemical, organic, or radioactive material or live organism that exceeds an environmental standard.



**8.9.2.1. (Continued)**

- d) “Environmental Standard”- refers to any guidelines, objectives, criteria or other kinds of limits placed on the presence or discharge of a contaminant into the natural environment. Such limits are generally set out in the form of an Act, regulation, by-law, order, permit, contract, or agreement.

**8.9.2.2 Policy**

1. Environmental liabilities consist of estimated costs related to the remediation of contaminated sites. An environmental liability of the Government is accrued and an expense recorded when all of the following conditions are met:
  - (a) the contamination occurs or when the Government becomes aware of the contamination;
  - (b) the Government is obligated to incur such costs either directly or accepts responsibility; and
  - (c) the costs of the remediation can be reasonably estimated.
2. Environmental liabilities recorded by the Government are an unfunded liability that discloses the government’s obligation to appropriate funds in the future to remediate contaminated sites.
3. Estimated costs for the remediation of a contaminated site shall be determined by following the steps described in subsection 8.9.2.3 “Guidelines”.
4. If the likelihood of the Government’s obligation to incur remediation costs is not determinable or if an amount cannot be reasonably estimated, a contingent liability is disclosed in the notes to the Government’s financial statements.
5. The Government shall budget and account for the cost of remediating contaminated sites centrally through the Department of Environment. The Department of Environment cannot reallocate funding appropriated for the remediation of contaminated sites without approval by Management Board.
6. There shall be an inter-departmental Yukon Government Contaminated Sites Committee that, at a minimum, consists of representatives from the Departments of Environment, Highways and Public Works, Community Services, and Finance. The purpose of the Committee is to provide input into identifying sites that are possibly contaminated, to determine the priority of site investigation, assessment and remediation work, to review cost estimates and budget projections, to advise on the recording of expenses and liabilities, and to advise on other matters that relate to the Government’s environmental liabilities. The representative from the Department of Environment shall chair the Committee and the Department of Environment shall provide secretariat services.



**8.9.2.2. (Continued)**

7. In consultation with the Yukon Government Contaminated Sites Committee, the Department of Environment shall submit to Management Board for approval an annual plan of proposed remedial activities for each fiscal year no later than January 31 of the immediately preceding fiscal year. The Department of Environment shall not exceed the cash flows approved by Management Board for the remediation work in any given fiscal year.
8. The following expenses are excluded from the corporate environmental liabilities. They are by their nature repairs and maintenance or ongoing business expenses. These expenses shall be borne by the custodial department.
  - a) costs of cleaning up new spills and leaks
  - b) costs associated with decommissioning or replacing fuel tanks
9. At year-end the Department of Environment shall provide to the Department of Finance a schedule showing
  - opening value of the estimated environmental liability for each site;
  - cost of remediation activities performed;
  - revisions to estimates of remediation costs; and
  - closing value of the estimated environmental liability for each site

**8.9.2.3 Guidelines**

The following guidelines are issued by the Deputy Minister of the Department of Finance pursuant to Section 7 of the *Financial Administration Act*.

Environmental liabilities for contaminated sites are identified, recorded, and disclosed based on the accounting standards and guidelines contained in the Public Sector Accounting Standard PS3260 – Liability for Contaminated Sites.

Government's responsibility for remediation may result from:

1. Legal obligations resulting from agreements or contracts; legislation of another government; or the Government's own legislation.
2. Government is directly responsible for remediation:
  - i. Because of its own past activities that, even though they may have been consistent with the environmental requirements at the time, have caused contamination (for example operation of transportation works yards); and
  - ii. When activities such as mining or exploration occurred on Government-owned land or on land that the Government has since acquired, and the responsible party cannot be identified, or if identifiable, lacks the means to remediate the damage (for example "inherited" responsibility for abandoned mines on Crown land through bankruptcy proceedings and court decisions).



**8.9.2.3. (Continued)**

3. Government voluntarily assumes responsibility for remediation through its own actions or promises.

**8.9.2.3.1 Identification of Contaminated Sites**

1. A site investigation (Phase 1 Environmental Site Assessment) is carried out in accordance with the requirements of the *Contaminated Sites Regulations* under the *Environment Act* (Yukon) or other applicable environmental standard. The objective of the site investigation is to determine if there are areas of the site where contamination may exist that should be examined further to ascertain if contamination is present.
2. A site assessment (Phase 2 Environmental Site Assessment) is undertaken in accordance with the requirements of the *Contaminated Sites Regulation* under the *Environment Act* (Yukon) or other applicable environmental standard to ascertain the full extent of contamination at a site.
3. Based on the site assessment, a plan of restoration is developed for the contaminated site in accordance with the requirements of the *Contaminated Sites Regulation* under the *Environment Act* (Yukon) or other applicable environmental standard. This plan outlines the alternatives that have been considered to remediate the site, provides detailed information for the selected alternative(s), and estimates costs for the remediation work.

A plan of restoration is developed when the results of a site assessment show that some contaminants are present at levels that require remediation under the applicable environmental standard. The plan of restoration should detail how compliance with the standards will be achieved, list the remedial options considered and the rationale for pursuing or rejecting them, give a timetable for completion of the remedial activities, identify how compliance with the standards will be demonstrated and what, if any, on-going monitoring will be required, and identify what regulatory approvals must be obtained and what consultation will be conducted, where applicable.

**8.9.2.3.2 Remediation costs**

1. When the existence of contamination is confirmed for a given site as a result of a site investigation or through the process of a site assessment, and the Government is obligated to remediate the contamination, the Government shall record a liability and an expense based on a best estimate available at the time of recording. This amount must be adjusted on an on-going basis as more information is obtained.

Depending on the results following either a site investigation or a site assessment, a site can be eliminated from a list of sites with potential liability.

2. The Government's obligation to incur costs for remediation of a contaminated site is determined by various factors. The ownership of the land itself may not necessarily



**8.9.2.3.2 (Continued)**

indicate the Government is obligated to incur those costs. The responsibility to pay for costs that relate to investigation, assessment and/or remediation of a site may be governed by a transfer agreement with the Federal Government such as the Devolution Transfer Agreement. It may also depend upon who is considered to be the Responsible Party pursuant to the applicable environmental standard.

3. The estimate of the liability should include all costs directly attributable to remediation activities. Costs include post-remediation operation, maintenance and monitoring that are an integral part of the remediation plan (restoration plan) for a contaminated site as well as costs of assets acquired as part of remediation activities to the extent those assets have no alternative use. Directly attributable costs may include but are not limited to:
  - i. payroll and benefits:
  - ii. equipment and facilities
  - iii. materials
  - iv. legal and other professional services
4. In reference to Clause 6 of the Policy under 8.9.2.2, the Department of Environment shall use a separate Program or Activity, of the Operations and Maintenance Vote, to budget and account for remediation expenditures. These expenditures for remediation work will be drawn down from the environmental liability account, which has been recorded in accordance with subsection 8.9.2.2 "Policy".

Any other costs, such as personnel costs and site investigation and assessment costs, are not included in this Program or Activity. These costs and associated funding requests are to be processed through another Operations and Maintenance Program or Activity of the Department of Environment.

**8.9.2.3.3 Recoveries**

If a portion of the remediation costs are recoverable by the Government from another party, the recovery must be accounted for. The amount recovered will be accounted for as revenue in the fiscal year it is received. A recovery shall not be netted against the liability.



### **8.9.3 Asset Retirement Obligations Liabilities**

This section provides for recording of Asset Retirement Obligations liabilities. It should be read together with FAM 8.7- Tangible Capital Assets.

- FAM 8.7.1 Definitions
- FAM 8.7.2 Policy
- FAM 8.7.4 Guidelines-Asset Retirement Obligations
- FAM 8.7.5.3 Interpretation Guidelines- #3 Landfills

An asset retirement obligation liability must be recognized when, as at the financial reporting date all the following four conditions are met:

- i. there is a legal obligation to incur retirement costs related to a tangible capital asset (includes leased assets);
- ii. the past transaction or event giving rise to the obligation has occurred;
- iii. it is expected that the Government will have to give up future economic benefits; and
- iv. a reasonable estimate of the amount (cost) can be made.

The carrying value of the liability is adjusted each fiscal year by the accretion expense. Over time, the balance of the liability increases as it approaches its estimated future value.

The Government must recognize the yearly accretion expense on the statement of operations.

Estimates (including the amount and timing of retirement costs and, if applicable, the discount rate used) should be reviewed every fiscal year. Any change in estimate is captured by an equal change in the value of the asset retirement obligation asset and the asset retirement obligation liability.

At year-end, departments must provide to the Department of Finance the following schedule of information:

- Opening value of the Asset Retirement Obligation liability;
- Annual accretion expense amounts;
- Cost of retirement obligation activities performed;
- Impacts of changes in estimates to the Asset Retirement Obligation liability, if any; and
- Closing value of the Asset Retirement Obligation liability.



## **8.10 LONG-TERM DEBT**

### **8.10.1 Long-term Debt**

Long-term debt represents the government's borrowings that have repayment periods over one year. Pursuant to sections 49 to 58 of the *Financial Administration Act*, the Yukon Government cannot borrow any money or issue security without the authority of the *Financial Administration Act* or another Act.

Section 63 of the *Financial Administration Act* requires all the borrowing transactions of the Yukon Government to be reported in the Public Accounts.

### **8.10.2 Capital Lease Obligation**

Departments must account for a leased building or equipment that meets the definition of capital lease (see subsection 8.7.3.9 of this chapter) as a tangible capital asset and a liability.

Such accounting ensures that all types of long-term financing arrangements of the government are reported. When lease payments are made, they would be allocated between repayments of the liability, interest expense and any related operating costs.

Liabilities related to capital lease must be reported on the government's financial statements separately from other long-term liabilities.

### **8.10.3 Loan Guarantees**

Loan guarantees are government's contingent liabilities. A loan guarantee would become a liability of the government if the borrower of the loan defaults.

Similar legislative control as borrowing applies in order for the Yukon Government to issue a loan guarantee. Section 65 of the *Financial Administration Act* prohibits the Government to guarantee a debt or other obligation without the authority of an Act.

The Department of Finance is responsible for:

- Reviewing and approving guarantee proposals.
- Monitoring the status of outstanding guarantees.
- Administering the implementation of guarantees.
- Accumulating information on guarantees for reporting in the Public Accounts.

Guarantees Implemented:

When a guarantee is called, i.e. the third-party borrower has defaulted on its loan, the Government must make a payment from the Consolidated Revenue Fund honoring its guarantee. The implementation of a guarantee will be recorded as an expense. However, depending on the terms of the loan agreement and the guarantee, it could give rise to a financial claim that would be recorded as a receivable.



## **8.11 POST-EMPLOYMENT BENEFITS**

Post-employment benefits are expected to be provided to the Government's employees after employment but before retirement. These benefits include severance benefits and unused vacation leave.

Post-employment benefits are a liability of the Government. The Yukon Government uses an actuarial estimate to determine the amount of the obligation.



## **8.12 ACCUMULATED SURPLUS (DEFICIT)**

The financial position of a government is measured by two indicators. The term “net financial resources (or net debt)” is used to describe the first indicator of a government’s financial position. The second indicator is called “accumulated surplus (or deficit)”, which is the combined amount of a government’s net financial resources (or net debt) and its non-financial assets. Non-financial assets represent unexpired service potential available to be consumed by the government in the future.

(For definitions of financial assets and non-financial assets, please see “8.1 Introduction” of this chapter.)

### **8.12.1 Net Financial Resources (Net Debt)**

Net financial resources or net debt is measured as the difference between a government’s financial assets and liabilities. When a government’s financial resources exceed its liabilities, the difference is called “net financial resources.” When a government’s liabilities exceed its financial resources, the difference is called “net debt”.

Net financial resources would provide a measure of the net financial assets on hand that can provide resources to finance the government’s future operations. Net debt, on the other hand, provides a measure of the future revenues the government requires to pay for past transactions and events. A net debt position represents a “lien” on the ability of the government to apply financial resources and future revenues to provide services.

### **8.12.2 Accumulated Surplus (Deficit)**

Non-financial assets are added to net financial resources (or net debt) to calculate a government’s accumulated surplus or deficit. Non-financial assets are “prepaid service potential”. Reporting a government’s recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of the government’s financial position and future operating requirements.

The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. In contrast, for government, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government.

As non-financial assets such as tangible capital assets provide resources that the government can employ in the future to accomplish its objectives, they form part of the government’s accumulated surplus or deficit.



## **8.13 INDEMNITIES**

### **8.13.1 Policy Statement**

#### Authority

This policy is issued by the Minister of Finance pursuant to section 6(1) of the *Financial Administration Act* (FAA) and pursuant to section 2.4 of the *Government Organization Act* (GOA). It can only be revised with the approval of the Minister of Finance.

#### Effective Date

August 12, 2019.

#### Application

This policy applies to the “government” as defined in the FAA. For greater certainty, it applies to every “department” and to every “government corporation”, as defined in the FAA.

The policy does not apply where another party is granting an indemnity in favour of the government and therefore the government is not assuming the risks.

Indemnities given in an agreement/contract on behalf of the government after the effective date of this policy, and in accordance with this policy, are “permitted indemnities” for the purposes of section 65 of the FAA, and may be renewed without again going through the approval process set out in this policy, provided that both the agreement/contract and the permitted indemnity given in it are renewed on the same terms and conditions.

The policy does not apply to agreements that commit to compensate or hold harmless government personnel or to some agreements to which the government and the Government of Canada are parties, (see FAA s. 65(1)). Agreements including indemnities to which the government and the Government of Canada are parties should be reviewed by the Department of Justice to determine if the indemnities are permitted under FAA s. 65(1).

This policy does not apply to indemnities already authorized by Act or regulation.

Legal advice about indemnifications should be sought as necessary.

#### Objectives

The objectives of this policy are:

- to establish an approval process for indemnities given by government in agreements;
- to support legislation;
- to ensure that the underlying risks associated with indemnities are understood;
- to limit the amount and duration of the risk posed by giving indemnities in agreements to the extent possible; and
- to improve the management and control of indemnities given by government.



### **8.13.2 Definitions**

- a) “incidental” means accompanying but not a major part of a contract or agreement.
- b) “indemnity” means any commitment (including any contingent or conditional commitment):
  - (i) to compensate a person for a loss, or
  - (ii) to hold a person harmless in a legal action.
- c) “material financial risk” means where an indemnity would be expected to negatively affect government’s financial operations, based on an assessment of the associated risks.

### **8.13.3 General Guidance**

Indemnities are fundamentally a contractual means of allocating legal risk.

Section 65 of the FAA prohibits giving indemnities on behalf of the government unless they are “permitted indemnities”.

Where the government gives a “permitted indemnity”, it is agreeing to assume the legal risk of insuring another party against a loss for which it would not necessarily otherwise be liable.

Indemnities given by government should be viewed as exceptional, not routine, clauses in agreements made on behalf of the government. Accordingly, giving permitted indemnities in contracts on behalf of the government should be avoided where possible.

Note that giving an indemnity to compensate somebody for a loss is pointless where the government would, in any event and as a matter of law, be responsible for that loss. However, sometimes doing so is necessary in order to reach agreement.

Departments must establish processes for the review and approval of contracts generally.

Indemnity clauses in contracts must be given specific consideration in the contract review and approval process.

Public officers entering into contracts in accordance with section 23 of the FAA that include an indemnity provision must ensure that the indemnity provision is clearly drafted and that the associated risks have been clearly identified in the contract review and approval process.

Wherever possible, indemnities given under this policy should state the maximum amounts for which government could be liable and a time limit during which the indemnity is in effect.

The maximum financial exposure of the government and the time during which the indemnity is effective are factors that must be considered when evaluating the risk associated with an indemnity.

In many cases, contractors are required to carry insurance for third party claims, for their own property losses, and for defective or negligent work performed by themselves.

Where there is applicable insurance in place, the government should not routinely agree



to give an indemnity to a contractor for more than the amount of any deductible under any applicable insurance.

In some cases, mutual indemnifications between the government and a contractor may be acceptable, particularly in cases where the government has considerable control over the risks being indemnified for by it.

Those factors (insurance and degree of control) must also be considered when evaluating the risk associated with an indemnity.

Legal advice about indemnities and indemnifications should be sought as necessary.

#### **8.13.4 Policy**

The government is often asked to enter into agreements containing an indemnity provision.

It is only lawful for the government to enter into an indemnity if it is a “permitted indemnity”, as defined in section 65 of the FAA.

One way by which Indemnities may become “permitted indemnities” is if the Minister of Finance, or an authorized delegate, concludes, in their discretion, that:

1. the proposed indemnity is in writing;
2. the proposed indemnity meets the prescribed requirements;
3. the proposed indemnity is an incidental part of a written agreement to which the government is a party; and
4. the proposed indemnity does not pose a material financial risk to the government.

In accordance with section 2.4(1) of the GOA, the Minister of Finance hereby delegates the authority to determine if an indemnity poses a material financial risk to the government to:

1. the Deputy Minister of Finance, and
2. to every public officer with signing authority for the purposes of sections 24 and 23 of the FAA, up to the level of deputy heads, provided that:
  - (a) the maximum amount payable under the indemnity is capped at a level no higher than the public officer’s signing authority for the original transaction as evidenced on the signed Forms A and B found in section 5.5.4.5 of the FAM; and
  - (b) all the requirements of this policy have been complied with.

Where an indemnity is capped at an amount no higher than a public officer’s signing authority for the original transaction, then that public officer is also responsible for assessing if the indemnity meets the prescribed requirements, if any, and whether that indemnity is an incidental part of a written agreement to which the government is a party. Legal advice should be obtained as necessary.

Where a proposed indemnity is capped at a level in excess of the signing authority limit of the relevant deputy head for the original transaction, or is indeterminate in value, and



where the authority of the Minister of Finance to determine whether the proposed indemnity poses a material financial risk to the government has not otherwise been delegated to it, then the department or government corporation requesting authority to enter into the proposed agreement containing the indemnity must:

- (a) obtain a written opinion from a lawyer in Legal Services Branch confirming that the indemnity meets the prescribed requirements, if any, and that the indemnity is an incidental part of a written agreement to which the government is a party;
- (b) prepare a risk analysis; and
- (c) forward same to the deputy head of the Department of Finance for consideration.

Following receipt of the materials referred to above, the deputy head of the Department of Finance may, if necessary, ask for clarification and/ or additional information.

The Deputy Minister of Finance will decide whether the indemnity requested should be considered a permitted indemnity or should be referred to the Minister of Finance, including a recommendation.

The Minister of Finance will review the recommendation and decide whether the indemnity requested should be:

- (a) refused; or
- (b) made the subject of a request for a regulation (OIC) approving same as a permitted indemnity.

Where an indemnity is proposed to be the subject of a regulation under section 65(4) of the FAA, the originating department must initially submit the proposed indemnity to the deputy head of the Department of Finance using the process under section 8.13.4, for review as per this policy.

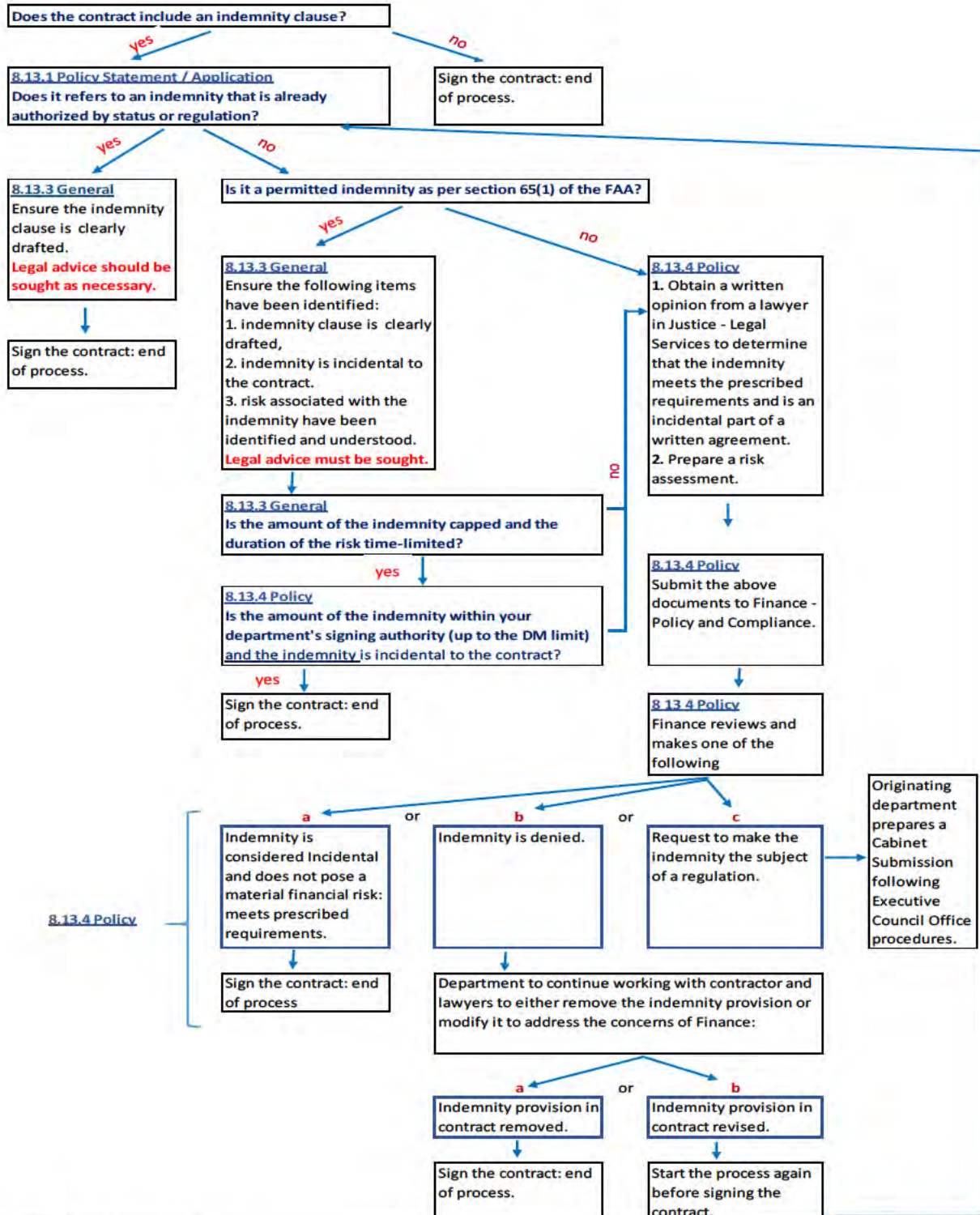
#### **8.13.5 Procedure where the government is, or is likely to become, liable to make payment under a permitted indemnity**

- (a) Appropriate legal advice should be obtained in every case where a demand is made on the government under an indemnity given by, or on behalf of it.
- (b) Every department or government corporation shall give notice in writing to the deputy head of the Department of Finance of every formal demand received for payment under an indemnity given by or on behalf of the government, which notice must include any legal advice obtained in respect of it.
- (c) Every department or government corporation shall give notice in writing to the deputy head of the Department of Finance of every payment made or contemplated in respect of an indemnity given by or on behalf of the government, which notice must include any legal advice obtained in respect of such payment.
- (d) A payment made under an indemnity shall be made from the Consolidated Revenue Fund and shall be paid from the same general ledger code as the contract/agreement obligation to which the indemnity applies.



## Appendix 1: Decision Tree – Indemnity Approval Process

Prior to signing a contract/agreement:





**Chapter 9**  
**Accounting and Control of Funds**

- 9.1 POLICY STATEMENTS**
  - 9.1.1 Authority for Funds
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  - 9.7.4 Deposit Accounts
  - 9.7.5 Other Regulated Funds
  - 9.7.6 Reporting Requirements



## **9.1 POLICY STATEMENTS**

### **9.1.1 Authority for Funds**

Unless specifically provided for in legislation, separate funds should be established only when an operation cannot be adequately accounted for within the general Yukon Consolidated Revenue Fund, and only then with the approval of Management Board.

### **9.1.2 Cash Management**

All funds should be operated within the central collection and payment systems of the Government unless specifically exempted, in writing, by the Deputy Minister of the Department of Finance.

### **9.1.3 Revolving/Reserve Funds**

Revolving/reserve funds accounts should be kept on an accrual basis so that expenditures and revenues can be matched. Financial statements for all revolving/reserve funds should be prepared each accounting period in accordance with generally accepted accounting principles and copies of these statements should be filed with the Deputy Minister of the Department of Finance.

### **9.1.4 Regulated Funds**

Regulated funds should have accounts kept, and financial statements prepared, based on the accrual method so that all assets and liabilities are known and all revenues and expenditures disclosed.



## **9.2 INTRODUCTION**

### **9.2.1 General**

This chapter deals with those funds which are not part of the general consolidated Revenue Fund. Controls outlined in other chapters of this manual also apply to these funds and this chapter therefore is concerned primarily with those practices that are different.

### **9.2.2 Cash Management**

In order to maximize investment revenue all surplus funds should be invested through the central cash management system of the Department of Finance.

Interest earned in this pooling of surplus funds will be considered for allocation to the appropriate funds.



## **9.3 REVOLVING FUNDS CONCEPT**

### **9.3.1 Nature of a Revolving Fund**

A Revolving fund is a continuing and non-lapsing authorization by the Legislative Assembly to make payments out of the Consolidated Revenue Fund for capital acquisitions or asset purchases. It is an authorization to draw on the Consolidated Revenue Fund, not a physical segregation of cash.

A revolving fund's accumulated net expenditures from the Consolidated Revenue fund and the value of any other assets placed at the disposal of the revolving fund less obligations assumed by the fund are not to exceed at any time the amount authorized by the Legislative Assembly. Revolving funds differ from normal appropriations in that

- legislative authority continues from year-to-year until amended, and the authority provides for the spending of fund receipts for the purposes authorized by the legislation.

The financing of a revolving fund's activities is similar to that of a commercial-type enterprise. The fund is financed by advances from the General Revenue Fund. An upper limit to the amount of the advances that may be outstanding at any point in time is specified by statute. Advances are used to buy the goods and services needed to provide the services for which the fund is created. Users are charged for the cost of providing services they receive. Recoveries should be sufficient to cover direct costs, incremental overhead and a provision for depreciation. Any received is deposited in the Consolidated Revenue Fund and applied to reduce the amount advanced to the revolving fund. The balance of the advance at any point in time will be the difference between the total disbursements made on behalf of the revolving fund, and the costs recovered from the beneficiaries of services.

Advances are used for various working capital purposes. There will be no permanent call upon the resources of the government unless the fund does not recover the costs of its services, in which case an appropriation is required to write-off the portion of the advance that is not recovered unless it is carried forward. There is no authority in revolving fund legislation to write-off accounts. Conversely, if the fund recovers more than its cost, this excess is available to finance working capital, unless taken in as general government revenue. The Cabinet, may direct a revolving fund to remit all or a portion of its earnings to general revenue.



**9.3.2 Operation of a Fund**

Revolving funds provide goods or services internal to a government department, other government departments and the general public, or some combination of the above.



## **9.4 PROCEDURES APPLICABLE TO ALL FUNDS**

### **9.4.1 General**

A number of procedures are applicable to all funds. These general procedures ensure that the necessary authority exist for the funds and that the Deputy Minister of Finance is made aware of all funds established. All funds constitute public money and therefore fall under the authority of the Financial Administration Act unless specifically exempt under appropriate legislation.

Departments, agencies, boards and commissions should be aware that the establishment of funds may be in conflict with some other government policy. The nature and conditions specified for the fund may not fall under territorial jurisdiction, or the territory may not have the ability to fulfil the conditions of the fund. Authorities should be carefully examined and clarified before establishing any funds.

Once established, the Legislature makes no further appropriations to these funds. The funds are not subject to normal budgetary controls by the Legislature as payments can only be specified by the relevant authority. The establishment of numerous funds is not in harmony with the concept of annual legislative review. Legislative control over fund revenues and expenditures is not as strong and therefore funds should be established only when normal practices are clearly inappropriate. The following procedures are applicable to all types of funds.

### **9.4.2 Creation of a Fund**

Funds must not be established without Management Board approval and, often, legislative authority. When legislation allows a minister, board, agency or commission to accept funds for specified purposes by gift, will or bequest, notice should be given to the Deputy Minister of Finance who will ensure that appropriate banking, accounting and other financial arrangements are in place to administer the fund.

When legislation does not exist for establishment of a fund, Management Board approval must be obtained before any monies can be accepted.

### **9.4.3 Cash Management**

All funds should be operated within the central collection and payment systems unless exempted by the Deputy Minister of the Department of Finance. If exempt, the procedures and controls described in Chapter 5, Accounting and Control of Expenditures, and Chapter 7, Accounting and Control of Revenue and Accounts Receivable, should be adhered to.



**9.4.4 Audit**

All funds are subject to examination by the Deputy Head of the Department of Finance, Internal Auditor, the Auditor General of Canada and such other authority as may be prescribed by Cabinet.

**9.4.5 Investment**

Where appropriate, surplus money should be invested through the central cash management system of the Department of Finance.



## **9.5 REVOLVING FUNDS**

### **9.5.1 Nature of Revolving Fund**

A revolving fund represents a statutory authority to draw monies from the Consolidated Revenue Fund for the purpose of financing the provision of goods and services to various users.

### **9.5.2 Criteria for Revolving Funds**

Revolving funds are used to finance the provision of certain services. These may be services to departments other than the one providing the service, other branched within the department providing the service, government agencies or, infrequently, the public at large. Each revolving fund requires legislative authority.

Examples of situations when a revolving fund may be appropriate include:

- The financing of large inventories of materials, supplies and equipment, which will subsequently be sold or used in government programs.
- The financing of services such as warehousing and distribution, maintenance and repair or other services where a common need is identified.

### **9.5.3 Record-Keeping Requirements**

Revolving funds are accounted for as separate accounting entities. The accounts should be kept on an accrual basis so that expenditures can be related to revenues and assets made subject to good accounting control.

Departments administering a revolving fund should keep adequate records and implement proper procedures to ensure that:

- Expenditures are made only for goods and services required to accomplish the objectives of the fund,
- Rates charged for services provided are related to the costs of providing them, and
- The statutory limit for the advance from the General Revenue Fund is not exceeded.

To help accomplish these objectives the record-keeping guidelines outlined in Chapter 3 of this manual should be followed. More specifically, revolving funds require:



**9.5.3 (Continued)**

- A general ledger including all asset, liability and operating accounts,
- A detailed accounts receivable subsidiary ledger with financial claims on third parties segregated from financial claims on government departments. these subsidiary ledgers should be reconciled to the general ledger control account at the end of each accounting period,
- An aged accounts receivable trial balance produced monthly from the detailed records for review and follow-up of overdue accounts,
- Detailed inventory records segregating inventory held for sale to third parties and inventories held for government departments. These inventory records should be reconciled to periodic physical counts and, at the end of each accounting period, to the general ledger balance,
- Detailed fixed asset records. These inventory records should be reconciled to periodic physical counts and to the general ledger balance,
- Budgets to control expenditures and determine rates charged.



## **9.6 REPORTING REQUIREMENTS**

### **9.6.1 Public Accounts**

Departments administering a revolving fund are responsible for preparing the following financial statements at the end of each fiscal year:

- Statement of financial position,
- Statement of results of operations,
- Statement of changes in financial position.

These statements must be prepared in accordance with generally-accepted accounting principles applied on a consistent basis and are subject to audit.

### **9.6.2 Estimates of Expenditures**

Advances to a revolving fund are designated as statutory budgetary expenditures and consequently do not require annual approval by the Legislative Assembly, but can be included in the Estimates as an information item.

For a revolving fund, the information for a particular year might include estimates of the following:

- Total revenue,
- Total expenditures, with identification of depreciation expense, disbursements, and acquisition of fixed assets,
- Profit or loss,
- Net cash requirements or surplus,
- Balance of the advance from the General Revenue fund at the beginning and the end of the year.

The estimates of revenue, expenditures and profit or loss should be presented on the accrual basis of accounting. A presentation showing net cash requirements should also be presented in order to arrive at the estimated statutory expenditure which is on a cash basis. The Estimates of Expenditure should also include a summary of person-year authorization.



## **9.7 REGULATED FUNDS**

### **9.7.1 Nature of Regulated Funds**

There are two main categories of regulated funds, i.e. trust funds and special purpose funds. Trust and special purpose funds are distinguished from each other on the basis of the source of contributions to them. If the fund receives money from the public through contribution, will or bequest, it is considered a trust fund. If the money originates from the Legislature through an apportionment of receipts or by annual legislative appropriation, the fund is considered a special purpose fund.

Some regulated funds include both types of receipts. It is difficult to classify these funds under either category because they meet both sets of requirements. In this case, each type of receipt should be accounted for separately as part of the total fund and disclosed separately on reports.

#### **TRUST FUNDS**

There are a number of categories of trust funds:

##### **General Trusts**

These are funds that involve a trust relationship between a settlor, trustee and beneficiary pursuant to legislation, settlement, will or agreement.

##### **Sinking Fund Trust**

These are funds managed by the Deputy Minister of the Department of Finance for the purpose of retiring long-term debt.

##### **Security Deposits**

These are funds held on deposit as security against damage or loss to government property and contract holdbacks to ensure due performance under contract.

##### **Deposit Accounts**

These are cash, securities or other valuables deposited with the Government on behalf of: Patients, inmates or students of Territorial institutions. Examples - Correctional Institute Trust Accounts, Student Trust Accounts, etc.

Individuals or companies who want to make advances so as to obtain credit in connection with fee charges.



**9.7.1 (Continued)**

Individuals or companies who pay estimated charges until such time as the final amount is determined.

**SPECIAL PURPOSE FUNDS**

These are funds which are established by legislation when money is received either by appropriation or an apportionment of receipts. When funds are received by annual appropriation, any part of the appropriated funds not spent by the end of the fiscal year lapses.

**9.7.2 Criteria for Regulated Funds**

The description of regulated funds discussed earlier identifies the sources of monies for establishing such funds. Legislative authority through an Act, or by regulation, or terms and conditions approved by Management Board can establish a fund and specify the purposes for which monies received by the fund can be used. Regulated funds should only be established when there is no practical alternative.

**9.7.3 Record-Keeping and Financial Control**

Regulated funds must be accounted for as separate entities. The nature of the fund will dictate the records required to be maintained for the fund.

**9.7.4 Deposit Accounts**

To ensure proper control over these funds, the records should include a subsidiary ledger and control accounts as required. If the department is required to pay interest on funds deposited, records should be maintained to show the interest accruing to each depositor. Financial controls over these funds should include:

- Monthly reconciliations between the subsidiary ledger and control accounts, and thorough review thereof by the fund administrator,
- Monthly bank reconciliations and approval thereof, if a separate bank account is being used,
- Monthly review by senior management to ensure that all deposits are proper and are subsequently cleared.

**9.7.5 Other Regulated Funds**

Other regulated funds should be accounted for as separate entities and the accounts kept on an accrual basis. Fund administrators are



**9.7.5 (Continued)**

responsible for ensuring that a proper set of records are established to ensure that:

- Accounts are maintained on an accrual basis,
- Proper information can be provided to facilitate legislative or agreement requirements,
- Appropriate reporting requirements can be met,
- Audit evidence necessary to express an opinion on the financial statements can be obtained by the Auditor General.

Records should include:

- General ledger,
- Books of original entry,
- Subsidiary records and ledgers.

In most cases the central financial information system should be used. However, the information supplied by the central system may not always be adequate to fulfill the requirements of the trust. In such cases the fund administrator should ensure that supplementary records are maintained to meet the requirements of the trust or special-purpose fund.

**9.7.6 Reporting Requirements**

The fund administrator is responsible for preparing the appropriate financial statements of the fund for each reporting period. The reporting period is on a fiscal year basis except when specified otherwise by legislation or agreement. These financial statements should include a:

- Statement of financial position,
- Statement of results of operations,
- Statement of changes in financial position.

The financial statements are to be prepared in accordance with the generally-accepted accounting principles applied on a consistent basis and shall be subject to audit.

Depending upon the nature of the trust, administering body, department or agency, the financial information may be presented within the body of other financial statements which are subject to the criteria established above.

When the regulated fund is a security or trust deposit, financial statements may not be an appropriate method of relaying fund information in the Public Accounts. The Deputy Head of the Department of Finance will advise on the types of information needed for presentation in the Public Accounts.



**Chapter 10  
Public Accounts**

- 10.1 INTRODUCTION
- 10.2 PREPARATION



## **10.1 INTRODUCTION**

In accordance with Section 8 of the *Financial Administration Act* the Public Accounts of the Government of the Yukon are prepared by the Deputy Minister of Finance. They must be tabled in the Legislative Assembly on or before October 31 if it is sitting. If the Assembly is not sitting the Accounts must be distributed to members of the Assembly on or before this date.



## **10.2 PREPARATION**

The Public Accounts for each fiscal year are prepared in accordance with section 8 of the *Financial Administration Act* and using accounting policies as established by the Management Board in Management Board Directive #3. Among other things the *Financial Administration Act* requires the following to be included in the

Public Accounts:

- a) statements of assets and liabilities showing the government's financial position at the end of the fiscal year,
- b) statements of the revenues and expenditures of the government showing the results of operations for the year,
- c) statements of changes in financial position of the government for the fiscal year end) statements of payments made from the Consolidated Revenue Fund under Section 19, 58 and paragraph 34(c) of the *Financial Administration Act*,
- d) the Auditor General's report on his examination of the government's accounts and financial transactions and,
- e) such other information as may be necessary to show the financial position of the government. In addition to the above the Public Accounts contain numerous other schedules that serve a variety of information purposes. Prior to release of the Accounts to the Members of the Legislative Assembly and the public, the Management Board must approve their form and content.

At the present time the Public Accounts are prepared on an unconsolidated basis ie. government corporations have their statements included in the final published document as separate entities only and are not reflected in the government's statement of assets and liabilities.

The fiscal year of the Government of the Yukon is the period beginning on the first day of April and ending on the thirty-first day of March the following calendar year. The Auditor General of Canada is the auditor for the Government of the Yukon.

The Deputy Minister of Finance is responsible for the keeping of the official books of account and preparation of the Public Accounts. Prior to the fiscal year-end the Department of Finance issues year-end instructions applicable to the year-end. The purpose of these instructions is to consolidate various year-end financial requirements and to give assistance and guidance to government departments in meeting their year-end obligations. All departments are required to follow these year-end financial instructions and it is especially important that



**10.2 (Continued)**

the due dates set-out therein be met so that accounting schedules will be ready for the auditors when they arrive to conduct the audit. The due dates are also critical to meeting the October 31 deadline for the tabling of the Public Accounts in the Legislature.



**Chapter 11**

**Role of Internal and External Audits**

**11.0 POLICY STATEMENTS**

**11.1 INTRODUCTION**

**11.2 ROLE OF THE AUDITOR GENERAL OF CANADA**

**11.3 ROLE OF INTERNAL AUDIT**



## **11.0 POLICY STATEMENTS**

Audit of the Public Accounts of Yukon is performed by the Auditor General of Canada in accordance with the requirements of the *Yukon Act* (Secs. 34 (1)).

The *Financial Administration Act*, Section 9(1), directs the Commissioner in Executive Council to appoint the Internal Auditor. The Internal Auditor has the authority to audit the records of the Government in relations to all financial matters, including financial management, control and reporting. The Internal Auditor also has the authority to audit the organization, general management and operations of departments and the extent of their compliance with legislation and directives of the Management Board.

The General Administration Manual Policy #1.13 defines scope, roles and responsibilities and process of the internal audit function. Management Board Directive #20 provides direction on the procedure for dealing with responses to external audit reports.



## **11.1 INTRODUCTION**

Audits in the Yukon Government are seen as two distinct functions: internal and external. The external audit is performed by the Auditor General of Canada who is required by the *Yukon Act* to render an opinion on the Public Accounts and also to comment on any other matter within the scope of his examination. With this mandate the audit addresses the reliability of the Government's accounts.

The internal audit function examines systems and procedures and the organization, management and operation of departments.



## **11.2 ROLE OF THE AUDITOR GENERAL OF CANADA**

### *Yukon Act*

Sections 31 to 37 of the *Yukon Act* provides for the preparation, audit and submission to the legislature of the Yukon Public Accounts. Sections 34 to 37 of the *Yukon Act* established the role and power of the Auditor General of Canada as follows:

"34.(1) The Auditor General of Canada shall audit the accounts, including those related to the Yukon Consolidated Revenue Fund, and financial transactions of the Yukon Government in each fiscal year in accordance with auditing standards recommended by the Canadian Institute of Chartered Accountants or its successor and shall express his or her opinion as to whether

- (a) the consolidated financial statements present fairly, in all material respects and in accordance with accounting principles recommended for the public sector by that Institute or its successor, the financial position of the Yukon Government as at the end of the fiscal year and the results of its operations in, and changes in its financial position for, the fiscal year; and
- (b) the transactions of the Yukon Government that have come to the notice of the Auditor General in the course of the audit are within the powers of the Yukon Government under this or any other Act.

(2) The Auditor General shall report to the Legislative Assembly any matter falling within the scope of the audit that, in his or her opinion, should be reported to the Assembly.

35. The Auditor General of Canada may, at any time, inquire into and submit a supplementary report to the Legislative Assembly about any matter relating to the activities of the Yukon Government, including whether

- (a) accounts have not been faithfully and properly maintained or public money has not been fully accounted for or paid, where so required by law, into the Yukon Consolidated Revenue Fund;
- (b) essential records have not been maintained or the rules and procedures applied have been insufficient to safeguard and control public property, to secure an effective check on the assessment, collection and proper allocation of the revenue and to ensure that expenditures have been made only as authorized;
- (c) money has been expended for purposes other than those for which it was appropriated by the Legislature or has been expended without due regard to economy or efficiency; or
- (d) satisfactory procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented.



**11.2 (CONTINUED)**

36. At the request of the Commissioner, made with the consent of the Executive Council, the Auditor General of Canada may, if in his or her opinion it does not interfere with the Auditor General's primary responsibilities, inquire into and report to the Legislative Assembly on

- (a) any matter relating to the financial affairs of the Yukon Government or to public property in Yukon; or
- (b) any person or organization that has received or is seeking financial aid from the Yukon Government.

37.(1) For the purposes of carrying out the Auditor General of Canada's functions under this Act, the Auditor General has all the powers that he or she has under the *Auditor General Act*.

(2) Except as provided by any law made by the Legislature that expressly refers to this subsection, the Auditor General is entitled to free access at all convenient times to information that relates to the fulfillment of his or her responsibilities and is entitled to require and receive from the public services of Yukon any information, reports and explanations that he or she considers necessary for that purpose."



### **11.3 ROLE OF INTERNAL AUDIT**

Please refer to the General Administration Manual, Policy #1.13.





Finance  
Box 2703, Whitehorse, Yukon Y1A 2C6

**DATE:** January 25, 2016

**TO:** All Holders of Financial Administration Manual

**FROM:** Rebecca Edzerza  
Manager  
Department of Finance

**RE: Financial Administration Manual Update #26**

Enclosed are revisions to the Financial Administration Manual.

In updating the manual, please replace existing pages with the enclosed pages that are listed below:

1. Chapter 5
  - Table of Contents
  - 5.2 Accounting Systems
  - 5.3 Accounting Policy
  - 5.5.0 Policy Statement
2. Chapter 7
  - Table of Contents
  - 7.3.8.1 Policy
  - 7.6 Refunds
3. Chapter 8
  - Table of Contents
  - 8.2.3 Accountable Advances

Should you have any questions regarding this update, please contact me by e-mail at [rebecca.edzerza@gov.yk.ca](mailto:rebecca.edzerza@gov.yk.ca) or call 456-6785.

Thank you,

A handwritten signature in black ink, appearing to read "Rebecca Edzerza". The signature is fluid and cursive.

Rebecca Edzerza



**Chapter 5**  
**Accounting and Control of Expenditures**

- 5.1 INTRODUCTION**
- 5.2 ACCOUNTING SYSTEMS**
  - 5.2.1 Policy
  - 5.2.2 Accounting Practices
- 5.3 ACCOUNTING POLICY**
- 5.4 ACCOUNTING CONTROLS**
  - 5.4.1 Overview
  - 5.4.2 Accounting Control Procedures
  - 5.4.3 Commitment Control
- 5.5 SIGNING AUTHORITIES**
  - 5.5.0 Policy Statement
  - 5.5.1 Definitions
  - 5.5.2 Policy
  - 5.5.3 Signing Authorities Limitations
    - 5.5.3.1 Interpretations
    - 5.5.3.2 Exceptions
    - 5.5.3.3 Signing Authorities Limitations Chart
  - 5.5.4 Procedures
    - 5.5.4.1 General
    - 5.5.4.2 Spending Authority
    - 5.5.4.3 Payment Authority
    - 5.5.4.4 Rejection of Requisitions for Payment
    - 5.5.4.5 Delegation Process
    - 5.5.4.6 Signing Authorities Forms
  - 5.5.5 Interpretation Guidelines
    - 5.5.5.1 Equipment Lease Contracts
- 5.6 EXPENDITURE INITIATION**
- 5.7 ACCOUNT VERIFICATION**
  - 5.7.1 General
  - 5.7.2 Responsibility for Account Verification
  - 5.7.3 Account Verification Procedures
  - 5.7.4 Preparation and Verification of Journal Entries
    - 5.7.4.1 Application of Signing Authorities



## **5.2 ACCOUNTING SYSTEMS**

### **5.2.1 Policy**

All accounting systems shall conform to the requirements prescribed by the Department of Finance. The government maintains a centrally-administered accounting system known as the Financial Management Information System. Specialty accounting systems which may operate within departments require prior approval of the Department of Finance to ensure the systems are compatible with the central system and meet government accounting requirements.

### **5.2.2 Accounting Practices**

Departments must utilize the Government accounting and reporting services in processing their financial transactions.

The Financial Management Information System has a database recording all departmental accounting transactions. This database is the basis for Government of Yukon financial statements.

Departmental accounting transactions are recorded using standardized accounting codes. While the accounting code structure is standardized across the government, there is built-in flexibility that allows departments to meet their unique needs. Transactions are further identified by reference codes which may include:

- a) supplier reference codes,
- b) contract and transfer payment agreement numbers,
- c) batch numbers, and
- d) journal entry numbers.

The main cheque issuing centre is within the Department of Finance. Cheque issuance is computerized, although manual cheques are issued on an emergency basis. The use of manual cheques must be limited because they are costly to prepare.

Subsection 28(1) of the *Financial Administration Act* requires every public officer to keep records of commitments for the expenditures chargeable to each vote or fund for which the officer has been assigned responsibility. The objective of this requirement is to ensure departments do not exceed their budgetary appropriation or fund balances by anticipating future expenditures. The Financial Management Information System provides a commitment accounting system to assist departments in tracking and the record keeping of commitments.



### **5.3 ACCOUNTING POLICY**

Section 33 of the *Yukon Act* states the Government of Yukon financial statements must be prepared in accordance with accounting principles recommended for the public sector by the Canadian Institute of Chartered Accountants or its successor. Consequently, the Government's accounting policy follows the standards issued by the Public Sector Accounting Board of the Chartered Public Accountants (CPA) of Canada. These standards are collectively called the CPA Public Sector Accounting Handbook.

The Financial Administration Manual contains various accounting policies that are based on CPA public sector accounting standards but tailored to the Government of Yukon and approved by Management Board.



## **5.5 SIGNING AUTHORITIES**

### **5.5.0 Policy Statement**

#### Authority

On March 13, 2002, the Management Board revoked MBD #6/84 "Signing Authorities" and replaced it with subsections 5.5.0 to 5.5.3 of this manual (MBM#2-08-04). The policy outlined in subsections 5.5.0 to 5.5.3 is issued pursuant to Sections 21, 23, 24, 29, 30 and 31 of the *Financial Administration Act*, and can be revised only with the approval of the Management Board.

This policy is referred to as the Signing Authorities Policy.

#### Effective Date

Original Policy - April 1, 2002

Revisions to 5.5.1 and 5.5.3.3 - March 7, 2012

#### Application

The Signing Authorities Policy applies to all departments except as exempted by Item #8 of subsection 5.5.2.

#### Objective

The *Financial Administration Act* requires certain certifications to be made by appropriate public officers prior to any payments being issued from the consolidated revenue fund. The objective of the Signing Authorities Policy is to set out the policy for assigning financial signing authorities to public officers of the government, and to provide instructions regarding the responsibilities and limits associated with those signing authorities.

### **5.5.1 Definitions**

- a) "Section 23 (contracting) authority" means the signing authority pursuant to Section 23 of the *Financial Administration Act*, and is the authority to enter into a contract on behalf of the government.
- b) "Section 24 (certification prerequisite for contracts) authority" means the signing authority pursuant to Section 24 of the *Financial Administration Act*. It is the authority to certify that:
  - i) every payment out of the consolidated revenue fund contemplated by the contract is in accordance with the *Financial Administration Act* and any other Act; and
  - ii) there is sufficient money in the vote or fund from which the payments are made.

This authority is also referred to as "commitment authority".



**Chapter 7**  
**Accounting and Control of Revenues and Accounts Receivable**  
**(CONTINUED)**

- 7.4 CONTROL OF CASH RECEIPTS**
  - 7.4.1 Cash Handling/Receipt of Cash
  - 7.4.2 Recording of Cash Receipts
  - 7.4.3 Custody of Cash Receipts
  - 7.4.4 Deposit of Cash Receipts
  - 7.4.5 Reconciliation Procedures
  - 7.4.6 Cash Overages/Shortages
  - 7.4.7 Credit/Debit Cards and E-commerce
- 7.5 REPORTING OF REVENUE**
  - 7.5.1 Content of Reports
  - 7.5.2 Use of Reports
  - 7.5.3 Reconciliation of Revenue
  - 7.5.4 Cost-Sharing Programs
- 7.6 REFUNDS**
  - 7.6.1 Definitions
  - 7.6.2 Approval Authority
  - 7.6.3 Directives



**7.3.8 Write-off of Uncollectable Debts****7.3.8.1 Policy**

On May 9, 2007, Management Board revoked MBD # 5/84 “Write-off of Uncollectible Debts” and replaced it with subsection 7.3.8.1 of this manual (MBM#07-11-04). The policy outlined in subsection 7.3.8.1 is issued pursuant to Section 14 of the *Financial Administration Act*, and can be revised only with the approval of Management Board.

This policy is referred to as the Write-off Policy.

1. The following persons are authorized to write off all or part of a debt or obligation that is due or owing to the government up to the amounts specified.
 

Minister of Finance .....	\$2,000
Deputy Minister of Finance .....	\$1,000
Deputy Minister of Community Services .....	\$1,000(a)
Yukon Housing Corporation.....	\$1,000
Yukon Liquor Corporation.....	\$1,000
Yukon Development Corporation.....	\$1,000

(a) Relates to Property Tax Receivable only.
2. Every write-off of all or part of a debt or obligation that is due or owing to the government in excess of the limits listed above shall be approved by Management Board.
3. No debt or obligation that is due or owing to the government shall be written off within one year of the date of the debt or obligation.
4. The write-off of all or part of a debt or obligation to the government does not extinguish the right of the government to collect the debt or obligation written off.
5. This policy does not apply to a remission of any tax, royalty, fee, forfeiture, fine or other sum imposed or authorized to be imposed by any Act.
6. Every debt or obligation written off in accordance with this policy shall be reported in the Public Accounts for the fiscal year in which the account is written off.



## **7.6 REFUNDS**

### **7.6.0 General**

#### Authority

On June 18, 2015, Management Board revoked MBD #4/84 “Refunds Directive” and replaced it with subsection 7.6 of this manual (MBM #15-16-03). The directives outlined in subsection 7.6 are issued pursuant to sections 13(2) and 18(2) of the *Financial Administration Act*, and can be revised only with the approval of the Management Board.

Subsection 7.6 of this manual may be referred to as the Refunds Directive.

#### Effective Date

June 18, 2015

#### Application

This Directive applies to all “departments” as defined in section 1(1) of the *Financial Administration Act*.

#### Objective

The objective of this Directive is to ensure that all refunds from the Consolidated Revenue Fund are authorized and accounted for with good internal control and consistent process across departments.

### **7.6.1 Definitions**

- a) “public officer” means a public officer within the meaning of the *Financial Administration Act*;
- b) “refund” means a payment of money by a department where the money has been received or collected under a mistake as to the entitlement of the department to receive or collect it, or as a deposit to ensure the doing of anything where the purpose of the deposit has been fulfilled, and includes bail, a deposit for the performance of a contract, security for the sale, loan, lease or other use of an asset, and the provision of services by the department.



### **7.6.2 Approval Authority**

1. Subject to the provisions of this Directive, a Deputy Minister is authorized to make refunds.
2. A Deputy Minister may delegate the authority to make refunds in writing to a public officer or to a person who is authorized to receive or collect money on behalf of the department.
3. A public officer or a person to whom a Deputy Minister has delegated authority to make refunds shall not redelegate such authority.

### **7.6.3 Directives**

1. A refund shall not exceed the amount of money originally received or collected for the purpose for which it was collected or received.
2. A receipt shall be obtained from the recipient of every refund in cash.
3. No interest shall be paid on a refund unless specifically provided for in an Act, in a Directive of the Management Board, or in the contract or agreement pursuant to which the refund is made.



**Chapter 8**  
**Accounting and Control of Assets and Liabilities**

- 8.1 INTRODUCTION**
- 8.2 CASH AND TEMPORARY INVESTMENTS**
  - 8.2.1 Cash
  - 8.2.2 Loss of Cash or Other Assets
  - 8.2.3 Accountable Advances
    - 8.2.3.1 Definitions
    - 8.2.3.2 Approval Authority
    - 8.2.3.3 Directives
    - 8.2.3.4 Procedures
- 8.3 ACCOUNTS RECEIVABLE**
- 8.4 LOANS RECEIVABLE**
- 8.5 LAND HELD FOR SALE**
- 8.6 INVENTORIES OF SUPPLIES**
- 8.7 TANGIBLE CAPITAL ASSETS**
  - 8.7.0 Policy Statement
  - 8.7.1 Definitions
  - 8.7.2 Policy
  - 8.7.3 Guidelines
    - 8.7.3.1 Classification and Thresholds
    - 8.7.3.2 Cost
    - 8.7.3.3 Amortization
    - 8.7.3.4 Work-in-progress
    - 8.7.3.5 Inter-departmental Transfers
    - 8.7.3.6 Disposals
    - 8.7.3.7 Write-downs
    - 8.7.3.8 Capital Lease
  - 8.7.4 Interpretation Guidelines
    - 8.7.4.1 #1 – Classification of Landscaping Costs and Other
    - 8.7.4.2 #2 – Maintenance vs. Betterment



**Chapter 8**

**Accounting and Control of Assets and Liabilities (CONTINUED)**

**8.8 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

- 8.8.1 Accounts Payable
- 8.8.2 Environmental Liabilities
  - 8.8.2.1 Policy
  - 8.8.2.2 Guidelines

**8.9 LONG-TERM DEBT**

- 8.9.1 Long-term Debt
- 8.9.2 Capital Lease Obligation
- 8.9.3 Loan Guarantees

**8.10 POST-EMPLOYMENT BENEFITS**

**8.11 ACCUMULATED SURPLUS (DEFICIT)**

- 8.11.1 Net Financial Resources (Net Debt)
- 8.11.2 Accumulated Surplus (Deficit)



## **8.2.3 Accountable Advances**

### **8.2.3.0 General**

#### Authority

On June 18, 2015, Management Board revoked MBD #7/84 “Advances Directive” and replaced it with subsections 8.2.3.0 to 8.2.3.3 of this manual (MBM #15-16-03). The directives outlined in subsections 8.2.3.0 to 8.2.3.3 are issued pursuant to section 27 of the *Financial Administration Act*, and can be revised only with the approval of the Management Board.

Subsections 8.2.3.0 to 8.2.3.3 of this manual may be referred to as the Advances Directive.

#### Effective Date

June 18, 2015

#### Application

This Directive applies to every accountable advance from the Consolidated Revenue Fund.

#### Objective

The objective of this Directive is to provide direction to public officers on obtaining or issuing accountable advances for the purpose of paying necessary expenses that could reasonably be expected to be incurred while the person is engaged in government business.

### **8.2.3.1 Definitions**

- a) “accountable advance” means money paid to a person for any purpose authorized by an Act for which that person undertakes to repay or provide an accounting and includes a float, a petty cash advance, a standing advance, and a travel advance, but does not include advance payments pursuant to a transfer payment agreement or contract;
- b) “corporations” means the Yukon Housing Corporation, the Yukon Liquor Corporation, and the Yukon Development Corporation;
- c) “float” means an accountable advance held in cash to make change;
- d) “petty cash advance” means an accountable advance held in cash for expenditures on behalf of the government;



**8.2.3.1 (Continued)**

- e) “standing advance” means an accountable advance paid to a person who is required to incur expenditures on a continuing basis for any purpose authorized by an Act and to whom reimbursement to the full amount of the advance is made each time the expenditures made from the advance are accounted for and approved; and
- f) “travel advance” means an accountable advance made to a person who is required to incur expenditures for travel on government business in accordance with the Travel Directive.

**8.2.3.2 Approval Authority**

1. The Minister responsible for the Department of Finance may approve a petty cash, cash float, or a standing advance not exceeding \$5,000.
2. The Deputy Minister of the Department of Finance may approve a petty cash, cash float, or a standing advance not exceeding \$3,000.
3. Every advance in excess of the limits above shall be approved by the Management Board.
4. The Deputy Minister of Department of Finance may delegate authority to approve an accountable advance to a public officer in the Department of Finance. A public officer authorized by the Deputy Minister of Department of Finance to approve an accountable advance shall not re-delegate such authority.
5. The directives in this subsection do not apply to the corporations.

**8.2.3.3 Directives**

1. A travel advance shall be issued and accounted for in accordance with the Travel Directive issued by the Management Board.
2. No accountable advance shall be issued in cash.
3. The amount of each advance shall be kept to a minimum, making allowance for a reasonable time to obtain reimbursement of expenditures.
4. Advances which are no longer required shall be refunded to the Department of Finance.
5. Except as provided for in Item #1, every person to whom an accountable advance has been issued shall account for it in such a manner as the Deputy Minister of the Department of Finance may determine.



**8.2.3.3 (Continued)**

6. Every person to whom an accountable advance has been issued shall refund the advance in full if it is lost, stolen, destroyed or cannot be accounted for.
7. No expenditure from a petty cash advance shall exceed \$100.00 for any one purchase.
8. No cheque shall be cashed with money from a petty cash advance.
9. Any accountable advance issued by the corporations shall be in accordance with this Directive and their respective Acts. Items #4 and #5 in this subsection do not apply to the corporations.

**8.2.3.4 Procedures**

The procedures outlined in subsection 8.2.3.4 of this manual are issued by the Deputy Minister of the Department of Finance under the authority of the *Financial Administration Act* Section 7. The purpose of these procedures is to help departments interpret and comply with the Advances Directive (8.2.3.0 to 8.2.3.3 above).

Any changes to this subsection, therefore, require approval of the Deputy Minister of the Department of Finance.

**1. General**

Departments may requisition accountable advances from the Consolidated Revenue Fund. Public officers on obtaining proper authorization from a department may requisition accountable advances for the purpose of paying travelling and other necessary expenses that could reasonably be expected to be incurred while the person is engaged in public business.

The legislative authority for providing accountable advances is found in Section 27 of the *Financial Administration Act*.

There are four types of accountable advances available to employees. They are float, petty cash, travel, and standing advance.

This section does not cover advances under transfer payment agreements or contracts. These advances, coded as such until accounted for, are specific to the agreement or contract.

**2. Floats**

Normally only one float should be applied for in respect of one location.

Deputy Ministers are responsible for assessing the need for determining the amount of any particular float.



**8.2.3.4 (Continued)**

Special safekeeping devices must be used when floats are held on hand within a department. The float is issued to an individual who is responsible for the proper handling of the cash. The amount of cash on hand must equal the total float at all times.

Accounting and Control of Floats

The departmental finance officer should ensure that proper financial controls exist for floats. Such controls include:

- Designation of a cash fund custodian that is a public officer who does not have payment authority under Section 30 of the *Financial Administration Act*.
- Formal reconciliation of the fund monthly.
- Management review to ensure that the custodian does not cash cheques or accept I.O.U.'s of any kind out of the fund.
- Management review and approval of fund reconciliations and cash counts.
- Unannounced cash counts.
- Procedures that ensure that miscellaneous cash receipts are not to be added to the fund, but are deposited to the Consolidated Revenue Fund.
- Management review of the advance to ensure that it meets the needs of the branch or department and has been used only as intended.
- The transfer of responsibility for floats should be processed using the Petty Cash/Float Transfer form.

Procedures for Obtaining Floats

When a department determines that a float fund is necessary for its operations the following action should be taken:

- Prepare a cheque requisition naming the responsible individual for the float and the amount required.
- Support the cheque requisition with suitable explanation as to the need and intended uses of the fund, including an indication of the appropriate Deputy Minister's approval.
- Submit the cheque requisition and supporting documentation to the Deputy Minister of Finance or his/her delegate for review and approval.

Periodic Verification

The departmental financial or administrative officer, or someone on their behalf, shall conduct a periodic unannounced count of the float to determine the proper use of the funds, to ensure they are adequately protected against loss or misuse and are properly accounted for. This periodic verification should be carried out at least once each quarter.

Other periodic counts of floats may also be made by the Internal Auditor or Department of Finance staff at the discretion of the Deputy Minister of Finance.

The custodian of a float will certify possession of the advance as required by the Department of Finance.



**8.2.3.4 (Continued)**

**3. Petty Cash Advances**

Normally, all disbursements of public funds are made by cheque or direct deposits. However, there are instances where minor expenditures can be more expeditiously made from petty cash. Deputy Ministers are responsible for assessing the need for and determining the amount of petty cash advances.

The amount of a petty cash account should not be in excess of the sum necessary to finance the contemplated expenditures for a five-week period, taking into consideration the reimbursement cycle.

Petty cash will be held by the individual to whom the advance is issued.

Accounting and Control of Petty Cash

The custodian of petty cash shall:

- Be a permanent full-time employee of the Government of the Yukon.
- Not be an employee to whom payment authority has been delegated under Section 30 of the *Financial Administration Act*.
- Not be an employee whose duties include the receipt and deposit of money or handling of accounts receivable.
- Not cash cheques or accept I.O.U.'s of any kind out of the fund.
- Be responsible for operating the petty cash account and ensure that a petty cash voucher is completed for each purchase. The voucher should state the purpose of the expenditure, the date the amount paid and have the signature of the person receiving the money when appropriate.
- Ensure that the petty cash box always contains cash and/or vouchers totaling the exact amount of the fund.
- Ensure the proper custody, control and safekeeping of the petty cash fund.
- Petty Cash advances should be used only for purchases which do not exceed \$100.00.
- Effective February 4, 2013, the Government of Canada is phasing out the penny. After that date, when a cash purchase is made, businesses will round up or down to the nearest five cents where pennies are not available. If a difference originates due to the rounding used by a retailer, the department will code the difference to a departmental O&M expense code with Object 0220.



**8.2.3.4 (Continued)**

Deputy Ministers should apply the following criteria in assessing the need for, and the amount and control of, petty cash advances:

- Petty cash expenditures generally should be made for those items where it is not practical to pay by cheque or acquisition card.
- Subject to maximum limitations, the petty cash fund should be sufficient such that replenishment will be required no more frequently than every three weeks.
- Petty cash funds should not be deposited in banks.
- Petty Cash advances should not be used for regular purchases for which suppliers normally submit invoices.
- Petty Cash funds should not be used for making personal loans to employees or for cashing cheques.
- The transfer of responsibility for petty cash should be processed using the Petty Cash/Float Transfer form.
- All vouchers submitted in support of a request for reimbursement should be cancelled in a manner that will preclude any possibility of their reuse.
- Where extensive coding is required, a sheet should be attached showing the coding and expenditure distribution.

Periodic Verification

The departmental financial or administrative officer, or someone on their behalf, shall conduct a periodic unannounced count of the petty cash advance to determine the proper use of the funds, to ensure they are adequately protected against loss or misuse and are properly accounted for. This periodic verification should be carried out at least once each quarter.

Other periodic counts of petty cash advances may also be made by the Internal Auditor or Department of Finance staff at the discretion of the Deputy Minister of Finance.

The custodian of petty cash will ensure that all vouchers are submitted for reimbursement at fiscal year-end, and will certify possession of the advance as required by the Department of Finance.

The petty cash and any vouchers should be safeguarded in a lockable cash box which should be kept in a secure locking filing cabinet or safe.



**8.2.3.4 (Continued)**

Procedures for Obtaining Petty Cash Fund

When a department determines that a petty cash fund is necessary for its operations, the following action should be taken:

- Prepare a cheque requisition naming the individual responsibility for the fund and the amount required.
- Support the cheque requisition with suitable explanation as to the need and intended uses of the fund, including an indication of the appropriate Deputy Minister's approval.
- Submit the cheque requisition and supporting documentation to the Deputy Minister of Finance for review and approval.

Replenishment

Receipts must be obtained for all items purchased and should show the details of the purchase.

When replenishment of the fund is required, the department will submit a cheque requisition, in the amount of the expenditures and supported by the applicable receipts.

**4. Travel Advances**

Application for this type of advance may be made when the employee requires funds for a specific trip.

For employees with standing advances, a travel advance will not be issued unless the estimated expenses for the trip exceed the amount of the standing advance. In this case the amount of the travel advance should be the difference between the estimated travel expenses and the amount of the standing advances. If it is necessary to apply frequently for travel advances for this purpose, it would be advantageous to apply instead for an increased standing advance.

Advances issued to employees are not to be used for purposes other than travel expenses.

Procedures for Obtaining a Travel Advance

An employee may obtain a travel advance by completion of a Travel Authorization and Claim form and obtaining the approval of an appropriate signing authority.

After approval by the appropriate authority the advance can be processed.



#### **8.2.3.4 (Continued)**

##### Accounting for a Travel Advance

The holder of a travel advance is required to submit a claim to cover their expenses within the time constraints outlined in the Travel Directive.

As stated in the Directive, within 10 days after completion of the trip, a travel expense account should be submitted together with a personal cheque made payable to the Government of the Yukon for the amount, if any, by which the advance exceeds the actual expense.

Individuals holding travel advances are required to comply with the year-end instruction issued by the Department of Finance.

#### **5. Standing Advances**

Departments may apply for a standing advance when funds are required for government purposes and it is not practical for payments to be made through the normal cheque issue system. Standing advances are made to individual public employees. The funds must be reimbursed through the regular payment system.

Generally, the amount of a standing travel advance should not exceed the average requirement for five weeks' expenditures.

##### Procedures for Obtaining a Standing Advance

An employee may apply for a standing advance by formal request to their Deputy Minister. The request must be in writing and must set out the following information:

- The purpose of the advance and a brief explanation as to why temporary advances would not suffice.
- An indication as to the volume of expenditures to be processed through the account on a five-week basis.
- The amount of the advance requested.
- The full name, position, and exact business address of the prospective custodian of the advance.

If the Deputy Minister supports the request for a standing advance they will so indicate and forward the request, together with the necessary cheque requisition, to the Deputy Minister of Finance.

Changes to the amount of a standing advance (i.e. an increase or decrease) must be applied for and routed in the same manner as the original request.



**8.2.3.4 (Continued)**

Accounting and Control of Standing Advances

The custodian of standing advances must:

- Be a permanent full-time employee of the Government of the Yukon as defined by the Public Service Commission.
- Not be an employee to whom payment authority has been delegated under Section 30 of the *Financial Administration Act*.
- Not be an employee whose duties include the receipt and deposit of money or handling of accounts receivable.

Departments must maintain adequate records and implement appropriate procedures to achieve control over standing advances. They should ensure that:

- Advances cover expenses incurred only while performing government business.
- The advance is recovered immediately when an employee is no longer eligible or terminates.
- Those holding advances are advised periodically of the balances owing.

Departments may achieve these controls by conforming to the following requirements:

- Applications for standing advances should be made well in advance of the date the funds are required.
- A record of advances should be kept on employee personnel files.
- Long-outstanding advances should be reviewed and followed up periodically.
- Procedures should exist to reassess the need for each standing advance. Review of reimbursements to employees with standing advances would accomplish this requirement. If the frequency and amount of the reimbursement of standing advances are small, the employee should be requested to repay the advance or the advance should be reduced.
- All employees holding an advance should be requested to sign an acknowledgement of indebtedness form at the end of the fiscal year.
- Periodic reports should be provided to the Deputy Minister with respect to existing standing advances in the department.

The most common type of standing advances is those for travel purposes.

An employee granted a standing advance for travel purposes is expected to submit travel expense accounts within 10 days of completing the trip as outlined in the Travel Directive. This accounting serves to restore the standing advance to its original amount.

The custodian of a standing advance will certify possession of the advance as required by the Department of Finance.





Finance  
Box 2703, Whitehorse, Yukon Y1A 2C6

**DATE:** August 17, 2016

**TO:** All Holders of Financial Administration Manual

**FROM:** Rebecca Edzerza  
Manager  
Department of Finance

**RE: Financial Administration Manual Update #27**

Enclosed are revisions to the Financial Administration Manual.

In updating the manual, please replace existing pages with the enclosed pages that are listed below:

1. Chapter 8
  - Table of Contents
  - 8.8 Disposition of Public Real Property Directive
  - 8.9 Accounts Payable and Accrued Liabilities
  - 8.10 Long-Term Debt
  - 8.11 Post-Term Debt
  - 8.12 Accumulated Surplus (Deficit)

Should you have any questions regarding this update, please contact me by e-mail at [rebecca.edzerza@gov.yk.ca](mailto:rebecca.edzerza@gov.yk.ca) or call 456-6785.

Thank you,

A handwritten signature in black ink, appearing to read "Rebecca Edzerza". The signature is stylized and fluid.

Rebecca Edzerza



**Chapter 8**  
**Accounting and Control of Assets and Liabilities (CONTINUED)**

**8.8 DISPOSITION OF PUBLIC REAL PROPERTY DIRECTIVE**

- 8.8.1 Definitions
- 8.8.2 Policy
- 8.8.3 Governance Framework
- 8.8.4 Delegation
- 8.8.5 Certificate of Title
- 8.8.6 Leases
  - 8.8.6.1 Leases for real property, buildings and improvements that are tangible capital assets
  - 8.8.6.2 Leases for real property, buildings and improvements that are not tangible capital assets
- 8.8.7 Licenses
- 8.8.8 Sale of Real Property, Buildings and Improvements

**8.9 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

- 8.9.1 Accounts Payable
- 8.9.2 Environmental Liabilities
  - 8.9.2.1 Policy
  - 8.9.2.2 Guidelines

**8.10 LONG-TERM DEBT**

- 8.10.1 Long-term Debt
- 8.10.2 Capital Lease Obligation
- 8.10.3 Loan Guarantees

**8.11 POST-EMPLOYMENT BENEFITS**

**8.12 ACCUMULATED SURPLUS (DEFICIT)**

- 8.12.1 Net Financial Resources (Net Debt)
- 8.12.2 Accumulated Surplus (Deficit)



## **8.8 DISPOSITION OF PUBLIC REAL PROPERTY DIRECTIVE**

### **8.8.0 Policy Statement**

#### Authority

On July 15, 2016 the Management Board approved the “Disposition of Public Real Property Directive” (MBM#16-14-06). The directive outlined in subsections 8.8.1 to 8.8.8 is issued pursuant to section 41 of the *Financial Administration Act* (FAA) and can be revised only with the approval of the Management Board.

This Directive is referred to as the Disposition of Public Real Property Directive.

#### Effective Date

July 15, 2016

#### Application

The Disposition of Public Real Property Directive applies to all departments and government corporations except where another enactment or regulation contains provisions granting them authority over public real property.

Leases for leasing government space in Signature Buildings shall be issued in accordance with GAM Policy 2.21 “Signature Building Leasing”.

#### Objective

The *Financial Administration Act* states that no disposition or loan of public property shall be made to any person without authorization under this or another Act and that the Management Board may issue directives regarding the custody and control of public property, and the sale of public property. The objective of the Disposition of Public Real Property Directive is to set out the policy for assigning custody and control of public property, and to provide instructions regarding the responsibilities associated with those activities.

### **8.8.1 Definitions**

In this Directive

*“building” means a publicly owned structure located on real property constructed for human habitation, storage, or a department program-specific use.*

*“certificate of title” has the same meaning as used in the Land Titles Act.*

*“control” means the right to sell or lease, but does not include the authority to enter into licences of occupation.*



**8.8.1 (continued)**

*“custody” means rights of access, generally including possession and/or occupancy, and day to day administration including authority to enter into licences of occupation.*

*“fair value” means the amount at which that asset could be bought or sold or leased in a current arm’s length transaction between knowledgeable, willing parties who are under no compulsion to act or in the case of real property that is not a tangible capital asset, as outlined in the Territorial Lands (Yukon) Act or Lands Act.*

*“FAM” means the Financial Administration Manual.*

*“GAM” means the General Administration Manual.*

*“improvement” includes any publicly owned structure, supporting infrastructure or other development located on, in or under, public real property.*

*“land inventory” means land that is undeveloped or developed by the Government, and held for eventual sale or disposition. Land held for sale is comprised of the costs of acquiring, planning and developing lots. In any case, land inventory, whether untitled or titled, will not be included in the definition of a tangible capital asset.*

*“licence of occupation” (licence) means an agreement that allows temporary use of real property or a building, including the right to post advertising signage, for a specified period of time but that does not establish a proprietary interest in the real property or building.*

*“MBD” means the Management Board Directive.*

*“real property” means land for which a certificate of title has been issued to the Commissioner, the Government of Yukon, or a government corporation.*

*“tangible capital assets” has the meaning assigned to it within FAM 8.7.1 but in this Directive shall include real property, buildings and improvements that are acquired, constructed or developed and are not intended for sale in the ordinary course of operations.*

*“untitled land” means untitled land administered and controlled pursuant to the Lands Act or the Territorial Lands (Yukon) Act.*

**Terms not listed above shall have the same meaning as defined in the *Financial Administration Act (FAA)*.**



### **8.8.2 Policy**

This Directive establishes how departments may sell, lease or license real property, buildings and improvements under their custody and/or control. GAM Policy 2.8 "Building and Equipment Maintenance", GAM Policy 2.21 "Signature Building Leasing" or MBD # 11/93 "Management of Capital Assets and Disposal of Surplus Public Property" should be read and consulted when using this Directive.

### **8.8.3 Governance framework**

The Minister of Highways and Public Works shall have control of all real property, buildings or improvements on titled land that are or will become tangible capital assets upon transfer/completion.

The Minister of Highways and Public Works shall have custody of all real property, buildings or improvements on titled land that are or will become tangible capital assets upon transfer/completion, that are primarily office space.

The Minister of Energy, Mines and Resources shall have custody and control of all real property that are not tangible capital assets (e.g. land inventory), including any buildings and improvements located thereon and must sell or lease the real property in the same manner as set out in the Lands Act or Territorial Lands (Yukon) Act.

All Ministers shall have custody of real property, buildings and improvements used by their departments primarily for service or program delivery.

Every Deputy Head shall establish procedures to carry out the custodial duties conferred on that department.

### **8.8.4 Delegation**

In accordance with the Government Organisation Act Section 2.4 (1) a department may, by mutual agreement, delegate elements of custody to another department by way of letter of delegation, which shall be signed by the department's Minister or delegate who shall be a public officer. The letter shall specify which element(s) of custody is being delegated, the duration of the delegation and termination provisions, and shall be countersigned by the receiving department's Minister or delegate approving and accepting the delegation.

### **8.8.5 Certificate of title**

Prior to all new buildings or new developments on untitled land, title to that property shall be registered to the Commissioner, except highways, as defined under the Highways Act.



### **8.8.6 Leases**

Departments with control of real property are responsible for the co-ordination and administration of all leases.

#### **8.8.6.1 Leases for real property, buildings and improvements that are tangible capital assets**

Leases shall be at fair value except where approval is obtained to enter into a lease agreement at an amount that is less than fair value.

Management Board approval is required for all leases:

- with a term in excess of 3 years, including renewal terms and/or
- at an amount that is less than fair value

#### **8.8.6.2 Leases for real property, buildings and improvements that are not tangible capital assets**

Leases of real property shall be at the same rates and under the same terms as prescribed in the Territorial Lands (Yukon) Act or Lands Act.

### **8.8.7 Licenses**

Departments with custody of real property, buildings and improvements are responsible for licences with respect to that property. Each department having custody of real property may set their own policies and procedures for issuing licences. Departments may grant licences at less than fair value.

### **8.8.8 Sale of Real Property, Buildings and Improvements**

All sales of real property, buildings and improvements, not classified as surplus, which are tangible capital assets shall be approved by Management Board. No certificate of title shall be transferred until the purchase price of the real property has been paid in full, and any covenants or conditions have been performed or fulfilled.

Sales of real property that are not tangible capital assets shall be conducted in the manner as prescribed in the *Territorial Lands (Yukon) Act* or *Lands Act*.



## **8.9 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

### **8.9.1 Accounts Payable**

An accounts payable liability arises under any of the following circumstances:

1. The work has been performed.
2. The goods have been received.
3. The service has been rendered.
4. The amount is owing in accordance with a contractual arrangement.

This definition is especially important during year-end cut-off in order to adhere to the accrual method of accounting.

All cheque requisitions for paying invoices should be forwarded to the Department of Finance to ensure that the supplier is paid promptly and to ensure the Financial Management Information System provides current information.

At year-end it is necessary to accrue charges where a liability has occurred, as per the above definition, but for which no invoice has been received. In these circumstances if the amount of the liability is not known an estimate should be accrued.



## **8.9.2 Environmental Liabilities**

### **8.9.2.1 Accounting Policy**

#### Authority

This policy was approved by Management Board on February 28, 2007 (MBM # 07-04-04), and can be revised only with the approval of Management Board.

#### Application

This policy applies to the Government of Yukon departments (the "Government"), excluding government Corporations, Yukon Workers' Compensation Health & Safety Board, Yukon College and other entities that are owned and/or controlled by these organizations.

#### Policy

1. For the purpose of this policy, "the remediation of a contaminated site" includes the closure and post-closure activities of a solid waste landfill site.
2. Environmental liabilities consist of estimated costs related to the remediation of contaminated sites. An environmental liability of the Government is accrued and an expense recorded when:
  - (a) the contamination occurs or when the Government becomes aware of the contamination, or, in the case of a solid waste landfill site, during the life of the facility;
  - (b) the Government is obligated to incur such costs; and
  - (c) the costs of the remediation can be reasonably estimated.
3. Estimated costs for the remediation of a contaminated site shall be established following the steps described in subsection 8.9.2.2 "Guidelines".
4. If the likelihood of the Government's obligation to incur remediation costs is not determinable or if an amount cannot be reasonably estimated, a contingent liability is disclosed in the notes to the Government's financial statements.



**8.9.2.1 (continued)**

5. The Government of Yukon shall budget and account for the Government's environmental liabilities centrally through the Department of Environment. The Department of Environment cannot reallocate funding appropriated for the remediation of contaminated sites without approval by Management Board.
6. There shall be an inter-departmental Yukon Government Contaminated Sites Committee that, at a minimum, consists of representatives from the Departments of Environment, Highways and Public Works, Community Services and Finance. The purpose of the Committee is to provide input into identifying sites that are possibly contaminated, to determine the priority of site investigation, assessment and remediation work, to review cost estimates and budget projections, to advise on the recording of expenses and liabilities, and to advise on other matters that relate to the Government's environmental liabilities. The representative from the Department of Environment shall chair the Committee and the Department of Environment shall provide secretariat services.
7. In consultation with the Yukon Government Contaminated Sites Committee, the Department of Environment shall submit to Management Board for approval an annual plan of proposed remedial activities for each fiscal year by no later than January 31 of the immediately preceding fiscal year. The Department of Environment shall not exceed the cash flows approved by Management Board for the remediation work in any given fiscal year.
8. For the purpose of this policy, costs for cleaning up spills (including leaks from fuel tanks), and for replacing underground fuel tanks with aboveground fuel tanks are excluded from the centralized environmental liability related budget. These expenses shall be borne by the custodial department.



### **8.9.2.2 Guidelines**

The following guidelines are issued by the Deputy Minister of the Department of Finance pursuant to Section 7 of the *Financial Administration Act*.

**A. Steps that are required to determine Government's environmental liability for a site where contamination may exist.**

In order to determine the Government's environmental liability at a given site, the following steps must be undertaken:

1. A site investigation is carried out in accordance with the requirements of the *Contaminated Sites Regulation* under the *Environment Act* (Yukon). The objective of the site investigation is to determine if there are areas of the site where contamination may exist that should be examined in an intrusive fashion to ascertain if contamination is actually present.

A site investigation is a non-intrusive investigation of current and historical activities at a site. It includes, but is not limited to, a review of existing reports or database entries pertaining to the site, interviews with people who are or were involved with a site (workers, owners, occupants, etc.) and a site visit to assess indications of possible contamination. The goal of a site investigation is to narrow down areas where contamination may have occurred and to identify which contaminants may be present, in order that a subsequent site assessment can focus on these areas and chemicals. A site investigation report shall be submitted to the Standards and Approvals section of the Department of Environment for review and approval.

2. A site assessment is undertaken in accordance with the requirements of the *Contaminated Sites Regulation* under the *Environment Act* (Yukon) to ascertain the full extent of contamination at a site.  
A site assessment is a detailed, intrusive evaluation of a site, based on the information gathered during the site investigation. It involves drilling and/or trenching for the purposes of sub-surface sampling of soil and groundwater, as well as the sampling of surface soils, water and sediments. The samples are analyzed for those contaminants identified in the site investigation as being of potential concern. The data is used, along with other site information, to determine the types of contaminants



**8.9.2.2 (continued)**

present, their concentration, and their spatial distribution (vertical and horizontal extent). Comparison of the analytical data with the standards in the *Yukon Contaminated Sites Regulation* is also undertaken to confirm areas of contamination. A site assessment report shall be submitted to the Standards and Approvals section of the Department of Environment for review and approval.

3. Based on the site assessment, a plan of restoration is developed for the contaminated site in accordance with the requirements of the *Contaminated Sites Regulation* under the *Environment Act* (Yukon). This plan outlines the alternatives that have been considered to remediate the site, and provides detailed information for the selected alternative(s), as well as estimated costs for the remediation work.

A plan of restoration is developed when the results of a site assessment show that some contaminants are present at levels above those for the applicable land or water use in the *Contaminated Sites Regulation*, and the site is to be cleaned up. The plan of restoration should detail how compliance with the standards will be achieved, list the remedial options considered and the rationale for pursuing or rejecting them, give a timetable for completion of the remedial activities, identify how compliance with the standards will be demonstrated and what, if any, on-going monitoring will be required, and identify what regulatory approvals must be obtained and what consultation will be conducted, where applicable.

If the site is to be cleaned up using risk-based restoration standards, the plan of restoration must also identify why risk-based standards are being proposed, the methodology used to conduct the risk assessment, the potential on-and off-site environmental impacts of the contamination and any mitigating measures to be taken to lessen their impact, and what monitoring will be conducted to evaluate the risk management measures adopted.

Risk assessment is a method of predicting the impacts of contaminants on human and environmental health. It provides a basis for managing contaminants onsite when removal or other permanent remediation is impractical. Risk assessment uses mathematical models to predict the dose of a contaminant that will be received by a receptor through a specific exposure pathway. The doses expected from all potential



**8.9.2.2 (continued)**

pathways can be added up and compared with the dose considered safe for that contaminant. If the safe dose is not exceeded, there is little risk that the contaminant will affect the health of receptors. Each risk assessment is unique but all risk assessments provide the following information:

- A list of contaminants at the site, their location and their extent on- and off-site;
- An estimate of the size and likelihood or risks to human and non-human receptors on-and-off site; and
- A description and evaluation of the measures proposed to manage contamination in place.

Risk-based restoration standards are those developed based on the results of a risk assessment of a contaminated site.

4. When the existence of contamination is confirmed for a given site as a result of a site investigation or in the process of a site assessment, and the Government is obligated to remediate the contamination, the Government shall record a liability and an expense based on a best estimate available at the time of recording. This amount must be adjusted on an on-going basis as more information is obtained.

Depending on the results following either a site investigation or a site assessment, a site can be eliminated from a list of sites with potential liability.

4. A plan of restoration shall be submitted to the Standards and Approvals section of the Department of Environment for review and approval. Once a plan of restoration is approved and the necessary permits and environmental assessments obtained, the remedial work can be undertaken.

**B. Steps that are required to determine Government's environmental liability for landfill sites**

The Government must follow the Public Sector Accounting Board recommendations for the accounting and reporting of the liability for closure and post-closure care of a solid waste landfill site.

A solid waste landfill site is a defined area of land or excavation that receives waste that may include household waste, commercial solid waste, non-hazardous sludge, and industrial solid waste.



**8.9.2.2 (continued)**

Certain activities are required before a landfill site opens, during its operating life and when it stops accepting waste. The Government is required to establish a liability and record expense only for closure and post-closure activities.

Closure activities include all activities related to closing the landfill site. These may include:

- (a) final cover and vegetation; and
- (b) completing facilities for:
  - (i) drainage control features;
  - (ii) leachate monitoring;
  - (iii) water quality monitoring; and
  - (iv) monitoring and recovery of gas.

Post-closure care activities include all activities relate to monitoring the site once it can no longer accept waste. These may include:

- (a) acquisition of any additional land for buffer zones;
- (b) treatment and monitoring of leachate;
- (c) monitoring ground water and surface water;
- (d) gas monitoring and recovery; and
- (e) on-going maintenance of various control systems, drainage systems, and final cover.

Yukon's *Environment Act – Solid Waste Regulations* specifies requirements for closure and abandonment of a landfill site.

1. The Government must recognize a liability for closure and post-closure care as the landfill site's capacity is used. Usage should be measured on a volumetric basis (e.g., cubic metres).

The liability for closure and post-closure care begins when the site starts accepting waste. The change in the liability and the annual expense for the site would be calculated as follows:

$$\frac{\text{Estimated total expenditure}}{\text{capacity}} \times \frac{\text{cumulative capacity used}}{\text{total estimated capacity}} - \text{Less: expenditures previously recognized}$$



**8.9.2.2 (continued)**

The estimated total expenditure represents the sum of discounted future cash flows associated with closure and post-closure care activities. The Government's average long-term borrowing rate, determined on a consistent basis, may be appropriate to use as the discount rate.

The capacity used would be estimated based on a rational and systematic method and on the best available information. It is important that the basis for estimating the total capacity and the capacity used be applied consistently so that the liability and results are comparable over time. At least once every three years, an assessment of the need for a comprehensive review of capacity would be completed.

2. The reported liability may be affected by changes in the estimated total expenditure, capacity used or total capacity. Changes could result from new technology, the demand for landfill space, the settling of waste, inflation rates, interest rates, regulatory requirements, or amendments to the approved size of the site.
3. Closure and post-closure care expenditures would be deducted from the reported liability when they are made.

**C. Government's obligation to incur remediation costs**

In reference to Clause 2 (b) of the Policy under 8.9.2.1, the Government's obligation to incur costs for remediation of a contaminated site is determined by various factors. The ownership of the land itself may not necessarily indicate the Government is obligated to incur those costs. The responsibility to pay for costs that relate to investigation, assessment and/or remediation of a site may be governed by a transfer agreement with the Federal Government such as the Devolution Transfer Agreement. It may also depend upon who is considered to be the Responsible Party pursuant to the *Environment Act* and the *Contaminated Sites Regulation*.



**8.9.2.2 (continued)**

**D. Monitoring of environmental liabilities expenses**

In reference to Clause 5 of the Policy under 8.9.2.1, the Department of Environment shall use a separate Program or Activity, of the Operations and Maintenance Vote, to budget and account for remediation expenditures. These expenditures for remediation work will be drawn down from the environmental liability account, which has been recorded in accordance with subsection 8.9.2.1 "Accounting Policy".

Any other costs, such as personnel costs and site investigation and assessment costs, are not included in this Program or Activity. These costs and associated funding requests are to be processed through another Operations and Maintenance Program or Activity of the Department of Environment.



## **8.10 LONG-TERM DEBT**

### **8.10.1 Long-term Debt**

Long-term debt represents the government's borrowings that have repayment periods over one year. Pursuant to sections 49 to 58 of the *Financial Administration Act*, the Yukon Government cannot borrow any money or issue security without the authority of the *Financial Administration Act* or another Act.

Section 63 of the *Financial Administration Act* requires all the borrowing transactions of the Yukon Government to be reported in the Public Accounts.

### **8.10.2 Capital Lease Obligation**

Departments must account for a leased building or equipment that meets the definition of capital lease (see subsection 8.7.3.8 of this chapter) as a tangible capital asset and a liability.

Such accounting ensures that all types of long-term financing arrangements of the government are reported. When lease payments are made, they would be allocated between repayments of the liability, interest expense and any related operating costs.

Liabilities related to capital lease must be reported on the government's financial statements separately from other long-term liabilities.

### **8.10.3 Loan Guarantees**

Loan guarantees are government's contingent liabilities. A loan guarantee would become a liability of the government if the borrower of the loan defaults.

Similar legislative control as borrowing applies in order for the Yukon Government to issue a loan guarantee. Section 65 of the *Financial Administration Act* prohibits the Government to guarantee a debt or other obligation without the authority of an Act.

The Department of Finance is responsible for:

- Reviewing and approving guarantee proposals.
- Monitoring the status of outstanding guarantees.
- Administering the implementation of guarantees.
- Accumulating information on guarantees for reporting in the Public Accounts.

Guarantees Implemented:

When a guarantee is called, i.e. the third-party borrower has defaulted on its loan, the Government must make a payment from the Consolidated Revenue Fund honoring its guarantee. The implementation of a guarantee will be recorded as an expense. However, depending on the terms of the loan agreement and the guarantee, it could give rise to a financial claim that would be recorded as a receivable.



## **8.11 POST-EMPLOYMENT BENEFITS**

Post-employment benefits are expected to be provided to the Government's employees after employment but before retirement. These benefits include severance benefits and unused vacation leave.

Post-employment benefits are a liability of the Government. The Yukon Government uses an actuarial estimate to determine the amount of the obligation.



## **8.12 ACCUMULATED SURPLUS (DEFICIT)**

The financial position of a government is measured by two indicators. The term “net financial resources (or net debt)” is used to describe the first indicator of a government’s financial position. The second indicator is called “accumulated surplus (or deficit)”, which is the combined amount of a government’s net financial resources (or net debt) and its non-financial assets. Non-financial assets represent unexpired service potential available to be consumed by the government in the future.

(For definitions of financial assets and non-financial assets, please see “8.1 Introduction” of this chapter.)

### **8.12.1 Net Financial Resources (Net Debt)**

Net financial resources or net debt is measured as the difference between a government’s financial assets and liabilities. When a government’s financial resources exceed its liabilities, the difference is called “net financial resources.” When a government’s liabilities exceed its financial resources, the difference is called “net debt”.

Net financial resources would provide a measure of the net financial assets on hand that can provide resources to finance the government’s future operations. Net debt, on the other hand, provides a measure of the future revenues the government requires to pay for past transactions and events. A net debt position represents a “lien” on the ability of the government to apply financial resources and future revenues to provide services.

### **8.12.2 Accumulated Surplus (Deficit)**

Non-financial assets are added to net financial resources (or net debt) to calculate a government’s accumulated surplus or deficit. Non-financial assets are “prepaid service potential”. Reporting a government’s recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of the government’s financial position and future operating requirements.

The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. In contrast, for government, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government.

As non-financial assets such as tangible capital assets provide resources that the government can employ in the future to accomplish its objectives, they form part of the government’s accumulated surplus or deficit.





## Memorandum

**Date:** April 20, 2018

**To:** All holders of Financial Administration Manual

**From:** Maira Mayén

**Subject:** Financial Administration Manual Update #28 and #29

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Attached is a revision to the Financial Administration Manual.

In updating the manual, please replace the existing page with the attached pages that are listed below:

1. Chapter 2
  - 2.1.3.1 Department of Finance
  - 2.1.3.1 Executive Council Office
2. Chapter 5
  - 5.9.1 Definitions
  - 5.9.2 Policy
  - 5.9.4 Responsibilities

Should you have any questions regarding these updates, please contact me.

Maira Mayén  
Manager, Policy and Compliance  
Finance



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**Chapter 2 Financial Planning and Budgetary Control**

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**2.1.2.2 Management Board**

The *Financial Administration Act* defines the functions of Management Board which is a sub-committee of Cabinet. The Board is responsible for management of the Government's resources and, in doing so, may issue directives, policies and procedures to:

- establish specific controls on certain expenditures,
- establish the budgeting and control process,
- define procedures for dealing with internal audit reports, and,
- more generally, promote internal control and accountability.

For example, directives, policies and procedures may specify control procedures for approval of new programs, expenditure and payment authorizations, increases or decreases to approved budgets and transfers of budgeted funds between programs, activities and allotments. Chapter 3 of this manual provides further details about Management Board.

**2.1.3 Central Agencies**

There are four central agencies involved in the financial management of the Government: the Department of Finance, the Department of Highways and Public Works, the Public Service Commission and the Executive Council Office. The Department of Justice also performs some "central agency" functions related to financial planning and budgetary control.

**2.1.3.1 Department of Finance**

The Department of Finance is established by the *Financial Administration Act*. The Department's major functions related to financial planning and control are described below.

The Financial Operations and Revenue Services Branch of the Department of Finance provides the overall accounting services to the Government, although departments have their own financial staff. The Branch receives and disburses payments to and from the Government and maintains accounting records for the Government as a whole. In doing so this Branch:

- provides accounting direction and advice to departments,
- ensures that proper procedures have been followed to authorize payroll and other payments,



**Chapter 2 Financial Planning and Budgetary Control**

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- manages the Government's financial resources, including revenues, recoveries, receivables and payables,
- produces the Government payroll,
- records financial transactions and maintains the general ledger,
- maintains the central commitment accounting system, and
- prepares the annual public accounts.

**The Management Board Secretariat:**

- ensures that Management Board and Cabinet are provided with the information and analysis required for sound decision-making relative to the allocation, management and control of the financial and human resources of the Government, including physical assets;
- plans and coordinates the government-wide budgeting process, including preparation of the Main and Supplementary Estimates;
- provides meeting support and record keeping services to Management Board; and
- provides economic forecasts and trends for budgeting purposes.

**Bureau of Statistics:**

- one of the many services provided by this Unit includes providing past growth rates (e.g., inflation, GDP, population) for use by departments as guides in forecasting expenditure requirements.

**2.1.3.2 Department of Highways and Public Works**

The Department of Highways and Public Works' role includes performing several functions related to financial planning and budgetary control.

**Corporate Services Branch:**

- provides management services for insurance and risk management matters.

**Information & Communication Technology Branch:**

- provides comments and advice to departments on requests for telecommunications equipment and computer systems or services; and
- operates the central computer system.



**Chapter 2 Financial Planning and Budgetary Control**

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**Supply Services Branch:**

- assists departments with the acquisition of goods and services and the disposal of surplus assets; and
- provides departments with:
  - office equipment rental and purchase rates;
  - rental rates for leased vehicles;
  - air travel rates; and
  - estimates of costs associated with printing and forms requirements.

**Property Management Branch:**

- coordinates lease space requests and capital project requests from departments; and
- provides departments with:
  - accommodation rates;
  - an indication of operating implications of requested capital facilities;
  - cost estimates of construction projects; and
  - advice on capital maintenance upgrade projects for department-specific buildings.

**2.1.3.3 Public Service Commission**

The Public Service Commission provides corporate human resource management services to departments. This includes providing advice and information to departments on pay and benefits, training and development, and staffing and classification.

**2.1.3.4 Executive Council Office**

The functions performed by the Executive Council Office related to financial planning and budgetary control are described below. These are not the only central agency functions of the Executive Council Office.

**Government Audit Services:**

- provides the Government with an internal audit of government activities which is free from departmental bias. This includes some responsibility for the evaluation of government programs for effectiveness, efficiency and economy under the direction of the Audit Committee (a sub-committee of Management Board). The position and authority of the Internal Auditor is provided pursuant to the *Financial Administration Act*. Refer to Policy #1.13 in Volume 1 of the General Administration Manual for more information on the role of the Internal Auditor.



### **2.1.3.5 Department of Justice**

One of the tasks of the Solicitors Branch of the Department of Justice is to assist departments by reviewing and providing drafting advice for contracts and cost-sharing agreements.

## **2.1.4 Management**

### **2.1.4.1 Ministers**

Per the *Financial Administration Act*, Ministers are responsible for the management of the financial affairs of their departments under the general direction of the Minister of Finance and Management Board.

### **2.1.4.2 Deputy Ministers**

Deputy Ministers are responsible for ensuring that departmental activities and expenditures meet legislative, executive, central agency and departmental requirements for financial planning, control and accountability. These requirements are expressed through legislation, regulations, directives, goals, objectives, policies and procedures. They include ensuring that budgets and expenditures are monitored, commitments are recorded and monthly financial reports are reviewed to determine whether transactions have been correctly recorded and activities are proceeding according to operational plans.

The financial responsibilities may be delegated by the Deputy Minister to personnel in his/her department subject to any limitations that legislation, Management Board or Ministers place on this authority to delegate. See Chapter 5 which provides further details on delegating authority for expenditures.

### **2.1.4.3 Program Delivery Managers**

Many financial planning and budgetary control activities occur at the program delivery level. Managers who are responsible for program delivery should participate in the planning and budgeting processes and manage their approved budgets. This includes ensuring that adequate funds are available for the expenditures required and that expenditure flows are consistent with annual budgets, approved goals, objectives and operational plans.



## **5.8 PAYMENT TIMING**

### **General**

No payment should be made prior to the date on which payment is due unless an early payment discount is available. Discounts taken must be credited to the program.

The Department of Finance can modify the payment terms on individual cheques for financial management purposes if necessary.

### **Invoices for Goods and Services**

Invoices are due 30 days after receipt of the invoice or of the goods or services, whichever is later.

### **Construction Contracts**

Payments are due 30 days after authorization of the engineer responsible for the project, except where different timing is specified in the contract.

### **Refunds**

Refunds are due thirty days following receipt of claim or determination of overpayment by supplier.

### **Loans and Investments**

Loans and Investments are due on the date specified by the loan agreement or contract.

### **Grants and Contributions, Accountable Advances, and Social Program Payments**

These payments are due on the date determined by legislation, agreement or by an individual with appropriate spending authority.

Exceptions to these payment due dates must be specifically approved by the Deputy Minister of Finance.



## **5.9 GOVERNMENT TRANSFERS**

### **5.9.0 Policy Statement**

#### Authority

Subsections 5.9.0 to 5.9.4 of this manual were approved by Management Board on February 20, 2008 (MBM #08-04-03); therefore, these subsections can be revised only with the approval of Management Board.

Subsections 5.9.0 to 5.9.4 of this manual shall be referred to as the “Government Transfers Policy”.

#### Effective Date

April 1, 2008 with a transitional period of one year

#### Application

This policy applies to all “departments” as defined in subsection 1(1) of the *Financial Administration Act*.

This policy applies to all government transfers as defined in subsection 5.9.1.c).

#### Objective

The objective of this policy is to ensure that all government transfers are authorized, delivered, accounted for and evaluated in an accountable manner and in accordance with public sector generally accepted accounting principles, while serving recipient and stakeholder needs and effectively managing risks.

### **5.9.1 Definitions**

- a) **Exchange transactions** are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.
- b) A **funding program** is a program, the goal of which is to enable departments to achieve their departmental and program objectives by providing funding to entities outside government. In a funding program, program guidelines such as eligibility criteria, application and approval processes, and the determination of funding amounts, are available to the public. (See subsection 5.9.5.3 of the Guidelines for examples of funding programs.)
- c) **Good standing** means that a transfer payment recipient has fulfilled any obligation it may have to register and complete annual or other filings required to maintain compliance with an act. The preferred method of confirming compliance is by obtaining a certificate of status from the Yukon Corporate Online Registry (YCOR). This can be



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done free of charge by employees of the Yukon government. Note that not all transfer payment recipients will be required to register under an act.

- d) **Government transfers** are transfers of money or non-monetary assets (such as inventories and tangible capital assets) from the government to an individual, an organization or another government for which the government does not receive goods or services directly in return, as would occur in a purchase/sale or other **exchange transactions**.

It is assumed, however, the government uses transfers as a means to carry out its mandate and achieve its goals and objectives; hence, the government would benefit from making those transfers. The government may, as a condition of a transfer, require receipt of a product such as a report or a sample of the developed product, as proof of performance. Government transfers do not include loans, loan guarantees, transfers made through a tax system, settlements of lawsuits or other types of legal compensation provided by the government or investments.

- e) A **legislated grant** is a type of **transfer payment** where the government must make the transfer payment if the applicant meets specified eligibility criteria. Such transfers are non-discretionary in the sense that both: (i) “who” is eligible to receive the transfer; and (ii) “how much” is transferred; are prescribed in legislation and/or regulations. Examples of legislated grants are social assistance payments and grants to secondary school students who meet the predetermined eligibility criteria. (See subsection 5.9.5.3 of the Guidelines for other examples of legislated grants.)
- f) **Municipality** means any part of the Yukon established as a city or town under the *Municipal Act*.
- g) **Not-for-profit (or non-profit) organizations** are entities, normally without transferable ownership interests, organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose.
- h) A **non-government organization (NGO)** is a not-for-profit organization that is not controlled by a government and pursues matters of interest of its members by lobbying or direct action. NGO is generally used for arts, social cultural, legal or environmental advocacy groups.
- i) **Operational funding** is funding directed to an organization’s operations as a whole rather than to particular projects (**project funding**). If an organization has separate programs, departments or divisions, support for a particular program is also considered to be operational funding. Operational funding generally runs on an annual basis.
- j) **Project funding** is support directed to a specific project which has a start date and an end date.



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- k) A **results-based management approach** is an approach that focuses on results, i.e. output and performance, as well as evaluation and reporting requirements to measure those results. (See also subsection 5.9.5.2 of the Guidelines.)
- l) A **risk-based (or risk management) approach** 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. Risk factors can be either financial, non-financial or both. In a funding agreement, typically performance evaluation requirements and level of monitoring will be adjusted to mitigate estimated risks. (See also subsection 5.9.5.2 of the Guidelines.)
- m) A **transfer payment** is a monetary payment made by the government to a recipient for a specific purpose, namely to further a government program objective, which does not result in the procurement by the government of tangible capital assets, inventories, goods or services, as would occur in an **exchange transaction**. A transfer payment is commonly referred to as a “grant”, “contribution”, “funding”, or “assistance”.
- n) A **transfer payment agreement** is a written agreement that legally binds the government (as the transferor) and the recipient as to the amount, terms and conditions of the transfer payment. (See also subsection 5.9.5.4 of the Guidelines.)

**5.9.2 Policy**

1. Government transfers are one of the vehicles that are used to achieve government’s goals and objectives. Before making a decision to establish a funding program or entering into a transfer agreement (either part of or outside of a funding program), departments must ensure that it is an appropriate vehicle to achieve departmental goals and objectives.
2. All funding programs shall be approved by Management Board. Any significant subsequent changes to the program, e.g. changes to terms and conditions of the program, program parameters, eligibility criteria, etc., including termination of the program must be approved by Management Board. Departments shall review and evaluate funding programs in accordance with the results-based guidelines laid out in section 5.9.5.2. A report of such evaluation must be submitted to Management Board.
3. Any legislated grant program shall be established by an act. Budgets for legislated grants must be approved by the Legislative Assembly. Only the Legislative Assembly may approve an increase or decrease to the budget for a legislated grant program.
4. Departments must use a results-based and risk-based management approach in designing a funding program and drafting a transfer payment agreement, while adopting a citizen-focused approach to managing funding programs and individual transfer payment agreements. (Refer to subsection 5.9.5.2 of the Guidelines.)
5. Any transfer payment agreement with a term in excess of three years shall be approved by Management Board.



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6. Departments shall make transfer payments with due regard for the government's cash management practices as well as the recipient's cash flow requirements. Installment payments and advance payments, if required, shall be made in accordance with subsection 5.9.5.4 of the Guidelines. Any exception to this directive must be approved by Management Board.
7. Notwithstanding the above, no advance payment in excess of \$10,000 shall be made to a recipient in one fiscal year when the related expenditures of the recipient are not likely to be incurred until the following fiscal year. Advances required for the expenditures that are to be incurred in the following fiscal year must be issued as of April 1 and charged to an appropriation in the new fiscal year.
8. A transfer of a tangible capital asset shall be recognized as an expense at the net book value of the tangible capital asset and reported as a government transfer.
9. Any prospective recipient of a transfer payment, except for a legislated grant, must declare any amounts owing to the Yukon Government. In principle, an entity that owes a debt to the government should not receive funding from the government. This directive does not apply to social assistance payments or to an entity that has arranged a mutually agreed upon repayment schedule with the government and is in good standing.
10. In accordance with the General Administration Manual Policy 3.39 "Conflict of Interest", government employees must disclose and address their involvement in application organizations, either in their capacity as officers or representatives, and absent themselves from any discussion, decision making process, or any other capacity that could be perceived to be in a conflict of interest situation. A Yukon Government employee who holds an executive position in the recipient organization should refrain from signing the funding agreement as there may be perception of possible influence over the funding decision.
11. Departments shall enter all transfer payment agreements, except those classified as legislated grants, into a corporate system in the manner instructed by the Department of Finance.
12. All transfer payments shall be reported in the Public Accounts in a format determined by the Department of Finance.
13. If the recipient of the transfer payment is a society, a certificate of status shall be obtained from the Registrar of Societies certifying that the Society has filed the documents required to be filed under the *Societies Act*. If the recipient of the transfer payment is a company, a certificate of status shall be obtained from the Registrar of Companies certifying that the company has filed the documents required to be filed under the *Corporations Act*.



### **5.9.3 Corrective Actions**

1. If the Deputy Minister of the Department of Finance assesses that a department failed to comply with requirements of this policy and guidelines, the Deputy Minister of the Department of Finance shall recommend that the Deputy Minister of the department:
  - a) conduct an audit or an evaluation. The cost of such an audit or evaluation shall be paid by the department; and/or
  - b) take corrective action based on the recommendations made by the Deputy Minister of the Department of Finance.
2. If the Deputy Minister of the Department of Finance assesses that a department has failed to conduct an audit or evaluation and/or to implement the corrective action pursuant to paragraph 1 of this subsection, the Deputy Minister of the Department of Finance may recommend to Management Board further corrective actions to be taken, which may include:
  - a) reducing the spending authority of the respective Deputy Minister; or
  - b) suspending the funding program pending further evaluation.

### **5.9.4 Responsibilities**

#### **1. Cabinet**

Cabinet is responsible for:

- approving draft legislation to establish or amend all legislated grant programs for tabling in the Legislative Assembly.

#### **2. Management Board**

Management Board is responsible for:

- approving a government transfer policy and any changes to the policy;
- approving the creation, changes to and termination of all funding programs;
- approving a transfer payment agreement that has a term in excess of three years; and
- directing corrective actions to be taken as recommended by the Deputy Minister of the Department of Finance.



**7. Program Managers**

Program managers are accountable to the Deputy Minister for:

- designing and redesigning funding programs and transfer payment agreements, as well as the corresponding financial control framework, the system of internal controls, the program terms and conditions based on a results-based, risk-based and citizen-focused approach.
- exercising approval authority delegated by the Deputy Minister in accordance with financial management policies and procedures of the government;
- administering funding programs and transfer payment agreements in accordance with this policy and guidelines;
- monitoring and reviewing funding programs and transfer payment agreements to ensure they are meeting program objectives.
- evaluating a funding program in accordance with the results based guidelines laid out in section 5.9.5.2 and submitting a report to the Deputy Minister.



## **5.9.5 Guidelines**

### **5.9.5.0 Introduction**

The guidelines outlined in subsection 5.9.5 of this manual are issued by the Deputy Minister of the Department of Finance under the authority of Section 7 of the *Financial Administration Act*.

These guidelines are issued to aid program officers who design and manage funding programs and/or transfer agreements as well as financial officers who seek budget approval and account for those government transfers. These guidelines are intended to assist those officers in the following areas but are not limited to:

- Correctly choosing between goods or service contracts and transfer payment agreements;
- Ensuring the prospective recipient is a legal entity and has the power to enter into a contractual agreement;
- Making decisions to fund a requested project;
- Effectively designing a transfer payment agreement;
- Effectively designing a funding program;
- Seeking appropriate approval;
- Accurately accounting for government transfers; and
- Evaluating funding programs and transfer payment agreements.

Some of the key aspects that both program and financial officers must observe in delivering a funding program and transfer payment agreements are as follows:

- i) A transfer payment agreement must establish clear performance expectations;
- ii) A funding program must contain precise eligibility and assessment criteria;
- iii) Program officers must undertake due diligence prior to approving a transfer;
- iv) Payments must be made in accordance with terms and conditions;
- v) Terms and conditions of a transfer payment agreement must be established following the risk-based approach, which is described further in these guidelines;
- vi) Project performance problems must be resolved quickly;
- vii) Program officers must ensure that each agreement is followed up to ensure all requirements are met; and
- viii) The departments must collect money promptly if the recipient has not met the terms and conditions of the transfer payment agreement.



**C. Citizen-focused approach**

While it is important to design programs and funding agreements based on results and performance measures, departments should also consider the size and capacities of the recipients. For example, if it is considered to be a low-risk project, reporting requirements could be simplified so that they will not be unnecessarily onerous to the recipient. If there is a performance measurement reporting requirement, the requirement should be realistic and measurable in practical terms.

Some other measures departments could take in order to incorporate a citizen-focused approach are:

- reduce the number of cost categories in funding agreements;
- identify the circumstances where operational funding is a cost-effective supplement to project-specific funding; or
- consider consolidated audit planning for recipients who have received funding from more than one funding program.

**5.9.5.3 Creation and management of a funding program**

The Government Transfers Policy defines a **funding program** as a program, the goal of which is to enable departments to achieve their departmental and program objectives by providing funding to entities outside government. In a funding program, program guidelines such as eligibility criteria, application and approval processes, and the determination of funding amounts, are available to the public.

Examples of funding programs are: assistance programs such as Social Assistance, Post-Secondary Student Grants, and Homeowners' Grants; and project funding programs such as the Community Development Fund, Film and Sound Incentive Program and Arts Fund.

As stated in paragraphs 2, subsection 5.9.2 of the Government Transfers Policy:

- 1) **All funding programs must be approved by Management Board. Any subsequent changes to the program, e.g. changes to terms and conditions of the program, program parameters, eligibility criteria, etc., including termination of the program must be approved by Management Board.**
- 2) **Departments shall review and evaluate transfer payment programs in accordance with the results based guidelines laid out in section 5.9.5.2. In any case, a report of such evaluation must be submitted to Management Board.**



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Furthermore, if the contemplated funding program is to provide transfer payments that are non-discretionary in the sense that both: (i) “who” is eligible to receive the transfer; and (ii) “how much” is transferred are prescribed, it is considered to be a legislated grant program. Pursuant to paragraph 3, subsection 5.9.2 of the Government Transfers Policy, any legislated grant program must be established by an act or a regulation pursuant to an act

Examples of legislated grants are social assistance payments, Yukon Grants to students, Home Owners’ Grants and Seniors’ Income Supplements.

**A. Designing a funding program:**

Creating and designing a new funding program is a very complex task. Consultation and communication with and between stakeholders is critical to develop a successful funding program. Consultation should include operational and functional staff and branches or departments with experience in delivering similar funding programs.

- i) Before deciding to set up a funding program, departments must ensure that it is an appropriate vehicle to achieve government objectives.
- ii) Define objectives of the new funding program. The objectives must be clearly tied to departmental objectives and priorities.
- iii) Identify and define the target group that will benefit from the funding program.
- iv) Define expected results and outcomes. Once expected results and outcomes are identified, the department may proceed with program design such as assessment criteria, selection processes, format of transfer payment agreements, monitoring and payment systems, and evaluation of outcome.
- v) Define the program’s terms and condition. Terms and conditions of a program should contain, at the minimum, the following items:
  - A short summary of the program

The terms and conditions will become a stand-alone document for use by departmental staff. It will be helpful to them in working with potential recipients and in drafting agreements to place the program in the proper context.

- A clear statement of the funding program’s objectives and expected results and outcomes.





## Memorandum

**Date:** August 5, 2019  
**To:** All holders of Financial Administration Manual  
**From:** Maira Mayén  
**Subject:** Financial Administration Manual Update #30

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Attached is a revision/addition to Chapter 8 - Accounting and Administration of Assets and Liabilities of the Financial Administration Manual.

In updating the manual, please:

1. Replace the existing pages of the Table of Contents of Chapter 8, and
2. Add Section 8.13 Indemnities. This policy comes into effect on August 12, 2019.

Should you have any questions please contact me.

Maira Mayén  
Manager, Policy and Compliance  
Finance



**Chapter 8**  
**Accounting and Control of Assets and Liabilities**

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  - 8.2.2 Loss of Cash or Other Assets
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**Chapter 8**  
**Accounting and Control of Assets and Liabilities (CONTINUED)**

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**8.11 POST-EMPLOYMENT BENEFITS**

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- 8.12.1 Net Financial Resources (Net Debt)
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**8.13 INDEMNITIES**

- 8.13.1 Policy Statement
- 8.13.2 Definitions
- 8.13.3 General Guidance
- 8.13.4 Policy procedure where the government is, or is likely to become, liable to make payment under a permitted indemnity.



## **8.13 INDEMNITIES**

### **8.13.1 Policy Statement**

#### Authority

This policy is issued by the Minister of Finance pursuant to section 6(1) of the *Financial Administration Act* (FAA) and pursuant to section 2.4 of the Government Organization Act (GOA). It can only be revised with the approval of the Minister of Finance.

#### Effective Date

August 12, 2019.

#### Application

This policy applies to the “government” as defined in the FAA. For greater certainty, it applies to every “department” and to every “government corporation”, as defined in the FAA.

The policy does not apply where another party is granting an indemnity in favour of the government and therefore the government is not assuming the risks.

Indemnities given in an agreement/contract on behalf of the government after the effective date of this policy, and in accordance with this policy, are “permitted indemnities” for the purposes of section 65 of the FAA, and may be renewed without again going through the approval process set out in this policy, provided that both the agreement/contract and the permitted indemnity given in it are renewed on the same terms and conditions.

The policy does not apply to agreements that commit to compensate or hold harmless government personnel or to some agreements to which the government and the Government of Canada are parties, (see FAA s. 65(1)). Agreements including indemnities to which the government and the Government of Canada are parties should be reviewed by the Department of Justice to determine if the indemnities are permitted under FAA s. 65(1).

This policy does not apply to indemnities already authorized by Act or regulation.

Legal advice about indemnifications should be sought as necessary.

#### Objectives

The objectives of this policy are:

- to establish an approval process for indemnities given by government in agreements;
- to support legislation;
- to ensure that the underlying risks associated with indemnities are understood;
- to limit the amount and duration of the risk posed by giving indemnities in agreements to the extent possible; and
- to improve the management and control of indemnities given by government.



**8.13.2 Definitions**

- a) “incidental” means accompanying but not a major part of a contract or agreement.
- b) “indemnity” means any commitment (including any contingent or conditional commitment):
  - (i) to compensate a person for a loss, or
  - (ii) to hold a person harmless in a legal action.
- c) “material financial risk” means where an indemnity would be expected to negatively affect government’s financial operations, based on an assessment of the associated risks.

**8.13.3 General Guidance**

Indemnities are fundamentally a contractual means of allocating legal risk.

Section 65 of the FAA prohibits giving indemnities on behalf of the government unless they are “permitted indemnities”.

Where the government gives a “permitted indemnity”, it is agreeing to assume the legal risk of insuring another party against a loss for which it would not necessarily otherwise be liable.

Indemnities given by government should be viewed as exceptional, not routine, clauses in agreements made on behalf of the government. Accordingly, giving permitted indemnities in contracts on behalf of the government should be avoided where possible.

Note that giving an indemnity to compensate somebody for a loss is pointless where the government would, in any event and as a matter of law, be responsible for that loss. However, sometimes doing so is necessary in order to reach agreement.

Departments must establish processes for the review and approval of contracts generally.

Indemnity clauses in contracts must be given specific consideration in the contract review and approval process.

Public officers entering into contracts in accordance with section 23 of the FAA that include an indemnity provision must ensure that the indemnity provision is clearly drafted and that the associated risks have been clearly identified in the contract review and approval process.

Wherever possible, indemnities given under this policy should state the maximum amounts for which government could be liable and a time limit during which the indemnity is in effect.

The maximum financial exposure of the government and the time during which the indemnity is effective are factors that must be considered when evaluating the risk associated with an indemnity.

In many cases, contractors are required to carry insurance for third party claims, for their own property losses, and for defective or negligent work performed by themselves.

Where there is applicable insurance in place, the government should not routinely agree



to give an indemnity to a contractor for more than the amount of any deductible under any applicable insurance.

In some cases, mutual indemnifications between the government and a contractor may be acceptable, particularly in cases where the government has considerable control over the risks being indemnified for by it.

Those factors (insurance and degree of control) must also be considered when evaluating the risk associated with an indemnity.

Legal advice about indemnities and indemnifications should be sought as necessary.

#### **8.13.4 Policy**

The government is often asked to enter into agreements containing an indemnity provision.

It is only lawful for the government to enter into an indemnity if it is a “permitted indemnity”, as defined in section 65 of the FAA.

One way by which Indemnities may become “permitted indemnities” is if the Minister of Finance, or an authorized delegate, concludes, in their discretion, that:

1. the proposed indemnity is in writing;
2. the proposed indemnity meets the prescribed requirements;
3. the proposed indemnity is an incidental part of a written agreement to which the government is a party; and
4. the proposed indemnity does not pose a material financial risk to the government.

In accordance with section 2.4(1) of the GOA, the Minister of Finance hereby delegates the authority to determine if an indemnity poses a material financial risk to the government to:

1. the Deputy Minister of Finance, and
2. to every public officer with signing authority for the purposes of sections 24 and 23 of the FAA, up to the level of deputy heads, provided that:
  - (a) the maximum amount payable under the indemnity is capped at a level no higher than the public officer’s signing authority for the original transaction as evidenced on the signed Forms A and B found in section 5.5.4.5 of the FAM; and
  - (b) all the requirements of this policy have been complied with.

Where an indemnity is capped at an amount no higher than a public officer’s signing authority for the original transaction, then that public officer is also responsible for assessing if the indemnity meets the prescribed requirements, if any, and whether that indemnity is an incidental part of a written agreement to which the government is a party. Legal advice should be obtained as necessary.

Where a proposed indemnity is capped at a level in excess of the signing authority limit of the relevant deputy head for the original transaction, or is indeterminate in value, and where the authority of the Minister of Finance to determine whether the proposed



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indemnity poses a material financial risk to the government has not otherwise been delegated to it, then the department or government corporation requesting authority to enter into the proposed agreement containing the indemnity must:

- (a) obtain a written opinion from a lawyer in Legal Services Branch confirming that the indemnity meets the prescribed requirements, if any, and that the indemnity is an incidental part of a written agreement to which the government is a party;
- (b) prepare a risk analysis; and
- (c) forward same to the deputy head of the Department of Finance for consideration.

Following receipt of the materials referred to above, the deputy head of the Department of Finance may, if necessary, ask for clarification and/ or additional information.

The Deputy Minister of Finance will decide whether the indemnity requested should be considered a permitted indemnity or should be referred to the Minister of Finance, including a recommendation.

The Minister of Finance will review the recommendation and decide whether the indemnity requested should be:

- (a) refused; or
- (b) made the subject of a request for a regulation (OIC) approving same as a permitted indemnity.

Where an indemnity is proposed to be the subject of a regulation under section 65(4) of the FAA, the originating department must initially submit the proposed indemnity to the deputy head of the Department of Finance using the process under section 8.13.4, for review as per this policy.

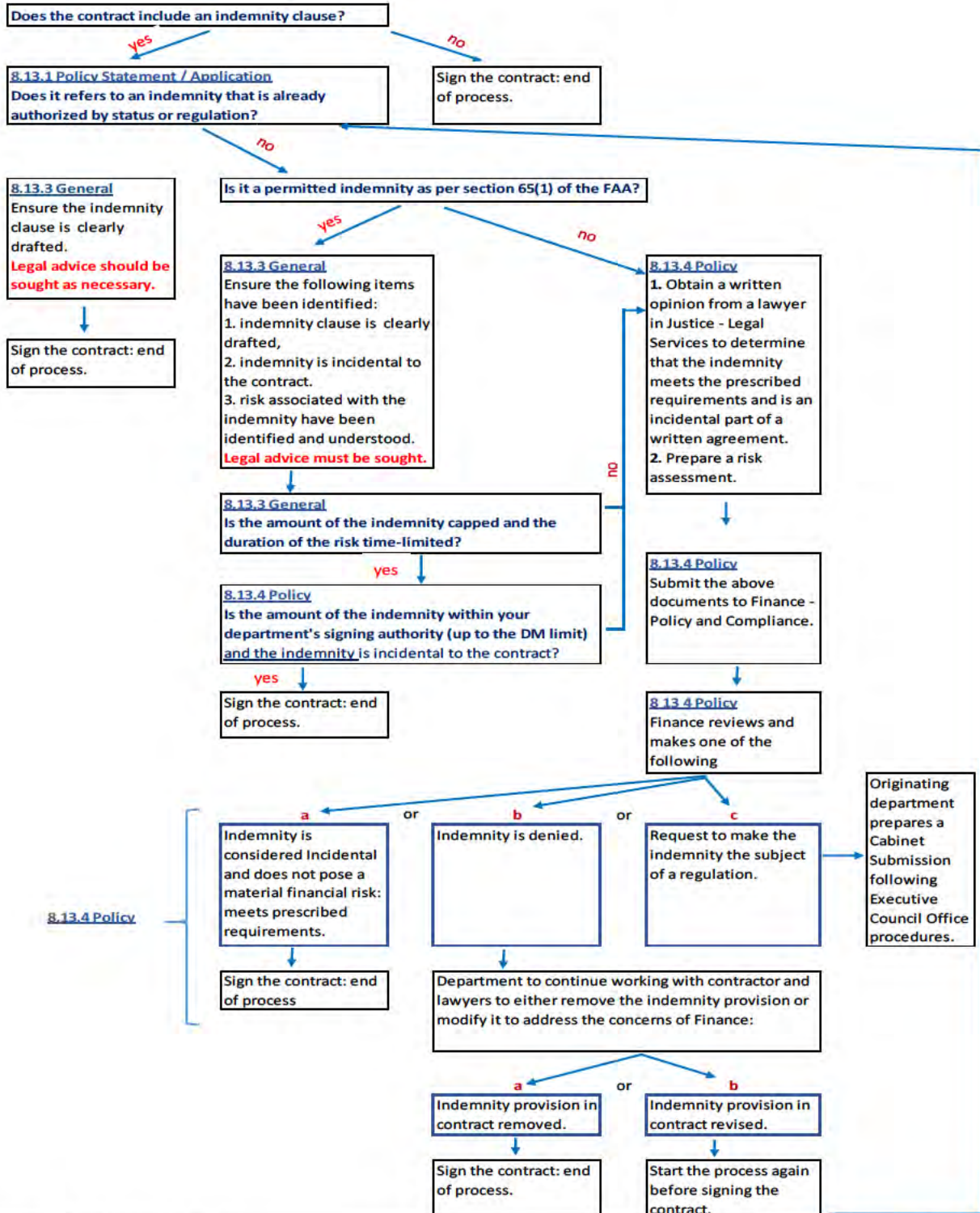
**8.13.5 Procedure where the government is, or is likely to become, liable to make payment under a permitted indemnity**

- (a) Appropriate legal advice should be obtained in every case where a demand is made on the government under an indemnity given by, or on behalf of it.
- (b) Every department or government corporation shall give notice in writing to the deputy head of the Department of Finance of every formal demand received for payment under an indemnity given by or on behalf of the government, which notice must include any legal advice obtained in respect of it.
- (c) Every department or government corporation shall give notice in writing to the deputy head of the Department of Finance of every payment made or contemplated in respect of an indemnity given by or on behalf of the government, which notice must include any legal advice obtained in respect of such payment.
- (d) A payment made under an indemnity shall be made from the Consolidated Revenue Fund and shall be paid from the same general ledger code as the contract/agreement obligation to which the indemnity applies.



## Appendix 1: Decision Tree – Indemnity Approval Process

Prior to signing a contract/agreement:







## **FAM 8.13 – INDEMNITIES**

### **Frequently Asked Questions**

Q1. What is an indemnity and where would one be encountered?

- A. An indemnity is a legal term usually used in a contract or an agreement where one party agrees not to hold the party liable – or to 'save harmless' from anticipated loss or damage.

Indemnities may or may not have a dollar amount attached to them, be for a fixed term, can survive the term of the agreement or have mutual indemnification.

FAM 8.13 - Indemnities does not apply where another party is granting an indemnity in favour of the Yukon Government (YG) and therefore the government is not assuming the risks.

Q2. Does this Directive cover YG transfer payment agreements?

- A. No, it does not. The templates of the transfer payment agreements include a section on indemnification, but in this case it saves YG harmless, not the transfer payment recipient.

Q3. What is an example of a contract where the other party is the contractor?

- A. An example is where a province wishes to contract with YG to provide wildfire fighting services. Contracts like this including an indemnity clause would be covered under FAM 8.13 – Indemnities.

There are particular cases where the contractor may not want to use the standard contract from YG or wants to have an indemnity clause specific to the service/products being provided. In those cases, departments are encouraged to seek legal advice from Department of Justice – Legal Services at an early stage to ensure the proposed indemnity complies with section 65 of the Financial Administration Act (FAA) or to provide alternatives to address the contractor's and YG's needs.

Q4. What if the contractor insists on an indemnity or the government sees a compelling need to indemnify the other party?

- A. The department should consult with Department of Justice – Legal Services to ensure that the proposed indemnity complies with section 65 of the FAA or to provide other options that could potentially address the contractor's and YG's needs.



In some other cases, due to the nature of the indemnity and its potential material financial risks a regulation may be required (refer to Q7 for more information on the process to follow).

Q5. Are indemnities always part of a normal contract or agreement?

A. Indemnities should be the exception, not the norm. Special consideration should be given to indemnities in contracts by departments.

In many cases, an entity or person contracting with YG will have insurance of their own – typical with the construction industry, for example. In cases where there is applicable insurance in place, YG should not routinely agree to give an indemnity for more than the amount of any deductible under any applicable insurance. The advice of Department of Highways and Public Works – Risk Management should be sought in these cases.

Q.6 Please explain about material financial risk – how can a non-financial person understand and apply this requirement?

A. Material financial risk is the point at which the identified risk factor(s) could be expected to negatively affect financial operations. This means that if the risk(s) were to materialize it could potentially result in a significant expense or liability to YG.

Per the process established in FAM 8.13 – Indemnities, departments are responsible of assessing the material financial risk of indemnities that:

1. do not exceed the signing authority limits of the DM of the respective department, and
2. the term of the indemnity is limited

For example, a 2-year contract, valued at \$3 million with an indemnity clause that is capped at the Deputy Minister's signing authority (e.g. \$150,000) and is valid only during the term of the contract, where YG is responsible only of its own actions could be signed by the Deputy Minister.

What would negatively affect financial operations is a matter of professional judgement. At the program/project officer level, the responsibility for this requirement is carried out by public officials who have signing authority under Section 24 and 23, up to the limit of the Deputy Minister signing authority level for each department.

A different example would be a 5-year contract, valued at \$3 million with an indemnity clause which value is not capped and where YG is responsible not only of its own actions but also for the actions of the contractor (including its personnel) and third-parties (e.g. sub-contractors). In this case the department would not be able to sign the contract because the indemnity is not capped in value and therefore exceeds the signing authority limits of s.24 and s. 23 of the Deputy Minister.



In this case the responsibility to determine whether the indemnity poses a material financial risk to the government lies with the Department of Finance (refer to Q.8 for information on the process).

Q.7 Why is the amount of the indemnity linked to the signing authority framework in FAM 5.0?

A. The delegation to departments from the Minister of Finance to determine whether an indemnity pose a material financial risk to YG is linked to the signing authorities up to the level of deputy heads as those limits are considered to not pose a material financial risk to YG.

Any indemnities above Deputy Minister signing authority and those with an indeterminate value must be assessed by Finance.

Q.8 What happens when the value of the indemnity exceeds Sections 24 and 23 Deputy Minister level of that department?

A. The department has to forward a copy of the agreement to Department of Justice – Legal Services (refer to Q.9 below) and has to prepare a risk analysis.

Department of Justice's response, a copy of the agreement (if applicable) and a risk analysis have to be forwarded to the Department of Finance – Policy and Compliance, for advancing to the Minister of Finance or his delegate for disposition.

Q.9 What is the role of the Department of Justice – Legal Services in this process?

A. The Department of Justice is responsible for determining if the indemnity is an incidental part of the written agreement, which is one of the requirements of section 65 of the FAA.

Legal Services advice should also be sought to ensure the indemnity is well written and the underlying risks of the indemnity are well identified and understood.

Q.10 Who should prepare the risk analysis?

A. There is a relationship that suggests that a knowledgeable public officer signing on S24/23 would have enough expertise to prepare the risk assessment. In practice, the risk assessment has been usually done by a Director or Project Manager. The risk analysis should always be completed and/or reviewed by someone who has sufficient knowledge and expertise to complete the analysis.



Q.11 How should I perform a risk analysis?

A. The risk analysis will consider among other things:

1. the term and amount of the contract,
2. the nature of the contract,
3. the conditions and value (if determined) of the indemnity clause,
4. the party to the agreement (e.g. has YG done business with this contractor before? Have there been any issues?)
5. the risk factors associated with the indemnity and the project (or service or goods) and the probability of occurrence.

For example:

1. Term of the contract is 5 years and its value is \$3.5M.
2. The contract is for maintenance and enhancements to the payroll system.
3. The indemnity covers only damages related to omissions or delays of YG but is not capped.
4. The party to the agreement is a regular contractor with a good history in delivering similar services to YG.
5. Potential risks:
  - YG Project Manager is retiring in 2 months but a new manager will be joining in the next 2 weeks and will be able to take over the project, therefore the likelihood of delaying the project is deemed low.
  - Per the contract, YG is responsible of providing by X and Y by Z date. The team members have been informed of the due date and regular updates are being provided to the Project Manager, therefore the probability of YG not meeting this requirement is low.
  - In addition, the department has experience working with this company in the past and have a good working relationship and previous projects have all been delivered to reasonable standards.

Departments can use their own risk assessment form/report or the risk assessment template provided by the Department of Finance. If a department decides to use its own risk assessment template, it should ensure that the analysis conducted considers and documents all the points included in the Department of Finance template.



Q.12 Isn't this going to create a lot of extra work?

- A. As noted in the policy "Indemnities given by government should be viewed as exceptional, not routine, clauses in agreements made on behalf of the government. Accordingly, giving permitted indemnities in contracts on behalf of the government should be avoided where possible."

With this in mind, it is not expected that this policy will create a lot of extra work. In addition, reviewing contracts and ensuring that any indemnity clause is in accordance with the FAA is work that is required by law.

The principle of the policy are to:

1. leave the subject-matter expertise at the departmental level, and
2. delegate back to the departments all indemnities below their signing authority limits.



Government of Yukon  
Risk Analysis for Indemnities

Department:

Date:

Risk factors	Comments	Financial risk (\$ value and factors)
Parties to the agreement		
Date of original agreement		
Term of the agreement		
Nature of entity/industry/economic environment/size/capacity		
Amount of agreement		
Nature of the agreement:		
Resources committed to other than financial		
Allocation of risk within the agreement		
Covenant or conditions ( time, resources, specs)		
Specific indemnity		
Is the indemnity limited to claims arising out of the acts or omissions of the indemnitor?		
Is YG indemnifying the party to the agreement for their actions or is YG accepting responsibility for its own actions		
Calculations based on...		
Complexity of the agreement and the undertakings		
What could go wrong ( possibility and probability)		
Mitigations in place already		
Public exposure and sensitivity		
Past experience with other party/credibility/track record		
Is the indemnity fair within the context of the contract?		
Dispute resolution process?		
Does this contract imply - partnership, agency, employer/employee relationship		
Is YG insured for a possible breach?		
Can liability under the indemnity be capped with respect to amount or duration?		



Maximum payout under breach?		
Ability for parties to withdraw from the agreement?		
Is the indemnity necessary in order to conclude the contract?		
Is the contract necessary in order to support some government activity or program?		
If both parties to the contract bring some element of risk to each other, are the indemnity provisions reciprocal and balanced in favor of both?		
Would the liabilities assumed by way of the indemnity exist in common law in the absence of an indemnity?		
Does the indemnity deal with fortuitous happenings that may occur in the future, or, is it a payment obligation, as part of the terms of the business deal, which is disguised as an indemnity?		
Is the contractor using sub-contractors?		
Are the benefits of obtaining the goods/services through the contract greater the potential liability to the government?		
Does the indemnity allow for 3rd party indemnification?		

Summary:

Is YG responsible of its own actions, others or is it a mutual indemnification?

What is the possibility and probability of something going wrong?

Are the terms or conditions of the indemnity such that a regulation should be issued?

Reviewed and approved by:

(Public Official with S.24 and S.23)

Date