



# Management Control Framework Audit Tourism & Culture Final Report

Fiscal Year (2017-2018)

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## Acronyms

AC – Audit Committee  
CAE – Chief Audit Executive  
DM – Deputy Minister  
FAM – Financial Administration Manual  
GAM – General Administration Manual  
GIAS – Government Internal Audit Services  
MCF – Management Control Framework  
NGO – Non-governmental Organizations  
O&M – Operation and Maintenance  
OAG – Office of the Auditor General  
TOR – Terms of Reference  
TC – Tourism and Culture  
GY – Government of Yukon

## 1.0 Executive Summary

### 1.1 Introduction

Properly planned and managed, grant and contribution programs provide an efficient means for government to meet its policy objectives.<sup>1</sup> Tourism and Culture (TC) directly transfers funds to governments (e.g. municipalities, First Nations), non-government organizations, businesses and individuals. Transfers range from \$7.4M to \$10.5M of TC spending.<sup>2</sup>

The Government of Yukon (GY) Financial Administration Manual (FAM) Chapter 5.9 Government Transfers governs GY's transfer payments. Formerly, and during the time period of this audit, the General Administration Manual (GAM) Policy 1.16 NGO Funding also governed GY's transfer payments. The NGO Funding policy was revoked in March 2018. The objective of FAM is to "ensure that all government transfers are authorized, delivered 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".

### 1.2 Why we completed this audit

Transfer payments are a major commitment of TC resources. These payments vary both in size and in scope, accounting for up to 34% of Operation & Maintenance (O&M) spending over the last 5 fiscal years. With TC's substantial use of transfer payments, it

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<sup>1</sup> [http://www.oag-bvg.gc.ca/internet/English/parl\\_oag\\_201210\\_02\\_e\\_37346.html](http://www.oag-bvg.gc.ca/internet/English/parl_oag_201210_02_e_37346.html)

<sup>2</sup> Public Accounts, Schedule of Expenses by Government, and Other Government Transfers

is important to get it right. Yukoners expect these programs are managed so that recipients are appropriately funded and that program spending achieves its intended results. It is therefore essential that a clearly documented management control framework exists to support decision-making and provide for transparency over key decisions in the administration of transfer payments.<sup>3</sup>

### *1.3 Objective*

The audit objective is to provide reasonable assurance to GY that the funds/programs are operating within a sound Management Control Framework (MCF), and to determine whether the MCF is working as intended. A sound MCF expects the following 5 elements:

- Governance
- Risk Management
- Financial Management
- Performance Management and Reporting
- Communications

### *1.4 Conclusion*

The fund roles and responsibilities within TC are generally well defined. Some aspects of the MCF could be improved, including: ensuring potential conflict of interest is addressed, and development and use of performance measures. Several findings within this audit will be addressed with the implementation of Office of the Auditor General (OAG) and Yukon's Standing Committee on Public Accounts recommendations/action plan.

### *1.5 Summary of main findings*

Management's responsibility is to establish systems that enable managers to be involved in critical decision-making, to ensure that controls are in place to mitigate risks, and to monitor program results.

#### **1.5.1 TC is not using risk-based (or risk management) approach**

The audited funding programs, except for one, did not apply a risk-based management approach. The lack of a risk management approach was reported in the Office of Auditor General (OAG) 2017 March Audit Report: *Government Transfers to Societies*, paragraph 62; and in the report to the Yukon Standing Committee on Public Accounts, recommendation/action plan #4.

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<sup>3</sup> <http://www.tbs-sct.gc.ca/report/orp/2011/hia-vihtb-eng.asp>

## 1.5.2 TPAs are provided as a one-size fits all

Transfer payments can take several forms with the most familiar ones being grants and contributions. Proper management of government funds is an important aspect of grant and contribution funding. TC adheres to FAM 5.9 Transfer Payments, which provides guidelines and templates for two categories of low risk and med-high risk.

Without consideration of the type of TPA, GY including TC does not have a financial mechanism in place to address various needs. By having a mechanism suited to their needs and the recipient's roles, efficiency could be optimized for both parties. This was also reported in the OAG report, and Yukon Public Accounts Committee recommendation/action plan #3.

## 1.5.3 No indication that potential or perceived conflict of interest was addressed

TC indicated that corporate conflict of interest documents were signed by all employees at recruitment, but GIAS found no indication that conflict of interest was considered or reviewed in any of the audited funds. This identification of potential or perceived conflict of interest could also be extended to the third parties that are fund administrators for TC.

## 1.5.4 Limited communication

Yukoners have partial information on TC funding programs, and there is no communication from TC on the achievements of the programs audited. By not providing this information, the public is not assured that government transfers are accounted for and meeting program and stakeholder needs. There is a lack of transparency.

## 1.5.5 No clear performance expectations

As with TC's communication of audited fund achievements, recipient reporting is also primarily activities-based, with some outputs. Activity-based reporting is a requirement in the TPAs, but without clear expectations and performance measures, TC's accountability for the audited funding programs is limited to simply having provided the funds. TC is unable to report on the achievement of objectives of these funding programs as required by FAM 5.9.5.2.

For one of the audited funding programs, various data is collected. This data could be leveraged to provide meaningful performance measures.

## 1.6 Actions taken

TC is currently working on the implementation of the recommendations from the 2015 OAG audit on government transfers. TC will be working on:

- A risk management approach
- A new approach on drafting Schedules (incorporate link to mandate items, include clear deliverables and reporting on these outcomes)

TC has consulted the three departments that were audited (Ec Dev, EMR and CS) and gathered templates that were created in response to the audit. TC believes that they could use some of them as the approach has already been tested by these departments for one year and this seems to work.

### **Recommendation #1 - Ensure potential conflict of interest is addressed at government level and when necessary at recipient level**

TC will also address this recommendation. However, TC recently learned (May 2, 2018) that Procurement Support Centre is developing Code of ethic/conflict of interest form. These forms will soon be shared at DALC.

TC prefers to wait until the new form is implemented so the process is similar for TPAs and contracts.

TC will review its process to ensure a good balance between the necessary accountability piece and the administrative burden.

### **Recommendation #3 - TC develop performance measures (results-based approach) to allocate, monitor, and report achievements internally and externally.**

TC will need to take into consideration:

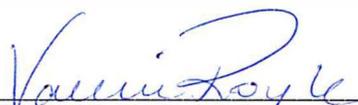
- Completion in the review of some programs (TCMF, Arts...) so the performance measures approach is consistent with possible revised requirements.
- For other funding programs, a staged approach in the implementation will be based on existing identified risks.

TC will also stay connected with other departments to try to have, as much as possible, a "one government approach".

1.7 Recommendations, Management Response and Action Plan

Recommendations	Management Response / Action	Target Date	Position(s) Responsible
1. Ensure potential conflict of interest is addressed at government level and when necessary at recipient level.	Wait for YG implementation of new Code of ethics/Conflict of interest form on contracts	March 31, 2019	Director, Corporate Services, Managers
2. TC will develop an evaluation framework established on risk-based and client focus approaches as part of the TPA.	Staged approach on recipients outside of funding programs – evaluations to start in 2019/20.	Evaluation framework developed by March 31, 2019	Director, Corporate Services, Director, Policy & Communication, Managers
3. TC will develop performance measures (results-based approach) to allocate, monitor, and report achievements internally and externally.	Implementation on Project based TPAs	March 31, 2019	Director, Corporate Services, Managers

I approve the above Management Response and Action Plan

  
 \_\_\_\_\_  
 Deputy Minister of TC

I recommend this Management Response and Action Plan for approval by the Audit Committee

  
 \_\_\_\_\_  
 CAE, Director of GIAS

Approved by Audit Committee on July 3rd, 2018

## 2.0 Scope and methodology

### 2.1 Scope

In July 2017, GY's Audit Committee (AC) approved an audit of the MCF for funds/programs at TC covering the period from April 1, 2012 – March 31, 2017, 5 fiscal years. The audit was conducted following IIA Standards for the Professional Practice of Internal Auditing. This ensures that the evidence gathered is sufficient, reliable, relevant and useful to draw conclusions.

In the planning phase, GIAS conducted a comprehensive review of the management of the funds/ programs within TC. The governing legislation, policies, directives and GY guidance for transfer funds were reviewed in the development of the criteria (see Appendix A). In particular, FAM 5.9, which provides detailed requirements in the development, administration and reporting of transfer payments.

A sound MCF expects the following 5 elements:

**Governance:** outlines management's role in decision-making and oversight

**Risk Management:** risk-based assessments are completed and used to determine an appropriate level of monitoring and reporting requirements.

**Financial Management:** processes and procedures are appropriately applied to ensure accountability and transparency. Procedures are standardized, streamlined/efficient, documented, and controls are in place to ensure compliance with policy guidelines and directives.

**Performance Management and Reporting:** performance monitoring against the objectives of the funds and reporting results;

**Communications:** pertinent information must be identified, captured and communicated in a form and timeframe appropriate for the audience.

Recognizing that Government Internal Audit Services (GIAS) and TC did not have the capacity to audit all of their fund/program transfers, a risk-based criteria template was developed to optimize the audit work and value-added to the auditee. Using 7 risk factors, (see Appendix B) to prioritize fund selection, and by examining a representative sample of the various types of funds/programs and responsible managers, 6 funds were identified for the audit.

These 6 funds represented:

- Non-competitive/Arts, multi-year funding agreement;
- Non-competitive/Tourism multi-year funding agreement;
- Public/competitive application fund;
- Third-party delivery transfer agreement;
- Singular recipient, single fiscal year.

No contact was made with fund recipients, boards, committees, or contractors who participate in the funds/programs.

## 2.2 Methodology

The audit included various information gathering and analysis methods. Interviews with relevant fund administrators, managers and directors provided insight into the processes and the management control framework. Documentation review was conducted for all of the funds/programs.

This review also included analysis of administrative data stored in a fund management system. Due to the volume, it was impossible to review all the applications and recipients. The recipients were stratified (by year) and a random number generator was used to determine a sample of applications to be reviewed. An 80% confidence level and a 10% margin of error was used to determine the sample size.

## 3.0 Background

TC's mission is to support the tourism industry, promote the arts, and preserve our diverse culture and heritage by:

- Facilitating long-term economic growth for the tourism industry through developing and marketing Yukon as a year-round travel destination, and by
- Maximizing the socio-cultural benefits to Yukoners and visitors by preserving and interpreting our heritage and supporting and promoting the arts.<sup>4</sup>

The TC 2016-17 O&M and Capital Estimate was \$33.5M, and of that \$10.5M (31%) was distributed via transfer payments, through approximately 27 different funds/programs. These transfers to funds/programs ranged from \$4,800 - \$2.1M, and were distributed to approximately 379 recipients. Recipients received between \$110.00 and \$1.5M. The average was \$27,900 per recipient. Eight funds/programs had a sole recipient; in some instances these are third parties responsible for administering funds on behalf of TC.

## 4.0 Observations and findings

### **Government-wide policy requirements are a good place to start.**

GIAS found that the requirements of FAM 5.9 were appropriate, covering much of the MCF for funding programs. The policy provides a reasonable framework for roles and responsibilities. It provides a minimum set of controls (signing authority, actions based on risks, good standing) to ensure that transfer payments are managed with integrity

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<sup>4</sup> [http://www.tc.gov.yk.ca/pdf/TC\\_strat\\_plan\\_booklet\\_FNL.pdf](http://www.tc.gov.yk.ca/pdf/TC_strat_plan_booklet_FNL.pdf)

and transparency and in a manner that is sensitive to risks. FAM 5.9 also requires departments to use risk and a results-based approach in the management of TPAs.

### **TPAs are provided as a one-size fits all.**

FAM 5.9 (Transfer Payments) provides guidelines and templates to be used government-wide for two TPA types: low risk and med-high risk, but does not take into account the different mechanisms of transfer payments such as grants and contributions. TC adhered to FAM 5.9: their TPAs followed the guidelines and templates for these two categories of risk.

FAM does not make a distinction between grants and contributions. GAM Policy 1.16 NGO Funding, which was revoked in March 2018 but in effect during the audit scope, stated:

*“given that there are different categories of NGOs, providing different types of services, with different funding requirements and with different types of relationships with government, one funding system, or one set of criteria, will not meet the requirements of all NGO's”.*

This gap is to be addressed by Yukon Standing Committee on Public Accounts, recommendation/action plan #3.

## **4.1 Governance**

Having an effective governance system in place provides management with direction to manage funds. GIAS found that TC had clearly defined and documented roles and responsibilities. The person responsible at each step of the process had the necessary level of authority.

## **4.2 Risk Management**

### **Not using risk-based (or risk management) approach.**

Funding programs, with the exception of one, did not apply a risk-based management approach. FAM 5.9.1 defines a risk-based (or risk management approach) as 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. Recipient monitoring and reporting are essential to ensure that eligibility requirements are met and program objectives are fulfilled.

Risk management provides a basis for determining the amount and frequency of monitoring activity for each recipient, and the reporting requirements that may be necessary to ensure that they are meeting the terms and conditions of their funding.

By not using a risk management approach, as required by FAM 5.9.1, TC could be focusing its limited resources on the lower risk recipients.

The lack of a risk management approach was reported in the Office of Auditor General (OAG) 2017 March Audit Report: *Government Transfers to Societies*, paragraph 62; and in the report to the Yukon Standing Committee on Public Accounts, recommendation/action plan #4.

#### **Action taken**

TC has consulted the three departments that were audited (Ec Dev, EMR and CS) and gathered templates that were created in response to the audit. TC believes that they could use some of them as the approach has already been tested by these departments for one year and this seems to work.

### *4.3 Financial Management*

#### **4.3.1 Conflict of Interest**

TC indicated that corporate conflict of interest documents were signed by all employees at recruitment, but GIAS found no indication that conflict of interest was considered or reviewed in any of the audited funds. This does not comply with FAM 5.9, and GAM 3.39 which states that:

*“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.”*

TC does not know if any perceived or potential conflict of interest exists, and consequently is unable to take steps to mitigate this risk. Without a conflict of interest declaration and subsequent mitigation, there could be interference in decision-making.

This identification of potential or perceived conflict of interest could also be extended to the recipients that are responsible to allocate funds for TC.

#### **Recommendation #1**

**Ensure potential conflict of interest is addressed at government level and when necessary at recipient level.**

#### **4.3.2 Standardized administrative controls – in delivery**

TC uses a checklist in all of the funds to track the stages of the application process and show when payments have been made. In one of the audited funds, there was inconsistent use of the checklist. With this fund, 17% (17/101) of the checklists we reviewed were complete, 66% (67/101) were not complete, and 5% (5/101) had no checklist on file. Of the 101 files requested by GIAS 12% were not available.

Consistent and complete documentation helps ensure that the decision-making process is open, transparent, and can be continued in the event of employee turnover.

One of the 6 audited funds is administered and tracked through an on-line application process, which streamlines and simplifies client interaction. This also provides increased efficiency and an open and transparent process.

#### **4.3.3 Inadequate review of reporting required and received from recipients**

GIAS found that:

- For one of the audited funds, the final report received by TC included qualified financial statements from an external auditor – there was no evidence that this was noticed or questioned.
- In another audited fund, the recipient's report of their spending did not total the budget/funds requested. There was no indication this was reviewed.
- Of the requirements for two consecutive TPAs, one reporting requirement was a carry-over from prior year TPAs.

Without a thorough review of the TPA requirements and the reporting provided by the recipients, the control is ineffective and funds could be allocated when there is no compliance with TPA. In order to improve management of TPA, GIAS suggests that TPA requirements are reviewed to ensure clarity and that proper information is required and used to mitigate risk of monies not spent as intended. Efficiency of control in place.

#### **4.3.4 Financial Management control could be improved**

GIAS assessed roles and responsibilities identified under FAM and how they were applied to the administration of TPAs. The signing authority was appropriate, although TC should ensure there is an audit trail that managers have reviewed and agreed with the variance spending reports. Without the assurance that this control is being used, TC is at risk of not identifying possible misappropriation of funds.

## 4.4 Performance Management

### 4.4.1 Fund application does not use all the data collected

In the application driven fund audited, TC provides a description of the program and eligibility requirements on its website. GIAS found that one piece of required information on the application was not collected consistently: 63% (64/101) of checklists/files did not have the information; 26% (26/101) had the information on file and in 11% (11/101), no file was available.

GIAS questions why this information is requested, if it is not used. There is always a risk present/taken by asking for and collecting information. There needs to be a clear purpose.

GIAS suggests that TC review information collected/received to ensure it answers a need or serves a purpose.

### 4.4.2 Limited control

One TPA was for a large amount \$3M (first payment made in 2016/17 fiscal year) which was the result of a political decision. TC had limited control on the reporting, and deliverables; however, TC retained TPA process and control. Another political decision involved a TPA for a significant amount (\$150K) without TPA process and control. Without using the established processes and internal controls in place, this could have left the government at risk of funds being misused, and/or having an incomplete project with cost overruns.

In both circumstances, a lack of control limits TC's capacity to report on achievements and creates a precedence. Decisions could instead be made using the right mechanism, process, and controls in place to ensure accountability.

### 4.4.3 Program monitoring/review/evaluation not completed

TC has been providing 3 out of the 6 programs with the same funding for up to 13 years. GIAS examined 41 recipients<sup>5</sup> (101 files) and found that 73% (30/41) of the recipients have been in business for 10+ years, and 70% of the recipients received funding for more than 1 year. We question if this fund is still relevant.

Without periodic reviews, TC is at risk of funding programs that no longer meet the goals and objectives of TC. It could also be that some organizations have matured and no longer need TC funding. Scarce resources need to be used efficiently and in compliance with FAM 5.9.2 Section 4 which states: "Departments must use a results-

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<sup>5</sup> 41 individual recipients with a collective total of 101 applications as applicants can apply every year.

based and risk-based management approach...” and FAM 5.9.4 Section 7 Program Managers, states “monitoring and reviewing funding programs and transfer payment agreements to ensure they are meeting program objectives.”

No “monitoring, evaluating and advising” on TC’s compliance with FAM Chapter 5.9 by the Department of Finance was found as required in FAM 5.9.4 Section 4.

The March 2017, OAG report recommended the creation of “an evaluation policy that will support a results-based approach to managing government transfers, so that departments can measure, account for, and report on expected results”. This was also recommended by the Public Accounts Committee; recommendation/action plan 2.

However, FAM Chapter 5.9 was amended in March 2018 and Section 5.9.2 number 2. states “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.” In order to comply with FAM 5.9.2 and 5.9.4, GIAS is making the recommendation below in addition to recommendation 3. TC should use the information gathered as per recommendation 3 to feed an evaluation process.

#### **Recommendation #2**

**TC will develop an evaluation framework established on risk-based and client focus approaches as part of the TPA.**

#### **4.4.4 No clear performance expectations**

Closely related to communication of achievements, recipient reporting is primarily activity-based, with some outputs.

All, except one, of the fund transfer payments had quarterly reporting requirements. All of these NGOs provided the required information. The types of reporting ranged from:

- Financial information (budgets, financial statements); to
- Receipts to ensure payment was appropriate; to
- Activity information, (# of applicants, a brief summary of events funded).

Activity-based reporting is a requirement in the TC TPAs, but without clear performance expectations TC’s accountability for the funding programs is limited to having provided the funds. TC is unable to report on the achievement of objectives of their funding programs.

Various data is collected. This data could be leveraged to provide meaningful performance measures.

### **Recommendation #3**

**TC will develop performance measures (results-based approach) to allocate, monitor, and report achievements internally and externally.**

## *4.5 Communication*

### **Limited communication**

Yukoners have partial information on TC funding programs' activities and none on their achievements.

Activity-based information was provided in 2 of the 6 funds, and communication was done through a press release. In compliance with FAM 5.9.5.7, the lump sum amounts for each of the remaining 4 funds were communicated through a line item in the GY O&M budget document. Any further communication of these funds is dependent of the recipient's acknowledgment of receiving the funds.

None of the funds provided information on their achievements. Without providing information to Yukoners about the impact of their tax dollars, the public is not assured that government transfers are accounted for and meeting program and stakeholder needs. No transparency, see recommendation #3.

## *5.0 Conclusion*

The roles and responsibilities within TC are generally well-defined. TC could strengthen some aspects of the MCF of their funding programs, by ensuring potential conflict of interest is addressed, and developing and using performance measures to track and report on success. Some findings within this audit will be addressed with the implementation of OAG and Standing Committee on Public Accounts recommendations/action plan.

## Appendix A: Table of audit criteria

<b>Criteria</b>
<p><b>Governance</b></p> <p>Good system in place to direct and manage the funds; contribute to set and achieve objectives, monitor and assess risk, and optimize performance</p> <ol style="list-style-type: none"> <li>1. Proper governance structure (authority, decision-making, and accountability) in place to deliver the funds</li> <li>2. Proper governance structure ensure relevancy of funds (accountability, decision-making, and achievement of objectives)</li> </ol>
<p><b>Risk Management</b></p> <p>Risk management processes are used to manage and deliver the funds.</p> <ol style="list-style-type: none"> <li>3. There is a risk-based accountability structure for management process (applications, selection, delivery, monitoring, and reporting</li> <li>4. Risk management analysis is used to revise risk assessment process and requirements</li> </ol>
<p><b>Financial Management</b></p> <p>Procedures are standardized, streamlined/efficient, and documented. Controls in place to ensure compliance with policy guidelines and directives</p> <ol style="list-style-type: none"> <li>5. Due Diligence is performed to ensure proper financial management</li> <li>6. There are standard and transparent procedures in place to ensure compliance with policies and guidelines for each fund</li> <li>7. Proper management of funds – accountability</li> <li>8. Appropriate and regular financial monitoring of operation costs</li> </ol>
<p><b>Performance Management and Monitoring</b></p> <p>A performance measurement strategy is in place; performance indicators are collected and reporting on. Annual data collection requirements are established, maintained and updated. The results/performance are/is taken into consideration, to monitor fund effectiveness.</p> <ol style="list-style-type: none"> <li>12. Funding investment in relation to administration costs and results</li> <li>13. Performance management strategy and framework exist to assess results of fund</li> </ol>
<p><b>Communication</b></p> <p>Effective communication exists with external and internal parties. Pertinent information must be identified, captured and communicated in a form and timeframe that enables people to carry out their responsibilities</p> <ol style="list-style-type: none"> <li>9. Potential recipients have ready access to information about funds and fund descriptions are made public</li> <li>10. Communication protocols exist for recipients/beneficiaries and employees</li> <li>11. Communicate results/performance of the funds</li> </ol>

## Appendix B: Risk factors

1. Governance Structure
2. Reporting Communication
3. Was an evaluation completed within the last 3-5 years?
4. Does the department have a logic model?
5. Are the funds distributed through a third party?
6. What is the approval process?
7. Materiality of the fund

