

**Report of the Auditor General
to the Yukon
Legislative Assembly**

For 2000 to 2003

Table of Contents

Chapter		Page
1	Introduction	1
2	Main Points	4
3	Financial Vulnerability	5
4	Managing Capital Agreements	9
5	Lack of Compliance With Authority	12
6	Financial Statement Issues	21
7	Follow-up of Previous Issues	25
APPENDIX A	Our People	

Introduction**Our Vision**

1.1 The Office of the Auditor General of Canada (the Office) is committed to making a difference for the people of the Yukon by promoting, in all our work for the Legislative Assembly, answerable, honest, and productive government.

Our Mission

1.2 The Office conducts independent audits and examinations that provide objective information, advice, and assurance to the Legislative Assembly. We promote accountability and best practices in government operations.

Our Mandate

1.3 In accordance with *Yukon Act*, section 30 (1), we audited the accounts and financial transactions of the Government of the Yukon Territory to express an opinion on the Government's financial statements for the years ended 31 March 2000, 2001, 2002 and 2003.

1.4 Each of the significant matters noted in this report were identified during the course of our audit of the Public Accounts, which have been audited in accordance with Canadian generally accepted auditing standards. Our audits included reviews of certain operating, legislative and financial control systems and financial management practices. These include detailed tests and procedures, as we considered necessary.

1.5 Our audit opinions are included in the Public Accounts. The Auditor's Reports provided an unqualified opinion on the consolidated financial statements of the Government of Yukon for the years ended 31 March 2000, 2001, and 2003. The consolidated financial statements were qualified for the year ended 31 March 2002 as noted in paragraph 6.3 of this Report.

1.6 This Report of the Auditor General to the Yukon Legislative Assembly, also referred to as the Report on Other Matters, is part of our audit of the Government's financial statements. In accordance with the *Yukon Act*, section 30 (2), the Auditor General is to report on any "other matters" arising from the audit that we feel should be brought to the attention of the Legislative Assembly.

Accordingly, this report contains items of concern, our recommendations, and management's response, where appropriate.

1.7 This *Report on Other Matters* covers the fiscal years ended 31 March 2000, 2001, 2002 and 2003. This report comments on items that we believe will be of interest to members of the Legislative Assembly. Individually or collectively, they have not generally been significant enough to require a reservation of opinion in our Auditor's Report. However, the report may not include all matters that may be of interest to members.

1.8 During 2000, 2001, 2002 and 2003, we issued audit opinions on the financial statements of the following government entities. Our opinion on the financial statements of the Yukon Housing Corporation for the year ended 31 March 2000 was qualified (more details are provided in Chapter 6 of this report).

Table 1.1 Audit opinions issued by the Auditor General's Office on the Financial Statements of Yukon Government entities between 2000 and 2003

Corporation	Year end	Reported to
Yukon Development Corporation	31 December 1999, 2000, 2001, 2002	Minister
Yukon Energy Corporation	31 December 1999, 2000, 2001, 2002	Chair, Yukon Energy Corporation
Yukon Housing Corporation	31 March 2000, 2001, 2002, 2003	Minister
Yukon Liquor Corporation	31 March 2000, 2001, 2002, 2003	Minister
Yukon Workers' Compensation Health and Safety Board	31 December 1999, 2000, 2001, 2002	Minister

In addition, we audited the accounts and financial statements of the Yukon College for the years ended 30 June 2000 to 2003. The results were reported to the Minister of Education.

Other audit work carried out on behalf of the Government of Yukon and Yukoners

1.9 In September 2002, we also provided two important reports of interest to Yukoners. First, at the request of both the federal and Yukon cabinets, we carried out a special examination of the Yukon's workers' compensation system. We provided the Yukon Workers' Compensation Health and Safety Board with a report on the results of our work. This report was then provided to the Minister and made public the same day, with the Auditor General addressing a press conference and public hearing in Whitehorse that day.

1.10 Secondly, at the request of the Department of Health and Social Services, we carried out audit work on the health indicators included in the Government of Yukon's publication, Reporting to Yukoners on Comparable Health and Health System Indicators 2002. This publication was to satisfy the Communiqué on Health issued by first ministers in September 2000, in which they agreed to provide clear accountability reporting to Canadians. First ministers directed their ministers of health to provide comprehensive and regular public reporting and to collaborate to develop a comprehensive framework. The report uses comparable indicators, that are jointly agreed-upon, to address health status, health outcomes, and quality of service. This was the first report on the 14 indicators for the Yukon.

Management responses

1.11 Our Office maintains a policy on obtaining comments in response to audit recommendations. The policy suggests that audit observations and recommendations be referred to the management of the audited organizations for comment. The Office obtains from the entity, where appropriate, written responses to recommendations contained in our reports.

1.12 We provided our draft report, where appropriate, to the Deputy Minister of Finance and to Territorial corporations reported on, for comment. Management responses are included with relevant chapters.

Our Thanks

1.13 Management provided explanations, information, and full access to all documents requested during our audit. We would like to express our appreciation to the Deputy Minister of Finance and to the staff of the Government and its Territorial corporations for their co-operation.

For comments or questions on this report, please contact Eric Hellsten at (604) 666-3596, Roger Simpson at (780) 495-3088, or Ron Thompson at (613) 995-3708.

Main Points

- 2.1** This Report is to bring to the attention of the Legislative Assembly any “other matters” arising from our audit of the Public Accounts of the Government of Yukon. Accordingly, this report contains items of concern, our recommendations, and management’s response, where appropriate.
- 2.2** In Chapter 3, Financial Vulnerability, we note that given the changing expectations of Yukoners, the declining and ageing population, and the slumping economy, the Government of Yukon is under increasing pressure to manage its resources well.
- 2.3** In Chapter 4, Managing Capital Agreements, we found that the Government is not basing advance payments on cash flow statements in order to avoid providing funds in advance of need. It needs to be more precise in entering into such agreements, so that each party is clear on its responsibilities. It must also exercise more discipline in holding others to their part of the arrangements.
- 2.4** In Chapter 5, Lack of Compliance with Authority, we express our concern that violations of authority continue to occur and that the Government should have systems and processes in place to ensure that these situations do not arise. We found examples of departments exceeding their spending authority, of trust funds not being adequately monitored, and of payments being made prior to the approval of Management Board.
- 2.5** In Chapter 6, Financial Statement Issues, we bring attention to qualified Auditor’s Reports that we have issued on the Public Accounts and the financial statements of the Yukon Housing Corporation, and what has been done to correct problems identified in those reports. We also recommend improvements in the Government’s accounting for environmental liabilities and tangible capital assets.
- 2.6** Finally, in Chapter 7, Follow-up of Previous Issues, we bring to the attention of the Legislative Assembly, up-dated comments on previous audit observations and recommendations. The most significant of these matters deals with land inventory valuation and enhancing accountability. As the chapter notes, some of these issues have not yet been resolved, even though several years have passed since we first identified and reported them. We draw particular attention to the problems encountered under the capital funding agreement with the City of Dawson for its recreation centre and sewage treatment projects.

Financial Vulnerability

3.1 Yukoners in general and Members of the Legislative Assembly in particular are interested in the financial health of the Yukon Government. As the economy of the Yukon has slowed over the past few years, this has impacted the finances of the Government of Yukon and heightened the interest in the Government's financial position.

3.2 The Government provides a number of reports on its financial position. Departmental and corporate plans, budgets, and annual reports provide the greatest level of detail. The Government has endeavoured to make the budget understandable to all Yukoners by publishing the operations and maintenance estimates, the capital estimates, the capital highlights, and the operations and maintenance highlights.

3.3 The Public Accounts of the Yukon Government are designed to present financial statements that fully and appropriately disclose the financial position and operations of the Government. The Government's *consolidated financial statements* contained in the Public Accounts summarize financial reporting for all of its entities. The *Financial Administration Act* requires the Public Accounts to be tabled in the Legislative Assembly by 31 October of each year for the fiscal year that ends on March 31. In this Chapter, the information comes from the consolidated statements, unless we state differently.

3.4 One way that Members of the Legislative Assembly can assess the Government's financial health is by looking at its *annual surplus* or *annual deficit* at the end of the fiscal year.

3.5 While the annual surplus and deficit inform members about what has occurred during the year, another important figure is the *accumulated surplus* or *accumulated deficit*. These amounts tell the members what the Government's financial situation has been during its recorded history, not just for the past year. The accumulated surplus for the Government as at 31 March 2003 means that the net amount of its annual surpluses and deficits is an overall positive balance of \$166.2 million.

3.6 One area that has not been a concern for the Yukon is the area of debt, which has been a problem for several other jurisdictions. The Yukon's total long-term debt as at 31 March 2003 was just over \$31 million, or 10% of its total recorded assets of \$299.1 million.

3.7 A complication arises when one considers consolidated and non-consolidated results. *Non-consolidated financial results* only include the accounts of the Government, meaning the government departments. *Consolidated financial results* also include the accounts of other entities, which have been gathered through different accounting methods. In the case of the Yukon Government, the consolidated results include the accounts of six non-departmental entities. Therefore, the consolidated results more clearly reflect the entire scope of the government's influence.

Risk

3.8 Management practice has evolved in recent years to examine financial affairs from the perspective of risk. Risk analysis for governments is complex due to the wide and varied scope of matters they are responsible for and includes the following two questions, among others:

- What is the risk of unforeseen costs being incurred?
- What is the risk of revenues not being collected?

Every good planning and budgeting system has included these two questions without necessarily identifying them as risks.

3.9 Two large areas of risk for the Yukon Government under these headings are:

- Escalating health care costs. As with all jurisdictions in Canada, health care costs are increasing rapidly and are difficult to forecast. Technological advances in medical treatments result in better outcomes for patients, but are often much more expensive than historical treatments. Northern jurisdictions are also affected by a disproportionate share of medical evacuations as specialists and their equipment are available only in large southern cities.
- Federal formula financing. As with the other territories and many provinces, a large share of the Yukon Government's revenues is provided under an agreement with the federal government. Changes in population and territorial revenues and expenses can result in unpredictable swings in federal funding, which may have the undesirable result of less money flowing to the Yukon than anticipated.

3.10 As of 31 March 2002, the Government had an accumulated surplus of \$168,142,000. This amount is significant and is one of the few accumulated surpluses held by a Canadian jurisdiction. However, it represents only a portion of the Government's spending in one year. In addition, the Government forecasted large annual deficits over the following two years. If these deficits were to be realized, the accumulated surplus would be reduced significantly.

3.11 At the end of 2003, *operational expenditures* exceeded *main estimates* by \$3 million, but more significantly, *capital expenditures* were \$11,000,000 less than the budget. This resulted in the deficit being smaller than anticipated. Of larger impact was a significant revision to the methodology used to calculate population statistics under the formula financing grant at the end of September that led to \$23.7 million more in grant revenue. This significantly improved the financial results for the year and alleviated short-term cash pressures on the Government. In combination with other differences in actual formula financing from estimates, the forecast annual deficit of \$35.97 million in the main estimates for the year ending 31 March 2003 became a \$554,000 annual surplus.

Table 3.1 Forecast and Actual Annual Deficits and Actual Accumulated Surpluses for the Years Ended 31 March 2002 and 2003 (\$ thousands)

	2002	2003
Forecast annual deficit	(21,596)	(35,970)
Actual surplus (deficit)	(15,961)	554
Change in accounting policy		(2,482)
Actual accumulated surplus	168,142	166,214

3.12 While the recent formula financing adjustment has provided some temporary relief, the Government could be required to make difficult choices in terms of spending and taxation, while maintaining financial discipline, to stay the course. The Government is going through a period of increasing financial vulnerability where revenues are threatened while costs continue to increase. Strategically, the Government will need to develop plans for how it will deal with this problem. In hard times, the Government has relatively few options, usually limited to increasing revenues, cutting costs, or borrowing.

3.13 At present, the Government gets about 68 percent of its total revenue from Canada by way of a formula funding grant. The formula for calculating the grant is complex and various factors cannot be known with certainty until several years later. One key element is the territorial population, which has been decreasing in recent years. This has a downward effect on the amount of the grant. Increasing this grant from Canada is not an easy task.

3.14 Local taxation (including fees charged for various services) provides only 13 percent of total revenues, which is not a large portion of government

revenues. With minimal flexibility to increase revenues, the Government may have to look at its costs. Cost cutting may mean sizing back some programs, cutting some out entirely, or freezing cost elements.

3.15 In terms of the services they provide, governments have built a model which is not flexible in the immediate term. Unlike a business that can vary its inventory and staff according to customer demand, government programs are more difficult to change when user demands increase, decrease, or become less affordable. The Government does not have many program areas that could be considered to be low priority. Putting programs into some order of importance may become crucial if hard decisions have to be faced.

3.16 Other considerations to control costs include cutting staff. Staff cost is a large expense, but increasing or decreasing the numbers of civil servants is complex, subject to specific rules and agreements, and fundamentally inflexible. Reducing staff is difficult in small market areas, often unacceptable to the community, and negative in terms of the local economy. This means that making decisions becomes a difficult process.

3.17 Other program costs also have many complex rules for entitlement, service, financial control and accountability. They are not easily changed without weakening some key aspects of program design. Programs are in competition with each other for government dollars, and program redesign may take years to accomplish.

3.18 The Government is made up of departments, Territorial corporations, and other agencies. Some services are carried out by third parties funded by Government grants. They are all to one degree or another established by legislation. With a few exceptions, all require ongoing financial support from the Government.

3.19 However, as noted elsewhere, the Government had an annual deficit in 2002 and a small annual surplus in 2003. Previous forecasts of larger deficits have not materialized, but the accumulated surplus could decrease quickly with poor results in consecutive years.

3.20 Significant replacement revenue sources are unlikely to be found in the short-term and in hard times, people have to make tough choices. Setting priorities becomes more important, and optional expenses are often the first things to go. In government, essential programs have to be maintained but sometimes with reduced levels of service.

3.21 Given the changing expectations of Yukoners, the declining economy and the ageing population, the Government is under increasing pressure to manage its resources well.

Managing Capital Agreements

4.1 The Government enters into agreements with various parties for cost-shared capital developments. We noted some fundamental flaws in the way these projects are managed; although there are agreements between the parties, these are not followed in some cases we reviewed. This results in weakened accountability, and results that are not clear.

4.2 One of our basic concerns is when the Government makes payments for a project before the payment is actually needed. We have noted this previously in our 1999 report, but the practice still continues. Giving money before cash is required allows the recipient to invest the amount that is not needed. This effectively increases the amount paid by the Government (although the Legislative Assembly votes only the actual cash amount stipulated in the agreement).

4.3 Also, making payments for a project in advance is a way around the clawback provisions of the Formula Financing Agreement. If the Government invests the money itself, the funding from Canada would be reduced by the amount of interest earned, so there is no incentive to earn interest. This was the situation at the time the payments discussed in this report were made. However, in times when cash is scarce, and the Government has to borrow, it makes less sense to pay earlier than required.

4.4 We noted two capital projects with the City of Whitehorse: waterfront landscaping and a shopping mall development, where management practices should have been better.

4.5 Waterfront Landscaping. On 4 August 1999, the Yukon Government entered into a capital funding agreement with the City of Whitehorse for waterfront landscaping. The two parties agreed to spend \$1.25 million with the Government's share being \$740,000 and the City's \$500,000. The agreement was not clear about what actual work was to be done. The Government paid \$740,000 in advance, a mere five days after signing the agreement

4.6 When we reviewed the situation in detail, however, we found that there were many different projects being undertaken by the City over several years in the area, referred to as the riverfront project. The City estimates that it will spend \$4.7 million on these projects and that it has spent \$4.1 million to date. While it is apparent that the City has spent considerable sums on the project, it is not clear which of these different projects were to be funded by the Yukon Government and when. It is also not clear whether both the City and Government are

satisfied that the terms and conditions of the capital funding agreement have been completed in a manner satisfactory to both parties.

4.7 Whitehorse Shopping Mall Development. The second project involved a partnership among the Yukon Government, the City and a developer. While the waterfront project and the shopping mall project were separate, the monies that the Legislative Assembly voted for waterfront landscaping were also spent on the shopping mall development. The Legislative Assembly did not approve this change in funding.

4.8 The Yukon Government had agreed to contribute \$750,000 for the development and paid the City in full on 31 December 1999. The City would hold the title to that part of the completed work, expected to be 31 October 2001. The City would then make payments to the developer from the Government's contribution, and the City would make its contribution through refunds of property taxes collected on the development.

4.9 There were several delays in the project. In September 2000, the Yukon Government waived several conditions in the agreement, and the City subsequently forwarded to the developer all remaining funds that the Yukon Government had provided to the City.

4.10 The project was still incomplete when the Yukon Government entered into an agreement with the developer on 31 May 2001, under which the Government became responsible for \$1.76 million of infrastructure costs. The developer was supposed to pay back \$705,000 of the Government's contribution, and the City would pay its \$750,000 to the Government out of property taxes received on the development. The mall opened a year behind schedule in November 2002. The City has paid \$400,000 to the Yukon Government to date and is expected to pay its full contribution. However, the developer has not yet paid any of its share to the Government.

4.11 The Yukon Government should learn some important lessons from these projects. Management needs to be more precise in entering into agreements with other parties, so that each party is clear on its responsibilities. It must exercise more discipline in holding others to their part of the arrangements.

Recommendations

4.12 In order to keep members of the Legislative Assembly informed, the Government should communicate any reallocation of funding from Estimate levels to the Legislative Assembly.

4.13 When advances are required under contribution agreements, the Government should schedule advance payments based on reasonable

cash flow statements from the recipient in order to avoid providing funds in advance of need.

Management response

4.14 *The Government agrees with the recommendations.*

Lack of Compliance With Authority

5.1 In the course of our 2000, 2001, and 2002 audits, we noted four instances where the Yukon Government did not act according to the authority granted to it. This means that when the Government spent, collected, borrowed, or handled money in these instances, it did not always adhere to the limits and purposes authorized by the Legislative Assembly. None of these was considered so significant as to qualify our opinion in the Auditor's Report on the Government's financial statements, but they are important enough to be brought to the attention of the Legislative Assembly.

5.2 We are concerned that these violations of authority continue to occur because they reflect poor spending restraint, inadequate budgets, or a lack of respect for budget authority. The Government should have systems and processes in place to ensure that these situations do not arise.

- The Government paid over \$700,000 towards two properties before Management Board approved the payments. The payments were to ensure that the properties were not sold to others, but the Government never bought the properties.
- The Yukon Government transferred almost \$700,000 in trust funds to two first nations without an adequate process to monitor the use of these funds.
- The Government paid \$1.86 million in fund monies without assurance of appropriate spending.
- Notes to the Government's consolidated financial statements for the past four years have disclosed overexpenditures of different votes for various amounts.

Payment of Alaska land options without proper authority

5.3 In 1999, the Department of Economic Development set the wheels in motion to buy two parcels of land on the Alaskan coast, to provide ongoing docking access for Yukon businesses. The Department was concerned that, with cruise ships increasing demand for docking facilities, Yukon resource development might be limited by bottlenecks at Alaskan ports. While it is not common for the Department to be involved in land transactions, it is even more unusual for a government to consider the purchase of foreign property. We would have expected that the Department would have sought approval of this approach from Cabinet.

5.4 The Government purchased options to buy the land, meaning that no other offers to buy the land could be accepted by the owners for a specified period. In August 1999, the Government agreed to pay CDN \$15,000 for the option to lease the land, or lease to purchase land in Skagway, Alaska. In October 1999, the Government signed another option for land in Haines, Alaska with two U.S. landholders. The Government paid US\$200,000 for this second option.

5.5 However, the Department of Economic Development entered into these option agreements and transferred the funds to the landholders without proper authority. For any purchase contract or real property lease, the Department of Government Services should be the Yukon representative for the agreement, unless it delegates such authority, in writing. Government Services was not involved, and did not formally delegate authority. Economic Development advised us that this was not necessary as the transaction was an option, rather than an outright lease.

5.6 Regardless, the almost CDN\$300,000 option for the Haines property exceeded the \$100,000 signing authority of the official who entered into the agreement. The only other alternatives would have been for the Minister of Government Services to sign the agreement, or for the Department of Economic Development to obtain approval from Management Board. The Department of Economic Development made a submission and received retroactive approval from Management Board in late October 1999. The approval was received only after both agreements had been signed and payments were made, meaning that Management Board had had no choice in the matter.

5.7 The Department of Economic Development was looking to obtain these two properties in anticipation of long-term needs. However, its haste in entering into these agreements did not pay off. Extensive due diligence work needed to be done prior to any purchase of the Haines property. The Department had to extend the six-month term of the agreement several times, incurring additional costs.

5.8 Care was not taken to clarify the terms of the Skagway property deal. Though a detailed agreement had been prepared, only a cursory agreement was signed. This provided little on the terms of the agreement, which were necessary to protect the Government's interest. When the Department readied itself to purchase the land, the asking price had increased by over US\$100,000.

5.9 In total, the Government spent over CAN \$700,000 on options, extensions, and due diligence work before the plan to purchase the two properties was abandoned. Significant amounts of money may have been saved if the proposed purchase had been adequately planned and if proper authority had initially been sought.

Recommendation

5.10 To ensure that the Government avoids entering into unusual transactions and making unproductive payments, departments should only enter into agreements where they have proper authority. Payments should not be made until this authority has been secured.

Management response

5.11 *Agreed.*

Use of Kotaneelee Trust Funds for intended purpose

5.12 Prior to 1998, the Federal Government held the royalties it had collected from Yukon oil and gas extraction in a trust. The money was held on behalf of First Nations who are signatories to the Umbrella Final Agreement between the Federal Government, the Council for Yukon Indians, and the Government of the Yukon. According to the Umbrella Final Agreement, First Nations would have been entitled to receive the funds only after they signed a Yukon First Nation Final Agreement.

5.13 These trust funds were transferred to the Yukon Government and placed in the Kotaneelee Fund, established in a 1997 Memorandum of Agreement (MOA) between the Yukon Government and First Nations. The stipulation that First Nations must have signed final agreements in order to receive funds was amended in the 1997 Memorandum of Agreement between the Yukon Government and Yukon First Nations. The Memorandum allowed advance payment of the funds if First Nations wished to "conduct a review ... of any aspect of Oil and Gas matters." The Memorandum allows the First Nations and the Yukon Government to move forward in considering how oil and gas exploration and development will take place. This removed a financial incentive for the First Nations to sign a final agreement.

5.14 Two First Nations that had not signed final agreements received advance payments from the Kotaneelee Fund amounting to over \$691,000 during the 1999–2000 fiscal year. By 31 March 2001, there were only small balances remaining in the Kotaneelee Fund accounts for these First Nations.

5.15 We were advised that the two First Nations planned to use the funds to support an Economic Table where interested parties and experts meet to discuss economic issues. The Government of Yukon also provided \$100,000 as stipulated in a separate Economic Table Agreement dated 20 August 1999. The second Table dealt with several industries other than the oil and gas industry; it also covered support (for example, capacity building) for those industries. The Government of Yukon planned to set up a process to verify that the funds were used as agreed. However, the Government advanced these funds without such a process in place. The First Nations have submitted an annual report to the Government of Yukon, listing their accomplishments during the Table's first year of work. While some of the listed activities include the activities to support development of their oil and gas resources, none of this work is tied directly to the provision of the Agreement under which the funds were advanced to them. Without the cost breakdown, it is not possible to determine what portion of the \$691,000 advance was used towards a review of the oil and gas matters.

5.16 The Government of Yukon neglected to ensure that the requirements of the subsequent 1997 Memorandum of Understanding were met. Without this information, it is unclear whether the disbursement of the funds in any way furthered the Agreement's aim of promoting oil and gas exploration in the territory. At the writing of this report, the two First Nations involved had not yet signed a Yukon First Nations Final Agreement.

Recommendation

5.17 Contribution agreements should include means for the Yukon Government to verify that funds have been spent as intended.

Management response

5.18 *The Government agrees with the recommendation.*

Yukon Aboriginal Business Fund monies paid without assurance of appropriate spending

5.19 In the early 1990s, the Yukon Government entered into an arrangement to rent office space in a complex to be built by the Champagne and Aishihik First Nation and the Inuvialuit Development Corporation. The Government later withdrew its commitment. The Taga Ku Development Corporation/Group, which had initiated the joint venture, took the Yukon Government to court to recover damages. In 1996, the parties arrived at a settlement agreement, which was signed by the Government Leader on behalf of the Yukon Government.

5.20 One provision of the agreement was the establishment of a Yukon Aboriginal Development Fund, allowing the Champagne and Aishihik First Nation and the Inuvialuit Development Corporation to invest in ventures of benefit to Yukon Aboriginal groups. The Yukon Government was to contribute \$1,860,000 to the Fund, to be paid in five annual installments from April 1997 to April 2001. The Fund was to be managed by representatives of the Champagne and Aishihik First Nation and Inuvialuit Development Corporation, who were themselves to provide yearly auditor's reports on transactions of the Fund.

5.21 The Yukon Government has been making payments to the fund managers, and as of 31 March 2003, had paid all of the five annual \$372,000 installments that it was required to pay under the agreement. It has made these payments even though it had no record of the fund managers submitting a single auditor's report. The language of the agreement is vague. It does not specify who is responsible for setting up the Fund, and which department within the Government was to fulfill its side of the agreement and receive the auditor's reports.

5.22 When we brought this to the attention of the Government, it contacted the Inuvialuit Development Corporation. The Corporation has confirmed that it has received all of the payments and that no auditor's reports were submitted. It also disclosed that no withdrawals have been made from the fund, but that it continues to seek investment opportunities in the Yukon under the terms of the agreement. Monitoring of future withdrawals will be required to determine whether funds are being used for the purposes outlined in the agreement.

Recommendations

5.23 The Government should ensure that when it enters into agreements, it identifies a responsible party within the Government that is to administer the agreement in order to hold that party to account.

5.24 The Government should ensure that it receives required financial statements and auditor's reports on multi-stage agreements, and reviews them to verify compliance with the terms of the agreements, before

releasing funds and to ensure that funds are being used for the purposes intended in the agreement.

Management response

5.25 *The Government agrees with the recommendations.*

Overexpenditures

5.26 Each year, the Government presents proposals, through its estimates, for its expenditures for the coming year. This includes items (or “votes”) approved by the Legislative Assembly that have not already been approved under existing legislation. The following votes were overexpended in fiscal years 2000, 2001, 2002 and 2003:

Exhibit 5.1 – Overexpenditures by department for the year ended 31 March 2000

Vote or item approved by the Legislative Assembly	Departmental operations and maintenance expenditures (\$thousands)			
	Health and Social Services	Public Service Commission	Renewable Resources	Women’s Directorate
Main estimates, total by vote	\$ 113,076	\$ 10,060	\$ 14,134	\$ 427
Supplementary estimates	700		231	
Total appropriation	113,776	10,060	14,365	427
Actual expenditures	116,996	10,710	14,450	433
Overexpenditure before standing appropriation	\$ 3,220	\$ 650	\$ 85	\$ 6
Less: standing appropriation	-	-	83	
Overexpenditure	\$ 3,220	\$ 650	\$ 2	\$ 6

5.27 The Department of Health and Social Services attributed its overexpenditure to unanticipated costs and volumes for this mandatory program. This was, in part, due to billings from other provinces for treatment of Yukon citizens.

5.28 The Public Service Commission explains its overexpenditure as being due to the increase in the employee termination benefit liability, as determined by an actuary, which was larger than the amount estimated by management.

**Exhibit 5.2—Overexpenditures by department for the year ended
31 March 2001**

Votes or items approved by the Legislative Assembly	Departmental operations and maintenance expenditures (\$thousands)					
	Government Services	Health and Social Services	Education	Renewable Resources	Office of the Ombudsman	Finance
Main Estimates, total by vote	\$21,408	\$115,184	\$84,281	\$14,331	\$247	\$3,879
Supplementary Estimates	1,838	7,245	6,002	1,014	49	361
Total Appropriation	23,246	122,429	90,283	15,345	296	4,240
Actual Expenditures	24,959	123,660	90,809	15,394	318	4,258
Overexpenditure before standing appropriation	\$ 1,713	\$ 1,231	\$ 526	\$49	\$22	\$18
Less: standing appropriation	-	-	-	23	-	-
Overexpenditure	\$ 1,713	\$ 1,231	\$ 526	\$ 26	\$ 22	\$ 18

5.29 The Department of Government Services notes that it took over French language services from the Executive Office in 2000; there is a matching underexpenditure in the accounts of the Executive Office.

5.30 The Department of Health and Social Services cites an increase in salary and operating costs in family and children's services as the main reason for its overexpenditures. These apparently occurred as a result of the Government operating additional group home facilities, increased residential costs for several disabled clients, an increase in staffing, increased salary costs from a new collective agreement, and increased operating costs (janitorial, heating fuel, electricity) for three facilities.

5.31 The Department of Education points out that its overexpenditures are due to contract/pay increases and increases in heating oil costs.

**Exhibit 5.3 – Overexpenditures by department for the year ended
31 March 2002**

Vote or item approved by the Legislative Assembly	Departmental operations and maintenance expenditures (\$thousands)	
	Justice	Tourism and Culture
Main estimates, total by vote	\$ 34,369	\$ 11,552
Supplementary estimates	1501	384
Total appropriation	35,870	11,936
Actual expenditures	36,624	11,985
Overexpenditure	\$ 754	\$ 49

5.32 The Department of Justice notes that its overexpenditure is caused by retroactive salary adjustments and pension costs for judges based on the recommendations of the Judicial Compensation Committee. A separate pension plan was established for judges.

**Exhibit 5.4 Overexpenditures by department for the year ended
31 March 2003**

Vote or item approved by the legislative Assembly	Departmental operations and maintenance expenditures (\$thousands)	
	Public Service Commission	Office of the Ombudsman
Main estimates, total by vote	\$ 11,598	\$ 343
Supplementary estimates	1,406	31
Total appropriation	13,004	374
Actual expenditures	20,949	378
Overexpenditure	\$ 7,945	\$ 4

5.33 The Public Service Commission notes that its overexpenditure is due to the recording of the full amount of the liability for post-employment benefits of Government employees. This was not recorded in the previous year as noted in paragraph 6.3 of this report. The Government rectified this situation by making a \$7.2 million adjustment to its accounts, which was not provided for this in its budget.

Recommendation

5.34 Departments should ensure that their budget allocations are sufficient and monitor expenditures appropriately so that the budget authority provided by the Legislative Assembly is not exceeded.

Management response

5.35 *Even though departments conscientiously monitor their expenditures and try to forecast for any additional requirements that are in excess of the budgeted amounts, at times events occur very close to the fiscal year-end date, triggering obligations to the Government. In some cases, these obligations are not quantified until a month or two subsequent to the fiscal year-end date.*

5.36 *The majority of large overexpenditures cited in the Report occurred due to these unusual circumstances. However, the Government will continue to endeavour to ensure that all expenditures have budget authority provided by the Legislative Assembly prior to being incurred.*

Financial Statement Issues

6.1 The Yukon Government follows the accounting standards recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. These standards apply to the federal government, the provinces, and the three territories. By following these standards and having its financial statements audited, the Government is demonstrating that its financial stewardship is of a high standard and comparable to similar jurisdictions across the country.

6.2 Having credible financial statements is highly important for any government. In a world of increasing cynicism, demonstrating credibility in financial reporting is one of the most important pillars of public trust. One of our primary tasks as the Yukon's external auditor is to provide assurance to the Legislative Assembly that the financial statements prepared and published by the Government are, indeed, credible. We do so by issuing what is called a "clean" or unqualified audit opinion. If we have reservations about the credibility of the financial statements, however, we issue a qualified audit opinion and include one or more reservations to explain our concerns. In the private sector, the management of business firms generally cannot tolerate the negative consequences of a qualified audit opinion, and will usually take appropriate action to avoid it. The Yukon Legislative Assembly and the public in the Yukon Territories should expect no less from their Government.

Qualified Auditor's Reports

6.3 We qualified our Auditor's Report on the Government's financial statements for the year ended 31 March 2002 because the Government did not record the full cost of its post-employment benefits. The actuary's estimate for the increase in its liability, and related additional expense, of the Government's employee future benefits for 31 March 2002 was \$7.2 million. The Government decided not to record this cost, based on a Management Board decision to maintain the unconsolidated liability at the same amount as the previous year. In this respect, the consolidated financial statements of that year were not in accordance with the Government's stated accounting policies, and the liability, expense and deficit were all understated by \$7.2 million. The failure to record the full amount of these benefits was a serious breach of the Government's accounting policy. As the liability will continue to increase, we strongly recommended that Management Board reconsider its decision to limit the liability. We are pleased to report that this decision was reconsidered and the full amount of the liability was recorded in the Government's financial statements for the year ended 31 March 2003.

6.4 In 2000, our Auditor's Report on the Yukon Housing Corporation's financial statements contained one reservation, or qualification. One of the Corporation's activities is developing mobile housing lots, with the costs of this project amounting to \$2,285,000 at 31 March 2000. Under the Government's accounting policy, this asset should be valued at the lower of (a) the cost of developing the lots and (b) the net realizable value (or market value). We reserved our audit opinion because the Corporation failed to properly determine the net realizable value of the project. If this were lower than the cost of developing the lots, the Corporation would also need to lower (write down) the dollar value for the lots in its financial statements. In 2001, the Corporation responded to this concern, and wrote down this asset based on an independent appraisal of the lots' value. The Department of Community Services has also had similar problems determining land values. This is discussed in the follow-up section of this Report.

Environmental Liabilities

6.5 Previously, governments carried out activities or acted as regulatory authorities where environmental impacts occurred, but these were not viewed in the same manner as they are today. Recently, as the environment has become a concern for citizens, governments are attempting to come to grips with the extent of the problem in terms of: which properties are involved, what the specific environmental issue is at each site, what remediation is required, who is responsible, and what it will cost. There is a risk that the Government may be faced with a large liability for environmental clean-up that, once determined, could significantly reduce the accumulated surplus.

6.6 For the year ended 31 March 2003, the Government identified 37 sites on Commissioner's Land where environmental liabilities may exist. Twelve of these were on airport land and were subject to Transport Canada remediation pursuant to an agreement. Twenty sites are highway maintenance camps that are being assessed or are awaiting funding for assessment. Of the five other sites, one has been designated as contaminated under the *Environment Act* and the *Contaminated Sites Regulation*. The Government was not responsible for the contamination, but may be required to pay costs for remediation as it is now the landowner.

6.7 We are encouraged by the fact that in recent years the Government has made progress in assessing and remediating sites with environmental liabilities and improved its note disclosure relating to these liabilities on its financial statements. Since costs have not been quantified, no liability has been recorded.

6.8 The Government has disclosed that, following the Devolution Transfer Agreement, the Government assumed administration and regulatory responsibility for almost 900 waste sites effective April 2003. The federal government will continue assuming the financial responsibility for a majority of

those sites that were contaminated under its control. However, the Yukon Government will assume some potential liability for six sites for which Canada is released from further financial liability. There are also seven sites where the Yukon Government is to carry out remediation and then seek reimbursement from Canada. We will continue to monitor the progress of the Government in this important area in the future.

Recommendation

6.9 The Government should complete an assessment of all of the sites for which it is responsible for environmental remediation and record the liability for this work in its accounts as soon as possible.

Management response

6.10 *The Government agrees with the recommendation to the extent that it is practicable. Work has begun to identify sites where the Government may have some environmental liability, and to assess these sites according to the provisions of the Contaminated Sites Regulation. Where sufficient information is available to make a determination of possible remedial costs, an environmental liability will be recorded. The Government has embarked on a process to carry out site investigations over the next few years.*

Tangible Capital Assets

6.11 Tangible capital assets are buildings, roads, equipment, and similar items, which can be used beyond the fiscal year and are intended to be used on an ongoing basis for delivering services. We have noted in previous years that the Government had not taken action to record its tangible capital assets. In our Reports on Other Matters to the Legislative Assembly, we have recommended that the Government, through the Department of Finance, should continue to identify its tangible capital assets and their remaining useful lives, including public works and infrastructure. In addition, it should adopt as soon as possible the Public Sector Accounting Board recommendations for financial statement disclosure.

6.12 We are pleased that the Government took action for the fiscal year ended 31 March 2002 to address this matter. It issued its consolidated financial statements that, for the first time, included a Consolidated Statement of Tangible Capital Assets and a related Note 10 to the financial statements, describing what the statement represents. The Government is in the process of accumulating information on all of its tangible capital assets. As each asset category is completed, information about the cost and how they will be amortized or the writing-off of the cost will be presented in the statement of tangible capital assets. For example, infrastructure costs for roads and bridges have yet to be determined.

6.13 In the Statement of Tangible Capital Assets, these assets are reported at cost. Tangible capital assets under construction or development are reported as work-in-progress with no amortization until the asset is placed in service. Assets transferred from the federal government are reported at their fair market value at the date of transfer or, if it is not available, at the appraised value at various appraisal dates. Assets that are held and available for use by the Yukon Government are reported based on different capitalization thresholds and estimated useful lives. Works of art and historical treasures are not reported.

6.14 There still remains, however, further accounting guidance to be implemented; this would include having such assets recorded on the Statement of Financial Position, with an offsetting credit to the Government's accumulated surplus. At that point, the Statement of Tangible Capital Assets would be a schedule following the notes to the consolidated financial statements. The Government's 2004-05 budget discloses tangible capital assets separately and the Government has advised us that it will fully implement the Public Sector Accounting Board recommendations for tangible capital assets in that year. We are encouraged by the Government's efforts in this area and look forward to reporting further progress.

Recommendation

6.15 The Government should record tangible capital assets on its Statement of Financial Position and record amortization on these assets.

Management response

6.16 *Effective April 1, 2004, the Government has begun recording tangible capital assets as balance sheet items as well as amortization on these assets.*

Follow-up of Previous Issues

7.1 As discussed in Chapter 3, audit reports are an important part of the accountability process. Auditors usually make recommendations to address needed changes where they have identified problems and weaknesses in the administration of programs and activities. The management of the audited entity is usually given the opportunity to respond to the recommendation in writing. These responses are published in the report and should state whether the management agrees with the observation and recommendation, what they plan to do about the issue, and when they will have corrective action completed. The Public Accounts Committee of the Legislative Assembly conducts hearings on the auditors' reports and call witnesses from the audited entities to testify. The committees then usually write their own reports containing their own recommendations, which, with appropriate follow-up and action, effectively close the accountability loop.

7.2 This chapter provides follow-up comments on issues that we have raised in the 1999 Report on Other Matters as follows:

- Enhancing Accountability—the Public Accounts Committee, Internal Audit, and Understanding the Public Accounts
- Payments in Advance of Need and Incorrect Accounting Accruals—Whitehorse and Dawson Capital Funding Agreements
- Payments in Advance of Need—Other Contribution Agreements
- Department of Community and Transportation Services—Land Inventory Valuation
- Compliance with Authority—Yukon Housing Corporation—Advances Not Properly Authorized
- Compliance with Authority—Unrecorded Bank Account

Enhancing Accountability

7.3 Public Accounts Committee. This Committee, generally comprised of elected (non-cabinet) members and usually under the chair of an opposition member, has a clear and forthright mandate to consider and inquire into all aspects of the Government's stewardship of public funds. The Committee has the mandate to hold hearings during which it could call witnesses from departments, agencies and territorial Crown corporations and to ask questions of public servants and ministers on the management of resources entrusted to them and the results achieved. Following the hearings, the Committee would report in writing to the Legislative Assembly, with recommendations for change where needed.

7.4 Prior to 2003 and other than for a set of hearings on the Government's readiness on the Year 2000 (Y2K) issue, there was no functioning Public Accounts Committee (PAC) in the Yukon for several years. We reported in 1999 that the Legislative Assembly had appointed, as required by its standing orders, a new PAC. However, this Committee had never held a hearing.

7.5 We are pleased to observe that the Standing Committee on Public Accounts of the 31st Legislative Assembly was appointed on 25 March 2003. The PAC held three meetings in 2003 to familiarize itself with its mandate and role. At its first meeting, a chair and vice chair were elected. In September 2003, the Committee held a retreat to set an agenda for public hearings to be held in early 2004. It was decided at that retreat that the focus of the PAC's first set of public hearings would be the following items.

- Yukon Government corporations and Yukon College - the primary issue to be discussed was the mandates by which those entities operate.
- Also of interest were the means used to determine the extent to which those mandates are being fulfilled and the ways in which these entities are held accountable to the Legislative Assembly, those who use their services directly, and taxpayers generally.
- It was also agreed that particular attention would be paid to the Yukon Housing Corporation.

7.6 In December 2003, the PAC chair sent a letter to the heads of the above-mentioned entities. The letter posed three sets of questions related to the entity and its mandate. These written responses were due in January 2004 and formed the basis for the public hearings. The hearings took place in the Legislative Assembly chamber from 3 February 2004 to 5 February 2004. The PAC plans to issue a report on these hearings in the spring of 2004.

7.7 Internal Audit. In 1999, we reported that this important function had fallen into disuse in recent years. Internal audit provides assurance to the Government's Audit Committee, deputy ministers and heads of territorial corporations on the reliability of their internal control systems, compliance with legislation and agreements, and value-for-money in the delivery of programs. A well-staffed internal audit function can be of significant help to governments in their management of stewardship responsibilities, by pointing out weaknesses and suggesting areas for improvement.

7.8 In 1999, we reported that steps were being taken to re-establish an internal audit capability within the Yukon Government. We note that there now is a director of Government Audit Services and two audit staff. We do note, however, that meetings of the Audit Committee are very infrequent. This is not surprising when one considers that the committee is comprised of the Premier and the two most senior members of the public service, who have many other important matters to attend to. The Government has advised us that the Audit

Committee reviewed a draft internal audit policy and expects a finalized policy to be in place this spring. Under the present wording, the Audit Committee will be required to meet at least four times per year, which will facilitate the business of Internal Audit.

7.9 We have noted that audit plans are often not approved until well into the year. The Government has informed us that the 2004-05 internal audit plan has been developed in consultation with departments. Review of the draft audit plan for 2004-05 is underway and the Government expects the plan to be finalized this spring. Approval of subsequent plans by the outset of a new fiscal year has also been established by the Government as an operational objective.

7.10 We also observed that internal audit reports are not tabled on a timely basis. The Government notes that the increased frequency of scheduled meetings for the Audit Committee under the revised policy will afford the opportunity for regular reviews of internal audit reports. Under the revised policy, internal audit reports will be approved by the Audit Committee and tabled with Management Board for information.

7.11 Understanding the Public Accounts. The Public Accounts and the financial statements they contain are often complex and may be difficult to comprehend for non-accountants. This could easily lead to the statements being produced and audited to the latest professional standards, tabled in the legislature, and then ignored. We recommended that the Government develop, publish, and distribute to the public a concise explanation of the Government's financial health in plain, non-technical language. The Government stated that it makes every effort to communicate its financial health in plain language to the public, but it stated that it would review its presentation to determine how to improve this communication. In conjunction with its tabling of the Public Accounts in October 2002 and 2003, the Government appended a two-page note explaining what it felt were the major highlights of the year. Otherwise, there has been little change to the presentation of the Public Accounts.

7.12 In July 2003, the Public Sector Accounting Board issued a Statement of Recommended Practices with respect to financial statement discussion and analysis designed to enhance the usefulness of public sector financial and non-financial performance information, along with a document to expose the financial situation. The two documents stated that governments should "provide an executive overview of the financial statements" similar to the corporate reporting of this nature. The two documents also stated that governments should include "a brief, concise description and explanation of the significant events and conditions that shaped the information presented in the financial statements." A discussion of the significant events and how actual results differed from the Estimates would provide useful information to Yukoners. We would encourage Government officials to review this statement and consider implementing the guidance it provides.

Payments in advance of need—Whitehorse and Dawson Capital funding agreements

7.13 In the year ended 31 March 1999, we observed three significant cases where the Yukon Government had recorded payments to municipalities at the year-end, totalling about \$5.5 million. Each of these payments was part of a large project in the communities, involving further payments in later years, where the legal agreements were completed after the year-end. The recording of these payments for the year ended 31 March 1999 did not meet accounting criteria. None of the three payments (Watson Lake \$2.5 million; Whitehorse \$2 million; and Dawson City \$1 million) was legally payable under the signed agreements, and no actual project work had been carried out by the end of the 1999–2000 fiscal year. Moreover, when payments were subsequently made, they were well in advance of the time that the recipients needed them. Accordingly, we qualified our Auditor’s Report on the Government’s 1999 financial statements. The issue of payments in advance of need is also addressed in Chapter 4 of this Report and later in this chapter.

Whitehorse

7.14 The City won the right to host the 2007 Canada Winter Games (CWG). Prior to that, it had proposed building the Multiplex, (a swimming pool, flexi-hall, and ice arena) in partnership with the Yukon Government to improve the chances of its CWG bid being successful. The project was to cost \$22 million. The Government had previously committed \$9 million as its share; \$2 million of that amount was included in the 1998–99 Supplementary Estimates.

7.15 The Capital Funding Agreement was not signed until 13 May 1999, although the Government had already accrued \$2 million by 31 March 1999. The first two payments of \$2 million each were made after 1 April 1999.

7.16 The Department of Community Services advised us that the project started in July 1999 and up to December of that year the City had spent only \$991,000 of the \$4 million advanced. This allowed the City to earn interest on over \$3 million of surplus funds, and it also meant that the Government lost an opportunity to earn interest of its own if it had held the funds until Whitehouse had needed them.

7.17 The funding in advance of need continued into 2002. As at 31 December 2002, the Government had contributed \$7 million and the City had expended only \$5.1 million, leading to excess funding of \$1.9 million. This situation ended in 2003. As of 31 December 2003, the City had spent \$12.2 million on Phase I of the project and the Government’s total contribution had increased to \$8 million. As a result, all funds from the Government paid in advance funding have now been fully utilized. The swimming pool opened to the public in September 2002. The final \$1 million under Phase I will be paid by the

Yukon Government to the City in 2004 after receipt of final accounting and engineering inspection reports.

7.18 The Government is entering into a new capital funding agreement with the City for Phase II of the project—construction of the flexi-hall and ice arena. The City will receive \$6 million after the agreement has been signed. However, the City has already expended some funds in preliminary design; it is expected to complete Phase II by February 2005.

7.19 The City will also enter into an agreement with the federal government for \$8 million of operating funding for the Canada Winter Games and \$20 million toward the Multiplex. While no agreements have been formalized, the Prime Minister has assured the Premier that Canada will provide \$20 million in funds towards the Multiplex. The terms and conditions that the federal government, the Yukon Government, and the City of Whitehorse will make are to be spelled out in the Multiparty Financial Agreement for the 2007 Canadian Winter Games. The Agreement will also cover the specific commitments and obligations of all other parties, including the Canada Games Council and the 2007 Host Society.

7.20 As the Multiparty Financial Agreement is not generally signed until two years before the start of the games, the Yukon Government is also entering into an interim funding agreement with the Whitehorse 2007 Canada Winter Games Society for a total of \$4 million. Of this, \$2 million is for games-related capital, and \$2 million is for operating costs.

7.21 Progress is being made on the Canada Winter Games, the Multiplex project, and related funding arrangements, and we will continue to monitor this initiative, which is of interest to all Yukoners.

Dawson City

7.22 In September 1999, the Yukon Government signed a Capital Funding Agreement with Dawson City to fund 90 percent of the cost of two projects to a maximum funding of \$10.4 million. These projects included the design and construction of a recreation centre and the detailed design and construction of a secondary sewage treatment plant. Even though the parties did not sign an agreement until September 1999, the Government recorded an expense of \$1 million for the year ended 31 March 1999. A further \$2 million was paid to the City when the agreement was signed.

7.23 Future contributions were to be made based on project claims submitted by the City related to actual construction and expenditures on the projects. These contributions were to provide maximum funding of \$2.1 million each year for four years starting in 2000–01. The Capital Funding Agreement required that the City provide revised cost estimates for both projects prior to the release of

Government funds in 2000–01. Revised estimates were not provided, but funds were released nonetheless.

7.24 Recreation Centre. The total estimated cost of the project was \$6.3 million, with maximum funding of \$5.6 million from the Yukon Government. The project was split into two phases. The first phase was for:

- overall conceptual design drawings for the entire project;
- detailed site planning and design for the recreation centre and purchase and installation of thermo-syphons; and
- detailed design drawings and construction of the swimming pool.

The construction of the pool was to commence in September 1999 and be completed by 30 September 2000.

7.25 The second phase of the project was for;

- a renovated curling rink;
- new skating arena;
- lobby;
- change rooms;
- activity rooms; and
- new offices for the recreation department.

7.26 Sewage Project. This project was for the detailed design and construction of a secondary sewage treatment facility to be completed in the timeframe mandated by the Yukon Territory Water Board. The agreement noted that if the Water Board deferred the requirement for an operational secondary sewage facility to December 2004 or later, the project would commence in 2002 and be completed in 2004. Otherwise, the project would be accelerated to occur prior to Phase II of the Recreation Centre project. The project was to be provided with a maximum Government contribution of \$4.8 million towards an estimated cost of \$5.3 million. If the cost exceeded that amount, funds would be reallocated from Phase II of the Recreation Centre project.

7.27 Increase in costs. On 17 August 2000, Dawson City opened the tenders for the recreation centre project and found the lowest bid to be \$7.9 million, well above the estimated cost of the project. The Yukon Government was approached for additional funding, but this was not successful. However, the Yukon Government did allow the City to proceed with both the recreation centre and sewage project simultaneously. On 15 September 2000, the City awarded the recreation centre construction contract, with a reduced scope, for an amount of \$6.6 million.

7.28 Approval of increase in debt load. In order to finance the increase in costs of the projects, the City moved to acquire more debt. Under subsection

251(1) of the *Municipal Act*, a council may, by bylaw, authorize the borrowing of money for municipal purposes. Subsection 252(1) limits the total principal amount of debt that a municipality may owe to three percent of the assessed value of all real property in the municipality that is subject to property taxes. This limit can be exceeded only if approved by the Minister of Community Services before third reading of the bylaw that authorizes borrowing in excess of that limit. On 13 October 2000, the Minister of Community Services approved the City of Dawson bylaw that sought borrowing of \$4.46 million for the purpose of constructing the recreation centre and to refinance an existing debenture of \$890,000. In November 2000, the loan was authorized subject to a review of the City's financial capacity by the Government. Subsequently, the City issued a debenture to the Government for \$3.5 million at 6 percent interest, maturing in 2025.

7.29 Project management. The Government found that Dawson City had made commitments to capital projects beyond its available resources, which exposed the City to long-term operating deficits. In addition, construction had advanced on the recreation centre to a stage where only minimal savings could be made with changes to project scope. The Capital Funding Agreement called for a Project Steering Committee for each project, with a seat for a representative from the Yukon Government. These committees were not put in place until December 2000.

7.30 Agreement amended to accelerate funding. As of the fall of 2000, the Yukon Government had advanced \$4.1 million and Dawson City had spent \$3.4 million. However, because of the need for more funds sooner, the Capital Funding Agreement was amended in January 2001. The amendment advanced \$800,000 from the Sewage project to the Recreation Centre project, which the City was to replace with its own funds. \$1 million was also advanced from future requirements, so that work could begin immediately on the Sewage project. The Capital Funding Agreement was again amended in September 2001 to provide \$3.9 million in funding for 2001-02, two years ahead of the previous payment schedule.

7.31 Appointment of supervisor. In addition to the amended agreement, the Yukon Government also appointed a supervisor for Dawson City in January 2001 according to subsection 335(1) of the *Municipal Act*. Subsection (1) states that the Commissioner in Executive Council may appoint an official to supervise a municipality and its council, if it believes that a municipality is in difficulty and if it considers it to be in the best interests of the municipality and its electors. Subsection (3) requires the municipality to submit to the supervisor, for approval, particulars of the financial plan and any other matter normally dealt with by the council which constitutes the program of the municipality. Subsection (4) requires that the municipality comply with the directions of the supervisor and that the council must not finalize its program or pass any bylaw respecting it until the program has been approved, or revised and approved, by the supervisor.

7.32 The Minister of Community Services directed the supervisor to focus on financial affairs, project supervision, and management practices. The Minister noted that the objective of the supervisor's appointment was to ensure the successful and timely completion of the Recreation Centre project, to confirm plans for construction of the new sewage treatment facility, and to restore stability to the City's finances for the long term. The supervisor developed and approved a seven-year financial plan.

7.33 On February 5, 2003, the Minister of Community Services issued further directions to the supervisor. Specifically, he was concerned if there were contingent liabilities arising from the recreation centre facility. Accordingly, he requested information relating to legal proceedings, opinions, and costs as well as a contingency plan. It would deal with potential claims and assurance that the financial plan for the City incorporates reasonable assumptions regarding contingent liabilities and legal costs.

7.34 The Minister replaced the supervisor on 3 October 2003. On 23 October 2003, the Minister wrote to the new supervisor concerning his duties. The supervisor was directed to review the City's current program, and to review the City's financial plan, its financial records, and any contingent liabilities that may impact the City's financial position. He was also requested to submit a monthly report to the Minister, with copies of supporting documents, as well as any additional reports as directed by the Minister, or as the supervisor considered prudent.

7.35 As of 31 March 2003, the Government had expended the entire funding of \$10.4 million, but both projects were incomplete, and large cost increases have occurred in both cases. The problems encountered on these projects have resulted in financial difficulties for Dawson City and potential financial ramifications for the Government.

7.36 Appointment of Trustee. On 13 April 2004, the Minister acted under subsection 336 of the *Municipal Act* and appointed a trustee who has the powers and duties of a duly constituted council. On the appointment of a trustee, the council shall be deemed to have retired from office and to be no longer qualified to act for or on behalf of the municipality.

7.37 Current status of Recreation Centre Project. Total costs for the recreation centre have now reached \$11.6 million—more than double the original estimated cost. The swimming pool was completed at a cost of \$2.2 million. Costs on the Recreation Centre project have reached \$9.4 million and may increase further. The project has also been scaled back to eliminate a planned gymnasium and to provide only a shell second floor. Moreover, the project was to be completed by 31 July 2001. However, the artificial ice-making system that was installed in the rink, which is the centrepiece of the centre, has never been functional due to problems with discontinuous permafrost. As a result, the

contractor was unable to pour concrete on the rink floor, and he terminated his involvement in the project in June 2002. In the winter of 2002–03, the City used the facility by placing a cover over the surface of the rink, adding water, and freezing the water with the outside air, rather than using the artificial ice system. This appears to be the approach for the facility for the foreseeable future.

7.38 The contractor has been in a dispute with the City regarding responsibilities for the problems encountered on the project. The parties were in arbitration, with the mediator to rule on the dispute in February 2004. The firm that designed the centre declined to participate in the arbitration hearings with the City and the Government. A negative outcome in the current arbitration for the recreation centre could have serious financial ramifications for the City. We understand that the City has been advised by its lawyers to put \$970,000 in trust pending the outcome of the arbitration hearings.

7.39 In March 2004, the roof support beams of the recreation centre were observed as twisting, apparently under the weight of snow which had accumulated on the roof. The building was temporarily closed after an inspection to determine the extent of the problem. It is unclear what the repair costs will be and who will bear those costs.

7.40 Sewage project developments. The existing Dawson City sewage plant is a primary treatment plant that receives sewage from buildings in the City. In the summer, it also receives sewage from tour buses, recreational vehicles, and the holding tanks from recreational vehicle parks. As a result, far more sewage is received in the summer, above levels which the system can handle.

7.41 Water licence applications. On 16 January 1997, the City of Dawson received its third water-use licence, valid until 29 January 2000. Like previous licences, it contained a condition that the City's sewage not be toxic to fish when subject to a standard test. Because testing under previous licences rendered unfavourable results, the Yukon Territory Water Board also directed that the City carry out the design, construction, and operation of a sewage facility that would meet all effluent quality standards within three years.

7.42 The City engaged a firm that provided it with a plan for a new sewage treatment facility in April 1998. Based on a report prepared for the City that concluded that Dawson sewage was not toxic to fish because of water flows and dilution, the City applied for an exemption from section 36(3) of the *Fisheries Act*. YTWB hearings in December 1998 resulted in the following directions:

- the City was to conduct additional testing for one year;
- the licence would be extended to 1 December 2005; and
- the City was to construct a secondary sewage plant by 1 December 2002.

7.43 On 7 June 2002, the federal Minister of Indian Affairs and Northern Development advised the Water Board that the proposal to extend the licence would not be approved. The Minister noted that the proposed sewage system had not yet been designed, nor was it reviewed as required under the *Canadian Environmental Assessment Act*. As a result, the licence expired on 29 January 2000, and the City was then discharging sewage effluent without a valid water-use licence.

7.44 In 2000, Dawson City entered into discussions with a company on the formation of a public-private partnership involving the following items:

- partial interim financing;
- consulting services;
- design/build construction;
- staff training;
- operation of a sewage treatment plant; and
- possibly the operation of the City's water supply treatment and distribution systems.

The City and the company signed a letter of intent in April 2000 and prepared a business plan entitled "Proposal for a Public Private Partnership, Wastewater Treatment Facility and Utility Management Services" in December 2000.

7.45 The City signed a consulting agreement with this firm on 15 March 2001 in the amount of \$200,000 to develop a water licence application and conceptual design for a sewage system. The agreement was amended on 30 July 2001 to increase the cost to \$400,000. Part of the new system included the installation of individual meters and bleeders at residences and buildings. This was deemed necessary to reduce water consumption rates, thereby concentrating the effluent so that the system would work properly. The firm also entered into a meter/bleeder installation contract for \$604,000.

7.46 On 21 September 2001, the firm submitted a design build proposal that estimated a capital cost of \$7.5 million. Combined with other related work, it was estimated that the firm would receive about \$9.5 million for the project. It was estimated that with other costs, the total project cost would be \$10.5 million.

7.47 In October 2002, the City engaged another engineering consulting firm to develop an advanced preliminary design.

7.48 The City submitted an application for a water use licence on 31 July 2002, and hearings commenced on 30 October 2002. The Water Board ordered the design team to provide a report that would confirm that the Secondary Sewage Treatment Plant would perform in the conditions that prevail in Dawson. The report was submitted on 20 December 2002. During the duration of these hearings, the capital cost increased to \$9.5 million due to the advanced

conceptual cost estimates. However, the Yukon Government remained committed to funding 90 percent of the cost of the project.

7.49 Fisheries Act violation. On 16 August 2001, enforcement officers from the federal Department of Fisheries and Oceans executed a search warrant at the sewage facility at Dawson City and took samples of sewage as it was being pumped into the Yukon River. On 5 March 2003, the Territorial Court of the Yukon found Dawson City had contravened section 36(3) of the federal *Fisheries Act*, by depositing a deleterious substance in water frequented by fish. As a result, the Court ordered that the City:

- pay a fine of \$5,000 within three months;
- construct a secondary sewage treatment plant based on the City's July 2002 water licence application; and
- pay a fine of \$5,000 for every month that it fails to meet the above timelines.

To the extent the City establishes it acted with due diligence, it will be excused from this penalty. This direction expires on 1 March 2006. The City proposed to complete construction of the secondary sewage treatment plant by 15 March 2004, and the Court stated that the plant should be fully operational by 1 September 2004.

7.50 A water-use licence was granted to the City of Dawson on 17 April 2003 for a ten-year period. A condition of that licence was that the construction of the sewage treatment facility would be complete and operating by 31 August 2004. This date is not likely to be met as construction has not yet commenced.

7.51 Since receiving the licence, detailed design work began. As of October 2003, the design work was almost complete, with almost \$4.2 million spent as of that date. A cost of \$18.9 million has been estimated to complete the entire project. Operating costs are estimated at \$530,000 annually after the first year of operation. The Government has notified the City that the cost estimate is beyond their funding expectations. It is also concerned that the project's operating costs would strain the City's resources.

7.52 A working group was formed in July 2003, with representatives from the Yukon Government and Dawson City, to address the matter and investigate various options to achieve a workable solution while maintaining environmental stewardship. First Nations and federal government representatives have been asked to join. It was planned that a presentation would be made to the Water Board by December 2003, but this has not yet occurred.

7.53 We remain deeply concerned about the uncertain status of these projects and the potential future costs to the Yukon Government.

Recommendations

7.54 In 1999, we recommended that the Yukon Government review the reasonableness of cash flow statements from a potential recipient to avoid providing funds in advance of need. We also recommended that the Government clarify its role in projects to which it contributes a significant level of funding. It should also ensure that it approves of any change in the scope of such projects, that costs do not escalate without prior approval and that cost overruns are investigated and appropriate corrective actions are taken. We would re-emphasize these points and make the following additional recommendations.

7.55 The Government should ensure that when it provides capital funding to municipalities that they are required, to the extent practical, to follow the Government's contracting regulations, policies, and procedures.

7.56 Conversely, the Government should also consider whether it may be more prudent to manage such capital projects as its own, rather than providing funding for them to municipalities, which may not have the resources, expertise or infrastructure, to manage them.

Management response

7.57 *The Department of Community Services agrees in principle with the recommendation in paragraph 7.54 and will endeavour to review cash flow statements in order to arrange payment schedules based on requirement, where appropriate.*

7.58 *With respect to the major capital funding agreements referred to in this Report, provisions of initial advances were made in consideration of the size of the financial burden and general assessment of the municipalities' ability to start up and proceed with the projects.*

7.59 *The Department also generally agrees with the recommendation with respect to clarification of its role in projects. The Department, however, would like to point out that the capital funding agreements do contain provisions that:*

- *the Yukon Government has the approval authority for changes in project scope, which may alter the terms of the agreement;*
- *limit the Yukon Government's contribution towards total project cost – clearly indicating that recipients are responsible for cost overruns; and*
- *require recipients to provide audited financial statements and audited project expenditures.*

7.60 *Municipalities have their own contract regulations. The Department does require them to follow certain aspects of the Government's contracting regulations where specifically identified in capital funding agreements. The Government prefers not to impose its regulations unless deemed necessary and agreed to.*

Payments in Advance of Need – Other Contribution Agreements

7.61 We recommended in our 1999 Report that when advances are required under contribution agreements, the Government should review the reasonableness of cash flow statements from the recipient to avoid providing funds in advance of need. We further recommended that contributions should be recorded in the year that actual expenditures are made so that the financial statements accurately reflect costs incurred in the appropriate accounting periods.

7.62 We remain concerned that the practice of payment in advance of need is still occurring within the Government, so we continue to monitor this issue. Our review of major payments at year-ended 31 March 2001 found that the problem of payment in advance of need had not diminished significantly. We observed 11 cases from four different departments, involving a total of \$614,000.

7.63 While three of the departments—Education, Justice, and Health and Social Services—corrected this error by charging the proper year for the expenditures, the Department of Economic Development did not. Economic Development was responsible for seven of these cases—an amount totalling \$288,000. For five of the seven agreements, all of which were finalized in March of 2001, all of the Yukon Government's contribution was paid within days of the agreements being signed. For the other two cases, the majority of the Government's contribution was paid up front—75 percent for one project, and 85 percent for the other.

7.64 We are concerned that the Department of Economic Development has not changed its practices to avoid making payments in advance of need. In all of seven cases, the funds provided up front were expensed before the end of March, while the main part of the term of the agreement fell after the end of March (that is, in the new fiscal year). This type of accounting treatment causes inaccuracy in timing the expenditure reporting and is not in compliance with generally accepted accounting principles. The Yukon Government's Financial Administration Manual notes that "contributions must be recorded as accountable advances until a full accounting for the contribution has been received..." The Department of Finance also found problems with payment in advance of need in the Department of Government Services.

7.65 We also noted problems with advance payments in Chapter 4 and earlier in this chapter of this Report. When a full contribution is made at the start of the project (whether it is made in the fiscal year prior to that in which the project takes place, or even if it occurs within the same year), the Government loses its leverage to ensure the project has been implemented as planned. Project accounting information helps the Government to ensure that project funding is being spent as planned and that projects are on schedule. The requirement for recipients to submit accounting reports was written into five of the seven agreements in question. One of the remaining recipients must submit a report and completed product. However, in practice, once the payment has been made, the department is not following up to ensure that recipients were submitting required reports, or that projects were completed. Departmental staff say that they know if a project has proceeded or not, because it is visible in the community. However, with no paper trail, this knowledge cannot be linked back to the department's role in the project. Also, this visual verification does not ensure, for instance, that all of the contributed funds were spent on the project. The agreements require that unspent funds should be returned, but the department is not even making sure that it receives the required project information that would allow it to determine if any funds were left unspent.

Recommendations

7.66 We reassert our previous recommendation that contributions be recorded in the year that expenditures are made so that the financial statements accurately reflect costs incurred in the appropriate accounting periods.

7.67 The Government should base payment schedules for contribution agreements on recipient needs, and it should also reserve a portion of the contribution for payment after the department involved has verified that the project has been completed.

Management response

7.68 *The Government agrees with the recommendation in paragraph 7.66. It also agrees with the recommendation in paragraph 7.67 in principle; however, depending on the nature of the contribution and the recipient, it is not always practicable to withhold a portion of the contribution until the project has been completed.*

Department of Community Services—Land inventory valuation

7.69 Background. Land development in the Yukon Territory is done differently than in other parts of Canada. In the Yukon, the Government is the main land developer. The supply of land comes from re-designating territorial crown land as land for private sale. The Government also does the initial work needed to prepare the land for building structures—from mobile homes to factories. This initial work may include activities such as building roads and extending sewer systems.

7.70 We have revisited issues around land development in previous reports on other matters in 1996, 1997, and 1999. In these reports, we explained that the Department of Community Services was not reflecting the real (market) value of land in its inventory in its books, which gave inaccurate information to the public about the worth of this land.

7.71 We also found that the Department of Community Services was developing more land than was being sold, so that its inventory of land was higher than necessary. We were concerned because funds invested in this inventory were not available to meet other, more immediate public needs.

7.72 We found that this problem was due, in part, to the lack of a straight-forward policy for decisions on land development. The Department's policy was to keep a "two-year supply" of land available for purchase. However, our Report, and a subsequent independent audit commissioned by the Yukon Government, found that the Department had not given a clear explanation of how the policy was to be applied.

7.73 By any interpretation of the policy, the amount of land in the Department of Community Services exceeded this amount. Our 1997 Report on Other Matters found that the Department had about \$25 million of capital tied up in this inventory, which could provide land for close to three and a half years. Meanwhile, this money, or some portion of it, could have been invested in other projects that would have yielded more immediate benefits.

Current Situation

7.74 Planning for Land Development. The Department of Community Services responded to the findings and its own independent audit. It decided to look into northerners' needs by conducting a market demand analysis, instead of revising its two-year supply policy. The Department has completed two market demand analyses for Whitehorse—one for residential and one for commercial/industrial developments.

7.75 However, we have yet to see evidence of how the Department of Community Services has used these analyses in subsequent development decisions. It is also unclear how the Department is making development decisions in communities where market demand analyses were not completed, given that its two-year supply policy has not been clarified.

7.76 The Department has been focussing on its objective to “plan, develop and dispose of public lands.” It has been giving less attention to its objective to “promote and undertake cost-effective activities and programs.” The Department agreed, in responding to our 1996 Report on Other Matters, to strive to keep a minimum of land on hand. By maintaining an inventory that met demand, but did not greatly exceed demand, it would reduce the amount of funds “tied up” in the land inventory.

7.77 However, the Department did not take decisive action to follow up on this commitment. According to the Department’s accounts, the value of land in its inventory is still excessive. In 2001, the total value of the land inventory had grown to more than \$28 million. At that time, the Department had a total of 380 lots available for sale, representing some 4.4 years’ supply based on total sales of 86 lots in 2001. For the Whitehorse area, there were 160 lots available for sale, representing 2.7 years’ supply based on total sales of 60 lots in 2001.

7.78 The Department could have made progress on this problem by clarifying its decision-making around the pace and type of land development. Its current inventory problem centres on mobile home lots. These lots represent a significant portion of its land holdings, because sales of its existing mobile home lots have been slow. This was partially because the Yukon Housing Corporation also developed mobile home lots. Though the low demand for mobile home lots is likely to continue, the Department is not changing its plans for developing more new mobile homes.

7.79 Setting the Book Value and Sale Price of Lands. The Department records the amount of money that it spends on land development. This amount appears on the Department’s books as the value of its land assets. However, the amount of money spent does not always equal the value of the land. This means that the more than \$28 million value of land in the Department’s books may not represent what people are willing to pay for it.

7.80 The *Lands Act* regulations state that land must be sold at the cost of development or at a price no greater than market value. The Government’s policy backs this up. Only Cabinet can authorize the sale of land at a price below development cost, by authorizing the write-down of costs where there is no longer a reasonable expectation that these costs can be recovered.

7.81 In a few cases, where a community's economy shrunk drastically and permanently, the Department wrote down the value of the properties. In 1999-2000, the Department wrote off over \$1.3 million of its investment in developing lots in locations including Carcross, Carmacks, Dawson, and Haines Junction. In 2000-01, the Department wrote off just over \$1 million of its investment, focussed on the town of Faro. The lots had reduced value because the town's major employer shut down in 1997, with no plans to re-open.

7.82 However, the Yukon Government may not always have the information it needs to adjust the value its land inventory to reflect market value. The *Lands Act* regulations call for the Government to do a review to determine the market value of its land inventory, at least once a year. However, the Department of Community Services has done only limited market value reviews—one for the large Copper Ridge (Whitehorse) development in 1997, and another to support the write-down of properties in Faro in 2001.

7.83 The Government's principal use for market value reviews in the current, low-demand situation is to determine the real (market) value of the lands in its inventory. This, in turn, would provide a basis for decisions about writing off the value of existing properties, and allow the Yukon Government to better reflect the value of its inventory in the public accounts. If the Government reviews the market value of land, this could also help it to make decisions about the pace of future developments, and the type of developments it should be investing in.

7.84 The valuation of land held for sale in the accounts continues to be an area of concern to us in our audits on several fronts. First, as in the previous two years, we found that lot sales of two mobile home projects - the Arkell subdivision developed by the Department of Community Services and Mountain View Place developed by Yukon Housing Corporation - continue to be slow. Each of these projects has development costs of over \$2 million and approximately 70 developed lots each. The Housing Corporation had an appraisal carried out on its property and wrote down the value of the project to its net realizable value. A market appraisal carried out four years ago on the Arkell project would suggest that a write-down to market in the order of about \$1 million is required. We are concerned that no write-down has been recorded in the accounts of the Government for the Arkell subdivision.

7.85 Secondly, we also identified land held for sale in several communities with balances that appear overvalued based on community sales information. For example, the Department was showing a value of about \$670,000, which represented 41 lots that were being held for sale in Teslin. However, the Government had not sold a lot there in two years, and it averaged only 3 lot sales per year in seven years. In addition, Beaver Creek had a balance of \$180,000 in the land held for sale accounts, but the Government had not sold a lot there in seven years. We estimated that the land held for sale in these and other

communities was overvalued by about \$450,000. In 2003, the Government wrote off the value of these lots.

7.86 Thirdly, we are concerned about the amounts that are recorded as work-in-progress for many projects. A balance of approximately \$1 million was recorded in the work-in-progress accounts for projects that had no work performed in at least the last two years. Based on a review of the five-year development plan, there are no plans to continue the development of these projects. In 2003, the Yukon Government wrote off these costs.

Recommendations

7.87 We reaffirm our earlier recommendation that the Department of Community Services implement and follow procedures for the development of land, which give due regard to value for money, marketability, and return on investment. Further, these procedures should be transparent and should be communicated to the Legislative Assembly and the public.

7.88 We reaffirm our earlier recommendation that the Department should continue to write-down its land inventory to reflect amounts that can be recovered at the time of sale. These should reflect market values, which should be reviewed on an annual basis, in keeping with *Lands Act* regulations.

Management response

7.89 *The Department has implemented relevant and feasible recommendations that resulted from an independent audit of the Lands Program Operations, which was conducted in 1999-2000.*

7.90 *Although socio-economic and other priorities may impact on planned results, the Department strives to adjust development to demand forecast. The Department has steadily controlled the level of expenditure for land development over the last few years in order to align inventory level to marketability. The level of investment in land development, excluding cost of land not for sale, is now about \$13.5 million as compared to \$22.5 million in 2000-01.*

7.91 *The Department conducts appraisal of finished land inventory periodically using internal resources within its Property Assessment Branch. Development costs deemed unrecoverable have been written off to adjust book value close to recoverable values based on reviews and recommendations from the Office of the Auditor General. A little more than \$3 million has been written down in the 2002-03 fiscal year alone.*

Compliance with authority—Yukon Housing Corporation: Advances not properly authorized

7.92 Discussion and observations - 1999 Report. The Yukon Housing Corporation is dependent upon funding from the Government. Under section 17(1) of the *Housing Corporation Act*, the Government is required to advance amounts requested by the Corporation for operating and capital costs. For operating purposes, the Act stipulates that the Corporation will be paid an amount equal to its annual deficit as reported in its audited financial statements.

7.93 For several years, the Government has advanced money to the Corporation. However, it has paid much more than the Corporation's annual deficit and capital spending. Excess advances were retained by the Corporation and initially reported as long-term liabilities. Some of the advances were used to fund the Corporation's housing investments, and some were used to repay debt. Subsequently, both types of advance were re-classified by the Corporation from long-term liabilities to equity.

7.94 The Corporation has used amounts received in excess of its annual deficit and capital spending to finance mortgages, agreements, and loans receivable. However, the *Housing Corporation Act* only authorizes advances for the operating and capital costs of the Corporation. Further, section 40 (1) of the *Financial Administration Act* states that "no loan of public money shall be made without the authority of an Act." Section 40(2) goes on to say that "notwithstanding any other Act, the power to make loans, advances or direct equity investments from the consolidated revenue fund shall not be exercised except in accordance with the regulations." As there are no regulations that apply in these circumstances, there is no authority for the Yukon Government to make such advances, or to allow the Yukon Housing Corporation to retain them.

7.95 Over the years, excess advances by the Government to the Corporation totalled more than \$16 million. Up to 31 March 1998, the Corporation had shown these excess advances in its balance sheet as long-term liabilities. This matched the corresponding treatment as long-term receivables in the Government's books.

7.96 Over time, the Corporation began using excess advances to meet its cash flow requirements on an ongoing long-term basis. This meant that it was unlikely that the advances would be repaid, as the Corporation became dependent on this long-term funding. In addition, the advances had no repayment terms and bore no interest. In 1999, excess advances that had accumulated over the years were re-classified from long-term liabilities to equity in the Corporation's financial statements as noted in paragraph 7.93.

7.97 For the years ended 31 December 2000, 2001, and 2002, the Corporation received \$1.5, \$1.6, and \$2.4 million, respectively—more in funds from the

Government of Yukon than it required. This means that over time, the Corporation has received over \$20 million in monies from the Government without proper authority.

7.98 For the year ended 31 March 2003, there was a small \$163,000 increase in the Corporation's equity, but the Corporation refunded \$1.9 million in cash advances during the past year. In addition, it paid a further \$3 million to the Government subsequent to year-end. While progress has been made in reducing amounts advanced to the Corporation in the past year, there remains a large amount of funds advanced over previous years that have not been authorized.

Recommendation

7.99 We continue to recommend that the Government review its funding arrangements for the Yukon Housing Corporation and ensure that there is proper authority for all of its advances to the Corporation.

Management response

7.100 *The Government feels that it has the proper authority for all advances to the Yukon Housing Corporation. Gross expenditures of the Corporation receive appropriation authority from the Legislature. This authority is clarified in the Housing Corporation Act that restricts advances to the Corporation to those authorized by the Financial Administration Act or an appropriation act. Any amount advanced to the Corporation is used for purposes appropriated by the Legislature, and is not in excess of the appropriation.*

7.101 *In addition, the Yukon Housing Corporation is part of the Consolidated Revenue Fund and, as such, monies are simply being transferred within the Fund.*

Compliance with authority—Unrecorded bank account

7.102 In 1999, we became aware that the Government had a bank account with a balance of \$505,243 that it maintains "off the books". The Government had not recorded the balance of this account at the year-end, the revenues deposited into it, or the expenses paid from the account in its statement of operations. The deposits were income from Government investments, and the expenses were bank service charges. Neither was recorded in the Government's books.

7.103 Leaving these transactions off the books runs contrary to section 10 (2) of the *Financial Administration Act*. It states, "the Treasurer shall deposit all public money he receives to the credit of the consolidated revenue fund". Section 30 (1) (e) of our mandate in the *Yukon Act* requires us to report matters

that come to our attention where there have been transactions that do not comply with relevant authorities such as the *Financial Administration Act*.

7.104 According to section 17 of the *Financial Administration Act*, payments are not to be made out of the consolidated revenue fund unless they are authorized by an act for a specific purpose at a certain time. In the *First Appropriation Act 1998–99*, it is noted that the sum of \$420,000 is held on deposit with the Government’s banker for the purposes of paying for the banking services provided to the Government by the bank.

7.105 While the *First Appropriation Act* notified the Legislative Assembly about the existence of this bank account, it did not notify members about the under-booking of financial assets in the Public Accounts or the understatement of Government revenues and expenses in the Public Accounts. In our view, this should be taken as a significant breach of the principles of consolidated revenue fund accounting and relevant provisions relating thereto in both the *Yukon Act* and the *Financial Administration Act*.

7.106 Current Situation. While the balance in the account has declined substantially, large amounts of interest income and service charges are being offset and not recorded as revenues and expenditures in the Government’s accounts as shown in the exhibit below.

Exhibit 7.1—Annual transaction totals in unrecorded account

Year	Interest income	Service charges	Net change	Ending balance that the Government maintains “off the books”
1999	\$585,912	\$425,766	\$160,146	\$506,704
2000	394,151	459,661	(65,510)	441,194
2001	477,701	776,108	(298,407)	142,787
2002	399,255	543,159	(143,904)	(1,117)
2003	757,426	756,314	1,112	(5)

Recommendation

7.107 In 1999, we recommended that the Government record all bank accounts and their related transactions in the consolidated revenue fund. Related revenues and expenditures should be included in the Estimates and authorized by the Legislative Assembly. We continue to support this course of action.

Management response

7. 108 *Agreed in principle. However, the bank account is authorized and it does not fall outside of the Consolidated Revenue Fund although it is not recorded on the books of account. Expenditures associated with these monies are disclosed in the Appropriation Act accompanying the Main Estimates.*

APPENDIX A

Our People

An audit is carried out by many people, with different skills and experiences. The sum of many aspects of their talents allows our Office to make a difference. The team responsible for the audit of the Government of the Yukon Territory includes:

Auditor General Sheila Fraser, FCA	
Assistant Auditor General Ronald C. Thompson, CA	
Principals Roger Simpson, FCA Eric Hellsten, CMA	
Audit staff	
Loan-Ahn Bui	Ed Mollard
John Cathcart	Monica Reda
Gregory Cebry	John Sokolowski
Catherine Johns	Emmanuel Soligo
Kim Jolley	Charlene Taylor
Noreen Kassam	Erin Windatt
Allan Kim	
Other Audit Services	
Annual Audit Practice Team	
Edit and Graphics Services	
Legal Services	