



Standing Committee on Public Accounts 32nd Yukon Legislative Assembly

Second Report

November 2008

Introduction

1. On February 7, 2008 the Auditor General of Canada issued a report entitled, *The Government of Yukon's Role in the 2007 Canada Winter Games*. In this report the Auditor General "examined whether the Government identified and managed the risks associated with its involvement in the Games, identified and met its obligations, and, where possible, ensured that the resources it contributed were used economically, efficiently, and effectively. [The Auditor General] also looked at whether the Government recognized and properly accounted for the costs it incurred for the Games and whether it evaluated the results of its involvement. [The] audit included the planning and construction of the Athletes' Village by the Department of Community Services... [It] did not cover how Government contributions were used by the Host Society or spent by the City of Whitehorse in building the Canada Games Centre."¹

2. During the course of the audit the Auditor General of Canada (the Auditor General) found the following:

- The Government met all of its significant financial, human, and physical obligations related to the Games. It also identified the significant risks associated with its involvement in the Games. It took steps to mitigate some of the risks by entering into agreements with its partners that clearly spelled out the obligations of each. One of the key risks to the Games was in providing accommodation for the athletes. Management Board was advised only when it became clear that the Host Society would be unable to provide these accommodations. The Government's opportunity to find lower-cost options was limited by that time.
- Once the Government took control of the Athletes' Village project, the Department of Community Services followed good project management practices. Despite the difficult position it was placed in when it was assigned this responsibility, the Department completed this critical project in time for the Games.
- The Government has not yet evaluated the results of its involvement in the Games. It spent about \$43 million more than the amount it estimated at the time that it accepted the City of Whitehorse's bid for the Games. Most of the increase

¹ Auditor General of Canada, *The Government of Yukon's Role in the 2007 Canada Winter Games*, page 1. (hereafter referred to in footnotes as "Auditor General's report.")

is linked to the Government's decision to assume responsibility for athletes' accommodation during the Games (later used for seniors' and student family residences). The Government has received or is to receive indirect contributions from the City and federal government totalling \$11.7 million toward the construction cost of the residences. Although it had not defined what would be included as Games-related costs, the Government has recognized the majority of what can reasonably be considered its costs for the Games.²

3. In its report the Auditor General also made four recommendations regarding how the Government of Yukon might usefully address these issues. They were:

- a. The Government of Yukon should have a risk management plan for all major projects, such as the Canada Winter Games. Such a plan would ensure that risks are identified, mitigated, monitored, and reported formally to Management Board on a regular basis.³
- b. The Government of Yukon should carry out evaluations of major projects such as the 2007 Canada Winter Games. The Government should also report the Games' benefits and costs.⁴
- c. The Government of Yukon should carry out quality assurance audits of all larger projects to ensure that it accepts only those projects that satisfy industry standards, technical specifications, building codes, and tenant requirements.⁵
- d. The Government of Yukon should carry out the required post-project review of the Athletes' Village project to determine whether it followed appropriate procedures, observed economy and efficiency, met the objectives for the project, and documented lessons learned.⁶

4. As indicated in the Auditor General's report, the Government has accepted these recommendations.

5. In his opening remarks at the public hearing the Committee Chair described the Committee's role in the audit process: "The Public Accounts Committee is established by order of the Legislative Assembly. We are a non-partisan committee with a mandate to ensure economy, efficiency and effectiveness in public spending -- in other words, accountability for the use of public funds... Our task is not to challenge government policy but to examine its implementation. The results of our deliberations will be reported back to the Legislative Assembly."⁷

² Auditor General's report, page 1-2.

³ Auditor General's report, page 13.

⁴ Auditor General's report, page 17.

⁵ Auditor General's report, page 22.

⁶ Auditor General's report, page 23.

⁷ Yukon Legislative Assembly, Standing Committee on Public Accounts, transcript of public hearing, February 12, 2008, page 1-1. (Hereafter referred to in footnotes as "PAC transcript.")

6. The Chair also described the Committee's objectives with regard to this particular audit. He said, "the members of this committee, like all Yukoners, are very proud of the success that the Canada Games were for Yukon. Most of us took part as volunteers in one way or another....Our questions today are meant to examine what occurred, how money was spent and learn lessons for the future and should not be construed in any way as criticism of the games, of the volunteers, the host society or of government officials. We all know that these were considered with great pride by Yukoners for a job well done."⁸

7. The Standing Committee on Public Accounts of the Yukon Legislative Assembly (the Committee) accepts and endorses the recommendations made by the Office of the Auditor General in its report. The Committee's report will not repeat in detail information contained in the Auditor General's report, its recommendations or Management's responses to those recommendations. That detail can be found in the Auditor General's report. Neither will this report attempt to summarize all the evidence given before the Committee at its public hearing, held February 12, 2008. The transcript of the public hearing is appended to this report. Instead, this report will focus on those issues that – in the opinion of the Committee – merit further comment.

8. The Committee is encouraged by Management's responses to the Auditor General's observations and its acceptance of the report's recommendations. Based on the responses contained in the report, and the evidence provided by witnesses during the public hearings, the Committee is satisfied that the Government has seriously considered the recommendations of the Auditor General. In some cases action to deal with the problems identified in the report has already been taken. In other cases action is being taken to comply with the Auditor General's recommendations.

9. Nonetheless, the Committee believes that certain issues merit further comment.

Risk Management

10. Paragraph 25 of the Auditor General's report says, "We found that the Government did not thoroughly review the [Canada Winter Games] bid prior to supporting it. For example, it neither identified nor estimated significant costs normally incurred as part of the Games before it supported the bid and the Games were awarded to the City of Whitehorse. Such costs included the salaries of its employees seconded or volunteered to the Host Society, estimated costs for the use of Government facilities, and its contribution to marketing of the Games. The Government estimated its contributions at \$21 million, but it actually contributed \$64 million to the Games."⁹

11. Paragraph 39 of the Auditor General's report says although government representatives were part of the host society's key committees, the auditors "found no

⁸ PAC transcript, page 1-1.

⁹ Auditor General's report, page 9.

documentation by these committees of the growing risk that the athletes village project could not be carried out as originally planned."¹⁰

12. Paragraph 40 says the auditors found that "there was no formal reporting to advise Management Board of potential problems. As a result, the board could not determine if the government was monitoring and mitigating the risk of not providing athletes' accommodation, which could have jeopardized the games."¹¹

13. In paragraph 45 of the report, the Auditor General recommended that the Government of Yukon should have a risk management plan for all major projects such as the Canada Winter Games. Such a plan would ensure that risks are identified, mitigated, monitored and reported formally to Management Board on a regular basis.

14. The Committee notes that the risk management issues raised in this report are not dissimilar to those raised in the Auditor General's 2007 report on the Department of Highways & Public Works.¹²

15. Given the facts described in these reports witnesses were asked how the Department of Community Services is coordinating with other departments to develop a formal risk management framework and guidelines.

16. Testimony provided to the Committee referred to a broader corporate responsibility (i.e. government-wide) in this area. This testimony also indicated that departments will be collaborating to develop "a process for overall risk management for major projects that crosses all departmental lines."¹³ Consistent with the Auditor General's recommendations, the committee encourages the Government in pursuing this course of action.

17. Nonetheless, the Committee finds the lack of a thorough review to be problematic. Additionally problematic is that fact at least one expense (the government employee-volunteer component) was not considered because "it is just the way that things have been done here."¹⁴ This expense eventually amounted to \$1.3 million.¹⁵

18. **Recommendation:** That the Government of Yukon review any and all projects as thoroughly as possible before it commits public funds and other resources to them.

19. Testimony provided to the Committee also suggested that the difficulties facing the host society were known within government. However, "until the interdepartmental

¹⁰ Auditor General's report, page 12.

¹¹ Auditor General's report, page 12.

¹² Auditor General of Canada, *Transportation Capital Program and Property Management—Department of Highways and Public Works*, February 2007.

¹³ PAC transcript, page 1-4.

¹⁴ PAC transcript, page 1-5.

¹⁵ Auditor General's report, page 10 (Exhibit 2).

committee was established (in 2004), there wasn't a formalized process for communication."¹⁶

20. **Recommendation:** That the Government's risk management plan, established pursuant to the Auditor General's recommendation, include a formalized reporting structure.

Relations with the Host Society/Canada Games Council

21. The Committee believes that the risks assumed by the Government of Yukon could have been mitigated had the Canada Games Council had more 'corporate memory' to pass on to those in Whitehorse.

22. The Committee was pleased to learn that Government officials who worked on the 2007 CWG are working with their colleagues across Canada to establish a greater corporate memory for those jurisdictions that will take on the Canada Games in the future. This work is designed to "help make the future of the games more realistic and manageable" and discern "the real costs of the games" for future hosts.¹⁷

23. While the Committee is pleased to see that this work is being done, it is also surprised to learn that this information gap existed, given that Canada Games have been staged since 1967.

24. Witnesses informed the Committee that the Government had representation on various "key" CWG boards and committees and that the flow of information between these representatives and the Government.¹⁸

25. Related to this is testimony given to the Committee regarding the clarity of roles to be played by government employees on CWG boards and committees. Witnesses spoke of an evolution in this relationship.¹⁹ Given the CWG experience it is the Committee's view that in future the reporting relationship between government employees and their supervisors should be clarified, rather than left to evolve, particularly where a person is appointed to represent the government and its interests.

26. Testimony provided to the Committee indicated that in estimating costs the Government relied too much on the work of the CWG bid committee.²⁰ This points to another factor in risk management – that the Government should not be too accepting of the estimates provided by advocates of a particular project. The Committee believes that the adoption of the Auditor General's four recommendations would prevent this from happening in the future.

Evaluation of 2007 CWG

¹⁶ PAC transcript, page 1-6.

¹⁷ PAC transcript, pages 1-4 and 1-5.

¹⁸ PAC transcript, page 1-8.

¹⁹ PAC transcript, page 1-8.

²⁰ PAC transcript, page 1-11.

27. In paragraph 62 the Auditor General recommends, "The Government of Yukon should carry out evaluations of major projects such as the 2007 Canada Winter Games. The Government should also report the Games' benefits and costs." Testimony provided to the Committee indicates that the Government considers this "an important recommendation and something that [the Government is] committed to following up on" during the summer of 2008. The evaluation is seen by the Government as being of value to itself, but also to other jurisdictions who participate in the Canada Games. For that reason it is anticipated that the report will be made public.²¹

28. While the Committee supports the recommendation regarding the evaluation of the CWG, it has concerns regarding the value of self-evaluation versus external audit. Testimony before the Committee indicated that Government officials believe such an evaluation would be of no value if it were not forthright and objective. Government officials also indicated that third-party or peer review might be helpful.²² The Committee would encourage the Government to seek third-party or peer review of the evaluation.

Athletes Village

29. Paragraph 2 of the Auditor General's report indicates that the Government of Yukon conducted a Canada Games feasibility study in 1997. The feasibility study report "raised concern about the lack of facilities in Whitehorse to house the athletes."²³ However this same study contained "no discussion of alternatives for athletes' accommodation; nor was there an indication of how much this accommodation would cost."²⁴ The Government of Yukon's original 2001 budget for the CWG contained no budgetary allocation for Athletes' accommodation.²⁵

30. The Athletes' Village project was an important component in the ability to stage the CWG. Testimony before the Committee indicated that the Whitehorse could have lost the games, had it not been able to provide adequate accommodation for athletes.²⁶ Despite the importance of this project responsibility for it was left to the Host Society, even though this entity was not as well resourced as other partners (such as the Government of Canada or the Government of Yukon) to carry out this essential task.

31. Paragraph 5 of the Auditor General's report indicates that it was "(i)n fall 2001 the Canada Games Council awarded the City of Whitehorse the right to host the 2007 Canada Winter Games."²⁷ Subsequently, "(t)he first athletes village think-tank was held on June 23, 2003."²⁸ However, it was not until "October 2004, (that) the Host Society issued a request for proposals" to construct athletes' accommodation.²⁹ It soon became clear that the Host Society's approach to constructing athletes' accommodation was not

²¹ PAC transcript, page 1-9.

²² PAC transcript, page 1-10.

²³ Auditor General's report, page 3

²⁴ Auditor General's report, page 8.

²⁵ Auditor General's report, page 10 (Exhibit 2).

²⁶ PAC transcript, page 1-12.

²⁷ Auditor General's report, page 3.

²⁸ PAC transcript, page 1-6.

²⁹ Auditor General's report, page 6.

feasible. Government departments (Community Services, Education, Highways & Public Works) and the Yukon Housing Corporation then became involved. On May 16, 2005 Management Board decided that the Government of Yukon would assume responsibility for this project.³⁰

32. In the end, the Government's actual contribution to the Athletes' Village project was \$31.8 million. This constituted approximately 50% of the Government of Yukon's total contribution to the CWG and accounted for approximately 75% of the increased cost compared to the original 2001 budget.³¹

33. The Committee would like to acknowledge that those government officials involved in the Athletes' Village project deserve credit for having taken on the responsibility for this project and having carried it out under difficult circumstances. However, the Committee would also reiterate points made in the Auditor General's report that the cost of the project could have been reduced if problems associated with this project had been communicated sooner to Government.

Future Projects

34. Testimony provided to the Committee mentioned that the Government was revising Management Board Directive 2.17.³² The revisions to this directive were also mentioned in the 2007 report on the Department of Highways and Public Works. This reiterates a point previously made in this report that the process to re-evaluate Yukon Government risk-management practices should be government-wide and not just focus on the departments that have been the subject of Auditor General reports in 2007 and 2008.

35. The Committee believes that the Government needs to address certain questions when it gets involved with partners for major projects. For example, what are the opportunities for the Government to impose conditions on the project? To what extent can the Government ensure that other partners adhere to its contracting rules. Witnesses were reticent to answer this question with certainty citing potential legal issues. The opinion offered was that this probably could be done, but might not be appropriate for all circumstances.³³

36. A second question is: How might the Government assess the ability, or willingness, of its partners to fulfill their stated obligations? In the case of the 2007 CWG, the costs over and above the 2001 estimate amounted to \$55.6 million. The Yukon Government covered \$42.9 million of the additional costs.³⁴ With regard to this issue witnesses emphasized the value of "doing upfront due diligence" including "risk analysis and risk assessment." The other dimension to the response was to seek an

³⁰ Auditor General's report, pages 6-7.

³¹ Auditor General's report, page 10 (Exhibit 2).

³² PAC transcript, page 1-13.

³³ PAC transcript, page 1-14.

³⁴ Auditor General's report, page 15 (Exhibit 3).

“unbiased assessment” of the proposed project and not rely on the views of “people with a particular interest in seeing the (project) happen.”³⁵

37. Witnesses also identified a problem in that staff in Government were called upon to help coordinate the CWG while still being responsible for their regular duties.³⁶ The persons involved deserve credit for this. Nonetheless, this may not be a sound management practice as it could lead to individual burn-out, high staff turn-over and other problems.³⁷ The way in which staff are allocated to such projects may need to be re-evaluated depending on the size and complexity of future projects.

Conclusion

38. The Committee would like to reiterate its belief that those Government officials designated to oversee this project did a good job under less-than-ideal circumstances.

39. The Committee would also acknowledge the testimony provided to it that “the recognition that [Yukon is] getting from other jurisdictions and other Canadians is even bigger than the individual projects and challenges that we faced, and we're proud of that. I think the recognition is something that all Yukoners can be proud of, and certainly the major partners -- the city, the Government of Yukon, the host society -- should all be proud that they delivered over and above what anybody anticipated.”³⁸

40. As the Committee Chair said in his closing remarks at the public hearing, “I'd like to add my voice to those of my PAC colleagues in commending not only the officials who are in front of us today but all the officials across government, and indeed all Yukoners, for the job that everyone did to put on what I believe were the best Canada Winter games ever. It has set the bar high for other jurisdictions to have to meet.”³⁹

41. At the same time, the Committee looks forward to being kept apprised of the Government's actions to carry out the recommendations contained in the Auditor General's report, as well as the additional complementary recommendations contained in this report.

³⁵ PAC transcript, page 1-15.

³⁶ PAC transcript, page 1-15.

³⁷ PAC transcript, page 1-15.

³⁸ PAC transcript, page 1-17.

³⁹ PAC transcript, page 1-17.