

Performance Audit: Agreements between Government and YMCA Valletta



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This report has been prepared under sub-paragraph 9(a) of the First Schedule of the Auditor General and National Audit Office Act, 1997 for presentation to the House of Representatives in accordance with sub-paragraph 9(b) of the First Schedule of the said Act

Charles Deguara
Auditor General

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List of Abbreviations

BoM	Board of Management
DNC	Dar Niki Cassar
IRD	Inland Revenue Department
KPIs	Key Performance Indicators
MFSS	Ministry for the Family and Social Solidarity
NAO	National Audit Office
NGO	Non Governmental Organization
pppn	Per Person Per Night
PSP	Public Social Partnership
VAT	Value Added Tax
VfM	Value for Money
YMCA	Young Men's Christian Association

Executive Summary

Executive Summary

1. An audit in terms of Article 9 of the Auditor General and National Audit Office Act 1997, was undertaken at YMCA Valletta, hereinafter referred to as YMCA. This performance audit was carried out following a request by the Permanent Secretary, Ministry for the Family and Social Solidarity (MFSS), which was subsequently endorsed by the Minister for Finance on 5 March 2015. YMCA's primary objective entails the provision of shelter and support to individual adults and families experiencing homelessness. The Non Governmental Organization (NGO) aims to deliver a six months Programme that comprises individual care plans and case reviews by professionals.
2. This review mainly focused on two Agreements between Governmental Entities and YMCA that were *in vigore* during 2014 and 2015. The first Contract related to the Joint Venture Agreement with the Housing Authority, which catered for the provision of a Hostel from where YMCA could operate. On the other hand, the Public Social Partnership (PSP) Agreement with MFSS was primarily intended to manage the daily operations of the Hostel, thereby defining the rights and obligations of both contracting parties.
3. Against this background and following consultations with MFSS, the Ministry which instigated this audit, the objectives for this Report included:
 - i. Review the Agreements entered into between Government and YMCA, entitling the latter to public funding and establishing the services that the NGO is to deliver.
 - ii. Establish the allocation of public funds assigned to YMCA for 2014 and 2015, including contributions in kind or indirect funding and other sources of income.
 - iii. Review the Audited Financial Statements of YMCA for 2014 and 2015.
 - iv. Examine the deliverables as established in the Agreements with Government and determine the cost of such deliverables.
 - v. Where possible, compare such costs to similar deliverables and determine whether value for money (VfM) is obtained.
4. The findings and conclusions presented in this audit are based on a comprehensive review of the two Agreements and their implementation. Unless otherwise indicated, findings and conclusions reflect the situation during 2014 and 2015.
5. At the outset, it is important to highlight that this Office experienced significant delays

in receiving the information requested from YMCA, and to varying degrees, precluded this Office from fully pursuing this Inquiry's objectives.

Joint Venture Agreement between the Housing Authority and YMCA

6. The Joint Venture Agreement was signed in 2008 between the Housing Authority and YMCA, whereby half the ownership of the recently established Dar Niki Cassar (DNC) Hostel at Msida, was handed over to the NGO. This review noted that a 50 per cent ownership deal was not a typical leasing arrangement between the Government and other NGOs. Moreover, the Housing Authority committed itself to fully finance the refurbishment works required at this Hostel.
7. The initial Joint Venture Agreement, signed in 2008, was characterized by various contractual limitations. These primarily included the lack of time-frames for the completion of refurbishment works as well as references to the amount of public funds being committed by the Housing Authority for such purposes. Moreover, this Agreement had two conflicting clauses. While Clause 12 stated that works were to be carried out by the latter, Clause 16 stated that YMCA were to prepare the tender documents. These contractual lacunae were not conducive to expedite project completion.
8. Due to the project delays experienced, the Parties were constrained to extend the initial Joint Venture Agreement in 2012 and in 2015. These Extensions established project deadlines, which however were not always maintained, as the first deadline was significantly exceeded while the second was marginally surpassed. The enforcement of project deadlines was also jeopardised, since the Agreement did not include penalty clauses for project delays.
9. To varying degrees, YMCA and the Housing Authority did not fully adhere to the obligations established in the Joint Venture Agreement and the subsequent Agreement Extensions. The following refer:
 - i. This review confirmed the findings undertaken by the Housing Authority's Internal Audit Unit. The latter noted that the Housing Authority approved the project sum of approximately €300,000 without a comprehensive estimate of works.
 - ii. Both Parties deviated from the contractual provisions stipulating the procurement procedures to be followed with respect to the Msida Hostel Project. While YMCA only submitted quotations instead of preparing the contractually stipulated tender documents, the Housing Authority tacitly endorsed the ensuing procedure and works by affecting payments following the latter's confirmation of the relative Bills of Quantities.
 - iii. The Housing Authority did not appoint a representative to attend YMCA Board Meetings when the agenda included the Joint Venture, as stipulated in the relative Agreement. However, during the course of this audit, both Parties agreed that the Housing Authority is to attend for Board Meetings in relation to the management of the Msida Hostel. As at the time of drafting this Report, however, such participation was yet to materialize since no Board Meetings had been scheduled.
10. For approximately two years, up to the official opening of the Msida Hostel in April 2016, YMCA's capacity to host service-users in its residences decreased by more than half of the average of 33 service-users who were hosted in 2013. Such a situation

primarily materialized through delays to complete refurbishment works undertaken at this Hostel coupled with the termination of a leasing Contract with respect to the former DNC Hostel located in St. Paul's Street, Valletta.

Public Social Partnership Agreement between MFSS and YMCA

11. The Public Social Partnership Agreement between MFSS and YMCA was signed in April 2014 and has a validity period of three years. This Agreement aims to alleviate the social problems brought about by homelessness. To this end, the Agreement procures from YMCA accommodation and a care plan for a maximum of 25 service-users at the rate of €36 per person per night (pppn), capped at a financial allocation of €328,500 annually.
12. With some exceptions, this Agreement covered most aspects of the Parties' responsibilities and obligations. The Agreement, however, was unclear as to whether service-users below the age of 12 years would be eligible for payment through this Agreement. Furthermore, although the Agreement refers to service delivery standards, these are still in the process of being developed by MFSS. Additionally, some contractual clauses within this Agreement have not been fully implemented. These mainly relate to YMCA's insurance obligations and service-users' disclaimer exempting MFSS from liability for any damages suffered by the former in connection with the services provided by YMCA.
13. During 2014 and 2015, YMCA operations were highly dependent on the income derived from the NGO's Agreement with MFSS. However, a significant decline in the number of service-users hosted by YMCA led to a decline in revenue generated by the NGO. Furthermore, the NGO's income through donations and fund raising initiatives declined significantly.
14. The circumstances discussed in the preceding paragraphs together with YMCA's commitments regarding the refurbishment project, led to cash flow problems. These difficulties, in part, could have materialized as the Housing Authority could only reimburse the NGO following the receipt and verification of invoices. This situation led to instances where YMCA would not be in a position to cover its fixed costs. In the circumstances, it was common practice that cash-flow shortfalls were temporarily resolved through short-term loans from members of the NGO's Board and by utilising the PSP Agreement's financial grant.
15. Cash flow problems were a major factor influencing the accrual of dues relating to employees' income tax and social security contributions as well as utility bills. As at end 2015, accrued dues amounted to around €675,809. The NGO's cash flow concerns were also compounded through the continued payment of the Executive Chairman's retainer even though fund raising construction related initiatives had not yielded any revenue since at least 2013.
16. Despite the NAO's clear mandate, YMCA contended that the former's review regarding its construction related fund raising initiative, referred to in the previous paragraph, was beyond the scope of this review. Consequently, the NAO is not in a position to make any further comments on the extent to which such initiative contributed towards the NGO's finances.
17. This review revealed a number of governance related issues in the implementation of this Agreement. This state of affairs was primarily due to the absence or deviations from management control mechanisms, which in turn influenced the transparency and accountability of YMCA operations. The following refers:

- i. Ambiguity about the composition of YMCA's Board of Management (BoM).
 - ii. YMCA has not prepared and submitted the annual Audited Financial Statements for 2012 to 2015 despite repeated reminders and exhortations from MFSS.
 - iii. Payment procedures followed by YMCA do not adhere to Generally Accepted Accounting Practices and deviate from management control mechanisms.
 - iv. YMCA did not always maintain or make available critical documentation related to its operations, including property rental agreements, employees' contracts of employment and Jobsplus registrations as well as contracts managing retainers pertaining to the NGO's Executive Chairman and the Founder.
18. MFSS acknowledged that the Ministry had its concerns relating to the NGO's corporate governance. Within this context, this Ministry contends that it was only on the basis of its social responsibilities and obligations towards the service-users that it considered against drastic action in relation to this Service Agreement.
19. Despite the corporate governance issues discussed in the Summary, with the main exception of capacity related issues, subject to some methodological limitations, it can be concluded that YMCA generally implemented the service-delivery contractual clauses. *Aġenzija Appoġġ*, in its role of monitoring agency, also expressed the view that YMCA services complied to requirements. However, *Aġenzija Appoġġ* also raised the points that the opportunity exists for *Aġenzija Appoġġ* to be further involved by YMCA in the development and implementation of service-users' care plans and that at times communication with YMCA was problematic.
20. On the basis of effectiveness and economic considerations, Government was attaining VfM through the provision of this service at €36 pppn. This expenditure contributed to the alleviation of the social problems brought about by homelessness. Moreover, YMCA's service-delivery generally fulfilled other effectiveness criteria, which were derived through the PSP Agreement itself and the NGO's *Policies and Procedural Manual*. Additionally, *Aġenzija Appoġġ*, that is the monitoring agency, viewed service provision positively.
21. On the other hand, the NGO itself would benefit economically and improve its cash flow considerations when it operates at levels nearer to the 25 service-users anticipated by the PSP Agreement. Operating at lower levels for sustained periods, as was the case in 2014 and 2015, threatens the sustainability of service provision since the NGO would encounter severe difficulties to cover its fixed costs, three quarters of which relate to personal emoluments.

Overall Conclusions

22. This review elicited a number of issues, which all revolved around two partnerships between Governmental Entities and YMCA. Although the two partnerships had different objectives, both were intended to converge and ultimately alleviate the social problem of homelessness.
23. The execution of refurbishment works at the Msida Hostel, which prior to the undertaking of this project was a dilapidated building, took around eight years to complete. This implies that the project was effectively delayed by around three years. The effect of such delays influenced the supply of a critical service to the detriment of vulnerable persons experiencing social difficulties. At the outset, contractual lacunae did not serve as an appropriate mechanism to ensure that Parties' obligations

were clearly established. Consequently, enforcing the terms of conditions of the Agreement as well as determining liability in cases of contractual breaches was, at best, problematic. Matters were further complicated since the property involved was transferred through a joint ownership deed. Apart from deviating from the Housing Authority's internal policy, this situation rendered it more difficult for Government to enforce the provisions of the Agreement or to rescind the Contract if such action was deemed appropriate.

24. The second partnership under review related to the Service Agreement between MFSS and YMCA regarding the provision of accommodation and a care plan to service-users. Subject to some qualifications, the service provided was to the satisfaction of service-users and *Agenzija Appoġġ* as the monitoring agency.
25. However, during the period under review, YMCA was operating at around half of the operational capacity intended by the PSP Agreement. Moreover, there were other points of contention relating to the implementation of the PSP Agreement, which raise corporate governance concerns regarding the NGO's financial management. Unaudited and unrepresented Financial Statements, cash payments, late or unrepresented receipts, a troublesome cash flow as well as undocumented or uncontracted relationships deviate from generally accepted practices. Such circumstances together with the ensuing severance of audit trails breach the provisions of the Voluntary Organizations Act, deviates from the PSP Agreement and hinder oversight procedures to the detriment of operational transparency and accountability.
26. This review acknowledges the social problems brought about by homelessness. Public Social Partnership (PSP) Agreements between Governmental Agencies and NGOs provide the opportunity to sustainably deal with prevailing and future social issues. However, to varying degrees, the outcome of the two partnerships reviewed was influenced through contractual weaknesses, which do not clearly outline Parties' obligations and responsibilities. Moreover, the service provider's shortcomings in its management control mechanisms also impinged on the sustainability of these Public Social Partnerships. These circumstances arise since robust corporate governance structures are pre-requisites to the success of partnerships involving Governmental Agencies and public funds.

Recommendations

27. In view of the findings and conclusions emanating from this review, as well as other National Audit Office (NAO) reports dealing with Service Agreements concerning various NGOs, MFSS has already embarked to address the concerns raised therein. With respect to its Agreement with YMCA, MFSS has already drawn up a new template Agreement, taken steps to oblige NGOs to declare retainers paid to any member of the BoM as well as compiled a checklist to facilitate its monitoring function. In addition, this Ministry stated that it has taken note of the recommendations listed hereunder, which focus on the strategic and operational levels:

Strategic Recommendations

- i. Contractual provisions defining the terms and conditions of the services to be delivered through subsequent Agreements, are to be appropriately comprehensive to ensure that the responsibilities of signatories to the Agreement are clearly defined. This approach would minimize the likelihood of misinterpretations, thereby avoiding any potential operational risk to either party, as well as ensure the wellbeing of the service-users themselves.

- ii. The Housing Authority should avoid property donation type of deeds, similar to the Joint Venture Agreement signed with YMCA in 2008 where half of the ownership of the Msida Hostel was transferred to the NGO. Donations of this type do not constitute typical arrangements with NGOs, as also typified by standard operating procedures in place at the Housing Authority.
- iii. Agreements with YMCA should avoid overlapping contractual clauses between different Contracts signed with different Governmental Entities. A case in point relates to the need to clarify the situation whereby referrals of service-users to the Msida Hostel may be affected through both the Joint Venture Agreement signed with the Housing Authority as well as the PSP Agreement signed with MFSS.
- iv. Parties are encouraged to continuously seek approaches to ensure that, as far as possible, Service Agreements are operating at the stipulated capacity. Apart from satisfying contractual obligations, this will also ensure that VfM considerations are further exploited.
- v. Any form of remuneration or retainer paid to members of the BoM should follow the *'Code of Good Governance, Practice and Ethics for Administrators of Voluntary Organisations'* issued by the Office of the Commissioner for Voluntary Organizations. This will strengthen the principles of transparency and accountability within NGOs.
- vi. It is to be ascertained that service providers adhere to their contractual obligations in relation to the preparation and presentation of annual Audited Financial Accounts of the NGO in accordance with the Voluntary Organizations Act and any other relevant laws and regulations.
- vii. Similarly, the NGO is to maintain and ensure compliance with an up-to-date statute. Furthermore, the NGO is to keep up to date records with particulars and details of the members of the BoM. This information should be submitted to the Office of the Commissioner for Voluntary Organizations on a yearly basis.

Operational Recommendations

- viii. The strengthening of corporate governance structures at YMCA will provide further reassurances that the resources procured through public funds are being utilized solely for their intended purposes. Initiatives to this end relate to the drawing up of the relevant financial policies and the maintenance of more comprehensive operational documentation, including those relating to the receipt of donations.
- ix. In line with the proposal outlined in the preceding paragraph, payment procedures adopted by YMCA should embrace the appropriate level of accountability and transparency. The NGO should absolutely refrain from pre-signing open cheques and making cash payments involving substantial amounts.
- x. The settlement of accrued employees' tax, social security contributions and utility bills should be given due priority. YMCA is to discuss with the responsible Governmental Entities and find ways of how to develop a payment programme to settle the amounts due.
- xi. YMCA should draw up contracts of employment for all its employees in terms of Article 7 of the Employment and Industrial Relations Act. Apart from adhering to legislative provisions, such a state of affairs also serves to formally outline the NGOs relationship with its employees.

Chapter 1

Terms of Reference

Chapter 1 – Terms of Reference

1.1 Introduction

- 1.1.1 On the basis of a number of concerns, particularly those relating to financial management, the Ministry for Family and Social Solidarity (MFSS) requested that the National Audit Office (NAO) conducts Inquiries into the operations of four Non Governmental Organizations (NGOs), including YMCA Valletta, hereinafter referred to as YMCA. These NGOs deliver a range of services of a social nature through the relative Service Agreements with various Governmental Entities. To this end, the NGOs are reimbursed for services rendered through public funds.
- 1.1.2 The Minister for Finance endorsed such request on 5 March 2015. This Inquiry was carried out in terms of Article 9 of the Auditor General and National Audit Office Act, 1997. Unless otherwise indicated, findings and conclusions presented in this Report reflect the period between 2014 and 2015.
- 1.1.3 At the outset, it is important to highlight that this Office experienced significant delays in receiving the information requested from YMCA, and to varying degrees, precluded this Office from fully pursuing this Inquiry's objectives. This situation materialized despite that NAO informed YMCA about the conduct of this Inquiry on 24 April 2015. Within this context, YMCA did not readily make available or produce some of the requested documentation, such as invoices and receipts. Moreover, the NGO's Audited Financial Statements remained outstanding for four years – a situation which prevailed as at the time of drafting this Report.
- 1.1.4 Consequently, such a scenario was conducive to information gaps, which in cases, was exacerbated through scant or even conflicting information, such as missing leasing agreements and employment contracts, as well as unclear grounds for certain payments. The ensuing Chapters will refer to specific instances where this lack of information precluded the NAO from fully realizing its audit objectives. To this end, YMCA contends its Board of Management (BoM) is dependent on volunteers with very limited time. Moreover, the NGO stressed that in addition to the informal approach adopted at management level, operations are constrained by the lack of financial resources.
- 1.1.5 It is to be noted that MFSS also experienced delays in receiving obligatory information from YMCA. The resulting information gaps hindered this Ministry from carrying out its monitoring function to ascertain that public funds disbursed to NGOs are spent appropriately and in the best interest of service-users.

1.2 YMCA's Hostel services aim to address homelessness and encourage its service-users to pursue independent living

- 1.2.1 YMCA's primary objective entails the provision of shelter and support to individual adults and families experiencing homelessness. The NGO aims to deliver a six months Programme that comprises an individual care plan and case reviews by professionals. This Programme is intended to monitor and support the development of service-users, particularly in terms of improving the life-skills required to enable individuals to regain and pursue independent living. *Aġenzija Appoġġ* refers the majority of these cases to YMCA.
- 1.2.2 Dar Niki Cassar (DNC), the Hostel administered by YMCA, was relocated from Valletta to Msida in 2016. This residence is co-owned by this NGO and the Housing Authority through a Joint Venture Agreement dated 29 January 2008. The daily operations at this Home are administered through a Public Social Partnership (PSP) Agreement signed with MFSS on 1 April 2014. The latter Agreement caters for a maximum of 25 service-users at €36 pppn and is valid for a three-year period with a maximum financial allocation of €985,500. The PSP Agreement may be extended for an additional two years and is renewable thereafter upon discussion between contracting parties.
- 1.2.3 An Executive Chairman is in charge of YMCA operations. The BoM, including a Treasurer and a Secretary, support the services provided by YMCA on a voluntary basis. The remaining workforce at YMCA includes an Administration Manager, a Care Manager and four Key Care Workers on a full-time basis, as well as two Supporting Care Workers on reduced-hours. Figure 1 refers.

Figure 1 : YMCA's Organizational Chart (2015)



1.2.4 Volunteers, particularly from foreign YMCA institutions as well as students undertaking a work-placement, also provide their contribution toward the running of this Hostel. Their work consists of sustaining service-users for improved job-skills, creating activities as well as supporting staff members in their daily duties such as supervision and phone calls. During 2015, such voluntary contribution by two volunteers and three students amounted to approximately 165 working days.

1.3 Government Entities sustain YMCA operations through various Agreements

1.3.1 Two Agreements between Governmental Entities and YMCA were *in vigore* during the audit period of this Inquiry. Such Agreements sustained the operations of this NGO during 2014 and 2015. The Joint Venture Agreement with the Housing Authority was mainly intended to provide a Hostel from where YMCA could operate, while the PSP Agreement with MFSS is primarily intended to manage daily operations, thereby defining the rights and obligations of both contracting Parties. However, this review noted that there exists some overlap between these two Agreements, as shall be discussed in the ensuing Chapters. Table 1 refers.

Table 1 : Agreements *in vigore* between Governmental Entities and YMCA

Date	Contract reference	Governmental Entity	Contract duration	Associated expenditure incurred by Government
29 January 2008	<i>Joint Venture Agreement</i> (including a first Extension dated 17 October 2012 and a second Extension dated 24 December 2015)	Housing Authority	Indefinite	€95,387.84 as a donation of half the ownership of the Msida Hostel and €299,017.76 for refurbishment-related costs
1 April 2014	<i>Public Social Partnership Agreement</i>	Ministry for the Family and Social Solidarity	1 April 2014 to 1 April 2017	€36pppn capped at a maximum of €328,500 per year

1.3.2 In addition to the Agreements listed in Table 1, in years prior to the period under review by this audit, YMCA operations were also sustained through other forms of public funding. These namely included the provision of wages for a number of employees to sustain daily operations, funds from *Aġenzija Appoġġ* in relation to minors under their care, as well as finances obtained through the NGO's Fund particularly between 2011 and 2013.

1.4 Aims and objectives

1.4.1 Against this backdrop and through consultations between NAO and MFSS, this audit's Terms of Reference entail the following:

- i. Review the Agreements entered into between Governmental Entities and YMCA, entitling the latter to public funding and establishing the services that the NGO is to deliver.
- ii. Establish the allocation of public funds assigned to YMCA for 2014 and 2015, including contributions in kind or indirect funding as well as other sources of income.

- iii. Review the Audited Financial Statements of YMCA for 2014 and 2015.
- iv. Examine the deliverables as established in the Agreements with Government and determine the cost of such deliverables.
- v. Compare, where possible, such costs to similar deliverables and determine whether value for money is obtained.

1.5 Methodology

- 1.5.1 For the purposes of this audit, the NAO reviewed and analysed documentation from various sources. These primarily included the MFSS, the Housing Authority, the Government Property Department, the Office of the Commissioner for Voluntary Organizations as well as YMCA. The NAO performed also a number of semi-structured interviews with various representatives from MFSS, Housing Authority, *Aġenzija Appoġġ* as well as representatives from YMCA.
- 1.5.2 This Review also referred to the NGO's unaudited Financial Statements pertaining to recent years, particularly those related to 2014 and 2015. Best practices and other benchmarks were utilized as much as possible to determine the extent to which the deliverables furnished through the PSP Agreement in place with MFSS as well as the Joint Venture Agreement with the Housing Authority, were in accordance with contractual obligations and constituted value for money.

1.6 Report structure

- 1.6.1 Following this introductory Chapter, the Report is structured around the following key areas:
 - i. Chapter 2 assesses the 2008 Joint Venture Agreement with the Housing Authority, characterized by a 50 per cent joint-ownership deal between the two entities. The Chapter discusses that the concept of joint ownership does not follow preceding standard lease agreements, which Government Entities have with NGOs. The Chapter also discusses the lack of adherence with procurement procedures established in this Agreement, coupled with delays in project completion, resulting in YMCA operating below contracted capacity during 2014 and 2015.
 - ii. Chapter 3 evaluates the services provided by YMCA through the PSP Agreement *in vigore* with MFSS, which were characterized by various governance-related concerns. The discussion therein relates to the extent to which the contractual provisions stipulated in this Agreement, appropriately safeguard the interests of both entities party to this Contract as well as the wellbeing of all service-users.
- 1.6.2 The audit's overall conclusions drawn and recommendations are included in the Report's Executive Summary on pages 11 to 13.

Chapter 2

Joint Venture Agreement between the Housing Authority and YMCA

Chapter 2 – Joint Venture Agreement between the Housing Authority and YMCA

2.1 Introduction

- 2.1.1 This Chapter discusses the Joint Venture Agreement signed in 2008 between the Housing Authority and YMCA, whereby half the ownership of the recently established Dar Niki Cassar (DNC) Hostel at Msida, was handed over to the Non Governmental Organization (NGO). At the time, this property was in dire need of refurbishment due to its dilapidated state. This review noted that a 50 per cent ownership deal was not a typical leasing arrangement between the Government and other NGOs. Moreover, the Housing Authority committed itself to fully finance the refurbishment works required at this Hostel.
- 2.1.2 This Joint Venture Agreement was characterized by various contractual limitations. These primarily included the lack of time-frames for the completion of refurbishment works as well as references to the amount of public funds being committed by the Housing Authority for such purposes. In addition, the implementation of this project was subject to an initial period of litigation between the two contracting Parties, whereby Government tried to recoup the full ownership of the Msida Hostel. However, an Extension to the original Contract was signed on 17 October 2012 between the Housing Authority and YMCA, in order to address such contractual deficiencies. Table 2 refers.
- 2.1.3 This review noted that both contracting Parties did not adhere to the obligations established in the Joint Venture Agreement and substantial delays in project completion materialized. The Msida Hostel was inaugurated in April 2016, that is, around eight years after YMCA signed the initial 2008 Joint Venture Agreement with the Housing Authority. This situation resulted in YMCA operating below capacity for a period of approximately two years. The NGO contends that such delays were primarily attributable to the unavailability of funds as well as some unforeseen construction-related difficulties.

Table 2 : Agreements between the Housing Authority and YMCA

Date	Contract reference	Contract duration	Associated expenditure incurred by Government
29 January 2008	2008 Joint Venture Agreement	Indefinite	Donation of half the ownership of DNC in Msida (estimated at €95,387.84) and refurbishment costs (undefined)
17 October 2012	2012 Extension to the 2008 Joint Venture Agreement	Capping of refurbishment related costs, deadline for the completion of works (March 2013) and anticipation of €50,000 for the commencement of works	Maximum of €254,000 (excluding VAT)
24 December 2015	2015 Extension to the 2008 Joint Venture Agreement	Defining refurbishment costs settled by the Housing Authority to-date (€165,000), settlement of the remaining balance (€134,017.76) and new target date for the completion of works (31 January 2016)	€299,017.76 (including VAT)

2.1.4 In view of the foregoing, this Chapter discusses the following issues:

- i. A 50 per cent ownership deal between the two Parties, which deviates from the typical subsidized leasing arrangement applicable for NGOs.
- ii. A number of contractual deficiencies within the 2008 Joint Venture Agreement.
- iii. Deviations from the procurement procedures established in the Joint Venture Agreement with respect to refurbishment works.
- iv. Substantial delays in project completion, which led to YMCA operating below capacity.

2.2 A 50 per cent ownership deal deviates from standard lease Agreements with NGOs

2.2.1 Through the Joint Venture Agreement signed on 29 January 2008 between the Housing Authority and YMCA, Government donated half the ownership of the Msida Hostel to this NGO. Donations of this type do not constitute typical arrangements with other NGOs, as also typified by standard operating procedures in place at the Housing Authority.

2.2.2 To this effect, the 2008 Joint Venture Agreement was originally drafted on a *'mera tolleranza'* basis, implying that the premises in question were supposed to be utilized by YMCA against no rental fees, for a period of ten years. Such a leasing arrangement may already be considered as a privileged one for YMCA, as the premises in case would have been utilized free of charge. To this end, Inter-Office Memo 29/03 and the Housing Authority Board decision 2/2003 noted that:

"... when the Housing Authority leases premises or offices to Non Government Organisations or Government Agencies within our Ministry and which provide a voluntary or social service to our community, the rent is to be calculated as 3.5 per cent of the subsidised value of the premises".

2.2.3 Despite the foregoing, the documentation made available for this review by both the Housing Authority and the NGO was not sufficient to determine the basis on which the 'mera tolleranza' leasing approach was overturned to a donation type of deed.

Figure 2 : Joint Venture between the Housing Authority and YMCA



2.2.4 As depicted in Figure 2, soon after the 2008 Joint Venture Agreement between the Housing Authority and YMCA, whereby half the ownership of the Msida Hostel was handed over to this NGO, Government was already considering rescinding such a deed of donation. As outlined in correspondence between Chief Executive Officer

Housing Authority and Minister for Social Policy dated 12 November 2008, it was evident that although the Housing Authority was prepared to continue supporting YMCA, the Authority had serious doubts about the transparency of the organizations' financial administration.

- 2.2.5 The legal advice sought at the time by the Authority clearly highlighted the complications that could arise from such a decision to recoup the full ownership of the property in question. Contractual deficiencies, such as the lack of establishment of a target date for the completion of refurbishment works, necessitated the filing of a court case to determine such a deadline. In case YMCA did not manage to meet the set target date, the Housing Authority could then commence proceedings for the termination of such Contract, which was deemed to be a rather lengthy process.
- 2.2.6 Furthermore, in accordance to the legal advice sought at the time by the Authority, another option was for Government to proceed in court for damages, with the intention of stalling the whole project. However, in this case, the Housing Authority was at risk of being sued and the possibility also existed that the Contract itself could have been challenged in relation to the transfer of ownership of this property, in which case it would have shed a bad light on the Authority's capacity to draft similar Agreements. Consequently, a decision was taken to extend this relationship with YMCA.
- 2.2.7 Governments' intentions to repeal the 2008 Joint Venture Agreement with YMCA were also evidenced through new draft Agreements prepared in March 2009. Such documentation mainly included a rescission Contract with respect to the 2008 Joint Venture Agreement, a new lease Agreement for the same premises, as well as an additional Contract to refund the annual rental fee to YMCA to finance the required refurbishment works. This draft lease Agreement included an annual rental fee of €13,800 for the first three years and €15,180 for the following and final three years of this six-year understanding.
- 2.2.8 However, as shown in Figure 2, Government did not manage to recoup the full ownership of the Msida Hostel and thus the 2008 Joint Venture Agreement remained *in vigore*. Consequently, both Parties agreed to sign an Extension to the 2008 Joint Venture Agreement, intended to address a number of contractual deficiencies, mainly related to the amount of public funds allocated for these refurbishment works, as well as the period within which such works were to be completed, that is, March 2013. Nevertheless, this deadline was missed. YMCA contends that these delays were mainly attributable to unforeseen construction-related difficulties and cash flow problems, which to an extent arose since, after an initial payment of €50,000, the Housing Authority honoured its contractual financial obligations on being invoiced on completion of works.

2.3 Contractual deficiencies were not conducive to expedite project completion

- 2.3.1 The contractual lacunae within the original Contract mainly related to the lack of establishment of a deadline for the completion of refurbishment works as well as the maximum amount of public funds that were to be allocated for such works. To some extent, the 2012 Extension to the 2008 Joint Venture Agreement addressed these two issues. However, despite the inclusion of such provisions within the subsequent 2012 Extension, the following contractual deficiencies prevailed:

- i. *The service-user capacity of the Msida Hostel was not defined***
The Authority has the right to refer up to 50 per cent of the service-users who shall occupy the Msida Hostel. However, the maximum capacity of this Hostel was not defined in this Agreement and consequently, the maximum number of service-users who may be referred by the Housing Authority remains unknown.
- ii. *It is unclear whether service-users referred by the Housing Authority will be against payment or otherwise***
The 2008 Joint Venture Agreement does not state whether service-users referred by the Housing Authority, will be accommodated at the Msida Hostel free of charge or against some form of payment. To date, however, the Housing Authority has not invoked this clause by referring any clients.¹ The Board of Management (BoM) contended that without Government's financial contribution, the management of this Residence would not be sustainable, particularly in view of the high fixed costs associated with salaries and wages, as well as the ever-increasing competition with respect to the fund raising activities organized by other NGOs. The NAO is informed that the Parties recently discussed these issues.
- iii. *The Agreement omits references to any financial contribution expected from service-users***
The Agreement does not refer to service-users' financial contribution to YMCA. The NGO's *Policies and Procedural Manual* stipulates that clients are to be charged a daily contribution of €2.33, which is lowered to €1 in case service-users are dependent on social relief, whilst no financial contribution is expected from residents without any form of income. However, the NGO noted that in view of service-users' precarious financial position, YMCA does not enforce this internal policy.
- iv. *Unclear representation of the Housing Authority on YMCA's Board of Management***
Although Article 8 of the 2008 Joint Venture Agreement states that Housing Authority reserves the right to be represented on the BoM of YMCA, such a clause does not state by how many representatives and the respective voting power. Therefore, the Housing Authority's participation in the refurbishment and subsequent administration of this Hostel is rather vague, despite the 50-50 ownership status.
- v. *The Agreement does not include penalty clauses for contractual breaches***
Neither the original Agreement signed in 2008 nor its Extension in 2012 included any form of penalty clauses in case works were delayed, the anticipated budget not adhered to or any other deviation from the Agreement's provisions. Such omissions do not adhere to good practices and render issues of litigation and liability more problematic to resolve.
- vi. *Conflicting responsibilities relating to refurbishment works***
Clause 12 of the Agreement states that works were to be carried out by the Housing Authority. On the other hand, Clause 16 stipulates that YMCA were to prepare the relative tender documents. Although these clauses may be seen to promote the '*partnership*' concept where parties assume different responsibilities, in practice, these contractual clauses contradicted the principle of ownership and the ensuing accountability for the refurbishment works undertaken.

¹ Government referrals to YMCA were undertaken through the Public Social Partnership Agreement signed between YMCA and MFSS on 1 April 2014.

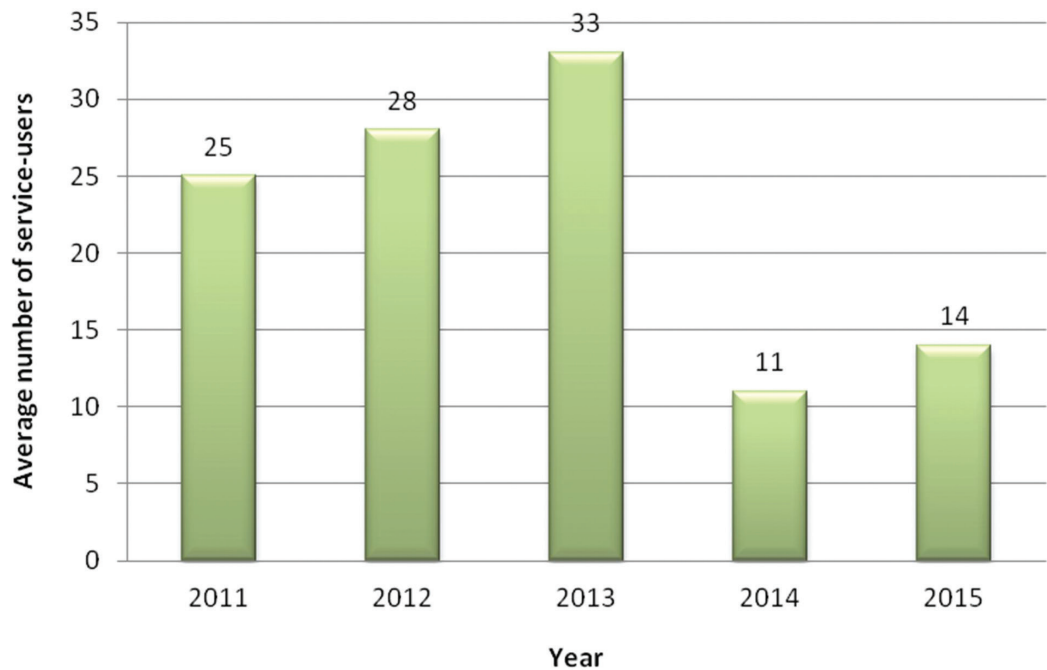
2.4 Procurement procedures established in the 2008 Joint Venture Agreement were not fully followed

- 2.4.1 This review has revealed that both entities party to the 2008 Joint Venture Agreement and its subsequent 2012 Extension, have not always followed the procurement procedures established therein, particularly Clause 16. This Clause states that YMCA was to prepare all the necessary tender documents related to this Project. Subsequently, the Housing Authority was to authorize the issuance of these tenders and be responsible for their evaluations according to the approved procurement procedures. To this end, this review did not find evidence that the relevant tendering documents were prepared by YMCA and, effectively issued and evaluated by the Authority, as per such Clause.
- 2.4.2 YMCA contended that instead, it sought quotations from different suppliers, including foreign sub-contractors. Contractors were then chosen in accordance with the cheapest offer. However, during the course of this review, documented evidence related to such quotations were neither provided by YMCA nor by the Housing Authority.
- 2.4.3 Furthermore, documentation maintained by the Authority implies that the project sum of approximately €300,000 (including VAT) was approved without a proper estimate of works – a concern that was also elicited by a Housing Authority Internal Audit Report dated September 2013. Despite the foregoing, the Housing Authority tacitly endorsed the works, which is in breach of Clause 16, by effecting the relative payments through YMCA without following the contractually approved procurement procedures. However, it is to be noted that such payments were effected following the necessary inspections by the Authority to confirm the satisfactory completion of works in accordance with the relative Bills of Quantities as well as in adherence to Housing Authority standard procedures.
- 2.4.4 YMCA completed these works only recently and the new Msida Hostel was inaugurated on 22 April 2016. During the course of this audit, both parties to this Agreement have recently met to establish the way forward with respect to the Hostel's operations, thereby ensuring that the obligations arising through the 2008 Joint Venture Agreement as well as the 2012 Extension would be fulfilled. To this end, the Parties agreed that YMCA is to:
- i. Organise a Board Meeting every month whereby the Authority is to participate in matters relating to the management of the Msida Hostel.
 - ii. Engage an accountant to prepare monthly management accounts.
 - iii. Co-ordinate with the Housing Authority regarding occupancy.
 - iv. Issue an insurance policy on the premises.
- 2.4.5 Despite YMCA's formal acknowledgment of the foregoing, as at the time of drafting this Report, the NGO was still to implement the agreed measures.

2.5 Msida Project delays coupled with the closure of St Paul's Street, Valletta Hostel implied that the NGO was operating below capacity

- 2.5.1 For approximately two years, up to the official opening of the Msida Hostel in April 2016, YMCA's capacity to host service-users in its residences decreased significantly. Such situation primarily materialized through delays to complete refurbishment works undertaken at this Hostel coupled with the termination of a leasing Contract with respect to the former DNC Hostel located in St. Paul's Street, Valletta.
- 2.5.2 As noted in paragraph 2.3.1, neither the 2008 Joint Venture Agreement nor its subsequent Extension in 2012 established the Hostel's capacity, that is, the maximum number of service-users that could be accommodated at the Msida Hostel. It was only through the Public Social Partnership (PSP) Agreement signed with MFSS, that this contractual lacuna was addressed and set the Hostel's capacity at 25 persons as from July 2014. Figure 3 illustrates the average number of service-users at YMCA between 2011 and 2015.

Figure 3 : Average number of service-users at YMCA's Hostel (2011 to 2015)



- 2.5.3 As noted in Figure 3, the NGO's capacity to offer its services decreased drastically from an average of 33 service-users in 2013, to an average of 11 service-users during 2014. To this end, YMCA contends that it was forced to decrease the number of service-users since the existing lease agreement for the DNC Hostel in St. Paul's Street, Valletta, which was donated rent-free for a period of ten years, was not being renewed beyond 2013. Such a situation raises the issue of planning shortcomings since project completion at the Msida Hostel did not coincide with the end of the lease Agreement to ascertain YMCA's ability to maintain its operations at a constant capacity, to enable it to address the demand for its services. The temporary solution adopted by YMCA was to utilize the premises in St. Nicholas' Street, Valletta, which has a much lower accommodation capacity.

2.6 Conclusions

- 2.6.1 The execution of refurbishment works at the Msida Hostel took around eight years to complete, which imply that the project was effectively delayed by around three years. The effect of such delays influenced the supply of a critical service to the detriment of vulnerable persons experiencing social difficulties. A number of issues, which to varying degrees can be attributable to both contracting Parties at times stalled and delayed this Joint Venture between the Housing Authority and YMCA.
- 2.6.2 At the outset, contractual lacunae meant that Parties' obligations were not clearly established. Consequently, enforcing the terms of conditions of the Agreement as well as determining liability in cases of contractual breaches was, at best, problematic. Matters were further complicated since the property involved was transferred through a joint ownership deed. Apart from deviating from the Housing Authority's internal policy, this situation rendered it more difficult for Government to rescind the Contract if such action was deemed appropriate.
- 2.6.3 On the other hand, YMCA delayed making its project submission to the Housing Authority for the latter's approval. The NGO contended that cash-flow problems further delayed the project as unforeseen construction related works increased project costs, which had to be borne by YMCA.
- 2.6.4 The substantial delays experienced, to an extent, also instigated the NGO to deviate from its contractual obligations and resort to procure works and services in breach of the contractually approved procurement procedures. In instances, such procurement involved foreign contractors. Given the urgency associated with the completion of this project, the Housing Authority was constrained to tacitly endorse this deviation from the Agreement's contractual provision.
- 2.6.5 The foregoing illustrates that this Joint Venture was hampered with planning, financial and administrative shortcomings. To varying degrees, both Parties contributed to delaying this project to the detriment of service-users.
- 2.6.6 The next Chapter of this Report discusses the services provided by YMCA through the Public Social Partnership Agreement with the MFSS. The issues arising from such a review mainly related to various governance-related concerns, which impede the interests of both entities party to this Agreement as well as the welfare of service-users residing at the NGO's Hostel.

Chapter 3
Public Social Partnership Agreement
between the MFSS and YMCA

Chapter 3 – Public Social Partnership Agreement between the MFSS and YMCA

3.1 Introduction

3.1.1 On 1 April 2014, the Ministry for the Family and Social Solidarity (MFSS) and YMCA signed a Public Social Partnership (PSP) Agreement that is valid for a three-year period. At MFSS's discretion, such an understanding may be extended for an additional two years, and is renewable thereafter upon discussion between the two contracting Parties. This Agreement caters for the accommodation of a maximum number of 25 service-users at the rate of €36 per person per night (pppn), with a maximum financial allocation of €328,500 per year.

3.1.2 This review revealed a number of governance-related concerns in the implementation of this Agreement. This state of affairs is primarily attributable to the absence or deviations of management control mechanisms, which in turn influenced the transparency and accountability of YMCA operations.

3.1.3 Against this background, this Chapter discusses the following concerns:

- i. Contractual provisions that are still in the process of being implemented.
- ii. YMCA is increasingly dependent on Government funding and accrued substantial dues in employees' tax, social security contributions and utility bills.
- iii. The absence or deviations from management control mechanisms influenced the governance of YMCA operations.
- iv. Untimely communication between *Aġenzija Appoġġ* and YMCA, in instances, affected services in cases of emergency.
- v. YMCA's Hostel capacity related issues, which impinged on the financial sustainability attainable through the PSP Agreement.

3.2 A number of contractual provisions have not yet been implemented

3.2.1 A review of this PSP Agreement between the MFSS and YMCA revealed that contractual clauses generally adhere to best practices which are intended to safeguard the interests of both contracting Parties as well as the service-users themselves. These clauses comprise matters related to insurance and liability, confidentiality, termination

arrangements as well as quality service-delivery standards. Exceptions in this regard related to the:

- i. Unclear payment eligibility based on service-users' age* - The PSP Agreement does not make reference whether persons under the age of 12 years would be subject to charges under the terms and conditions of this Contract. To this end, Parties are currently in litigation over this issue. While YMCA insists that MFSS is to be invoiced with respect to minors hosted at their Hostel, MFSS reiterates that the Non Governmental Organization (NGO) are reimbursed for minors residing at their Hostel through other Governmental avenues. To this end, during 2014 YMCA received €14,140 through *Aġenzija Appoġġ* for minors accommodated at the Hostel.
- ii. Omission of service-delivery standards from this Agreement* - Although the Contract refers to such standards, these are still in the process of being developed by MFSS. Such a situation inhibits the latter from effectively monitoring and gauging the services provided by YMCA in relation to the Agreement under review.

3.2.2 Despite the appropriateness of most of the contractual clauses in this PSP Agreement, both Parties have not yet fully implemented some of these contractual provisions. YMCA has not forwarded a copy of the Hostel's insurance policy and the respective receipt to the Contracting Authority in accordance with Clauses 8.5 and 8.8 of this Agreement. In the absence of YMCA forwarding the relative information, it cannot be ascertained that YMCA extended this insurance policy to indemnify MFSS from any liability resulting from negligence or willful misconduct.

3.2.3 Similarly, this review has noted that YMCA had not yet implemented Clause 8.9 of the PSP Agreement in relation to liability disclaimer. Although YMCA contended that it is aware of such a contractual provision, which is intended to safeguard MFSS's interests, the NGO did not request service-users to sign any disclaimer clause that exempts MFSS from any potential liability arising through the services provided by the NGO.

3.2.4 Other contractual provisions, which are still in the process of being implemented by YMCA, mainly relate to financial management, as discussed in the ensuing Sections. These circumstances, in turn, raised governance related concerns with respect to the NGO's operations.

3.3 YMCA is increasingly dependent on Government funding and accrued substantial dues in employees' tax, social security contributions and utility bills

3.3.1 During 2014 and 2015, YMCA operations were highly dependent on the income derived from the NGO's Agreement with MFSS. This Agreement, which potentially generates a maximum of €328,500 per year, caters for the accommodation of a maximum of 25 service-users at the rate of €36 pppn.

3.3.2 However, a significant decline in the number of service-users hosted by YMCA led to a decline in revenue generated by the NGO.² To this end, during the first two years of this Agreement, on the basis of service-users accommodated at the Hostel,

² Chapter 2 paragraph 2.5.3 discusses in detail the circumstances leading to the decline in service-users hosted by YMCA during 2014 and 2015.

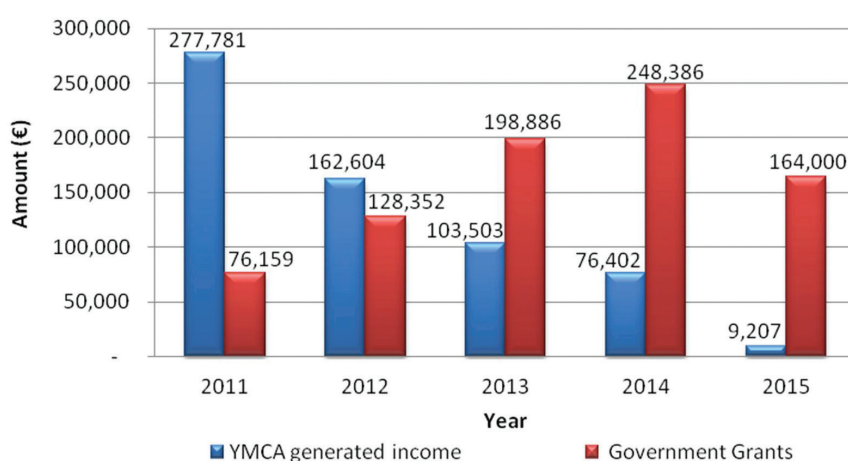
the NGO received €463,671 out of the capped maximum of €657,000. Furthermore, revenue generated by the NGO through donations and fund raising initiatives declined significantly. This led to a situation whereby YMCA accrued substantial dues with respect to employees' tax and social security contributions as well as utility bills, which as at end 2015 amounted to around €675,809.

Dependence on the Governmental Entities' financial contribution is on the increase

3.3.3 In addition to the donation of half the ownership of the Msida Hostel and the respective funds required for its refurbishment, as discussed in Chapter 2 of this Report, YMCA generates revenue through the PSP Agreement with MFSS for its operations. In the year prior to the signing of this Agreement in 2014, YMCA generated 34 per cent of its operational revenue while Government grants accounted for the remaining. To this end, YMCA generated revenue through donations, fund raising activities, contributions from beneficiaries, initiatives relating to the provision of construction and renovation services, and other sundry income.³

3.3.4 In 2014 and 2015, however, the ratio of YMCA generated operational revenue to Government grants was completely overturned with that latter contributing 95 per cent of the NGO's income. Figure 4 refers.

Figure 4 : YMCA generated income versus Government grants (2011 to 2015)



3.3.5 Figure 4 shows a significant decrease of 97 per cent between the income generated by YMCA between 2011 and 2015, which decreased from €277,781 to €9,207. YMCA contended that such situation is primarily attributable to the lack of human resources available for fund raising purposes, an issue that the Board of Management (BoM) intends to rectify in the near future.

3.3.6 Between 2011 and 2013, public funds were mainly procured through an Agreement with the former Ministry for Education, Employment and the Family. The services provided by YMCA through this three-year Contract included generic community work services, the furniture and food support schemes as well as a shelter for homeless persons, which in 2013 accommodated an average of 33 persons. This level of activity coupled with a situation where the NGO was generating significantly more income

³ Financial amounts discussed herein were derived through unaudited Financial Statements prepared by YMCA. The National Audit Office (NAO) was constrained to resort to such a source since the NGO did not compile or present Audited Financial Statements since 2012.

than that received through Government grants, implies that YMCA itself was the main financial driver. At the time, the NGO was providing a wider spectrum of services and hosting more service-users than was the case during 2014 and 2015, which amounted to an average of 11 and 14 respectively.

3.3.7 In 2014, a new PSP Agreement was signed with MFSS for the provision of Hostel services for a three-year period. During the first year of operation of this Public Social Partnership (PSP), YMCA received the sum of €228,405 from MFSS. Furthermore, during 2014 the NGO also received €14,140 for children in care as well as €5,841 as pocket money through *Aġenzija Appoġġ*. Thus, the total Government contribution received by YMCA in 2014 amounted to €248,386, which is substantially higher than that received in previous years. Based on the €36 pppn rate stipulated in the PSP Agreement, YMCA received a surplus of €65,298 from MFSS, which was adjusted in the following year in accordance with Articles 3.6 of the PSP Agreement.

YMCA accrued substantial dues in employees’ tax, social security contributions as well as utilities

3.3.8 YMCA’s financial dependence on Government is also indirectly influenced through the significant dues with respect to employees’ tax, social security contributions as well as utility bills, which have been accrued over a number of years. Documentation made available to the NAO, including bank statements, management accounts, unaudited Financial Statements as well as correspondence with the Inland Revenue Department (IRD) show that YMCA accrued dues amounted to around €675,809 as at end 2015.

YMCA’s outstanding payments with respect to employees’ tax and social security contributions for 2014 and 2015 amounted to €45,745

3.3.9 Following the commencement of the PSP Agreement in April 2014, YMCA contended that their financial situation did not permit the settlement of dues related to tax and social security contributions, although such payments constitute a legal obligation. The Income Tax Act (CAP.123) Article 4 and the Social Security Act (CAP.318) Article 8, highlight this employers’ obligation to make such payments.

Table 3 : Tax and Social Security Contributions due by YMCA (2014 and 2015)

Year	Final Settlement System Tax (€)	Social Security Contributions (€)
2014	6,275.00	19,290.55
2015	10,106.00	10,073.00
Total	16,381.00	29,363.55

3.3.10 As depicted in Table 3, the total dues to the IRD for 2014 and 2015 amounted to €16,381 in income tax and €29,364 in social security contributions. Furthermore, this audit revealed that between 2001 and 2013, YMCA had already accrued a total of €544,291 in outstanding income tax and social security contributions, including an additional one per cent interest on such dues. To this end, this review noted that the IRD issued a ‘*Notice of default of F.S.S. Regulations*’ on 24 March 2016 as well as a ‘*Notice of Criminal Proceedings*’ on 10 May 2016.

As at end 2015, utility bills outstanding payments amounted to around €80,660

3.3.11 YMCA accumulated dues also in relation to utilities. Water and electricity bills pertaining to 14 different accounts situated in three different locations utilized for YMCA operations, amounted to around €80,660 as at end 2015. Six of these accounts

related to the former Dar Niki Cassar in St. Paul's Street, Valletta, seven accounts to the former Minor's Shelter in St. Nicholas' Street, Valletta and the remaining account pertains to the Drop-In Centre in Merchants' Street, Valletta. As at the end of 2015, the utilities bills due for each of these premises amounted to around €45,571, €16,390 and €18,699 respectively. Table 4 refers.

Table 4 : Utility bills due for premises utilized by YMCA (as at end 2015)

Account (No.)	Premises utilised by YMCA	Total amount due (€)
1	Dar Niki Cassar, St. Paul's Street, Valletta	7,199.61
2		12,794.88
3		5,507.87
4		8,243.42
5		2,041.73
6		9,783.49
7	Minor's Shelter, St. Nicholas' Street, Valletta	2,631.55
8		3,360.83
9		1,707.01
10		1,078.65
11		996.77
12		3,683.03
13		2,932.31
14	Drop-In Centre, Merchants' Street, Valletta	18,699.03
Total		80,660.18

3.3.12 As shown in Table 4, multiple meters were installed at the former Hostels in Valletta due to the various apartments and/or rooms within such premises, which were formerly utilized by separate individuals. YMCA contended that in addition to cash flow problems brought about by the late receipt of payments from MFSS with respect to the PSP Agreement, it encountered problems in previous years with respect to the utility vouchers. The NGO maintains that a number of these vouchers had expired, and consequently rendered unredeemable. To date, the NGO asserts that the 'voucher issue' is still to be resolved with ARMS Ltd, and as such, the situation of the outstanding dues prevails.

3.3.13 Apart from the circumstances portrayed in the preceding paragraph, YMCA has other issues with regards its utility bills. The following refer:

- i. Transfer of ownership of utility accounts pertaining to premises which are no longer in use by YMCA has not been concluded – consequently, the NGO continues to be billed for consumption related to these premises.
- ii. Since accounts transfers have not been effected, nine accounts were still subject to an energy benefit of around 65 per cent. Most of these accounts relate to premises that are now being utilized by third parties for commercial purposes, as contended by the NGO.

3.3.14 MFSS informed this Office that in view of these circumstances it has compiled a checklist to facilitate the processing of documentation and invoicing submitted by NGOs on a monthly basis. Such vetting would also cover the payment of employees' social security contributions and utility bills. MFSS contends that if NGOs deviate from these control mechanisms within stipulated time-frames, they risk having their funds withheld until they fully comply.

Cash flow problems influenced YMCA's financial management

3.3.15 YMCA's financial position was characterized by operational cash flow difficulties, some of which relate to prior the period under review by this audit. In January 2014, YMCA's bank statements recorded a deficit of around €88,650. During this and the following year, the NGO's revenue decreased substantially, particularly as it was operating at around half of the maximum capacity intended by the PSP Agreement. During the same period, the NGO's finances were also influenced by the refurbishment project at the Msida Hostel. Moreover, at this time, the NGO's own fund raising activities and receipt of donations from benefactors decreased substantially. Within this context, this review noted that cash flow difficulties mainly related to the following:

i. Lower service-user capacity decreased YMCA's Government grant and influenced the fixed costs per capita

During 2014 and 2015, YMCA's fixed costs per service-user increased substantially since it was constantly operating below its contractually stipulated maximum capacity. The Agreement signed between MFSS and YMCA stipulates that the Ministry shall pay a maximum of €328,500 per annum subject to a maximum capacity of 25 service-users. This amount, which is paid in four yearly installments, is subject to adjustments based on the number of actual service-users accommodated at the Hostel. Consequently, during the first year of this Agreement, YMCA was only entitled to €163,107 out of the maximum contractual financial allocation. Although MFSS payments generally respected the PSP Agreement, these reflected the actual bed nights spent by service-users at the Hostel. This situation led to instances whereby the NGO would not be in a position to cover its fixed costs. A case in point relates to instances where the NGO could not meet its payroll expenses, which amounted to €199,775 in 2014, including the retainer of YMCA's Executive Chairman. In the circumstances, YMCA contended that it was common practice that cash-flow shortfalls were temporarily resolved through short-term loans from members of the NGO's Board.

ii. In instances, YMCA utilized the PSP Agreement's financial grant to temporarily cover expenses related to the refurbishment of the Msida Hostel

During the period pertaining to the scope of this audit, YMCA had considerable expenses relating to the refurbishment project at the Msida Hostel. This expenditure significantly influenced the cash flow position of the NGO since Government grants received from MFSS for the provision of accommodation to homeless persons, in instances, were used to cover refurbishment project expenses. YMCA contends that such a situation arose since, in some cases, delays materialized in the receipt of refunds from the Housing Authority regarding refurbishment works, in terms of the first Extension to the 2008 Joint Venture Agreement. To this end, it is estimated that during 2014 and 2015, YMCA made payments amounting to a minimum of €64,474.76 for refurbishment works out of the grant received from MFSS through the PSP Agreement. However, the NGO's cash flow problems became compounded since reimbursement by the Housing Authority was received in December 2015. The latter maintains that it was constrained to delay payment in view of verifications it had to undertake prior to endorsing documentation submitted by YMCA.

iii. Executive Chairman's retainer continued to be paid although fund raising construction related initiatives were not yielding any revenue

The retainer paid to the Executive Chairman for project management works also influenced YMCA's precarious cash flow. Based on YMCA's unaudited Financial Statements it is estimated that such payments amounted to €39,824 and €6,078 during 2014 and 2015 respectively. The NGO maintains that €21,590 of

these payments pertained to previous years and for project management tasks regarding the Msida Hostel. However, it is to be noted that the NGO's cash flow problems became compounded as 'YMCA Renovations', the fund raising construction initiative, was not generating revenue from 2013 onwards.

The NAO was not in a position to verify funds generated by construction related services offered by YMCA as a fund raising initiative

3.3.16 Since 2006, YMCA carried out construction related services as a form of fundraising activity. YMCA provided these services to the Housing Authority under the *Care and Repair Initiative*, thereby receiving public funds for undertaking works in relation to social housing. Moreover, the NGO extended this initiative to other construction related works carried out directly for third parties. The NGO contended that apart from generating revenue, this initiative also sought to provide training and/or re-skilling as well as employment opportunities for service-users. The unaudited Financial Statements made available to NAO indicate that for some years such activity was profitable, however, the same documentation illustrates that no profits were generated post 2013.

3.3.17 Despite the NAO's clear mandate as stipulated by the Auditor General and National Audit Office Act (CAP. 396) Article 9(a)(iii) and the specific terms of reference pertaining to this audit, YMCA maintained that this Office is not authorized to review such financial information. The NGO's contention was based on the premise that Government did not provide these funds.

3.3.18 Consequently, the documentation made available by YMCA in this regard, was not sufficient to accurately identify and evaluate all the works undertaken as well as the respective beneficiaries and monies generated through such an activity. This Office also encountered difficulties in eliciting documentation from the Housing Authority with respect to the works undertaken by the NGO under the *Care and Repair Initiative*. This source, also proved futile as the filing method adopted by the Housing Authority at the time, that is in accordance to clients rather than sub-contractors, precludes the retrieval of works undertaken by the NGO under this Scheme.

3.4 The absence or deviations from management control mechanisms influenced the governance of YMCA operations

3.4.1 YMCA did not always fully implement or enforce management control mechanisms in various aspects of its operations. Such circumstances were particularly evident within the NGO's financial management. Within this context, the following issues contributed to this state of affairs:

- i. Uncertainty about the composition of YMCA's Board of Management.
- ii. YMCA has not prepared and submitted the annual Audited Financial Statements for 2012 to 2015.
- iii. Payment procedures followed by YMCA do not adhere to Generally Accepted Accounting Practices and deviate from management control mechanisms.
- iv. YMCA did not always maintain or make available critical documentation related to its operations.

Uncertainty about the composition of YMCA's Board of Management

- 3.4.2 Interviews with persons involved in the management of YMCA operations elicited conflicting information regarding the present composition of the Board of Management (BoM). To this effect, two ex-YMCA employees contended their position within the BoM and noted that their role was to provide the Board with their support on a voluntary basis. They also noted that they do not form part of YMCA's BoM as was indicated to the NAO by some Board members, including the Executive Chairman.
- 3.4.3 Moreover, YMCA's Constitution states that the BoM is to be composed of the Founder, an Executive Chairman for life, a Treasurer, a Secretary and a maximum of five officers as Directors. This review noted that the present Directors on YMCA's BoM were not listed in any official documentation such as the NGO's Constitution. To this end, YMCA contended that their Constitution is outdated, particularly in view of the fact that the Founder, who is no longer involved in the management of this NGO, is still listed therein. The foregoing issues related to the ambiguity of the BoM's composition raise responsibility and liability related concerns.

YMCA has not prepared and submitted the annual Audited Financial Statements since 2012

- 3.4.4 YMCA has not prepared and presented its Audited Financial Statements pertaining to the last four years of operation, that is, 2012 to 2015. Apart from weakening a critical management control mechanism, the non-submission of Audited Financial Statements constitutes a breach of the:
- i. Voluntary Organizations Act (CAP. 492) Articles 12(1)(i) and 41(2), which obliges registered NGOs to submit their annual Audited Financial Statements to the Commissioner for Voluntary Organizations.
 - ii. PSP Agreement with MFSS, wherein Clause 9.2 stipulates that the NGO is to submit a copy of its management accounts and Audited Financial Accounts of each year within six months from the end of each respective financial year.
- 3.4.5 This state of affairs raises a number of implications. Firstly, the NGO could have potentially jeopardized the welfare of its service-users by compromising its operations through any legal or counter actions by the Commissioner for Voluntary Organizations and the MFSS in their respective roles as a regulatory authority and a contracting Party. It is to be noted that, MFSS issued repeated reminders and exhortations to YMCA to comply with contractual obligations. Moreover, MFSS asserted that it was only because of its social responsibility and obligations towards the service-users that the Ministry decided against taking stronger action in this regard.
- 3.4.6 Furthermore, the scenario where an NGO does not fulfill its responsibilities to ensure that its financial affairs are duly audited and presented to the Competent Authorities raises governance related concerns, particularly with respect to the principles of transparency and accountability. These remarks reflect the spirit portrayed by the 'Code of Good Governance, Practice and Ethics for Administrators of Voluntary Organisations' published by the Commissioner for Voluntary Organizations in November 2011. To this end, Article 5.5 notes that:

'In order to observe and maintain high standards of credibility, accountability, transparency, good reputation and public awareness, administrators shall be required to ... prepare the annual accounts of the VO in accordance with any relevant laws and/or regulations.'

3.4.7 YMCA contended that a number of factors brought about this situation. The NGO maintained that auditing fees, were at times, beyond YMCA's financial capabilities. Consequently, although the NGO sought to fulfill auditing related obligations through voluntary input, their initiatives to this effect did not bear the desired results. Moreover, the NGO noted that most of its efforts during recent years were focused on the refurbishment project at the Msida Hostel.

YMCA's payment procedures do not ensure accountability and transparency

3.4.8 A review of YMCA operations, particularly in relation to the audit period under review, that is, 2014 and 2015, revealed that payment procedures by the NGO did not follow generally accepted practices and did not ensure an appropriate level of management control. The following refers:

- i. Multiple instances of self-addressed cheques to pay in cash*** - YMCA's Administrators frequently addressed cheques to themselves or their immediate colleagues, mainly for petty-cash purposes as well as to pay specific suppliers. YMCA contended that sub-contractors would have indicated their preference for this payment method, as opposed to other options including a cheque or an on-line transfer.
- ii. Pre-signed open cheques*** – Observations during fieldwork revealed four pre-signed open cheques. Although securely maintained, open cheques pre-signed by both signatories clearly defeats the scope of the intended management control. To this end, YMCA contended that such an arrangement was resorted to out of practical necessities, since Board Members, including the Executive Chairman might not be readily available to counter sign cheques. While acknowledging the practical difficulties raised by YMCA, this Office cannot condone such practices, particularly in view that YMCA have three officially recognized signatories and consequently it should not be problematic to ensure that the appropriate payment procedures are followed.
- iii. Cash payments*** – YMCA paid some of its suppliers in cash rather than through cheques or bank transfers. Routinely, the NGO paid in cash the sum of €1,863 per month for rental charges related to a property under its responsibility. Another example of a cash payment relates to the €9,000 paid to a foreign supplier with respect to refurbishment works undertaken at the Msida Home. YMCA contended that the supplier requested a cash payment to mitigate the risks of a bouncing cheque. On NAO's insistence, a receipt confirming this payment was eventually presented to this Office during the latter part of its work. Nevertheless, this Office queries why previous procedures involving electronic bank transfers adopted with the same supplier were not followed.
- iv. Non-presentation of receipts*** – YMCA was not always in a position to make available to the NAO receipts relating to cash payments within a reasonable period. In the latter stages of this review, the BoM provided the requested receipts. However, YMCA itself noted that the lessor signed a number of receipts maintained within the rent-book significantly after the cash payment was received. To this end, YMCA indicated their intent of ensuring that the NGO receives official receipts at the time of payment.

YMCA was not in possession of all relevant Agreements

3.4.9 Management control mechanisms pertaining to payments made by the NGO were further compromised since YMCA is not in possession of the relative Contracts.

Such Agreements relate to the rental of a property utilized by the NGO, employees' contract of employment, a retainer received by the Executive Chairman for project management services and a retainer received by YMCA's Founder.

- i. Property rental Agreement** – YMCA entered into a ten-year lease Agreement for premises in St. Nicholas' Street, Valletta in May 2005. The NGO contended that these were private Agreements between the Parties, namely YMCA and Torchlight Limited. This property consists of a number of apartments as also evidenced by the seven utility accounts billed with respect to this property. It is pertinent to point out, that the NAO could not conduct a site visit at this property since YMCA were no longer the tenants. However, YMCA only made available part of the lease Agreement, namely that relating to apartment 30/1. Consequently, this Office could not determine or verify the exact amount of rent due to the lessor. YMCA's unaudited accounts revealed that €14,904 and €31,299 were paid in cash during 2014 and 2015 respectively. As noted in 3.4.8 (iv), YMCA made available the relative receipts for NAO's review, which were in some instances incomplete, only towards the end of this audit.
- ii. YMCA's employees' contract of employment** - YMCA did not draw up a contract of employment to some of its employees, as confirmed by the previous Administrator. Records made available for the purpose of this review pertained to one out of the 23 members⁴ of staff employed at YMCA during 2014 and 2015, who had a contract of employment in terms of Article 7 of the Employment and Industrial Relations Act. YMCA contended that such documents could have been misplaced during the various moves the NGO made in recent years. YMCA also noted that respective job descriptions are in place, however, these documents are not signed by employees.
- iii. Jobsplus registration** – Jobsplus employment registration records do not confirm that two of YMCA's 23 employees were registered throughout their period of employment with this NGO. In one case, an employee featuring on the NGO's 2015 payroll does not appear on Jobsplus records. The other case relates to circumstances whereby Jobsplus employment registration records show that the employee's engagement with YMCA was terminated in 2013, yet the NGO's records showed that this same employee was still on the latter's payroll during 2014 and 2015. As at the time of drafting this Report, YMCA did not respond to NAO's request for further information pertaining to these two cases.
- iv. YMCA's Executive Chairman retainer** – During 2014 and 2015, YMCA's Chairman received a retainer of €45,902. The unaudited accounts show monthly payments of €2,026 to YMCA's Executive Chairman. YMCA contended that this retainer pertained to project management duties relating to construction services provided by the NGO as a fund raising initiative.⁵ However, YMCA did not make available any Contract or Agreement between itself and the Executive Chairman defining the latter's duties and outlining the conditions associated with this retainer. In this regard, the NGO presented a statement signed by four BoM members on June 2016 wherein it was noted that the Executive Chairman was to receive a retainer for running the 'construction' initiative as a fund raiser. This statement does not make any reference to the duties or remuneration due in conjunction with this retainer. There is a reference, however, that the retainer was terminated in 2014. This review noted that another three payments amounting to €6,078

⁴ The retainer of YMCA's Executive Chairman was not included.

⁵ Paragraph 3.3.15 provides an outline of YMCA's initiative with respect to the provision of construction related services as a fund raising initiative.

were forwarded to the Executive Chairman on 30 December 2015, where it was contended that such payment pertained to the previous year. It is to be noted that in the absence of such documentation the NAO is not in a position to verify these payments as well as the basis for such retainer.

- v. **YMCA's Founder retainer** - Ambiguity exists regarding monthly payments forwarded to YMCA's Founder. In addition to the concern related to the Founder's involvement in the NGO's management, YMCA was forwarding monthly payments of €280 to the Founder. The NGO contends that following litigation with the Founder in relation to the use of these premises, such a retainer was terminated. Nevertheless, YMCA's unaudited Financial Statements show that this retainer was paid regularly, up to end 2015. The basis of this retainer, however, is subject to ambiguity. The NGO's Executive Chairman contended that this retainer is a form of 'goodwill' for the utilization of a Governmental property leased to a close relative of the Founder, who previously ran a private business. On the other hand, during Court Case 307/2004/1, Hearing dated 24 January 2007, the Executive Chairman had confirmed that YMCA's Founder was responsible for running the night service for a remuneration of €280 (Lm120) monthly. Receipts in conjunction with this retainer were not available. The absence of a documented Agreement between YMCA and its Founder precludes NAO from verifying the grounds for these payments.

3.4.10 In view of the above, particularly points (iv) and (v), MFSS stated that it is taking the necessary steps to ascertain that NGOs would be required to list in their management accounts the wages paid to directors and employees. In the Ministry's view, such measures would contribute towards avoiding the payment of extravagant retainers.

3.5 With the main exception of capacity related issues, YMCA is generally implementing service delivery contractual clauses

3.5.1 For the purpose of this review, service-delivery by YMCA with respect to the PSP Agreement was assessed through a number of criteria. These evaluation criteria mainly emanate from the PSP Agreement itself wherein a number of clauses outline service delivery outputs and outcomes. In some cases, however, these contractual provisions tend to be of a generic nature and do not comprehensively define service-delivery. Moreover, the evaluation of service-delivery is rendered a more complex endeavour since, as noted in paragraph 3.2.1(ii), the relative national standards are still at the development stage, and consequently limit the extent to which YMCA services can be benchmarked against qualitative standards.

3.5.2 Other assessment criteria were elicited from YMCA's *Policies and Procedural Manual*. This audit notes that with the main exception of issues related to the limited service-user capacity at the NGO's Hostel during 2014 and 2015, YMCA is generally providing the services indicated in the Agreement under review.

Service attributes outlined in the PSP Agreement and the NGO's internal policies were generally implemented

3.5.3 In line with the provisions of the PSP Agreement, YMCA aims to support service-users to pursue a lifestyle characterized by independent living through a six-month Programme whereby service-users are provided with accommodation and follow a care plan, which is delivered through a multi-disciplinary team.

3.5.4 An analysis of the length of stay at YMCA, by service-users during 2014 and 2015 revealed that, on average, the number of months spent at the Hostel was around

five and a half months. With the exception of 10 cases that exceeded this period by more than six months, these statistics confirm that the NGO is generally adhering to its internal *Policies and Procedural Manual*, which envisages that residents can begin to address their immediate situation within six months. Within this context, the homeless shelter should be considered as a temporary solution that assists service-users to develop and start putting into practice their respective long-term plans.

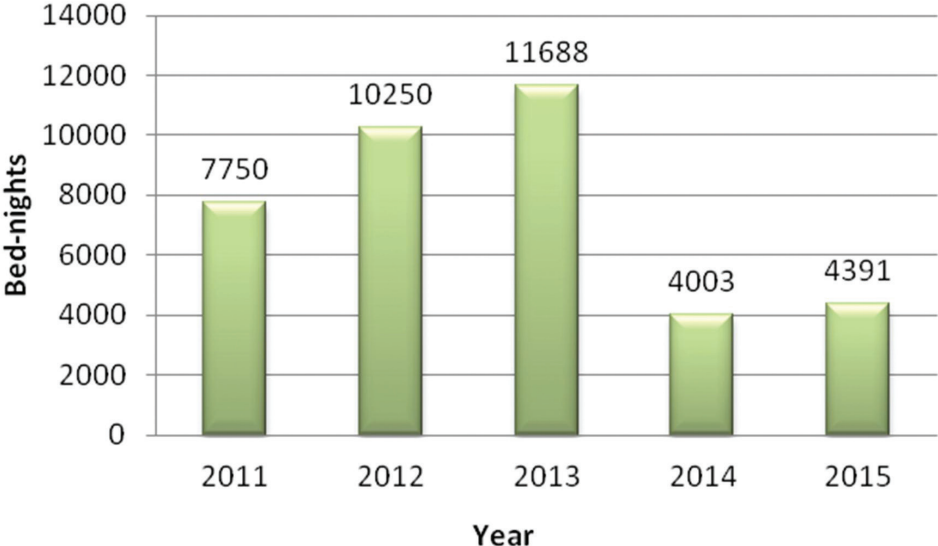
3.5.5 *Aġenzija Appoġġ* monitors service-users progress with regards all aspects of the care plan. In general, the feedback received by the NAO from *Aġenzija Appoġġ* in its role as the monitoring agency was positive. *Aġenzija Appoġġ* noted that service-users considered YMCA staff as family members, who go out of their way to support them. Nevertheless, the Monitoring Agency received a number of complaints from YMCA service-users, which were either addressed by YMCA or deemed as frivolous.

3.5.6 However, the Monitoring Agency maintains that the opportunity exists for it to be further involved by YMCA in the development and implementation of service-users’ care plans. Moreover, the Agency lamented that, at times, communication related difficulties prevailed due to outdated contact information on YMCA’s portal. Furthermore, *Aġenzija Appoġġ* noted that, in some emergency cases, service-users were not accommodated at YMCA’s Hostel expediently. In these instances, *Aġenzija Appoġġ* would be constrained to find alternative accommodation itself. In reply to these concerns, YMCA noted that its Hostel’s capacity in 2014 and 2015 was significantly below the levels of previous years. Moreover, the NGO noted that in some cases, its admission process is subject to detailed screening to ascertain the safety and well-being of existent service-users. To this end, YMCA adopts a number of exclusion criteria, which include drug and alcohol abuse, mobility as well as severe mental health issues as well as individuals with a serious criminal record.

In 2014 and 2015, YMCA operated significantly below the maximum contracted capacity of 25 persons

3.5.7 The PSP Agreement caps the number of service-users at YMCA’s Hostel, which are to be financed by MFSS, at 25. This number of service-users equate to a maximum of 9,125 bed nights annually. However, during 2014 and 2015, YMCA’s Hostel was operating significantly below this capacity. Figure 5 refers.

Figure 5 : Number of bed-nights provided by YMCA (2011 to 2015)



3.5.8 Figure 5 shows a sharp drop in the number of bed nights provided by YMCA between 2013 and 2014, decreasing from 11,688 to 4,003. As noted in Chapter 2 of this Report, this significant decline in the number of service-users accommodated at YMCA's Hostel is attributable to the following:

- i. Forced move to much smaller premises following the termination of the lease pertaining to premises at St Paul's Street, Valletta.
- ii. A three-year delay in the completion of refurbishment works at the Msida Hostel.

3.5.9 Following completion of the Msida Hostel Project in April 2016, YMCA's capacity to accommodate service-users increased to a maximum of 30 service-users or 10,950 bed nights per year. Nevertheless, due to operational circumstances, it is unlikely that the Msida Hostel will operate consistently at this capacity since, in practice, families with small children may need to be accommodated. In such instances, the ensuing operational logistics reduce the Home's capacity to around 25 service-users, the level envisaged by the PSP Agreement.

When fully implemented, the recently developed KPIs will contribute further towards monitoring service-delivery outcomes

3.5.10 During the course of this audit, YMCA has further developed and documented Key Performance Indicators (KPIs). YMCA developed quality service KPIs with the intention to better evaluate the residents' wellbeing and life skills acquisition for independent living. Important life-skills identified by the NGO relate to money management and consumer awareness; food management; personal appearance and hygiene; health; housekeeping; housing; transportation; educational planning; job seeking and maintenance skills; emergency and safety skills; knowledge of community resources; interpersonal skills; legal skills; and, pregnancy prevention, parenting and child care. KPIs under each of these categories were classified under basic, intermediate, advanced, as well as an exceptional level to indicate the respective improvements attained by service-users.

3.5.11 The recently developed indicators will enable a more formalized and structured evaluation of service-users' development through YMCA provided services, which in turn will generate more qualitative and accurate information. Consequently, the NGO would be in a stronger position to monitor and develop its services to address prevailing and future circumstances. Prior to the development of these KPIs, YMCA's monitoring of its services was dependent on potentially subjective information inputs and interpretations. Moreover, such circumstances presented severe difficulties to aggregate information related to the outcome of the services provided by YMCA.

3.6 Service-delivery generally fulfilled effectiveness and major cost elements criteria

3.6.1 The Value for Money (VfM) considerations discussed in this Section mainly focus on the effectiveness as well as the economical aspects of the services provided by YMCA. As noted in the previous Section of this Chapter, subject to some qualifications, the NAO established criteria with respect to service-delivery effectiveness were fulfilled. Furthermore, the VfM criteria utilized to assess the economic aspect of this PSP Agreement, although subject to a major limitation brought about by the lack of similar service-providers, imply that the €36 pppn is a reasonable charge that should cover all operational expenditure incurred by YMCA.

The NAO established criteria with regard to service-delivery effectiveness were generally satisfied

3.6.2 The effectiveness criteria adopted for this VfM assessment were related to the quality of the services provided by YMCA. To this end, such effectiveness related criteria included the level and type of complaints received from service-users as well as the issues raised by the Monitoring Agency and the Contracting Authority in their capacity as regulators. With the main exception of the issue concerning the significantly lower service-user capacity at YMCA's Hostel between July 2014 and December 2015, reference to the generally overall satisfactory attainment of these criteria was noted in the preceding Section of this Chapter.

Operating at the maximum contracted capacity of 25 service-users should ensure financial sustainability through Government funding

3.6.3 During the last five years of operation, YMCA reported a maximum expenditure of €318,612 in 2011. Since then, the total expenditure incurred per year was always on the decrease, down to €192,712 in 2015. Thus, based on figures that feature in the unaudited Financial Statements forwarded to this Office by YMCA, a maximum Government funding of €328,500 per year, which is attainable through the PSP Agreement in case of full occupancy at YMCA's Hostel, should have ensured the contracted services' financial sustainability.

3.6.4 The VfM analysis undertaken for the purpose of this review was mainly based on the reasonableness of the major cost elements incurred for YMCA's operation.⁶ During 2015, wages and salaries constituted the major item of expenditure, which amounted to around 79 per cent of the total expenditure, as noted through the unaudited Financial Statements provided by YMCA. This expenditure was followed by the rent due for the premises utilized by YMCA and telecommunications related expenses at around 16 and three per cent respectively. Such situation implies that the fixed costs incurred by YMCA for the provision of Hostel services constitute a significant portion of the operational expenses.

3.6.5 Although the PSP Agreement does not stipulate staffing levels, this audit has noted that the present staff complement at YMCA is deemed as appropriate, particularly when considering that the Hostel operates with a single Key Care Worker per shift, as noted in paragraph 1.2.3 of this Report. Additionally, wages and salaries of YMCA employees are also considered reasonable when compared with salaries paid by Governmental Entities to personnel employed in similar caring professions. Moreover, Contracting Parties have not contended the NGO's staff complement during this review.

3.6.6 This review has noted that, from the Contracting Authority's viewpoint, a fixed rate per person per night (pppn), in this case €36 as agreed with YMCA though the PSP Agreement, ensures the capping of funds due to the NGO by MFSS. This situation safeguards the latter's interests, not only from a financial perspective but also from an admissions point of view, since it acts as an incentive for YMCA to accommodate a higher number of service-users who have been referred through Governmental avenues, that is, *Agenzija Appoġġ*.

3.6.7 However, from the NGO's perspective the risk exists that the sustainability of service-provision could have been compromised, particularly in case of sustained periods of low demand or any other unforeseen circumstance, as was the case in 2014 and 2015

⁶ Due to the lack of information in relation to similar service-providers, this analysis could not be extended to include a cost comparison with other entities.

where the NGO was not in a position to function at the same operational capacity as in previous years. Although the NGO was not in a position to accommodate 25 service-users, as discussed in Chapter 2 paragraph 2.5.3, it still needed to recover its operational fixed costs. Such a situation resulted in significantly higher fixed costs *per capita* in 2014 and 2015.

3.7 Conclusions

- 3.7.1 This Chapter highlighted that during 2014 and 2015, YMCA's Hostel was operating at around half the capped capacity stipulated by its Agreement with MFSS. This review has shown that during this period, subject to some qualifications, the service provided was to the satisfaction of service-users and *Aġenzija Appoġġ* as the monitoring agency. Furthermore, the daily charge per service-user incurred through this Agreement fell within the same charge category as other Hostel services procured by Government.
- 3.7.2 The main points of contention relating to the implementation of this Agreement, however, raise corporate governance concerns regarding the NGO's financial management. Unaudited and unrepresented Financial Statements, cash payments, late or unrepresented receipts, as well undocumented or uncontracted relationships deviate from generally accepted practices. Such circumstances, together with the ensuing severance of audit trails, breach the provisions of the Voluntary Organizations Act, deviates from the PSP Agreement and hinder oversight procedures to the detriment of operational transparency and accountability.
- 3.7.3 Irrespective of the extent and source of the NGO's cash flow problems, the non-payment of employees' tax and social security contributions contravenes the respective legislative provisions and remains an unjustifiable action. Moreover, the accumulation of significant utility bills' dues over a number of years further complicates the NGO's financial management.
- 3.7.4 The foregoing presented two opposing scenarios. On the one hand, the NGO's hosting and rehabilitation services encouraged and empowered service-users to pursue an independent living life style. This was mainly attained through YMCA's staff and volunteers. On the other hand, the NGO's informal approaches precluded the implementation and enforcement of robust management control mechanisms, which consequently impacted the NGO's ability to adequately embrace Corporate Governance principles.

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Published by:

The National Audit Office
Notre Dame Ravelin
Floriana FRN 1600
Malta

Telephone: (+356) 2205 5555
E-mail: nao.malta@gov.mt

 facebook.com/NAOMalta

 nao.gov.mt