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**Confidential**

Mr. Terry Campbell  
Senior Vice President and Chief Operating Officer  
The Canadian Youth Business Foundation  
100 Adelaide Street West, Suite 1410  
Toronto ON M5H 1S3

**January 15, 2010**

**Subject: The Canadian Youth Business Foundation Formative Evaluation Framework**

Dear Mr. Campbell,

We are pleased to deliver our report to the Canadian Youth Business Foundation (the "Foundation" or "CYBF") which is described as follows:

**Engagement description:**

In accordance with the terms of our engagement letter dated August 14, 2009, KPMG LLP was engaged by the CYBF to assist with the Formative Evaluation Framework deliverable to Industry Canada. The purpose of the engagement is to evaluate performance measurement strategies in relation to Paragraph 3.3 of Project B, the Amended and Restated Funding Agreement between Industry Canada and the Foundation, dated March 30<sup>th</sup>, 2005 as required by the subject agreement (see 6.1).

We understand that:

- Industry Canada has requested a limited scope focusing on Project B
- Commentary will be required to address recommendations found in the September 2004 Formative Evaluation Report (covering Project A), and
- The evaluation should focus on Section 3.3 of the 2005 Amended and Restated Funding Agreement.

Our procedures to provide assistance to the Foundation were conducted between October 2009 and January 2010 and included:

- Review of background materials
- Detailed walkthroughs and performance of testing



- Review of the draft Evaluation Framework prepared by management and editorial commentary
- Recommendations to management based on our detailed walkthroughs and testing
- Review and commentary related to Management's response to the recommendations of the 2004 Formative Evaluation Report of Project A, as prepared by Hallux Consulting Inc
- Finalization of the report with CYBF for ultimate submission to Industry Canada

**Evidence sources provided by management:**

During our review of the Formative Evaluation Framework, we referenced to a number of resources to substantiate the representations of management documented in the Performance Measurement Strategies Framework. These resources included:

- The Funding Agreement between the Canadian Youth Business Foundation and Her Majesty in Right of Canada as represented by the Minister of Industry dated March 30, 2005
- The Hallux Consulting Ltd Final Report on the Evaluation Framework dated March, 2002 and the Formative Evaluation Report CYBF Service Expansion Project dated September 7, 2004
- Alliance Agreement between CYBF and the Business Development Bank of Canada dated April 30, 2004
- 2009 Client Survey 2009 Edition performed by Tele-Survey Plus Inc.
- Extrapolation of survey results prepared by management
- Audited financial statements from fiscal 2006 through fiscal 2009
- Trial balances for 2006 through 2009
- Annual reports from fiscal 2006 through fiscal 2009
- Business plans for fiscal 2006 through 2009
- Annual reports to Industry Canada for fiscal 2006 through fiscal 2008 in addition to an interim evaluation for the period of April 1, 2006 to September 30, 2008
- Minutes of certain board meetings
- Specific Policies and Procedures
- Specific By-laws of the Foundation
- Loans Issued Reports for fiscal years 2006 to 2009
- Transaction summary reports for fiscal years 2006 to 2009
- Delinquency reports
- Certain marketing materials and CYBF's website resources
- Certain confirmations from investment managers confirming their compliance with the Foundation's investment policy
- Certain Industry Canada publications including specific issues of Small Business Quarterly

**Description of the extent of testing:**

Our testing of the information included in the Formative Evaluation Report included examination and discussion, on a sample basis, evidence supporting the amounts and disclosures in the report, as prepared by management. As part of our work we ensured that samples selected covered the entire time frame of Project B, being the period from April 1, 2006 to September 30, 2009.



Procedures included:

- Agreeing financial information included in the report to audited financial statements, to the extent there was a direct link
- Agreeing financial information to supporting documentation on a test basis, where information did not directly tie to the audited financial statements
- Performing control testing related to the loan process and the systems utilized
- Sampling loans issued to ensure that approval criteria as set out by the policies were met
- Recalculating delinquency rates used to substantiate repayment success rates
- Sampling of agreements with community partners to ensure active status was accurate and that the new community partners signed their agreements within the Project B time frame
- Sampling community partners information to assess status as aboriginal
- Reviewing investment manager compliance certificates
- Reviewing updated information packages for community partners
- Reviewing marketing information and packages to demonstrate new marketing initiatives
- Reviewing a sample of resumes to ensure committee members have appropriate qualifications for entrepreneur loan selection
- Reviewing 2009 client survey results to assess indicators of mentorship program effectiveness
- Reviewing annual reports submitted to Industry Canada
- Discussion of recommendations from the Hallux Consulting report with management
- Corroborating specific statistical data and facts represented by management in the report
- Obtained management's risk matrix and obtained evidence of the specific controls in place to mitigate risk identified

**Our recommendations:**

Based on our review of the Formative Evaluation Framework Report prepared by the Foundation we have recommendations as follows:

- We observed that, in some circumstances, an entrepreneur could receive a loan even though they do not meet the risk matrix requirements. These loans are considered to be “exceptional loans” however there is no current system to track the number of exceptional loans issued. We recommend that CYBF implement a formal tracking system to monitor the number of exceptional loans granted. Similarly, loans where an entrepreneur is experiencing cash flow difficulties may be restructured to provide more manageable payment terms. These restructured loans should also be formally tracked. In tracking these exceptions, CYBF could potentially gather valuable information in regards to whether or not there is a correlation between exceptional loans/restructurings and potential defaults.
- Throughout the process of evaluating those community partners which are specifically defined as aboriginal, it was observed that there is a lack of a clear definition of what an “aboriginal community partner” represents. We recommend that a definition be agreed upon between Industry Canada and CYBF to ensure that the appropriate metrics are implemented for tracking purposes.
- We observed an instance whereby there was a lack of a paper trail of submissions of data to Industry Canada due to the internal movement of job responsibilities within CYBF. We recommend that a procedure be implemented to ensure that all submissions to Industry



Canada are retained to ensure that despite changes in staffing the information will continue to be readily available.

- Consistent with the 2004 Hallux Consulting Inc. report, we recommend that CYBF review the loan loss provision of 15% on a regular basis to determine if the rate is still appropriate, as well as a review of the methodology for calculating it. It is suggested that CYBF perform a sensitivity analysis to accomplish this.

This letter is for use solely in connection with the Formative Evaluation Framework deliverable to Industry Canada which will evaluate performance measurement strategies in relation to Paragraph 3.3 of Project B, the Amended and Restated Funding Agreement between Industry Canada and the Foundation, dated March 30<sup>th</sup>, 2005 as required by the subject agreement (see 6.1). This report is intended solely for CYBF's internal use and by Industry Canada, and is not to be edited, distributed, published, made available or relied on by any other persons or parties without KPMG's express written permission.

Yours truly

Toronto, Canada

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