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**Report on Phase 1 of the Regional Aboriginal  
Planning Committees – Vancouver Coastal Regional  
Aboriginal Planning Committee**

**Ministry of Children and Family Development**

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**Internal Audit & Advisory Services  
Office of the Comptroller General  
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**Glossary**

ACC	The Aboriginal Chairs Caucus
committees	Regional Aboriginal Transition Committees
GST	Goods and Services Tax
host agency	Trust and Disbursement Agent
IAAS	Internal Audit & Advisory Services
MoU	Memorandum of Understanding
primary contractor	dbappleton
the committee	Vancouver Coastal Regional Aboriginal Planning Committee
the ministry or MCFD	Ministry of Children and Family Development



**Executive Summary**

We have completed the first phase of our audit of the Regional Aboriginal Planning Committees. This report presents the results of our audit of the Vancouver Coastal Regional Aboriginal Planning Committee (the committee), one of the five Regional Aboriginal Planning Committees. Our audit covered the period from April 1, 2003 to January 31, 2004 and included an examination of the committee's guidelines and disbursement processes. Our audit also included an assessment of whether the committee's expenditures applied against the Ministry of Children and Family Development (the ministry) grant funding were reasonable in amount, supported and relevant to the planning activities. In addition, we assessed whether the host agency's administration costs for the same period were reasonable in amount and supported.

Trust and Disbursement Guidelines

Overall, we found that the committee's trust and disbursement practices varied significantly from the ministry's recommended Trust & Disbursement Guidelines. The second phase of our audit will address the need for more specific guidelines. These strengthened guidelines should help the committee implement a financial management framework to ensure expenses are adequately controlled and accountability is assigned for the effective use of ministry funds.

Trust and Disbursement Processes

We noted that the committee's disbursement processes require strengthening to ensure appropriate documentation and approvals are obtained. The committee limited the role of the host agency, Tsleil Waututh Nation, to recording and processing payments and assumed much of the host agency's role itself. The committee then involved dbappleton (the primary contractor), in some of the processes originally intended to be carried out by the host agency. This resulted in a loss of accountability as the committee could not formally delegate authority to the primary contractor, given the committee's contractual relationship with the primary contractor and that their role included making payments to committee members.

Further, although the host agency was intended to hold funds until expenses were approved and paid, the committee transferred funds from the host agency to the primary contractor, in the form of retainer payments. Review and approval of the expenditures paid through the retainer was very limited.

In the absence of an independent review and approval of expenses, we noted a number of payments made to experts, support agents and committee members that were not properly supported and may not be reasonable in amount. We have recommended that the committee improve controls over committee funds by implementing a disbursement process to ensure appropriate approvals and documentation are obtained prior to payment.

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Financial  
Recording,  
Reporting and  
Monitoring

The expenditure recording processes of both the host agency and the primary contractor require strengthening to ensure payments and adjustments are recorded accurately, completely and on a timely basis.

Committee members advised us they were not provided with timely, accurate and sufficiently detailed financial reporting, including actual to budgeted expenses. This limited the committee's ability to detect errors and effectively monitor the finances. In addition, some members raised concerns regarding the use of funding. We have recommended a number of key improvements around financial recording, reporting and monitoring, to enhance the effectiveness and transparency of the committee's financial management processes.

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Contract  
Management  
Processes

The committee's contract management processes also require strengthening to enhance accountability over the funds, particularly considering that the majority of committee funding is paid to contracted service providers. Contracting weaknesses resulted in some members expressing concern around the primary contractor's contract and fees, particularly about their lack of knowledge of amounts billed and the process for negotiating and approving the renewed contract.

We have recommended comprehensive changes to the committee's contract management processes, including: the competitive awarding of contracts; the execution of contracts and amendments prior to the delivery of services; clearly defined contract deliverables linked to payments; contracts based on actual delivery of services rather than the capacity to deliver services; and improved contract reporting and monitoring.

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Committee  
Expenditures

We noted that other expenses of the committee, such as travel, honoraria, meeting and office expenses were generally relevant to the planning activities but that improvements are required to expense claim documentation. For example, we noted that honoraria payments were provided to committee members regardless of their participation in committee activities and that

some members received amounts exceeding the specified maximum honorarium without the required documentation, knowledge and proper approval of the committee. We have recommended that the committee clarify the guidelines to require committee members to report their activities and then ensure the guidelines are followed.

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Committee  
Administration  
Costs

We found that administration costs of the host agency were based on a percentage of grant funding provided, rather than a reasonable estimate of anticipated costs including overhead. We have recommended that the committee and the host agency negotiate an administration fee that reflects actual costs and then amend the protocol agreement accordingly.

The remainder of this report details the purpose, scope and objectives of this audit, along with our detailed comments, conclusions and recommendations. We extend our appreciation to the committee members, the primary contractor and the ministry for their co-operation, responsiveness and assistance throughout this audit.

David J. Fairbotham  
Executive Director  
Internal Audit & Advisory Services

July 15, 2004

## Introduction

The Ministry of Children and Family Development (the ministry or MCF) provided grant funding to five Regional Aboriginal Transition Committees (committees) to support the development of Regional Aboriginal Authorities. The five committees represent aboriginal people in the North Region, Interior Region, Vancouver Coastal Region, Fraser Region and the Vancouver Island Region.

In March 2002, the interim planning process for the development of the Regional Aboriginal Authorities began. In September 2002 each committee identified a Trust and Disbursement Agent (host agency) that would hold grant funds received from the ministry until payments were made. In guidelines included with each committee's grant letter, the ministry requested that the committee identify and approve individuals, organizations or companies that have the necessary expertise or supports required to assist the work of the committee. A statement of deliverables outlining the work to be performed was to be signed by the committee and the expert or support agent. This statement would accompany a letter of agreement issued by the host agency functioning as an agent of the committee, which outlined the funds approved for the services and the basis of payment. The experts or support agents were to invoice the host agency for the services they agreed to deliver. Prior to making a payment, the host agency was to obtain confirmation from the committee that the services received were satisfactory. Any issues of accountability, due diligence and matters that may result in a conflict of interest were to be adequately addressed by the committee when approving the experts or support agents. The host agency could be reimbursed out of the grant funds for reasonable expenses incurred while acting on behalf of the committee. The host agency was to track expenditures made against the grant and provide the ministry and the committee with periodic updates, as needed.

In March 2003, the ministry provided \$500,000 in funding to each committee, intended to cover work to be completed during the period April to September 2003. In October 2003, the ministry advised the committees that a new funding model would be adopted for future transition funding, to improve accountability for the funds and assist in moving forward with a new phase of community governance. The committees were asked to provide a detailed accounting of expenditures to date against the initial allocation of transition funding. Upon complying with the information request, additional grant funds were provided to the

Vancouver Coastal (\$208,000) in November 2003 and North (\$203,600) committees in December 2003.

In January 2004, the ministry received allegations that, among other things, the Vancouver Coastal committee was authorizing payments which were not related to transition work being performed.

Due to these allegations and the delay of some committees in complying with the ministry's financial information request, the ministry asked Internal Audit & Advisory Services (IAAS) to conduct an audit of all committees.

## **Purpose**

The audit has been completed in two phases. The purpose of the first phase of the audit was to provide ministry management with information regarding the expenditures applied against the grant funding and the disbursement processes used by the Vancouver Coastal committee and their Trust and Disbursement Agent.

## **Scope and Objectives**

The first phase focused on expenditures paid by the Vancouver Coastal committee throughout the period April 1, 2003 to January 31, 2004. Specifically, we reviewed the expenditures for this period, to determine whether for:

- payments made to experts or support agents:
  - a statement of deliverables exists, which clearly defines service expectations and is signed by the committee and the expert or support agent;
  - an invoice is provided for the services delivered;
  - the host agency obtained confirmation from the committee that the deliverables have been received and are satisfactory; and
  - the payment amounts are reasonable and are consistent with the purpose of the committee.

- payments made to reimburse administration costs of the host agency are reasonable in amount and supported.

The audit involved interviewing Vancouver Coastal committee members who were accountable during the period April 1, 2003 to January 31, 2004, the host agency representative who was also a chair of the committee, the primary contractor and other selected service providers as necessary, as well as reviewing relevant documents.

The results of the second phase of the audit will be reported separately.

## **Report Finalization**

Subsequent to releasing our draft report, Internal Audit & Advisory Services had extensive discussions with representatives of the committee, host agency and primary contractor to address concerns over the report's content and presentation. We have amended the report where we felt it was warranted and/or factually supported, but emphasize that the issues and recommendations have remained substantially the same. These changes incorporate many, but not all, of the suggestions made by the committee, host agency and primary contractor representatives.

We have incorporated the committee's and ministry's responses after each recommendation and included the ministry's and committee's context statement in Appendix 1 of the report. The responses and context statements are those of the committee and ministry and we provide no opinion on their accuracy or relevance. We have provided clarification within the committee comments, where the comments have included ministry processes and a difference of opinion exists. We understand that the host agency and primary contractor had significant input to the committee's documents.

# Comments and Recommendations

## 1.0 Trust & Disbursement Guidelines

### Objective

**To determine whether the ministry’s Trust and Disbursement guidelines related to expenses of experts and support agents were followed.**

### Conclusion

We found that the committee did not fully implement the ministry's Trust and Disbursement guidelines. We assessed the alternative disbursement processes that the committee implemented and found that they require improvement to achieve an effective control environment. Further, we noted that the committee’s contracting practices used to engage the experts and support agents also require strengthening to ensure contracts are well documented and effectively monitored. In addition, the recording, reporting and monitoring of committee finances requires improvement to ensure amounts are properly supported, accurately recorded and billed and reported to the committee on a timely basis to allow for effective monitoring.

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## 1.1 Ministry Trust & Disbursement Guidelines

The ministry forwarded Trust and Disbursement guidelines to the committee and host agency, which accompanied the grant payments. The guidelines proposed an expenditure approval and payment process, which involved both the host agency and the committee. Payments were to be made once the host agency received confirmation from the committee that deliverables were satisfactorily received. In addition, the host agency was expected to track expenditures made against the grant and provide periodic updates, as requested.

We noted that the guidelines specifically addressed payments to experts or support agents and administration fees of the host agency, but did not provide guidance related to other committee expenses, such as honoraria and meeting costs. Further, the guidelines provided limited direction to the committee to support implementation of an appropriate financial management framework,

to effectively control grant funds and ensure accountability is assigned for the economical use of these funds.

Our report on the second phase of this project will include specific recommendations to assist the committee in implementing processes and financial guidelines to support an effective financial management framework and ensure accountability is assigned for the economical use of ministry funds.

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## **1.2 Host Agency and Committee Protocol Agreement and Processes**

The committee agreed in principle to adopt the ministry's Trust and Disbursement guidelines, as outlined in an unsigned protocol agreement between the committee and the host agency, Tsleil Waututh Nation. However, the host agency representative noted that "the Trust and Disbursement guidelines were not forwarded to the appropriate people" within the agency. We noted that the signed agreement presented to us did not accurately reflect the agreement approved at the committee meeting and was not signed off at the appropriate level. As such, it appears that the committee chairs and an appropriate host agency representative did not formally adopt the guidelines. Further, we noted that the agreement terms require expanding to include the administration fee amount and reimbursement process.

We were advised that the committee decided to adopt an expenditure approval and payment structure that varied from that outlined in the ministry's recommended Trust and Disbursement guidelines and the protocol agreement. Specifically, committee members wanted full authority over financial decisions and approvals without the involvement of the host agency. Since host agency staff would not be actively participating in committee decision-making, it appeared appropriate that their role be limited to holding the funds and processing the payments. However, when service and process expectations vary from those recommended by the ministry and documented in the protocol agreement, it is necessary to update the documentation to ensure a common understanding between parties and to communicate the alternative processes to the ministry to ensure they are adequate.

## **Recommendations**

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**(1) We recommend that any future protocol agreements between the host agency and the committee:**

- **accurately reflect the service and process expectations;**
- **be signed on a timely basis by appropriate representatives; and**
- **include the negotiated cost for providing the services.**

**(2) Any significant departures from the ministry's recommended guidelines should be communicated to the ministry.**

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## **Committee Comments**

Concur with Recommendation 1

Note: The committee's ability to implement these recommendations is dependant upon MCFD providing the committee with clear direction and concise deliverables and maintaining a commitment to long range plans. The committee informed the host agency that the committee's bookkeeper would ensure payments were in accordance with committee policies regarding travel and expense claims. The committee also informed the Host Agency that approvals for deliverables would be the responsibility of the committee. Several issues regarding the legal relationship between the Host Agency and the committee were brought up regarding the legal ability of the committee to enter into agreements and hire experts. It was the opinion of the Host Agency that the Host Agency could not enter in legally binding agreements due to liability issues with a non-legal entity such as the committee, thus protocol agreements could not be signed. The need for a clear contract with MCFD was also identified in Chair and committee discussions as part of the dialogue to address contracted accountability among MCFD, the Host Agency, the committee and support agents.

The report states "it appears that... an appropriate host agency representative did not formally adopt the guidelines." It should be noted that there was no appropriate host agency representative and that any agreement would had to have been between the host agency's duly elected council and MCFD which did not occur.

Concur with Recommendation 2

Note: This is not a requirement of the recommended Trust and disbursement Guidelines. The committee developed a 'protocol agreement' in the summer of 2003 between MCFD and the committee but the agreement was not signed off by MCFD. The committee would recommend that a protocol be entered into between MCFD and the committee.

#### Ministry Comments

*Agreed. As noted in the overarching response, as of June 3, 2004, MCFD no longer recognizes the Vancouver Coastal Planning Committee.*

*Regarding recommendation 2, departures from ministry recommended guidelines will only be permitted upon prior consent of the ministry.*

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#### Expenditure Approvals

The role of the host agency in the disbursement process included holding the funds and processing payments. The committee was responsible for obtaining statements of deliverables from service providers and approving payments by confirming that deliverables had been satisfactorily provided. We noted that the committee did not fully assume these key disbursement processes, resulting in a weakened expenditure approval and payment process. In particular, we noted the following:

- for the period April - August 2003, a host agency employee who was also a committee member generally approved cheque requisitions on behalf of the committee, but ceased this process when it became unclear whether the employee was signing on behalf of the committee or the host agency;
- for the period August 2003 onward, there was no documented approval by the chairs of expenditures processed through the host agency; and

- a potential compensating control, invoice review by the cheque signatories prior to payment, was not effective as the signatories were only expected to sign the cheques, as they were not involved in the management and approval of committee expenses.

We noted that payments to dbappleton accounted for the majority of committee expenditures. The first dbappleton (primary contractor) invoice paid through the new host agency in April 2003 followed an approval process that involved the primary contractor and an independent chair. We noted that this process was not brought to the committee for approval and was not continued. The committee advised the process was not continued due to the chair's unavailability and the inappropriateness of having the primary contractor sign. Effective disbursement processes, including independent review and approvals, will help ensure payments are accurate and funds are used appropriately.

### **Recommendation**

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**(3) We recommend that the committee document and implement an expenditure approval and payment process that includes an independent committee chair indicating their approval and is consistent with what is defined in the protocol agreement.**

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### **Committee Comments**

Concur with Recommendation 3

Note: The approval signing process was not continued due to the Chair's lack of availability to sign requisition forms. This system failure was reviewed by the committee in February 2004 and the contractor proposed a revised procedure which has since been augmented requiring two independent signatures and monthly committee approval of expenditures. In addition, effective April 1, 2004, MCFD reviews all expenditures through a review of all invoices and supporting documentation.

### **Ministry Comments**

*These recommendations will be built into the ministry's expectations of the planning committees as part of improved financial controls and accountabilities.*

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### 1.3 Retainer Held by dbappleton

The committee agreed to establish a retainer in May 2003. We were advised that the decision was made by the committee to allow for timelier processing of expenses and for travel advances and arrangements that could not be accommodated through the host agency. We were also advised that the primary contractor "reluctantly agreed" to assist the committee and host agency by establishing a retainer. The committee meeting records indicated that "this money will be held in a separate account which will be used to pay committee expenses". Providing a retainer in effect partially transferred responsibility for expenditure review and approval to the primary contractor, although authority to fulfill this function had not been formally delegated and would be inappropriate due to the contractual relationship between the primary contractor and the committee.

We noted that the primary contractor placed the retainer funds, which amounted to up to \$32,000 at any one point in time and totalled approximately \$133,000 for the period of review, in their business account rather than a separate interest-bearing account. The committee advised that a separate account was not used because "legal implications regarding the committee wanting signing authority were never sorted out". When funds that are designated to be kept separate are co-mingled with a business' general funds, there is a risk of accountability over the designated funds being lost and the funds being used as part of the business' general cash flow and to earn interest income on the deposit on hand.

Further, we found that the committee did not maintain accountability for the retainer funds by requiring regular summaries of how each retainer amount had been utilized and supporting receipts to be provided to the host agency prior to receiving a further advance. In addition, the committee's service expectations related to the retainer were not incorporated into the primary contractor's contract to help ensure a clear and common understanding between the parties.

#### **Recommendations**

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- (4) We recommend that the use of a retainer fund for processing committee expenses be discontinued. If the current trust and disbursement model continues, we also recommend that the committee work directly with the host agency to meet payment processing expectations.**
-

## Committee Comments

Concur with recommendation 4 – The retainer arrangement has been discontinued and we have reviewed the retainer fund activity and acknowledge all retainer payments were in accordance with the committee's directions and all retainer monies are accounted for.

Note: As the committee requested that dbappleton establish a retainer for committee expenses, this is a committee retainer process and not a dbappleton retainer process. There is no restriction on the use of retainers by the Host Agency or support agents in the Trust and Disbursement Guidelines. dbappleton advised the committee on April 16, 2003 in writing that they did not have adequate staff or resources to provide detailed financial management of the committee's expenses. As a result, the committee issued a RFP for bookkeeping services and retained the services of a bookkeeper to manage the committee payment and expense process.

### Ministry Comments

*Agreed. The current trust and disbursement model will not continue. Arrangements for new funding and payment processes will be established with the planning committees pending completion of the second phase of the project.*

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## 1.4 Financial Recording, Monitoring and Reporting

Host Agency  
General Ledger

The host agency records expenses of the committee in a sub-ledger of Tseil Waututh Nation. We reviewed the transactions recorded and noted that the expenditures were not always properly accounted for and do not appear to have been regularly reported to the committee for monitoring purposes. Regularly monitoring and reporting committee expenditures would help ensure the complete and accurate recording of transactions. Specifically, we noted:

- \$5,411 in refunds and voided cheques not reversed out of the accounts;

- expenditures included the Goods and Services Tax (GST), which is partially recoverable by the host agency (refundable amount estimated at \$15,000); and
- account coding errors, where:
  - the nature of the expenditure did not match the account to which it was charged; and
  - an expense of \$5,000 related to another host agency project was recorded as a committee expense.

We also noted that internal financial reporting was not sufficient to allow the committee to properly monitor its financial performance. Specifically:

- committee members indicated that repeated requests to the host agency and the primary contractor for financial reports had been made throughout the period of review;
- although several committee meeting packages indicated that “budget/finances” was to be discussed, financial statements appear to have been presented only once for committee review and there is no evidence in the meeting records that committee finances were discussed;
- the financial statements presented did not include a sufficient breakdown of expenditures to meet the expectations of committee members;
- actual expenses were not tracked against the budget and the budget required updating to reflect changes in funding and the kinds of expenses actually being incurred by the committee; and
- the host agency financial records were not reconciled with the primary contractor's retainer transactions, and combining these two sets of accounts would have been difficult as they did not match.

We were advised that informal financial reporting regarding the amount of funding remaining occurred, but it does not appear that reporting included how the funding had been used. The committee chair, who was also a host agency employee, stated that after printing the general ledger, copies were left for committee members, but that the printouts might not have been picked up and reviewed by other committee members.

Further, we noted that during the period late October to early December 2003, the committee expenses exceeded the initial funding of \$500,000 provided to date by up to approximately \$54,000. As a result, other host agency funding was used to balance the cash shortage, without the knowledge of most committee members and documented approval in meeting records, or documentation between the host agency and committee regarding the short-term loan. Effective financial reporting and monitoring would enhance transparency and accountability over the grant funds.

### **Recommendations**

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- (5) We recommend that the committee assign accountability for ensuring finances are regularly monitored and reported to the committee, to support the timely identification and correction of any errors.**
  
  - (6) We also recommend that monthly financial reports, including budget to actual expense comparisons in a reasonable number of categories, be prepared on a timely basis for presentation to and discussion by the committee.**
  
  - (7) In addition, we recommend that the committee and ministry ensure the identified errors are properly corrected.**
- 

### **Committee Comments**

Concur with Recommendation 5 – The committee implemented a new system on April 1, 2004 that requires a monthly review and approval (in the form of motions) of the financial reports to be submitted to the committee. This was implemented at the suggestion of the auditor and MCFD to improve the financial control process.

Note: The Host Agency provided the project general ledger to the committee and the committee's bookkeeper monthly and/or at such times as requested by the committee. The committee has always been able to communicate directly with the committee bookkeeper, the Host Agency and support agents for financial updates. The posting mistakes have been rectified by the host agency and would have been addressed prior to the year end, during the host agencies preparations for their yearly audit in February and March 2004. Chairs have confirmed with

the auditors that they were provided with regular financial briefings from the Host Agency and the Contractor. The committee acknowledges that the spokesperson was provided with regular financial reports but those reports may not have been adequately relayed to the committee members. The committee acknowledges that the committee must ensure that financial reporting is directly to the committee as a whole and clearly documented in the minutes.

Concur with Recommendation 6 – The committee implemented a new system on April 1, 2004 that requires a detailed breakdown of expenses in all financial reporting.

Note: There are no specific guidelines in the Trust and disbursement guideline requiring financial reporting on a monthly basis. The committee did not over expend its funding. The total grant commitment from MCFD was \$920,000.00 for the fiscal year. In October the first instalment of \$500,000.00 was expended. Neither the Host Agency nor the committee had any reason to believe that the next instalment would not be coming, as MCFD did not advise the host agency or the committee that the initial grant would not be honoured. The Chairs were advised in October 2003 by MCFD that the next grant instalment payment would be forthcoming to all regions upon receipt of detailed financial reports to the satisfaction of MCFD. The Host Agency provided bridge funding to the Committee upon the advice of MCFD until the next instalment funds were received.

Concur with Recommendation 7 – MCFD provides a final independent check before releasing any funds to the committee. This new system was mandated for all 5 Regional Planning Committees effective February 1, 2004. The committee's bookkeeper, the committee and dbappleton have corrected all errors.

### Ministry Comments

*Agreed. These recommendations will be built into the ministry's expectations of the planning committees as part of improved financial controls and accountabilities.*

*Where accounting errors have been identified such as GST claims, duplicate payments, overpayments and coding errors, it is the ministry's expectation that the host agency will ensure that the errors are properly corrected and where applicable, funds will be recovered. This has been communicated to the host agency in a letter from MCFD dated June 3, 2004.*

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#### Accounting for the Retainer

We also noted that the committee's financial monitoring processes did not ensure that the primary contractor's recording of the retainer transactions was accurate, complete and done on a timely basis to allow for reporting of expenditures and balances on hand. We noted that a spreadsheet was used to track retainer transactions for the first few months of the period, but were advised that the primary contractor was not required to continue to provide retainer accounting prior to obtaining a further advance. Without proper retainer recording and reporting throughout the period, the primary contractor was unable to demonstrate that the retainer funds were fully accounted for and the committee was unable to identify improvements needed for the tracking and billing of committee expenses. Specifically, we noted the following:

- retainer advances were recorded in the primary contractor's revenue accounts, rather than against expenses in the "retainer" sub-ledger;
- many of the entries recorded in this sub-ledger account were incorrect and subsequently adjusted by the bookkeeper, making the report difficult to follow; and
- supplementary excel spreadsheets were created, which included a total of \$8,224 in incorrect entries, such as amounts recorded in the retainer summary and also invoiced to the committee as an expense by the primary contractor.

Further, we noted that the committee's expenses paid through the retainer were considered business expenses of the primary contractor for GST purposes. As such, the primary contractor claimed the full amount of GST paid for rebate. To correct for the funds not being held in a separate committee account, in January 2004, on the advice of an independent accountant based on the way the primary contractor accounted for the expense

reimbursements, the primary contractor charged the committee \$9,334 for GST on the full retainer amounts advanced to date. This approach resulted in the committee paying a higher amount of GST than necessary, as many of the expenses paid through the retainer were GST exempt.

### **Recommendations**

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**(8) In addition to our earlier recommendation that the retainer held by the primary contractor on behalf of the committee be eliminated, we also recommend that the primary contractor and the host agency's GST claims be amended to reflect the actual cost to each of the parties.**

**(9) We also recommend that the committee and ministry ensure the identified errors are properly corrected.**

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### **Committee Comments**

Concur with Recommendation 8 – There are no restrictions or specific requirements regarding retainers or the GST in the Trust and Disbursement Guidelines. The retainer arrangement has been discontinued and all funds are accounted for. The Host Agency and dbappleton are addressing the GST calculations based on the recommendations of this audit and will adjust all necessary reporting.

Note: The committee and dbappleton retained an independent accounting firm in January 2004 to review the financial relationship between the committee and the contractor. The accounting firm advised the committee and dbappleton that GST must be charged on the full value of the retainer. The accountant's report and advice was provided to the auditors.

Concur with Recommendation 9 – The committee's bookkeeper, the committee and dbappleton have reviewed the retainer errors and all retainer funds are accounted for and repayments or credits have been issued or are in process where appropriate.

### Ministry Comments

*Where accounting errors have been identified such as GST claims, duplicate payments, overpayments and coding errors, it is the ministry's expectation that the host agency will ensure that the errors are properly corrected and where applicable, funds will be recovered. This has been communicated to the host agency in a letter from MCFD dated June 3, 2004.*

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## 1.5 Contract Management Processes

We were advised that the committee was uncertain about the legality and potential liability of entering into contracts with service providers, as they are not a legal entity. As such, the committee entered into a letter of agreement with the primary contractor to provide services at the regional level as well as the inter-regional level through the Aboriginal Chairs Caucus (ACC).

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### ACC and JCC

The ACC is a committee of chairs representing the five regional planning committees. A committee chair is one of the five regional chairs who signed and jointly shares accountability for the contract with dbappleton to provide inter-regional services. The committee pays 1/5<sup>th</sup> of the costs billed for the ACC and also pays 1/10<sup>th</sup> of the costs billed for the Joint Chairs Caucus (JCC) meetings. The JCC includes representatives from the aboriginal and non-aboriginal planning committees and also a Community Living Services representative. We have included comments related to the ACC contract in the discussion below. We have approached reviewing the committee's costs and contract associated with the ACC as we did all other costs and contracts of the committee, recognizing that the management of the contract was the shared responsibility of the Regional Coordinators and Chairs. We did not audit the ACC. Issues identified related to the ACC contract will also be included in the second phase of this audit.

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### Regional Contracts

Within the Vancouver Coastal region, dbappleton also entered into contracts with a limited number of subcontractors. We noted that authority for fulfilling the contract manager function over the subcontractors was not clearly delegated to the primary contractor or enforced by the committee, resulting in communication, reporting and payment issues with certain subcontractors. Ensuring authority is clearly delegated and enforced will help ensure a common understanding of responsibilities among committee members and service providers.

As noted previously, the host agency's role in the committee's contracting processes was limited to processing payments to service providers. The committee was responsible for all other contracting processes, including negotiating letters of agreement and statements of deliverables and ensuring satisfactory services were provided. Our review of the committee's contract management processes noted that the following seven areas, discussed in sections 1.5.1 – 1.5.7, require strengthening and also highlighted the need for the committee to adopt and communicate comprehensive contract management policies and procedures to help ensure processes reflect good business practices.

### **Recommendations**

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- (10) We recommend that the committee adopt and communicate comprehensive contract management policies and procedures, including clear delegations of authority, to enhance accountability.**
- (11) We also recommend the committee ensure that these policies and procedures are followed, through periodic communication and discussion of contracting activities at committee meetings.**
- 

### **Committee Comments**

Concur with Recommendation 10 – The committee will develop comprehensive contracting managing policies and procedures based on MCFD guidelines.

Note: There are no specific guidelines in the Trust and Disbursement Guidelines regarding Contract Management beyond *"The committee will provide the trust and disbursement agency with the names of the approved experts and support agents along with a statement of deliverables signed by the committee and the expert or support agent."* The committee informed the Host Agency that all approvals of contract deliverables and payments would be authorized by the committee prior to invoicing being submitted to the Host Agency which varied from the recommended Trust and Disbursement Guidelines. The Host Agency was informed verbally of the contractors involved in the process.

dbappleton's contracts with the committee and the ACC were submitted to MCFD (Assistant Deputy Minister) in October 2003 at MCFD's request. MCFD did not communicate any concerns with the contracts to the committee.

**(IAAS note:** the ministry advised that the contract was obtained for budgeting purposes only).

The committee was responsible for all other contracting processes, including negotiating. The committee acknowledges that the conflict on the committee created fragmented authority resulting in contractors being given conflicting directives. The committee also acknowledges that the delegation of authority to dbappleton for managing subcontracts was regularly undermined as a result of the committee's internal conflict.

Concur with Recommendation 11 – The Committee has adopted an additional standing monthly agenda item to the Committee Charter - contract management and review. In addition the new Treasurer, the Host Agency and MCFD receive a detailed bi-monthly statement of contractor activities for review and approval prior to discharging contract fees (effective April 1, 2004.) The committee also requires that all sub-contractor contracts contain clear evaluation criteria and performance review periods.

#### Ministry Comments

*Agreed. These recommendations will be built into the ministry's expectations of the planning committees as part of improved financial controls and accountabilities. Contract management guidelines will be consistent with government's Core Policy on contracting.*

### **1.5.1 Timely Contract Negotiation and Renewals**

We noted several examples where contracts and renewals required more timely negotiation so that contracts were in place prior to services being provided. Without contracts in place, the committee is at risk of misunderstandings and may not have a basis for ensuring they receive the services they require.

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## Regional Contracts

As an example, we noted that the committee engaged and issued direction to the primary contractor to provide services without a formal written contract for five months from June – October 2003. Although the committee subsequently signed a contract retroactively, there is no signed contract for the month of June. The committee advised that a verbal agreement was in place as evidenced by the ongoing consistent request of services from the committee to the primary contractor. However, we noted that not all committee members supported the manner in which the new contract was renewed.

Specifically, on October 27, 2003 a discussion of the contract was added to the agenda at the start of a scheduled meeting, which did not provide all committee members with an opportunity to fully review the proposed contract. The committee had a quorum and voted on the contract. The motion was passed by majority, to approve and backdate the proposed contract to July 1, 2003, primarily to protect committee resources in a time of budget instability and to honour a commitment made in July 2003 to extend the contract. Some members raised concerns regarding the significant changes to the contract terms and the insufficient financial reporting to date, which resulted in one of the chairs not signing the contract. The changes included increases in:

- the number of positions from 4 to 5, to include a Service Transformation Leader at \$6,000/month;
- the daily rates for the Contract Manager and Strategic Consultant by 50%, from \$500/day to \$750/day; and
- the monthly rate for Secretariat services from \$4,830 to \$6,000.

Although the primary contractor's total monthly fee increased by only \$1,540, the rate increases noted above meant that the committee was paying close to the same amount for fewer service hours and a higher amount for secretariat support and other deliverables that were reallocated among positions. Timely contract negotiations conducted in an open and transparent manner will help ensure committee members' concerns can be addressed and incorporated into the contract structure.

### **Recommendation**

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**(12) We recommend that the committee openly negotiate and address any concerns raised around the contract terms prior to services being provided.**

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## Committee Comments

Concur with Recommendation 12

Note: The committee has always had the opportunity to discuss contract terms and conditions through in-camera discussion and has actively used this mechanism throughout the process. Further, as detailed in the Committee's Charter, contracts require a formal motion and must be voted upon. This has been, and continues to be, the practice for contract approval. The contract with dbappleton went through three iterations before the final version was approved by the committee.

### Ministry Comments

*Agreed. This recommendation will be built into the ministry's expectations of the planning committees as part of improved financial controls and accountabilities. Contract management guidelines will be consistent with government's Core Policy on contracting.*

## 1.5.2 Contract Amendments

We noted that in the case of both the regional and inter-regional contracts with the primary contractor, amendments were necessary to reflect the services actually being provided.

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ACC

For example, the ACC contract did not specifically mention services to be provided by dbappleton at the JCC level, where both aboriginal and non-aboriginal planning committee chairs meet. Further, although the primary contractor advised us that strategic advice and support was provided under the ACC contract, we noted that contract deliverables only included providing operational support, meeting management and administrative support for fees ranging from \$350 – \$500/day.

The primary contractor suggested that direction provided through the action items in the meeting records served as contract amendments. However, since meeting records remain in “draft” and are not signed by committee representatives to indicate their accuracy and completeness, they cannot be considered a proxy for formal contract amendments. The contract recognizes that from time-to-time the ACC will be required to amend the contract to reflect changing needs and that such amendments will be recorded in writing. Documenting any significant changes to service deliverables in formal contract amendments will help ensure a consistent understanding of the changes and that the revised terms are enforceable.

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Regional  
Contracts

In a second example, the primary contractor advised us that the committee and “operational necessity” directed the deliverables and scope of regional level work. We are advised operational necessity resulted from the committee experiencing periods of instability and unclear direction due to ministry plans changing, as noted previously. When operational necessity may result in significant variances in the services being provided, and perhaps multiple contract amendments, entering into shorter-term contracts and clearly documenting the required services and associated costs will help ensure committee funds are used effectively.

### **Recommendation**

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**(13) We recommend that the committee ensure contract amendments are negotiated on a timely basis whenever significant changes to deliverables are necessary and that shorter-term contracts specifying clear deliverables be negotiated in times of instability.**

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### **Committee Comments**

Concur with Recommendation 13 – The committee will ensure that contracts are signed and in place prior to work commencing whenever possible. However, MCFD must provide adequate notice of funding and budget decisions along with clear direction to allow the committee to function and plan appropriately.

Note: The committee acknowledges that the conflict among the caucus’ of the committee resulted in unreasonable delays in finalizing contract terms with contractors. The committee relied on verbal instruction and confirmation with contractors.

### Ministry Comments

*Agreed. This recommendation will be built into the ministry's expectations of the planning committees as part of improved financial controls and accountabilities. Contract management guidelines will be consistent with government's Core Policy on contracting.*

### 1.5.3 Contract Rate Structure

We found that the terms related to rate structure in the committee's contracts with the primary contractor need to be more flexible to reflect actual services delivered.

ACC

For example, the inter-regional contract with the primary contractor is structured such that time banks are purchased rather than specific deliverables. As such, an employee of the primary contractor was billed slightly more than full-time to the committee at a daily rate of \$350 or \$90,700 for the year, without any adjustments for statutory holidays or times when activity levels in the unstable environment may not have warranted full-time employment. In addition, a partner's daily rate, set at \$500 based on an eight-hour day, was exceeded on several days to total up to \$1,000 when we were advised long days were worked. Further, we noted that the primary contractor typically billed the daily rate when providing services under the contract, at times adjusting the bills to  $\frac{1}{2}$  or  $\frac{1}{4}$  days when full days were not worked. In addition to billing for these specific days, the primary contractor also charged for unallocated days of \$500 or \$1,000 per month for "email and telephone calls".

Negotiating contracts that provide rate flexibility, such that actual time rather than capacity is purchased, will allow for billings that accurately reflect service volumes, in compliance with the contract terms.

### **Recommendation**

**(14) We recommend that the committee ensure contract terms are structured such that actual time rather than capacity is purchased.**

## Committee Comments

Concur with Recommendation 14

Note: There are no restrictions or specific rate structures for contractors within the Trust and Disbursement Guidelines and MCFD's decision to not appoint the committee as a legal authority made it impossible for the committee to retain staff. The use of contractors in a contractor/staff role is not the preferred operating model, but was perceived to be a short-term solution until such time as legal authority was granted to the planning committees by MCFD.

The committee and the ACC do not accept that a partners' daily rate was intentionally exceeded as the rate was for 8 hours of service and the long days were at the direct request of the ACC and Committee Chairs. The ACC and Committee Chairs fully endorse the additional costs that resulted from ACC requests of dbappleton. We acknowledge that the language of the contract could have been written in a more flexible manner to accommodate the "surges" of activity requested by the ACC and Committee Chairs and will ensure future contracts have greater flexibility and the ability to bill hourly. The committee also notes that dbappleton handled over 9,800 emails and phone calls for the ACC and JCC during this period and future contracts will have to incorporate a billing process to account for this type of service response level.

### Ministry Comments

*Agreed. This recommendation will be built into the ministry's expectations of the planning committees as part of improved financial controls and accountabilities. A regular monitoring component will also be established to ensure new expectations are followed once the second phase of the project is completed. Contract management guidelines will be consistent with government's Core Policy on contracting.*

#### 1.5.4 Competitive Process for Contractor Selection

We understand that an ACC contract was awarded through a competitive process. In addition, we were advised that the committee, through dbappleton, selected the bookkeeper and website designer through an informal bid process. However, other contractors of the committee were directly awarded contracts. We recognize that, at times, specific skills and experience may be required which are not readily available in the community and that it is beneficial to maintain some level of committee “corporate knowledge” by retaining contractors over time. However, we encourage broader use of competitive processes wherever possible, to help ensure value for the services being provided and to demonstrate equitable selection.

##### **Recommendation**

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**(15) We recommend that the committee follows a competitive process when selecting contractors wherever possible, and that the committee documents the basis for its decision.**

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##### **Committee Comments**

Concur with Recommendation 15 - This is not inconsistent with the committee's practices, nor is it a requirement of the Trust and Disbursement Guidelines.

##### Ministry Comments

*Agreed. This recommendation will be built into the ministry's expectations of the planning committees as part of improved financial controls and accountabilities. A regular monitoring component will also be established to ensure new expectations are followed once the second phase of the project is completed. Contract management guidelines will be consistent with government's Core Policy on contracting.*

#### 1.5.5 Contract Deliverables

We noted that the committee's contract terms require clarification to ensure a common understanding of service expectations among both parties, and to ensure payments are clearly linked to the deliverables provided.

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## Regional Contracts

In particular, we noted that while the two primary contractor contracts for the period April 1 – May 31, 2003 identified deliverables to be provided by four specific individuals, the new contract did not specify individuals. We were also advised that staff would often backfill for one another to accommodate other firm and personal commitments. To ensure individuals with the appropriate skill sets and experience are providing services to the committee, it is beneficial to identify these individuals, particularly those providing management level services and also to approve any subcontractors.

We also noted that the contract deliverables described high level functions, such as financial management and contract management without specifying expected outputs or outcomes, such as the form and frequency of financial reporting. In addition, for some of the contract positions, the monthly fees were not supported with a daily or hourly rate and expected number of hours. As such, there is a risk that the committee could pay the maximum fee regardless of the level of services provided or whether outputs and outcomes met expectations.

### **Recommendations**

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**(16) We recommend that the committee ensures that:**

- **contract deliverables are clearly defined and linked to payments; and**
  - **specific service providers and subcontractors are identified in contracts wherever possible.**
- 

### **Committee Comments**

Concur with Recommendation 16 – The committee will take steps to comply in a timely manner.

Note: The committee now reviews monthly invoices against a monthly statement of deliverables for all contractors prior to approving payment. The committee requested that contractors have broad deliverables as the devolution of child and family services from a government to Aboriginal Authorities has never been undertaken. It was the committee's desire to have maximum flexibility in directing contractors to address issues as they arose.

### Ministry Comments

*Agreed. This recommendation will be built into the ministry's expectations of the planning committees as part of improved financial controls and accountabilities. A regular monitoring component will also be established to ensure new expectations are followed once the second phase of the project is completed. Contract management guidelines will be consistent with government's Core Policy on contracting.*

#### **1.5.6 Contract Monitoring**

We found that contract monitoring processes require improvement to ensure billings are accurate, reasonable and properly supported. We recognize that the committee was limited in its ability to effectively monitor the primary contract with dbappleton. This was primarily due to the five month delay in the contract renewal, leaving nothing against which to monitor the services, and the limited financial reporting provided to the committee, as mentioned previously. Contract monitoring would be strengthened by clearly defining expectations and assigning responsibility for monitoring.

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ACC

We found that reporting requirements around the primary contractor's deliverables were improved in the new contract, to include a "brief final report detailing progress against the deliverables". We were advised that both the ACC and the committee were recently provided an annual summary outlining the deliverables provided by the primary contractor and that positive comments were received from ACC members affirming that the requirements of the contract had been fulfilled. Requiring regular monthly reporting against contract deliverables would further enhance accountability and monitoring effectiveness.

We also noted a fairly high percentage of undetected errors on the ACC invoices and a total amount billed that exceeded the contract maximum. For example, approximately 10% of expenses billed, totalling approximately \$2,000, were in error on the ACC billings. Further, the total amount billed for one of the ACC service providers was \$90,700 when the contract maximum for that position was \$80,000, although the total contract amount of \$150,000 was not exceeded. We were advised that the contract maximum of \$80,000 was an error in transferring the Request for Proposal information into the contract.

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Regional  
Contracts

The regional invoices provided by the primary contractor also included a fairly high percentage of undetected errors, totalling approximately \$7,000, related to double-billed and over-billed amounts.

We noted that the committee did not require the primary contractor to maintain and periodically provide detailed support for the billings. The billings only specify a total amount for the services rendered, with no description of the deliverables provided. The deliverables were generally intangible and some committee members expressed concerns as to whether the deliverables were provided. To assess whether, at a minimum, service hours had been provided as outlined in the contract, we requested the detailed support. However, our request for relevant staff timesheets was denied as the primary contractor viewed timesheets as “confidential business records”. Support for the billings would provide the committee with assurance that they are only paying for services actually received and would allow the primary contractor to demonstrate that services billed were fully provided. We noted the following example where supporting documentation would help alleviate concerns over billing.

We compared the contract dated July 1 – March 31, 2004 to the monthly invoices and noted that the amount billed for the period July 1 – November 30, 2003 reflected the total monthly amount allowed under the contract. This contract included the full-time Service Transformation Leader position at a rate of \$6,000 per month. However, committee members we interviewed were not aware of anyone filling the position as described. The primary contractor was initially unable to tell us who filled the position, but later provided names of four staff who shared responsibility throughout the period. The names provided had not been included in the primary contractor’s deliverable summary provided to us and committee members had not mentioned these individuals as contributing to the committee. The primary contractor later advised that the position had not been billed for or filled as described. When we noted that the position had been billed, the primary contractor suggested that the Service Transformation Leader position resources were instead reallocated to cover additional committee expectations related to advocacy activities, individual consultation and guidance.

The various explanations provided made it unclear whether the committee had received the full level of services outlined in the contract. Subsequent to issuing the draft report, the primary contractor provided additional clarification regarding the Service Transformation Leader position. We were advised that the contract approved in October and backdated to July 1st was intended to reflect services to be provided November 1 – March 31, 2004.

Subsequent to issuing the draft report, we were also provided a draft contract for the period June 1 – March 31, 2004 which was unsigned and would be superseded by the October contract noted above.

In summary, apart from the October contract, there is no other signed contract which supports the increased fees and the services provided during July 1 – October 31, 2003. Considering the available documentation and clarification provided, one of the following adjustments is required to the billings.

	Description	Calculation
Option 1	The contract approved in October 2003 is effective July 1, 2003. The contract identifies the Service Transformation Leader position at a monthly cost of \$6,000. The position as described was not filled, and was billed for the period July 1 – November 31, 2003. As a result, the committee was over-billed \$30,000.	July 1 – Nov. 31/03 5 months x \$6,000/month = \$30,000
Option 2	The contract approved in October 2003 was intended to describe services to be provided subsequent to this time and backdating to July 1 was not appropriate as the position described was only identified as necessary in the fall of 2003. The position was not filled during our period of review. Instead, the primary contractor was operating under the previous contract terms until the new contract was signed in October. As a result, the committee was overbilled \$12,160.	July 1 – Oct. 31/03 + Nov. 31/03 (\$1,540/month x 4 months) + (\$6,000/month x 1 month) = \$12,160

The committee needs to evaluate which option best fits their understanding of the contracts.

Effective contract monitoring, including regular discussion of contracting activities at committee meetings, will help ensure clarity around service levels provided.

## **Recommendations**

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- (17) We recommend that the committee define expectations and clearly assign responsibility for contract monitoring.**
  - (18) We also recommend the committee regularly discuss contracting activities at meetings, and ensure services meet the contract terms.**
  - (19) In addition, we recommend the committee ensure proper support for contractor billings exists for periodic review.**
  - (20) Further, we recommend the committee and ministry ensure the identified errors are properly corrected and repaid to the host agency, including the amount billed for the Service Transportation Leader position.**
- 

## **Committee Comments**

Concur with Recommendation 17 – The committee has already adopted a requirement that all contractors provide a monthly statement of deliverables supported by detailed invoicing that is reviewed and accepted by the committee. dbappleton has always provided a detailed billing for ACC activities and expenses that were submitted monthly to all five regions for review and approval. The committee further notes that the contract management responsibility for the ACC was not at the regional level, but at the ACC level.

Note: The alleged over-billing for one of the Aboriginal Chairs Caucus service providers is a transcription error between the dbappleton Request For Proposal response and the final contract. The RFP response stated \$80,000 for 46 weeks and the contract was drafted for 52 weeks failing to amend the contract amount. The ACC, including the Committee Chairs, has reviewed this matter on two occasions and confirmed that the total amount billed is in keeping with their expectations.

Concur with Recommendation 18 – Note: the committee has already adopted a requirement that all contractors provide a monthly statement of deliverables supported by detailed invoicing that is reviewed by the new Treasurer, Host Agency and MCFD prior to payment.

Concur with Recommendation 19 – Note: the committee has already adopted a requirement that all contractors provide a monthly statement of deliverables supported by detailed invoicing that is reviewed by the new Treasurer, Host Agency and MCFD prior to payment.

Concur with Recommendation 20 – Note: the committee has already adopted a requirement that all contractors provide a monthly statement of deliverables supported by detailed invoicing that is reviewed by the new Treasurer, Host Agency and MCFD prior to payment. The committee expected billing would adhere to the June -March 31 unsigned contract, however as both the committee and the primary contractor failed to confirm that agreement in writing and to satisfy audit standards option 2 satisfies the committee's expectations

#### Ministry Comments

*Agreed. This recommendation will be built into the ministry's expectations of the planning committees as part of improved financial controls and accountabilities. A regular monitoring component will also be established to ensure new expectations are followed once the second phase of the project is completed.*

### **1.5.7 Contract Fee Structure for Other Costs**

We noted that the fee structure for costs other than professional fees was not always clearly defined in the contract or supported by a reasonable estimate of expected costs. For example, we found that the primary contractor's contract for regional services indicated a mileage allowance of \$600 for travel within Greater Vancouver. As other costs outlined in the contract indicated they were monthly charges, it is unclear whether this allowance was to be provided monthly or once for the entire contract term. We noted that the primary contractor typically billed \$600 per month throughout our period of review, which equates to approximately 1,400 km per

month of travel within Greater Vancouver using the committee's mileage reimbursement rate. Since meetings were often at the primary contractor's premises, it appears that the allowance may not be supported. Developing an allowance that is based on actual monthly usage will help ensure a reasonable amount is provided and that funds are economically used.

### **Recommendation**

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**(21) We recommend that the committee ensure amounts for costs other than professional fees are clearly defined in the contract and are based on a reasonable estimate of anticipated usage.**

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### **Committee Comments**

Concur with Recommendation 21

Note: There are no restrictions regarding travel cost models in contracts in the Trust and Disbursement Guidelines. The travel expenditure was for 4-5 different individuals. The travel allowance provided for in the contract with dbappleton was approved by the committee as an intended cost saving measure to cap local travel expenses. The committee concurs that a review of actual travel needs will be undertaken and in the future, contract terms will provide for reimbursement of actual mileage. The committee also notes that not all meetings were held at dbappleton and that the vast majority of sub-committee community consultations, regional MCFD meetings, inter-regional meetings and service partner meetings were held off site throughout Greater Vancouver.

### **Ministry Comments**

*Agreed. This recommendation will be built into the ministry's expectations of the planning committees as part of improved financial controls and accountabilities. The guidelines set will not exceed government policy.*

**2.0 Other Expenses of the Committee**

**Objective**

**To determine if expenses other than those related to experts or support agents are reasonable in amount, supported and relevant to the planning activities.**

**Conclusion**

We found that other expenses, such as travel, honoraria, meeting and office expenses, were generally relevant to the planning activities of the committee. However, we found that these expenditures were not always supported and do not appear reasonable in amount, considering committee policy and the services being provided.

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**2.1 Travel and Honoraria**

We found that comprehensive meeting, conference and travel guidelines were established and adopted by the committee effective June 1, 2003. However, we noted that committee expense claims and processes were not always consistent with the guidelines and did not ensure payments were supported and reasonable in amount.

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Travel Claims and Processes

We noted that most committee travel claims were paid through the primary contractor's retainer. The committee's travel guidelines required an independent committee member and a representative of the primary contractor to review and approve travel claims. However, we were advised that the primary contractor conducted an informal review of the claims, and we noted that only a few claims submitted at the beginning of our period of review had been approved by an independent committee member. As a result, we noted a number of minor examples where the amounts claimed for travel were not in accordance with policy and the purpose for travel was not always specified (i.e. the meeting attended).

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Honoraria Payments and Processes

Honoraria payments to the committee members require improved support to ensure they are reasonable in amount. Specifically, honoraria payments, which averaged more than \$15,000 per month, were not based on the member's level of participation in committee activities and we noted that some members were paid more than the specified maximum amount. Throughout our period of review, all committee members were paid the maximum monthly allowance for six days of services of \$1,350 or \$3,000 for a chair

and \$1,050 for a member. We noted examples of payments where committee members did not participate in meetings or the service delivery subcommittee, yet received the full monthly amount and examples where a member was compensated at the rate of a chair and a chair at the incorrect rate when rates had been reduced.

We also noted that committee processes require strengthening to ensure stipend policy related to remuneration of work performed beyond the set maximum number of days is followed. Committee guidelines require that the committee approve the additional work and a contract must then be drafted and signed by the member, one of the three chairs and the committee's Team Leader before payment is made.

In one example, we noted a chair was compensated through the primary contractor's retainer in December 2003 for three invoices submitted for August, September and October 2003, representing an additional \$10,975 above the monthly \$1,350 honorarium. The invoices provided limited or no information regarding the services provided and committee members we interviewed were not aware of this payment. Further, there was no indication in the meeting records of discussion or approval of the amount nor was a contract for the services drafted and appropriately signed.

In a second example, another chair was compensated an additional \$11,450 through the primary contractor's retainer and the host agency, which was also not approved by the committee or supported by a contract. In this example, we noted that an earlier additional payment had been approved and a contract drafted for one month's compensation but that the remaining additional payments during the period did not follow this process.

Requiring members to report on the number of days spent each month on committee activities to an independent member for approval, including any contracted activities beyond the expected number of days, would help ensure compensation is only provided for the level of service received.

## **Recommendations**

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- (22) We recommend that committee guidelines and processes be amended to require committee members to report activity levels and provide travel expense claims for approval by an independent member prior to payment.**
- (23) We also recommend that the committee ensure the amended guidelines are communicated to all committee members and are followed.**
- (24) In addition, we recommend that the committee request detailed supporting documentation for the two payments noted above and assess whether the payments should be approved retroactively or whether the committee should request repayment of the amounts.**
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## **Committee Comments**

Concur with Recommendation 22 – Note: MCFD conducted a review of the committee’s stipend and remuneration levels in July 2003 and no recommendations or comments were provided to the committee. There are no guidelines or restrictions in the Trust and Disbursement Guidelines regarding Honorariums to committee members. The committee agreed to stay within the Board Re-sourcing rates of \$350 per day for the spokesperson chair, \$250 per day for the 2 other chairs and \$175 per day for all other committee members. The only requirement of the committee was that days beyond the minimum days be documented. The demands of the planning often required the chairs to attend meetings well beyond the maximum number of days of the honorarium. The committee has already implemented an independent review of all committee member stipend and travel claims prior to the release of the draft audit. Those approvals are then further reviewed by MCFD to ensure their consistency with government policy and guidelines.

**(IAAS note:** the MCFD review is completed for stipends only).

Concur with Recommendation 23 – Note: There are no specific or required guidelines in the Trust and Disbursement Guidelines regarding payments for travel and honoraria. The committee is revising its policy guidebook and will incorporate a revised payment and activity authorization system. The committee would take this recommendation one step further and recommend that the committee members be required to sign a statement acknowledging receipt of the policy and confirming that they have read and understand the policies.

Concur with Recommendation 24 – Note: There are no restrictions or specific guidelines in the Trust and Disbursement Guidelines regarding support documentation for payments. The committee will undertake a review of all additional payments made to committee members and ensure that the payments are appropriate and supported with the necessary documentation. The committee further concurs that contractors should not be directed to make payments for contract or additional payments to committee members.

#### Ministry Comments

*Agreed. This recommendation will be built into the ministry's expectations of the planning committees as part of improved financial controls and accountabilities. A regular monitoring component will also be established to ensure new expectations are followed once the second phase of the project is completed. Guidelines established will not exceed government policy.*

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## **2.2 Meeting Costs**

We noted that meal and refreshment costs at meetings were not always at an amount consistent with committee per diem guidelines, as a measure of reasonableness. In addition, although not significant in total, the frequency and claims for catering and restaurant bills associated with informal meetings requires committee review, to ensure these costs are necessary to support the planning activities. We noted examples where inter-regional breakfast and lunch meeting costs ranged from \$54 - \$65 per person, compared to the per diem guideline of \$20.25, and restaurant bills that did not indicate the purpose of the meeting or the attendees. We were advised that the primary contractor

recently negotiated a reduced rate for these formal meetings and we encourage the committee to continue to reduce costs in this area.

### **Recommendation**

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**(25) We recommend that the committee approve and minimize meal and refreshment costs and develop and implement guidelines around when such costs are appropriate.**

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#### **Committee Comments**

Concur with Recommendation 25 – There are no restrictions or specific guidelines in the Trust and Disbursement Guidelines regarding meeting costs. The provision of food at meetings and gatherings is a cultural and traditional practice and the committee requested that meals be provided at most meetings. The examples cited are inter-regional expenses and the committee only paid 10% to 20% of the stated costs which are well within MCFD guidelines. The committee was not advised to record the names of all meeting participants at sub-committee and planning meetings. MCFD guidelines have been adopted as of April 1, 2004.

#### ***Ministry Comments***

*Agreed. MCFD will set these guidelines in consultation with the committees and monitor to ensure they are followed. The guidelines will not exceed government policy.*

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## **2.3 Capital Purchases**

The committee advised that it had received general direction from the ministry not to make capital acquisitions. As such, we noted only one minor capital purchase made by the committee during the period of review. When reviewing this purchase, we identified opportunities to improve the control and tracking of future purchases.

Specifically, a partner of the primary contractor was reimbursed \$1,999 through the host agency for a projector. A receipt to support the purchase was not available at the time of our fieldwork but a duplicate copy was subsequently provided. Ensuring that capital purchases are properly supported and approved by the committee as documented in meeting records will enhance accountability over the funds.

We also noted that the purchase was recorded as a “contracted services” expense in the host agency’s general ledger. Tracking capital acquisitions in a separate account for reporting to the ministry will help ensure a complete transfer to the interim regional authorities at the conclusion of the committee.

### **Recommendations**

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**(26) We recommend that the committee approve capital purchases and that any transfers be made at fair market value.**

**(27) We also recommend that capital purchases be tracked in a separate general ledger account and that details, such as serial numbers and models, are recorded in an asset spreadsheet.**

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### **Committee Comments**

Concur with Recommendation 26 – The committee will take steps to comply in timely manner.

Note: There are no restrictions or specific guidelines in the Trust and Disbursement Guidelines regarding capital purchases. Nor was the host agency informed of any restrictions regarding capital purchases. The purchase of a projector was requested by the committee due to the inconvenience of tracking down equipment and the potential unavailability. The intent is to transfer the asset to the Regional Authority once it is established or further instruction from auditors is received.

Concur with Recommendation 27 – The committee will take steps to comply in a timely manner.

### Ministry Comments

*Agreed, MCFD had already provided direction not to make capital acquisitions. MCFD will re-state that no capital acquisitions are to be made. Any capital equipment in the future will be provided by the ministry, will be tracked by the ministry and the committees, and will be returned to the government when the projects are over.*

## **3.0 Administration Cost of the Committee**

### **Objective**

**To determine whether payments made to reimburse administration costs of the Trust and Disbursement or Host Agency are reasonable in amount and supported.**

### **Conclusion**

We found that the administration costs of the host agency were based on a percentage of the grant funds rather than a reasonable estimate of actual costs and, therefore, were not supported and may not be reasonable in amount. In addition, as noted previously, the committee did not formally approve the fee or include it in the protocol agreement.

As the primary contractor administered a significant portion of the committee expenses through the retainer, the associated administration costs are also discussed in this section. For these costs, we found that the full amount could not be determined due to the structure of the contract deliverables and that the bookkeeping costs were significant considering the services provided.

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## **3.1 Administration Fee of Tsleil Waututh Nation**

We found that in November 2003 the host agency charged an amount equal to 3% of the grant funds provided, or \$21,246, as an administration fee to process and record approximately 135 payments and receipts. We noted that the fee was not supported by an estimate of actual administration costs and that this was not requested by the committee. Developing an estimate of actual administration costs will help ensure a reasonable portion is allocated to the committee and would assist with future committee budgeting.

We were advised that, at the time the host agency was assuming its duties, there were informal discussions regarding a reasonable fee and that 3% falls within the range that was discussed. However, these discussions were not factored in to the protocol agreement with the host agency. Further, the discussions occurred when it was expected that the host agency would be processing all payments for the committee. We were advised that the proposed fee was not subsequently revisited or formally approved by the committee prior to payment.

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Interest Benefit  
to Tseil Waututh  
Nation

In addition to the administration fee, a potential interest benefit on the funds held on behalf of the committee also accrued to the host agency. Specifically, the grant funds were held in Tseil Waututh Nation's general bank account, rather than in a separate interest-bearing account. As such, the interest earned on the funds on hand could not be tracked and credited to the committee (estimated at \$3,200 using a 2% interest rate).

### **Recommendations**

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**(28) We recommend that if the current model continues, the committee and host agency negotiate an administration fee that reflects the actual costs of providing the service and is formally agreed to in a protocol agreement. We also recommend that committee funds be held in a separate interest-bearing bank account.**

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### **Committee Comments**

Concur with Recommendation 28 – Note: The Trust and Disbursement Guidelines state “The Trust and Disbursement Agency may be reimbursed out of the grant funds for reasonable expenses incurred while acting on the behalf of the RATC.” The committee proposed a fee of 3% as being reasonable taking into account that the Host Agency would be receiving a small amount of interest and that the normal administration fee charged is 5%. It should be noted that this is a lesser fee than had been paid to the previous host agency and that the host agency agreed to the fee. There is no requirement in the Trust and Disbursement Guidelines for a detailed breakdown of associated costs by the Host Agency.

A new protocol agreement will be secured upon completion of the audit process and the fee will be adjusted to reflect the anticipated volume of work.

Ministry Comments

*Agreed, however the current model will not continue. A set administrative fee will apply in future for committees, where applicable.*

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### 3.2 Administration Costs Related to the Retainer

We noted that the primary contractor's invoices included costs, primarily subcontracted bookkeeping and financial management fees, related to processing and recording the retainer transactions. Since the structure of the contract was such that “financial management” was one of several deliverables for the Contract Manager position, we were unable to determine what portion of the amount billed for this position related to providing this service. However, we found that bookkeeping fees were significant considering the volume of transactions processed.

Specifically, the bookkeeper was engaged to provide services to both the primary contractor and the committee and we noted that the fees allocated to the committee each month on the single invoice submitted for both of these clients appeared high (i.e. approximately 40 hours to process and record an average of 16 transactions, which included discussions with committee members and vendors as necessary). As mentioned previously, the records maintained by the bookkeeper were not accurate or complete, and the review and approval processes related to the bookkeeper's work were not sufficient to identify the errors. Effective monitoring and periodic review of detailed financial records by a committee representative will help ensure service quality and value is maintained.

#### **Recommendation**

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**(29) As mentioned previously, we recommend that the retainer be eliminated and that the committee review the bookkeeping costs for reasonableness.**

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## **Committee Comments**

Concur with Recommendation 29 – The retainer process has been eliminated.

Note: There are no restrictions regarding issuing retainers to contractors or sub-contractors in the Trust and disbursement Guidelines. dbappleton did not charge bookkeeping fees to the committee – bookkeeping services were provided by a subcontractor who was retained by the committee through a bid process and dbappleton simply passed on the invoices from the subcontractor to the committee for payment. While the number of transactions may be low, the bookkeeper was required to deal with committee members requesting payment of expenses, tracking of cheques, confirmation of payments, copying expense claims and working with the Host agency. The committee will confirm that members were regularly in contact with the host agency staff and dbappleton seeking updates and status reports on committee member payments.

### Ministry Comments

*Agreed, however, as the current model will not continue, MCFD will arrange for an alternative funding and payment process with the planning committees that reflects this recommendation.*

## **Appendix 1 – Ministry and Committee Overarching Comments**

**The ministry and the committee have each provided overall context statements. The comments are included in their entirety in 1a (ministry) and 1b (committee). We provide no opinion on their accuracy or relevance.**

## Appendix 1a Ministry Overarching Comments

*Government remains committed to the creation of five regional Aboriginal authorities and the commitments made in the Memorandum of Understanding for Aboriginal Children of September 9, 2002. As well, the Ministry of Children and Family Development remains committed to working in partnership with the regional Aboriginal planning committees to continue the transition planning process towards the development of regional Aboriginal authorities for children and families.*

*This report provides the ministry and the Aboriginal planning committee with important information about how we need to improve financial controls and accountabilities in the planning process. This is a critical requirement to ensure the planning processes have the necessary administrative credibility that will ensure public confidence.*

### Background

*Originally, grants were issued as a means to provide maximum flexibility to the aboriginal community who had requested more decision-making authority in the way funds were spent. There was mutual agreement between the ministry and the committees that trust and disbursement guidelines would be followed. This agreement was made in a spirit of partnership and cooperation towards the goal of establishing regional aboriginal authorities.*

*The ministry's primary relationship is with the planning committees. Since the planning committees were not legal entities, the host agencies – the Trust and Disbursement Agents for grants, were introduced as a 3<sup>rd</sup> party through which the funding for the planning committees could be managed. In the case of the Vancouver Coastal planning committee, a 4<sup>th</sup> party, dbappleton – a private contractor, was introduced to provide additional financial management functions for the planning committee. The audit indicates that the Vancouver Coastal planning committee did not have the management and administrative capacity to manage the funds made available for their planning activities and the host agency was not, and is not, positioned to take on the management of the planning committee's affairs.*

*It is important to note that the ministry initiated changes with the payment processes to improve accountability before the audit began. The changes initiated included:*

- *In October of 2003 the ministry informed host agencies that it would be adopting a new funding model for future transition funding, to improve accountability.*
- *On February 2, 2004 the ministry, in a Memorandum to the Aboriginal Chairs Caucus, outlined a change in the process for the payment of expenses for planning committee activities. Based on an approved planning committee budget the ministry, as of February 2004, requires the host agencies to supply the ministry with invoices, confirming that planning related goods and services have been received.*

- *The ministry now applies financial controls, including a review of all invoices received, to ensure that the invoiced amounts are within allocated budgets, before funds are transferred.*

*On January 14, 2004 the ministry received allegations of financial impropriety by the Vancouver Coastal planning committee. As a result of these allegations and to improve accountability, on January 15, 2004 the ministry requested Internal Audit & Advisory Services to conduct an audit of this planning committee and of all planning committees.*

### *Audit Findings*

*Generally, the ministry agrees with the recommendations in the audit. It is important for government to require rather than recommend compliance with government policy and include a stronger monitoring function when public funds are being expended.*

*The audit's findings are clear that a new process of funding and payments is warranted for the Vancouver Coastal planning committee.*

*Effective immediately, the ministry will take the following further steps to ensure financial controls and accountabilities are in place:*

- 1. The ministry has removed the expenditure authority of the Vancouver Coastal committee and will not provide further funding. Further, the ministry no longer recognizes the current committee members in their role as a planning committee. This has the effect that the planning committee can no longer extend existing contracts or enter into new contracts.*
- 2. The ministry has indicated the same to the host agency, Tsleil Waututh Nation, and further indicated that the agency should recover funds owed by dbappleton or use unspent funds to cover any outstanding invoices. Where accounting errors have been identified such as GST claims, duplicate payments, overpayments and coding errors, it is the ministry's expectation that the host agency will ensure that the errors are properly corrected and where applicable, funds will be recovered.*
- 3. As such, the ministry has taken all available steps to ensure that there is no continuation of the role of dbappleton in regional and provincial Aboriginal planning processes.*
- 4. Once the second phase of the audit is completed, the ministry will arrange for alternative funding and payment processes in partnership with each planning committee. These processes, and associated mechanisms, must ensure that sound financial controls and accountabilities are in place and applied to agreed planning deliverables within an allocated budget. A set administrative fee for these services will apply, where applicable.*
- 5. The ministry re-affirms that grants, as a means to fund planning committees, have been discontinued. They are not appropriate when funding commitments are established in relation to specific deliverables.*

**Appendix 1b Context Statement provided by the Vancouver Coastal Committee**

In the fall of 2002, the Ministry of Children and Family Development (MCFD) introduced Bill 65 to enable a new, community-based model for the delivery of child and family and community living services in British Columbia.

In June 2002, the Aboriginal community supported the Government’s initiative through the historic *Tsawwassen Accord*, which supports the establishment of regional Aboriginal authorities to parallel the non-Aboriginal authorities. On September 12, 2002, the Memorandum of Understanding (MoU) was signed with the government of BC. The purpose of the MoU was to establish a joint dialogue and decision making process regarding the general and systemic issues relating to the safety and well-being of Aboriginal children and families.

The committee accepted the original objective given by MCFD to create an Interim Regional Aboriginal Authority by early 2004. However, over the course of the past 12 months, MCFD changed the process for the regional planning committees on several occasions:

Process #1 <i>April 2003</i>	Establish 5 Aboriginal and 5 non-Aboriginal Interim authorities
	July 2003, MCFD announces a review of the regionalization process lead by Doug Allan (Sage Report)
Process #2 <i>August 2003</i>	Draft review (Sage Report) recommends that the province establish 1 Provincial Blended (Aboriginal and non-Aboriginal) Interim Authority
Process #3 <i>October 2003</i>	Establish 2 Provincial Interim Authorities (1 Aboriginal and 1 non-Aboriginal)
Process #4 <i>January and February 2004</i>	Establish 5 Regional Aboriginal Interim Authorities (MCFD disbanded the non-Aboriginal Authorities and restructured the Community Living BC Board)  Minister Resigns and MCFD placed under financial scrutiny of Treasury Board.
	( <b>IAAS note:</b> regarding financial scrutiny, the ministry has indicated that this was not the case.)

(**IAAS note:** we were advised that the ministry has differing records on selected process steps noted above).

During this period, the committee attended extensive MCFD meetings, conducted community consultations, established communications systems, developed the capacity of the committee itself and generated a series of plans in anticipation of the ministry clearing the way for the process to continue. However, the committee was not able to establish or implement long-range goals because the ministry was not able to commit to one clear and consistent process.

To assist with the rapid changes in government direction, the committee transferred management responsibility to one Committee Chair. The intent of this transfer of responsibility was to expedite and improve direction to contractors and improve communication between the government and the committee.

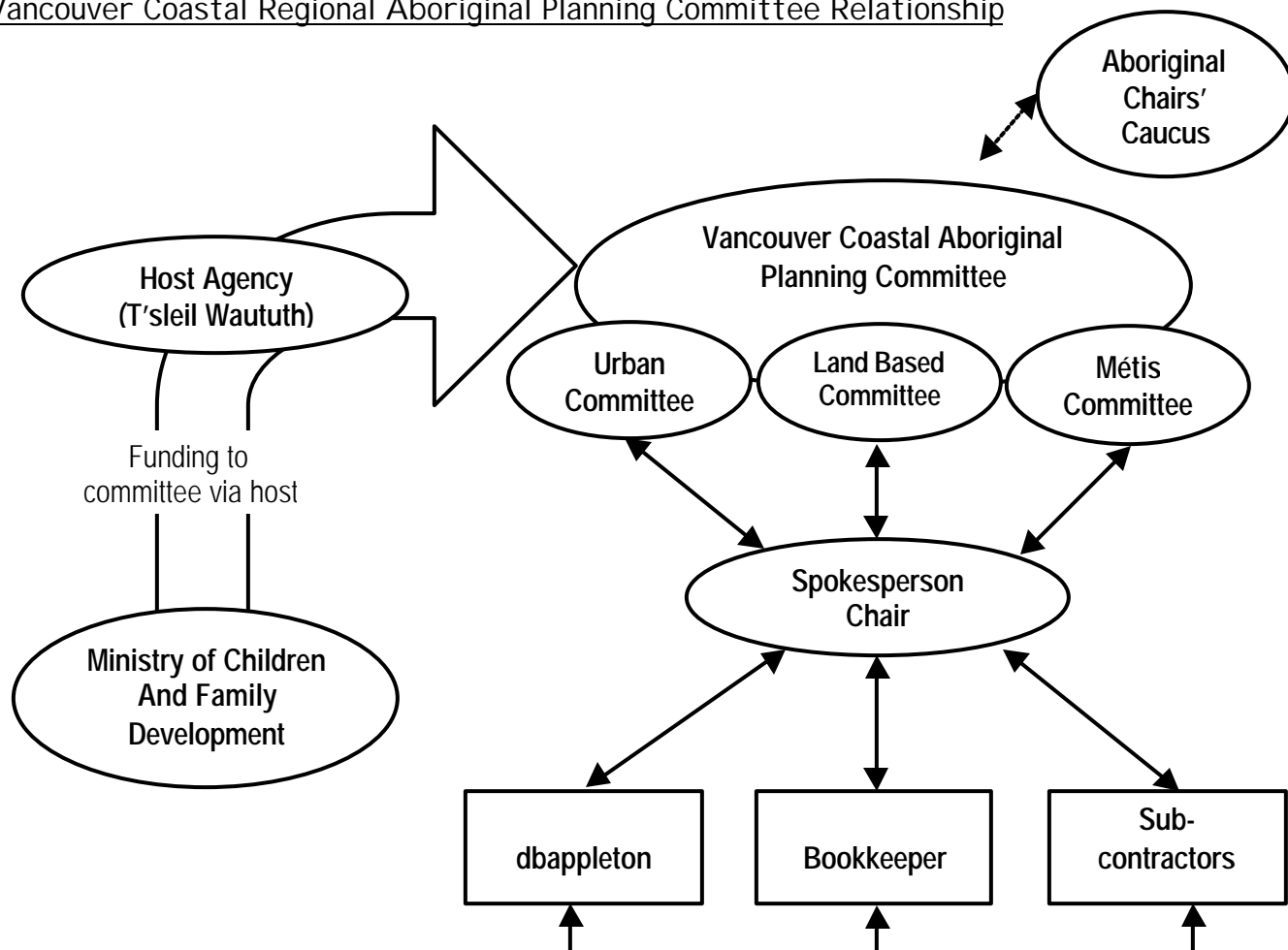
In the fall of 2003, significant conflict formed among the committee over committee stipend payments, fragmented authority and lack of communication which resulted in the committee being fragmented and unable to resolve the conflicts between the Urban Committee and the First Nations Committee and the Métis Chair. The conflict became so paralyzing a mediator was sought to assist the Committee in resolving the various disputes. However, the mediator withdrew from the process which left an impossible environment within which the committee and various contractors were attempting to work.

On January 14, 2004, the main sub-contractor to the committee (dbappleton) contacted an Assistant Deputy Minister of MCFD and asked for the ministry's intervention as the project was becoming unmanageable.

**(IAAS note:** the ministry advised that the nature of the discussion was related to specific financial issues only).

On January 15, 2004 MCFD announced an audit of the planning committee and began the audit fieldwork process in mid-February 2004. Both the committee and dbappleton wrote letters to the Deputy Minister on January 16, 2004 confirming their full participation in the audit process.

## Vancouver Coastal Regional Aboriginal Planning Committee Relationship



The Aboriginal Chairs' Caucus (ACC) consists of the Chairs from each of the 5 Regional Aboriginal Planning Committees and was created in Fall 2002 to:

- provide a forum for discussion of issues of common interest to each of the regions;
- use available resources effectively by reducing duplication of effort among the regions; and
- act as a decision-making body regarding inter-regional resource allocation.

The committee was not the contract manager for the separate ACC contract with dbappleton as dbappleton reported to the ACC on matters relating to the ACC.

In spite of the rapidly changing processes and the internal conflict within the planning committee, Vancouver Coastal in conjunction with the other regions, produced The Aboriginal Road Map to Readiness after the release of KPMG's Readiness Criteria for MCFD. The committee felt that the two processes outlined in the documents were very different as MCFD were transferring services, while the Aboriginal Community was building the infrastructure to support the services from the ground – up. The Aboriginal community also had to address complex issues regarding Provincial and Federal jurisdictions, funding, human resource transfers of MCFD staff, and labour union matters that had to be resolved.

Vancouver Coastal planning committee also produced its own response to the Sage report, presented it the ACC and the Joint Chairs' Caucus (JCC), and that was used as the foundation document for the joint response to the Sage report submitted to MCFD by the ACC and JCC.

At the regional level, the committee produced a comprehensive Service Delivery Plan that was also distributed to both the Aboriginal and Non-Aboriginal committees to use for their planning.

The Vancouver Coastal Committee also worked with the region on a fair funding formula, restructuring the current MCFD RFP process. The committee also proposed co-management of existing contracts and the distribution of re-investment funds which MCFD subsequently invested in the Victoria Foundation.