



# MEMORANDUM

To: Stuart Newton  
Comptroller General  
Ministry of Finance

April 27, 2012  
File No.: 010108

From: Dan Peck  
Director, Investigation and Forensic  
Office of the Comptroller General  
Ministry of Finance

Subject: Travel and Accommodation Investigation - s.22

## Introduction

In August 2011, the Corporate Compliance and Controls Monitoring Branch (3CMB), Office of the Comptroller General (OCG) informed the Investigation and Forensic Unit, OCG of concerns they had regarding certain travel and accommodation expenses claimed by s.22

s.22

Specifically, 3CMB advised us that they had made several attempts to obtain supporting documentation from the ministry but were unsuccessful, and required our assistance to resolve this matter.

Subsequent to 3CMB's requests for information from the ministry, and prior to seeking our assistance. s.22

s.22

Despite s.22 we determined it was necessary to investigate 3CMB's concerns and report our findings to the Comptroller General.

## Background

s.22 began s.22 career with the provincial government in s.22 with the Ministry s.22  
accepted s.22 assignment, s.22 In s.22 to work for s.22 based out of s.22

The agreement between s.22 and s.22 indicated that s.22 would pay for any of s.22 business travel related to their ministry. In s.22 the agreement between the ministries was extended and revised, s.22 s.22

s.22

s.22

Our preliminary review of the documentation provided by 3CMB (CAS extractions) indicated that this employee had claimed a significant amount of travel and accommodation reimbursements since s.22 (\$226,000). However, 3CMB's concerns involved transactions for the period s.22 (\$165,000).

Between s.22 claimed the following amounts: \$70,200 for an apartment rental in Vancouver; \$23,200 for 17 international trips; \$7,100 for 9 out-of-province trips; and \$64,500 for in-province travel.

### Purpose/Scope

We performed those procedures determined necessary, to confirm or dispel 3CMB's concerns involving s.22 travel and accommodation reimbursements for the period s.22

### Scope Limitation

Despite our attempts to obtain supporting documentation for all of s.22 travel and apartment rental reimbursements, we were unsuccessful. Specifically, s.22 and s.22 were unable to provide supporting documentation to the Investigation and Forensic Unit, as described below:

- Receipts for 118 out of 157 iExpense claims could not be located, and thus were excluded from our examination. This represents \$118,000 of the total \$164,500 in claims, or 72%, broken down as follows:
  - \$69,700 out of \$70,200 in apartment rental receipts, or 99%;
  - \$40,950 out of \$64,500 for in-province travel, or 63%;
  - \$6,300 out of \$23,200 for international travel, or 27%; and
  - \$1,050 out of \$7,100 for out of province travel, or 15%.
- The temporary assignment agreement between s.22 and s.22 to share s.22 services, s.22 could not be located. Further, out of the three subsequent extensions, only two could be located. These two covered the period s.22 The final extension, s.22 could not be located.

s.22

## Approach

We conducted the following steps:

- Examined the individual's travel claims and relevant supporting documents, where available (see scope limitation section below);
- Reviewed the individual's s.22 apartment lease agreement;
- Reviewed the temporary assignment agreement between s.22 and s.22 (and subsequent amendments) respecting the individual's services;
- Examined the individual's personnel file and relevant employment records;
- Interviewed senior officials in s.22 and s.22
- Consulted with OCG staff, including the Financial Management Branch (FMB) and 3CMB; and
- Interviewed the property manager respecting s.22 rental accommodation.

## Conclusion

We were unable to confirm or dispel 3CMB's concerns involving s.22 travel and accommodation reimbursements for the period s.22 due to a significant scope limitation. Specifically, we attempted to resolve this matter by requesting original supporting documentation, including receipts for all of s.22 iExpense reimbursements for the period noted above, but were unsuccessful.

We were only able to retrieve and examine 28% of s.22 expense claims, or \$46,500 out of \$164,500 in total reimbursement requests. Although we identified certain anomalies with these reimbursements, the majority were not significant. Further, we could not justify, from a cost perspective, performing additional follow-up work on the more significant items (e.g., hotel upgrades, personal versus business expenditures).

With respect to the remaining \$118,000 of unsupported expense claims, we conclude:

- s.22 was reimbursed \$70,200 for a s.22 apartment rental. The rental company has confirmed s.22 occupied the premises for the period under review. However, we have no evidence that this arrangement was approved, formally or informally, by the former Deputy Minister, s.22 as alleged by both ministries s.22 Although we are aware that such arrangements are permissible, they require DM approval, supported by a business case. We could not find any business case.

The apartment rental commenced in s.22 when s.22 accepted a s.22 assignment to work s.22 with s.22 based out of s.22. The arrangement continued until s.22 despite the fact s.22 accepted a s.22 position as s.22 on s.22 based out of s.22. We received contradictory explanations regarding the approval and business justification for the apartment rental from s.22 and s.22.

Although we are unable to assign accountability for the apartment rental agreement to either ministry, we have evidence that s.22 travel and accommodation claims, which included s.22 apartment rental, were initially approved by s.22 senior management until s.22 s.22 approved s.22 subsequent reimbursement requests without revisiting, or otherwise approving, the apartment arrangement when s.22 began s.22 position.

- s.22 was reimbursed \$23,200 for 17 international business trips but we were unable to determine whether seven of s.22 trips had received DM approval, or examine any documentation supporting the expenditures on these trips because the records could not be located.
- s.22 was reimbursed \$7,100 for nine out-of-province business trips. We were able to examine supporting documents representing eight of s.22 trips totalling \$6,050. As we did not identify any unusual expenditures respecting the eight trips subjected to our examination, we believe the risk is minimal regarding the remaining \$1,050 in travel costs.
- s.22 was reimbursed \$64,500 for approximately 100 trips between Victoria and Vancouver for the period under review. We were unable to verify approximately \$41,000, or 63%, of s.22 in-province travel expenditures because supporting documentation was not available for review. Even if we had been able to obtain supporting receipts, it would have been very difficult to assess their validity due to an inability to confirm s.22 'travel status,' as s.22 base position changed on a few occasions throughout the review period.

Although we were unable to confirm or dispel 3CMB's concerns, the investigation identified significant control deficiencies that should be addressed, as follows:

- Ministries should ensure they document the rationale and business justification, including cost benefit analyses, whenever they identify the necessity to enter into any special accommodation requests;
- Ministry expense authorities should only approve travel claims when they have obtained and reviewed the necessary supporting documentation, including those cases where special accommodation requests have been granted; and

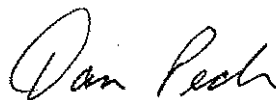
- Ministries should ensure they retain supporting documentation for employee travel claims to ensure they are available for review, as required.

### Ministry Response

The ministry has indicated its agreement with the report's findings and recommendations.

Further, the ministry acknowledges the control deficiencies will be appropriately addressed.

If you require additional information or clarification on any areas in this report, please contact me at (250) 387-8542 or Jim Bulmer at (250) 387-5105.



Dan Peck  
Director, Investigation and Forensic  
Office of the Comptroller General

pc: Tara Faganello  
ADM, Management Services Branch  
Ministry of Justice

David Hoadley  
ED and CFO, Finance and Administration Division  
Ministry of Justice

## MEMORANDUM

To: Stuart Newton  
Comptroller General  
Ministry of Finance

June 7, 2012  
File No.: 112112

From: Dan Peck  
Director, Investigation & Forensic Unit  
Office of the Comptroller General  
Ministry of Finance

Subject: Asset Loss – Ministry of Labour, Citizens' Services and Open Government –  
Closure of File

### Introduction

s.15 The Ministry of Labour, Citizens' Services and Open Government (the ministry) advised the Investigation Unit (IU), Office of the Comptroller General (OCG) of an incident that occurred s.15 involving a loss s.15 s.15

The ministry advised the IU that s.15 that had been shipped by the ministry to s.15 requiring that the ministry ship a replacement s.15

The IU requested that the ministry's Financial and Administrative Services Branch investigate the suspected loss and report the results to the OCG as part of our monitoring role within the OCG.

### Background

s.15 the ministry shipped a s.15 from Victoria to s.15 s.15 for installation at s.15 s.15 s.15 acknowledged receipt of the s.15 but later reported it missing and requested a replacement s.15 A replacement s.15 was shipped to s.15 s.15

s.15 as requested by the IU, the ministry followed up on the missing s.15 and promptly determined that s.15 had located the s.15 s.15 The ministry confirmed the serial number of the original s.15 that had been installed at s.15 and subsequently confirmed the serial number of the replacement s.15 that had been returned to the ministry warehouse in Victoria.

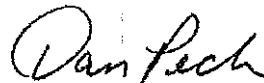
## Conclusion

The ministry took immediate action to report and follow up on the suspected loss of a s.15 by performing the necessary investigative procedures, including interviews of relevant staff, examination of documentation and inspection of assets.

Shortly after the ministry began its investigation, led by their Ministry Security Officer, the missing s.15 was located and the replacement s.15 was subsequently returned to Victoria.

s.15 we believe that the ministry's actions to investigate this incident were instrumental in locating the original s.15 and return of the replacement.

If you require additional information or clarification on any areas in this report, please contact me at (250) 387-8542 or Jim Bulmer at (250) 387-5105.



Dan Peck  
Director, Investigation & Forensic Unit  
Office of the Comptroller General  
Ministry of Finance

pc: Teri Lavine  
Chief Financial Officer & Executive Director  
Financial and Administrative Services Branch  
Ministry of Citizens' Services and Open Government

Laurie Gowans  
Director, Facilities Management  
Financial and Administrative Services Branch  
Ministry of Citizens' Services and Open Government



## MEMORANDUM

To: Stuart Newton  
Comptroller General  
Ministry of Finance

June 14, 2012  
File No.: 050138

From: Dan Peck  
Director, Investigation & Forensic  
Office of the Comptroller General  
Ministry of Finance

Subject: Purchase Card Misuse – Closure of File

### Introduction

On January 6, 2012, the Ministry of Forests, Lands and Natural Resource Operations informed the Investigation and Forensic Unit (IU), Office of the Comptroller General of an incident involving the unauthorized use of a government purchasing card totalling \$3,600 that occurred on December 11, 2011.

The IU reviewed the ministry's handling of this incident in accordance with its monitoring role delegated by the Comptroller General.

### Background

On January 5, 2012, an employee with the Ministry of Forests, Lands and Natural Resource Operations reviewed s.22 December 2011 Purchase Card statement and identified two charges for international airline tickets, totalling \$3,624.18 that s.22 alleged were unauthorized.

The employee immediately reported the incident to s.22 supervisor, as well as the Bank of Montreal (BMO). The IU contacted BMO and was advised that the purchase card was cancelled immediately following notification by the employee.

BMO advised the ministry that the two airline tickets (return tickets) were purchased on-line through KLM.com for travel on December 31, 2011 departing from Vancouver, BC and arriving in Accra, Ghana. BMO also advised the ministry that the employee was named on one of the tickets and that an individual named s.22 was named on the other ticket.

The employee, who was on vacation at the time, advised s.22 supervisor that s.22 did not use the card while s.22 was on vacation during December 2011 and January 2012. The employee also advised s.22 supervisor that s.22 did not take a flight to Ghana during s.22 vacation and s.22 did not know an individual named s.22

BMO subsequently reversed all of the charges after the employee signed an affidavit declaring the charges were unauthorized, that the card had remained in s.22 possession at all times, and that s.22 had not authorized anyone to use the card.



## Approach

We performed the following steps:

- discussed the incident with the employee's immediate supervisor;
- discussed the incident with BMO;
- made enquiries of 3CMB staff to determine whether this employee had been identified as part of their continuous monitoring program;
- reviewed the employee's monthly purchase card statements for the period April 2009 to May 2012;
- reviewed the employee's monthly travel card statements for the period March 2009 to May 2012; and
- reviewed other relevant documentation, as determined necessary.

## Conclusion

Although the ministry reported this incident in a timely manner, and the airline charges of \$3,624.18 were reversed by BMO, we have insufficient evidence to assess whether the purchase card was compromised by a third party or whether the purchase card holder was involved in the unauthorized transactions.

Nonetheless, we have determined that it would be impractical, from a cost benefit perspective, to perform additional steps at this time.

## Status

We discussed our findings with the ministry, including the rationale for our conclusion, and provided advice to strengthen their oversight in this area.

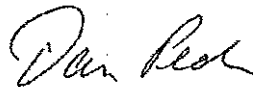
We also advised the ministry that suspicious incidents must be reported in accordance with government's core policy, which includes submission of a General Incident and Loss Report (GILR),

s.15

s.15

Further, we have advised the ministry that incidents of this nature should be investigated by appropriate supervisory staff.

If you require additional information or clarification on any areas in this report, please contact me at (250) 387-8542 or Jim Bulmer at (250) 387-5105.



Dan Peck  
Director, Investigation & Forensic Unit  
Office of the Comptroller General  
Ministry of Finance

---

## Report on Agriculture Risk Management System Risk and Controls Review

### Ministry of Agriculture

#### Distribution

##### Full Report

Assistant Deputy Minister & EFO, FLNR  
Corporate Services Natural Resource Sector **Shauna Brouwer**

Chief Financial Officer, FLNR  
Financial Services Branch **Michael Lord**

Executive Director & CIO, FLNR  
Information Management Branch **Doug Say**

Manager, Business and Finance, AGRI  
Business Risk Management Branch **Carol DeLong**

Sr. Business Portfolio Manager, FLNR  
Information Management Branch **Pauline Loos**

*This is an unofficial copy of a draft/final report of the Internal Audit & Advisory Services (IAAS) Branch, prepared in PDF format for distribution to certain authorized officials. If you are in receipt of this report, the following conditions apply:*

- 1. If you have received this report in error, delete this report and any accompanying note or material from your system, destroy any copies made of them and immediately notify IAAS using the contact information at [http://www.fin.gov.bc.ca/ocg/fas/IAAS Contacts.htm](http://www.fin.gov.bc.ca/ocg/fas/IAAS%20Contacts.htm).*
- 2. Do not distribute this report or any of its contents in whole or in part (electronically or otherwise) other than to officials in your organization with a need to know unless you are required by law to do so or you have received the written approval of IAAS. Any distribution of this report or any part of it must include this disclaimer.*
- 3. Do not modify this report in any way. Modifications may only be made by authorized staff of IAAS.*
- 4. IAAS does not warrant the accuracy or the completeness of this report. To request an official copy of this report, contact IAAS using the contact information described above.*

---

### Internal Audit & Advisory Services

Date of fieldwork completion: November 2011



# Table of Contents

## Section

Page No.

Abbreviations .....	1
Report Summary .....	2
Risk and Controls Review .....	3
Appendix A – Scope and Objectives & Summary of Residual Risks.....	6
Appendix B – Detailed Risk and Control Matrices .....	8
Appendix C – Risk Ranking Tables .....	37
Appendix D – Ministry Management’s Detailed Action Plan .....	38



## Abbreviations

AAFC	Agriculture and Agri-Food Canada
ACS	Administrative Cost Sharing
ARMS	Agriculture Risk Management System
BCP	Business Continuity Plan
BC FARMS/ FARMS	Farmer Access to Risk Management System
BRM Branch	Business Risk Management Branch
CAS	Corporate Accounting System
CSD	Corporate Service Division
CSNR	Corporate Services Natural Resources
DRP	Disaster Recovery Plan
IAAS	Internal Audit & Advisory Services
IDIR	Corporate Employee Authentication System
IMB	Information Management Branch
IT	Information Technology
PIA	Privacy Impact Assessment
PIN	Personal Identification Number
STRA	Security Threat and Risk Assessment
the ministry	Ministry of Agriculture
TRIM	Total Records and Information Management
UAT	User Acceptance Testing

## Report Summary

### Background

AgriStability is a farm income risk management program designed to protect farming operations from significant (greater than 15%) drops in production margins from an average of the previous five year, excluding the highest and lowest years.

In October 2008, the BC Ministry of Agriculture and Lands and the federal government's Agriculture and Agri-Food Canada (AAFC) agreed that BC should exercise its option to take over the delivery of the AgriStability program in response to ongoing and increasing producer concerns with AAFC's delivery of the program.

The Ministry of Agriculture (the ministry) took over administration of the program starting in the 2010 program year. The ministry is processing benefits and appeals for the 2009 program year, processing 2010 benefits, and receiving 2011 enrolments. The AgriStability program collects enrolment fees and Administrative Cost Sharing (ACS) fees from participating growers each year. The enrolment fees are calculated for each participant, and are then stored in an account dedicated to that participant. The ACS fees are collected as revenue by the ministry. The ministry provides regular reports to the AAFC regarding the administration of the program.

To create a centralized repository of AgriStability participant information, the Business Risk Management (BRM) Branch of the ministry initiated the development of the Agriculture Risk Management System (ARMS). The system will track the progress of enrolments, verifications, fee collections, claims processing, and appeals. The system will use the Microsoft Dynamics suite of products, which includes customer relationship and accounting modules.

In accordance with the Chapter 13 of the Core Policy Manual, the ministry requested a risk and controls review for the implementation of the ARMS system.



## **Risk and Controls Review**

### **Purpose**

The purpose of this assignment was to:

- document the ARMS business processes and the associated risks and controls to assess whether there are any potential gaps in the control framework; and
- recommend procedures to address any significant gaps identified in the control framework.

### **Scope**

The scope of the review included an assessment of the ARMS processes, system functions, and application security to determine whether the designed controls provide reasonable assurance of the integrity and reliability of the application. (See Appendix A for the detailed review scope and objectives).

The scope did not include a review of the web-based BC Farmer Access to Risk Management System (FARMS) application, the data integrity of source systems, or the network infrastructure (e.g., servers and network security devices) used to support the ARMS.

### **Approach**

Internal Audit & Advisory Services performed the review over the period September 2011 to November 2011.

Our approach included applying a risk assessment methodology in developing control objectives for the ARMS application, identifying risks to the achievement of those objectives, assessing the risks in the absence of controls, reviewing the planned controls to mitigate the risks, and assessing the residual risk assuming that the documented controls are operating as designed and/or will be implemented as intended. We then made some recommendations based on the residual risk assessment.

The approach was consistent with the guidance from the Canadian Institute of Chartered Accountants – Information Technology Control Guidelines, and from the Information Systems Audit and Control Association – Control Objectives for Information and Related Technology.

During the course of the review, the ministry was provided periodic updates of the review progress and results.

## Conclusions

We conclude, for the scope areas reviewed and subject to the implementation of the recommendations contained in this report along with the planned controls documented in the risk and controls matrix, that the ARMS processes and controls adequately mitigate the associated business risks.

s.15

The full set of recommendations resulting from the review work is as follows (see Appendix A for a summary of residual risks):

- The Business Risk Management Branch (BRM Branch) should ensure that the Security Threat and Risk Assessment (STRA) and Privacy Impact Assessment (PIA) for the ARMS are completed, approved, and signed-off by senior management before the system is implemented.

- 

s.15

- 

s.15

- 

s.15

- The BRM Branch should ensure that its Business Continuity Plan (BCP) as well as the ministry's Disaster Recovery Plan (DRP) are updated to cover the ARMS system and related processes. In addition, the BRM Branch should ensure the BCP is reviewed annually to ensure it is current, valid, and readily accessible during a business interruption.

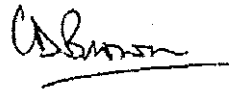
- The ministry should ensure that restoration tests of the ARMS backups are periodically performed to verify media reliability and information integrity.
- The current change management process should be reviewed to ensure that system changes are assessed by the appropriate business representative(s) to avoid compromising operational processes and security controls.
- 

s.15

- The Agristability payment automated procedures should be documented as part of the policies and procedures manual.
- Although cheques are not issued by the BRM Branch, the lost cheque procedures carried out by the branch should be documented as part of its policies and procedures manual.

Further details on the risk assessment are included in Appendix B.

We would like to thank the ARMS project team for their assistance and involvement throughout the review.



Chris D. Brown, CA  
Assistant Deputy Minister  
Internal Audit & Advisory Services  
Ministry of Finance

April 27, 2012

## Appendix A – Scope and Objectives & Summary of Residual Risks

The table below provides the review's scope and objectives and a summary of the overall residual risk for each scope component. The residual risk column is a roll-up of the detailed assessment in Appendix B. The residual risk is the auditor's assessment of the risk remaining after the implementation of controls (planned or existing) to mitigate the inherent risk.

Based on this assessment and subject to implementation of the recommendations, we conclude that the ARMS processes and controls adequately mitigate the associated business risks.

Scope Area	Objective	Residual Risk (Rollup of Appendix B)
<b>Operating Environment</b> - to determine whether the controls over the ARMS and related processes meet government and ministry standards.		
1. Organization	To ensure that defined functions, related resources, and segregation of duties are established.	s.15
2. Policies and Procedures	To ensure that senior management has established the policy framework for the ARMS and related operating processes.	
3. Logical Security	To ensure that logical security procedures are established that ensure only authorized users and information technology (IT) support staff can access the ARMS system functions in accordance with their roles.	
4. Continuous Services	To ensure that backup and recovery procedures, a disaster recovery procedures (DRP), and a BCP are in place for ARMS and are periodically tested and updated.	
5. Change Management Process	To ensure that formal change management procedures are in place for application maintenance and that changes do not jeopardize the security and integrity of the data.	
6. Data Integrity	To ensure that people specific information as well as organizational information is completely and accurately recorded.	
7. Participant Management	To ensure that all Agristability participants are properly and accurately registered, tracked, and managed.	
8. Payment Management	To ensure that all payments, fees, and reimbursements are properly tracked, issued, and processed.	

Scope Area	Objective	Residual Risk (Rollup of Appendix B)
9. Data Conversion	To ensure that the conversion of data from existing systems to the new system (ARMS) is complete and accurate.	s.15
10. Queries and Reports	To ensure that all queries and reports are complete and accurate and provide useful information.	
11. Letters and Correspondence	To ensure that correspondence is generated accurately and completely in a timely manner.	
12. Reconciliation Processes to the Corporate Accounting System (CAS)	To ensure that the reconciliations of payments to CAS are completely and accurately performed and exceptions are cleared in a timely manner.	
13. Interface to CAS and Other Systems	To ensure that information captured from and transmitted to CAS and other source systems is recorded and processed completely and accurately in a timely manner.	
14. Management Trail	To ensure that there is an appropriate audit trail to allow those who support the system to effectively track transactions and identify suspicious activity.	

## Appendix B – Detailed Risk and Control Matrices

s.15

**Control Objective** represents a standard and comes from standard control practices, knowledge of the program and internal control theory. **L** is the likelihood of the risk occurring (RMB rating scale 1-5). **C** is the consequence (or impact) should the risk event actually occur (RMB ranking score 1-5). **LXC** is the potential risk before controls implemented. **Controls/Planned Controls** are what will actually be implemented. **Res** is the residual risk after the control is implemented (**L**, **M**, **H**). **Assessment/Recommendation** is the IAAS assessment of the control.

8 • *Report on Agriculture Risk Management System Risk and Controls Review*

s.15

**Control Objective** represents a standard and comes from standard control practices, knowledge of the program and internal control theory. **L** is the likelihood of the risk occurring (RMB rating scale 1-5). **C** is the consequence (or impact) should the risk event actually occur (RMB ranking score 1-5). **LXC** is the potential risk before controls implemented. **Controls/Planned Controls** are what will actually be implemented. **Res** is the residual risk after the control is implemented (**L**, **M**, **H**). **Assessment/Recommendation** is the IAAS assessment of the control.

*Report on Agriculture Risk Management System Risk and Controls Review • 9*



s.15

**Control Objective** represents a standard and comes from standard control practices, knowledge of the program and internal control theory. **L** is the likelihood of the risk occurring (RMB rating scale 1-5). **C** is the consequence (or impact) should the risk event actually occur (RMB ranking score 1-5). **LXC** is the potential risk before controls implemented. **Controls/Planned Controls** are what will actually be implemented. **Res** is the residual risk after the control is implemented (**L**, **M**, **H**). **Assessment/Recommendation** is the IAAS assessment of the control.

10 • Report on Agriculture Risk Management System Risk and Controls Review

**Control Objective** represents a standard and comes from standard control practices, knowledge of the program and internal control theory. **L** is the likelihood of the risk occurring (RMB rating scale 1-5). **C** is the consequence (or impact) should the risk event actually occur (RMB ranking score 1-5). **LXC** is the potential risk before controls implemented. **Controls/Planned Controls** are what will actually be implemented. **Res** is the residual risk after the control is implemented (**L**, **M**, **H**). **Assessment/Recommendation** is the IAAS assessment of the control.

*Report on Agriculture Risk Management System Risk and Controls Review • 11*

**Control Objective** represents a standard and comes from standard control practices, knowledge of the program and internal control theory. **L** is the likelihood of the risk occurring (RMB rating scale 1-5). **C** is the consequence (or impact) should the risk event actually occur (RMB ranking score 1-5). **LXC** is the potential risk before controls implemented. **Controls/Planned Controls** are what will actually be implemented. **Res** is the residual risk after the control is implemented (**L, M, H**). **Assessment/Recommendation** is the IAAS assessment of the control.

12 • Report on Agriculture Risk Management System Risk and Controls Review

s.15

**Control Objective** represents a standard and comes from standard control practices, knowledge of the program and internal control theory. **L** is the likelihood of the risk occurring (RMB rating scale 1-5). **C** is the consequence (or impact) should the risk event actually occur (RMB ranking score 1-5). **LXC** is the potential risk before controls implemented. **Controls/Planned Controls** are what will actually be implemented. **Res** is the residual risk after the control is implemented (**L**, **M**, **H**). **Assessment/Recommendation** is the IAAS assessment of the control.

*Report on Agriculture Risk Management System Risk and Controls Review • 13*

**Control Objective** represents a standard and comes from standard control practices, knowledge of the program and internal control theory. **L** is the likelihood of the risk occurring (RMB rating scale 1-5). **C** is the consequence (or impact) should the risk event actually occur (RMB ranking score 1-5). **LXC** is the potential risk before controls implemented. **Controls/Planned Controls** are what will actually be implemented. **Res** is the residual risk after the control is implemented (**L, M, H**). **Assessment/Recommendation** is the IAAS assessment of the control.

**14 • Report on Agriculture Risk Management System Risk and Controls Review**

s.15

rating scale 1-5). **C** is the consequence (or impact) should the risk event actually occur (RMB ranking score 1-5). **LXC** is the potential risk before controls implemented. **Controls/Planned Controls** are what will actually be implemented. **Res** is the residual risk after the control is implemented (**L**, **M**, **H**). **Assessment/Recommendation** is the IAAS assessment of the control.

*Report on Agriculture Risk Management System Risk and Controls Review • 15*

s.15

**Control Objective** represents a standard and comes from standard control practices, knowledge of the program and internal control theory. **L** is the likelihood of the risk occurring (RMB rating scale 1-5). **C** is the consequence (or impact) should the risk event actually occur (RMB ranking score 1-5). **LXC** is the potential risk before controls implemented. **Controls/Planned Controls** are what will actually be implemented. **Res** is the residual risk after the control is implemented (**L**, **M**, **H**). **Assessment/Recommendation** is the IAAS assessment of the control.

16 • Report on Agriculture Risk Management System Risk and Controls Review



s.15

**Control Objective** represents a standard and comes from standard control practices, knowledge of the program and internal control theory. **L** is the likelihood of the risk occurring (RMB rating scale 1-5). **C** is the consequence (or impact) should the risk event actually occur (RMB ranking score 1-5). **LXC** is the potential risk before controls implemented. **Controls/Planned Controls** are what will actually be implemented. **Res** is the residual risk after the control is implemented (**L, M, H**). **Assessment/Recommendation** is the IAAS assessment of the control.

*Report on Agriculture Risk Management System Risk and Controls Review • 17*

s.15

**Control Objective** represents a standard and comes from standard control practices, knowledge of the program and internal control theory. **L** is the likelihood of the risk occurring (RMB rating scale 1-5). **C** is the consequence (or impact) should the risk event actually occur (RMB ranking score 1-5). **LXC** is the potential risk before controls implemented. **Controls/Planned Controls** are what will actually be implemented. **Res** is the residual risk after the control is implemented (**L**, **M**, **H**). **Assessment/Recommendation** is the IAAS assessment of the control.

18 • Report on Agriculture Risk Management System Risk and Controls Review

s.15

**Control Objective** represents a standard and comes from standard control practices, knowledge of the program and internal control theory. **L** is the likelihood of the risk occurring (RMB rating scale 1-5). **C** is the consequence (or impact) should the risk event actually occur (RMB ranking score 1-5). **LXC** is the potential risk before controls implemented. **Controls/Planned Controls** are what will actually be implemented. **Res** is the residual risk after the control is implemented (**L**, **M**, **H**). **Assessment/Recommendation** is the IAAS assessment of the control.

*Report on Agriculture Risk Management System Risk and Controls Review • 19*

s.15

**Control Objective** represents a standard and comes from standard control practices, knowledge of the program and internal control theory. **L** is the likelihood of the risk occurring (RMB rating scale 1-5). **C** is the consequence (or impact) should the risk event actually occur (RMB ranking score 1-5). **LXC** is the potential risk before controls implemented. **Controls/Planned Controls** are what will actually be implemented. **Res** is the residual risk after the control is implemented (**L, M, H**). **Assessment/Recommendation** is the IAAS assessment of the control.

20 • Report on Agriculture Risk Management System Risk and Controls Review

s.15

**Control Objective** represents a standard and comes from standard control practices, knowledge of the program and internal control theory. **L** is the likelihood of the risk occurring (RMB rating scale 1-5). **C** is the consequence (or impact) should the risk event actually occur (RMB ranking score 1-5). **LXC** is the potential risk before controls implemented. **Controls/Planned Controls** are what will actually be implemented. **Res** is the residual risk after the control is implemented (**L, M, H**). **Assessment/Recommendation** is the IAAS assessment of the control.

*Report on Agriculture Risk Management System Risk and Controls Review • 21*

**Control Objective** represents a standard and comes from standard control practices, knowledge of the program and internal control theory. **L** is the likelihood of the risk occurring (RMB rating scale 1-5). **C** is the consequence (or impact) should the risk event actually occur (RMB ranking score 1-5). **LXC** is the potential risk before controls implemented. **Controls/Planned Controls** are what will actually be implemented. **Res** is the residual risk after the control is implemented (**L**, **M**, **H**). **Assessment/Recommendation** is the IAAS assessment of the control.

22 • Report on Agriculture Risk Management System Risk and Controls Review

s.15

**Control Objective** represents a standard and comes from standard control practices, knowledge of the program and internal control theory. **L** is the likelihood of the risk occurring (RMB rating scale 1-5). **C** is the consequence (or impact) should the risk event actually occur (RMB ranking score 1-5). **LXC** is the potential risk before controls implemented. **Controls/Planned Controls** are what will actually be implemented. **Res** is the residual risk after the control is implemented (**L**, **M**, **H**). **Assessment/Recommendation** is the IAAS assessment of the control.

*Report on Agriculture Risk Management System Risk and Controls Review • 23*

s.15

**Control Objective** represents a standard and comes from standard control practices, knowledge of the program and internal control theory. **L** is the likelihood of the risk occurring (RMB rating scale 1-5). **C** is the consequence (or impact) should the risk event actually occur (RMB ranking score 1-5). **LXC** is the potential risk before controls implemented. **Controls/Planned Controls** are what will actually be implemented. **Res** is the residual risk after the control is implemented (**L**, **M**, **H**). **Assessment/Recommendation** is the IAAS assessment of the control.

24 • Report on Agriculture Risk Management System Risk and Controls Review



s.15

**Control Objective** represents a standard and comes from standard control practices, knowledge of the program and internal control theory. **L** is the likelihood of the risk occurring (RMB rating scale 1-5). **C** is the consequence (or impact) should the risk event actually occur (RMB ranking score 1-5). **LXC** is the potential risk before controls implemented. **Controls/Planned Controls** are what will actually be implemented. **Res** is the residual risk after the control is implemented (**L, M, H**). **Assessment/Recommendation** is the IAAS assessment of the control.

*Report on Agriculture Risk Management System Risk and Controls Review • 25*

s.15

**Control Objective** represents a standard and comes from standard control practices, knowledge of the program and internal control theory. **L** is the likelihood of the risk occurring (RMB rating scale 1-5). **C** is the consequence (or impact) should the risk event actually occur (RMB ranking score 1-5). **LXC** is the potential risk before controls implemented. **Controls/Planned Controls** are what will actually be implemented. **Res** is the residual risk after the control is implemented (**L**, **M**, **H**). **Assessment/Recommendation** is the IAAS assessment of the control.

26 • Report on Agriculture Risk Management System Risk and Controls Review

**Control Objective** represents a standard and comes from standard control practices, knowledge of the program and internal control theory. **L** is the likelihood of the risk occurring (RMB rating scale 1-5). **C** is the consequence (or impact) should the risk event actually occur (RMB ranking score 1-5). **LXC** is the potential risk before controls implemented. **Controls/Planned Controls** are what will actually be implemented. **Res** is the residual risk after the control is implemented (**L, M, H**). **Assessment/Recommendation** is the IAAS assessment of the control.

*Report on Agriculture Risk Management System Risk and Controls Review • 27*

**Control Objective** represents a standard and comes from standard control practices, knowledge of the program and internal control theory. **L** is the likelihood of the risk occurring (RMB rating scale 1-5). **C** is the consequence (or impact) should the risk event actually occur (RMB ranking score 1-5). **LXC** is the potential risk before controls implemented. **Controls/Planned Controls** are what will actually be implemented. **Res** is the residual risk after the control is implemented (**L**, **M**, **H**). **Assessment/Recommendation** is the IAAS assessment of the control.

28 • Report on Agriculture Risk Management System Risk and Controls Review

**Control Objective** represents a standard and comes from standard control practices, knowledge of the program and internal control theory. **L** is the likelihood of the risk occurring (RMB rating scale 1-5). **C** is the consequence (or impact) should the risk event actually occur (RMB ranking score 1-5). **LXC** is the potential risk before controls implemented. **Controls/Planned Controls** are what will actually be implemented. **Res** is the residual risk after the control is implemented (**L, M, H**). **Assessment/Recommendation** is the IAAS assessment of the control.

*Report on Agriculture Risk Management System Risk and Controls Review • 29*

s.15

**Control Objective** represents a standard and comes from standard control practices, knowledge of the program and internal control theory. **L** is the likelihood of the risk occurring (RMB rating scale 1-5). **C** is the consequence (or impact) should the risk event actually occur (RMB ranking score 1-5). **LXC** is the potential risk before controls implemented. **Controls/Planned Controls** are what will actually be implemented. **Res** is the residual risk after the control is implemented (**L**, **M**, **H**). **Assessment/Recommendation** is the IAAS assessment of the control.

30 • Report on Agriculture Risk Management System Risk and Controls Review

s.15

**Control Objective** represents a standard and comes from standard control practices, knowledge of the program and internal control theory. **L** is the likelihood of the risk occurring (RMB rating scale 1-5). **C** is the consequence (or impact) should the risk event actually occur (RMB ranking score 1-5). **LXC** is the potential risk before controls implemented. **Controls/Planned Controls** are what will actually be implemented. **Res** is the residual risk after the control is implemented (**L**, **M**, **H**). **Assessment/Recommendation** is the IAAS assessment of the control.

*Report on Agriculture Risk Management System Risk and Controls Review • 31*

**Control Objective** represents a standard and comes from standard control practices, knowledge of the program and internal control theory. **L** is the likelihood of the risk occurring (RMB rating scale 1-5). **C** is the consequence (or impact) should the risk event actually occur (RMB ranking score 1-5). **LXC** is the potential risk before controls implemented. **Controls/Planned Controls** are what will actually be implemented. **Res** is the residual risk after the control is implemented (**L**, **M**, **H**). **Assessment/Recommendation** is the IAAS assessment of the control.

32 • *Report on Agriculture Risk Management System Risk and Controls Review*



s.15

**Control Objective** represents a standard and comes from standard control practices, knowledge of the program and internal control theory. **L** is the likelihood of the risk occurring (RMB rating scale 1-5). **C** is the consequence (or impact) should the risk event actually occur (RMB ranking score 1-5). **LXC** is the potential risk before controls implemented. **Controls/Planned Controls** are what will actually be implemented. **Res** is the residual risk after the control is implemented (**L, M, H**). **Assessment/Recommendation** is the IAAS assessment of the control.

*Report on Agriculture Risk Management System Risk and Controls Review • 33*

s.15

**Control Objective** represents a standard and comes from standard control practices, knowledge of the program and internal control theory. **L** is the likelihood of the risk occurring (RMB rating scale 1-5). **C** is the consequence (or impact) should the risk event actually occur (RMB ranking score 1-5). **LXC** is the potential risk before controls implemented. **Controls/Planned Controls** are what will actually be implemented. **Res** is the residual risk after the control is implemented (**L**, **M**, **H**). **Assessment/Recommendation** is the IAAS assessment of the control.

34 • Report on Agriculture Risk Management System Risk and Controls Review

**Control Objective** represents a standard and comes from standard control practices, knowledge of the program and internal control theory. **L** is the likelihood of the risk occurring (RMB rating scale 1-5). **C** is the consequence (or impact) should the risk event actually occur (RMB ranking score 1-5). **LXC** is the potential risk before controls implemented. **Controls/Planned Controls** are what will actually be implemented. **Res** is the residual risk after the control is implemented (**L, M, H**). **Assessment/Recommendation** is the IAAS assessment of the control.

*Report on Agriculture Risk Management System Risk and Controls Review • 35*

**Control Objective** represents a standard and comes from standard control practices, knowledge of the program and internal control theory. **L** is the likelihood of the risk occurring (RMB rating scale 1-5). **C** is the consequence (or impact) should the risk event actually occur (RMB ranking score 1-5). **LXC** is the potential risk before controls implemented. **Controls/Planned Controls** are what will actually be implemented. **Res** is the residual risk after the control is implemented (**L**, **M**, **H**). **Assessment/Recommendation** is the IAAS assessment of the control.

36 • Report on Agriculture Risk Management System Risk and Controls Review

## Appendix C – Risk Ranking Tables

**LIKELIHOOD (L) = Probability of the risk event actually occurring.**

Level	Descriptor	Approximate probabilities:
5	Certain	90 – 100%
4	Likely	55 – 89%
3	Possible	25 – 54%
2	Unlikely	5 – 24%
1	Improbable; Rare	0 – 4%

**CONSEQUENCE (C) = Degree of Severity of the Consequence.**

Score	Descriptor	
1	Insignificant	Negligible effects.
2	Minor	Normal administrative difficulties.
3	Significant	Delay in accomplishing program or project objectives.
4	Major	Program or project re-design, re-approval, and re-do required: fundamental rework before objective can be met.
5	Catastrophic	Project or program irrevocably finished; objective will not be met.

### LEVEL OF RISK (L x C)

Likelihood	Consequence				
	1	2	3	4	5
5	LOW	MEDIUM	HIGH	EXTREME	EXTREME
4	LOW	MEDIUM	HIGH	HIGH	EXTREME
3	LOW	MEDIUM	MEDIUM	HIGH	HIGH
2	LOW	LOW	MEDIUM	MEDIUM	MEDIUM
1	LOW	LOW	LOW	LOW	LOW

## Appendix D – Ministry Management’s Detailed Action Plan

### Ministry Response - Ministry Management’s Detailed Action Plan ARMS Risk & Controls Review

Recommendations	Management Comments to be Included in Report (Action Planned or Taken)	Assigned To	Target Date
1. The BRM Branch should ensure that the STRA and PIA for the ARMS are completed, approved, and signed-off by the senior management before the system is implemented.	COMPLETED	s.15	Dec 31, 2011
s.15			Jan 2012
			Jan 2012
			Feb 15, 2012
5. The BRM Branch should ensure that its BCP as well as the ministry DRP are updated to cover the ARMS system and related processes. In addition, the BRM Branch should ensure the BCP is reviewed annually to ensure it is current, valid, and readily accessible during a business interruption.		COMPLETED BRM Branch will ensure that the information is forwarded to the appropriate parties for inclusion in the documents.	s.15

Recommendations	Management Comments to be Included in Report (Action Planned or Taken)	Assigned To	Target Date
6. The ministry should ensure that restoration tests of the ARMS backups are periodically performed to verify media reliability and information integrity.	COMPLETED Backups will be periodically verified by the Application Administrator. Like many other government systems, ARMS will be on an incremental and full backup cycle, based on the services provided by Shared Services BC.	s.15	Feb 15, 2012
7. The current change management process should be reviewed to ensure that system changes are assessed by the appropriate business representative(s) to avoid compromising operational processes and security controls.	COMPLETED As noted in the review, there is a formal change management process followed by BRM Branch with appropriate signoffs and oversight.		Dec 2011
s.15			---
9. The Agristability payment automated procedures should be documented as part of the policies and procedures manual.	COMPLETED The Agristability payment automated procedures were documented as part of system requirements.		Feb 15, 2012
10. Although cheques are not issued by the BRM Branch, the lost cheque procedures carried out by the branch should be documented as part of its policies and procedures manual.	COMPLETED BRM Branch passes on information to Victoria from the Producer, which is the extent of their role. This is a current process.		---

## Report on the Building Canada Fund – Communities Component Review

### Distribution List

Assistant Deputy Minister Finance & Management Services Ministry of Transportation and Infrastructure	<b>N. Bain</b>
Chief Financial Officer Finance Ministry of Transportation and Infrastructure	<b>D. Stewart</b>
Assistant Deputy Minister Infrastructure Department Ministry of Transportation and Infrastructure	<b>K. Richter</b>
Executive Director Infrastructure Department Ministry of Transportation and Infrastructure	<b>R. Mounteney</b>
Assistant Deputy Minister Management Services Division Ministry of Community, Sport and Cultural Development	<b>G. Farkas</b>
Assistant Deputy Minister Local Government Division Ministry of Community, Sport and Cultural Development	<b>J. Paine</b>
Director and Chief Financial Officer Finance & Administrative Services Branch Ministry of Community, Sport and Cultural Development	<b>J. MacAulay</b>
Executive Director Local Government Infrastructure and Finance Ministry of Community, Sport and Cultural Development	<b>G. Brown</b>
Assistant Deputy Minister Corporate Services Management Services Branch Ministry of Justice	<b>T. Faganello</b>
Executive Director Strategic Business Services Ministry of Justice	<b>D. Curtis</b>
Director Flood Protection Program Emergency Management BC Ministry of Justice	<b>C. Loski</b>

---

### Internal Audit & Advisory Services Ministry of Finance

Date of fieldwork completion: March 2012





# Table of Contents

## Section

Page No.

Abbreviations.....	i
Executive Summary.....	1
Introduction.....	3
Related Audit Work.....	3
Purpose .....	4
Scope and Objectives.....	4
Approach.....	5
Comments and Recommendations .....	6
1.0 Compliance with the Agreement and Legislation .....	6
1.1 Application Review Process .....	6
1.2 Environmental Assessment Requirement.....	7
1.3 Budgetary Controls and Forecasting .....	8
1.4 Contribution Agreements.....	10
2.0 Payment Legitimacy and Effectiveness .....	10
2.1 Payment Approval Process .....	11
3.0 Program Management.....	11
3.1 Program Mandate and Objectives .....	12
3.2 Program Performance Measures.....	12
3.3 Communication between Program Delivery Partners.....	13
4.0 Information and Monitoring Processes.....	14
4.1 IT Program System.....	14
4.2 Program and Project Monitoring.....	14
5.0 Follow-up on Audit Findings .....	16



## Abbreviations

BCF-CC	Building Canada Fund – Communities Component
CSCD	Ministry of Community, Sport and Cultural Development
IAAS	Internal Audit & Advisory Services
JAG	Ministry of Justice
JS	Joint Secretariat
MOTI	Ministry of Transportation and Infrastructure
OC	Oversight Committee
SIMSI	Shared Information Management System for Infrastructure
the Agreement	Canada – British Columbia Building Canada Fund Communities Agreement 2007-2017
the Parties	Provincial Government of British Columbia and the Federal Government
WD	Western Economic Diversification Canada

## Executive Summary

Internal Audit & Advisory Services has completed the review of the Building Canada Fund – Communities Component program, an infrastructure grant program funded by the Federal Government and the Province of BC, to support infrastructure projects in communities with a population of less than 100,000. The engagement purpose was to provide assurance to ministry management that the program practices were in compliance with the terms and conditions in the Contribution Agreement between Canada and British Columbia.

Concurrent with this review, Internal Audit & Advisory Services conducted the 2011/12 Review of Transfers under Agreement (project 034068). The purpose of the engagement was to provide reasonable assurance that all claimed project costs were eligible and supported by appropriate documentation. The results are incorporated into this engagement.

During the course of this engagement, we interviewed staff and reviewed program files from the program delivery partners, including three ministries – Ministry of Transportation and Infrastructure, Ministry of Community, Sport and Cultural Development, Ministry of Justice, and the federal counterpart, the Western Economic Diversification Canada. We sampled eight unsuccessful applications for funding and six approved applications for funding, for review.

---

### Overall Conclusion

Overall, we determined that the controls, program management, financial systems, procedures and transactions are in compliance with the terms and conditions of the program and the Agreement between British Columbia and Canada, and funds are generally expended for the purposes intended and with regard to economy, efficiency and effectiveness.

The three ministries and Western Economic Diversification Canada have implemented adequate controls to ensure that the program and project objectives are achieved, and key processes in place, such as application review and approval, claim review and approval and project monitoring were all found to be effective and in compliance with the British Columbia - Canada Agreement.

**Opportunities to Enhance Program Management**

We found that the program delivery partners generally consider their working relationship strong and collaborative; however, we have identified areas to further enhance program management:

- update files to include reason(s) for rejection of funding applications, if rejected for reasons other than over subscription;
- Ministry of Community, Sport and Cultural Development to continue to work with Treasury Board Staff to develop a mutually workable process around forecasting and accrual setup;
- Ministry of Justice to consider developing a program procedures manual and checklists;
- review infrastructure program performance measures used in prior infrastructure programs and consider the benefits of incorporating these in future infrastructure programs in British Columbia; and
- development of a federal (WD and INFC) and provincial (MOTI, MCSCD, JAG) communications protocol to ensure each department is included in all communications related to their area of responsibility.

**Recipient Audit Results**

The review of claimed expenditures in the sample of six approved funding applications found that most of the expenditures were eligible. Transactions identified as ineligible totalled \$4,307 or 0.034% of the \$12,853,660 expenditures examined. These audit results have previously been reported under the recipient audit reports and have been successfully resolved by the ministry responsible.

We would like to thank ministries' management and staff for their assistance in the completion of our engagement.



Chris D. Brown, CA  
Assistant Deputy Minister  
Internal Audit & Advisory Services  
Ministry of Finance

June 25, 2012

## Introduction

The Building Canada Fund – Communities Component (BCF-CC) is part of a \$2.2 billion program under the Building Canada Framework Agreement of 2007 between Canada and British Columbia. The program was launched on July 7, 2008. Under the BCF-CC Agreement, the provincial and federal governments have each committed \$136 million in support of local government infrastructure projects in communities with population of less than 100,000 people. Of the \$136 million amount, \$25 million is allocated specifically for the purposes of flood protection related projects, in reference to the Disaster Mitigation category. Under BCF-CC Top-Up Program, the provincial and federal governments have each allocated an additional \$64.64 million to smaller-scale projects in communities for projects that will be substantially completed by March 31, 2011. That deadline was subsequently extended to October 31, 2011.

The bulk of the funding is directed towards a wide range of community projects, including drinking water and waste water systems, solid waste management, public transit, national highway system, green energy, brownfield redevelopment, culture, sport, connectivity and broadband, local road, short line railways, short sea shipping, local and regional airports, tourism, collaborative projects, disaster mitigation (flood protection) and recreation.

The Agreement between Canada and British Columbia (Canada – British Columbia Building Canada Fund Communities Agreement 2007-2017) requires that a program audit be conducted to test the control, financial systems and transactions to determine compliance with the terms and conditions of the program and the Contribution Agreement. The Canada-BC Agreement requires that by June 30, 2012 British Columbia will deliver to Canada a program audit report with respect to the contributions made under the BCF-CC program. Accordingly, Internal Audit & Advisory Services (IAAS) was asked to conduct a program review of the BCF-CC.

## Related Audit Work

IAAS has conducted eight prior audits of selected transfers under agreement, including BCF-CC and BCF-CC Top Up; the latest being transfers in the 2011/12 fiscal year.

## **Purpose**

The purpose of this engagement was to ensure that the BCF-CC program (including BCF-CC Top-Up) complies with the terms and conditions of the program and the Contribution Agreement between Canada and British Columbia.

## **Scope and Objectives**

The scope of the engagement included program controls, financial systems and transactions within the Ministry of Transportation and Infrastructure (MOTI), the Ministry of Community, Sport and Cultural Development (CSCD), and the Ministry of Justice (JAG), and included both financial and non-financial information in order to test compliance with the terms and conditions of the program and the Contribution Agreement between Canada and British Columbia. The latter is the governing document and is considered to supersede the terms of conditions of the program, if the two are in conflict.

The key objectives of the program audit include:

1. determining program compliance with the Agreement between British Columbia and Canada and the appropriate legislation and follow-up processes;
2. determining whether funds were expended for the purposes intended and with regard to economy, efficiency and effectiveness, by examining payment approval processes, including the nature and extent of supporting documentation, accuracy of claim information and evidence of proper authorizations and such other due diligence reviews as appropriate;
3. assessing the overall management and day to day operation/administration of the program to determine if program management is effective;
4. ensuring the program information and monitoring processes and systems are sufficient for the identification, capture, validation and monitoring of contributions to intended benefits; and
5. ensuring that prompt and timely corrective action is taken on audit findings and/or recommendations.



## Approach

The audit plan was developed in accordance to Section 9.3 and schedule C of the BCF-CC Amended Agreement which requires the Oversight Committee (OC) to develop a program audit plan. The program audit was to be carried out by the IAAS in accordance with Generally Accepted Auditing Standards.

Concurrent with this review, IAAS also conducted the 2011/12 Review of Transfers under Agreement for BCF-CC and BCF-CC Top Up (Project 034068).

- The purpose of this engagement was to provide reasonable assurance to the ministry's executive that individual project costs financed under the program comply with the terms and conditions of the Agreement and that all project costs are supported by appropriate documentation.
- The engagement objective was to verify that the claims submitted by the organization receiving funding include only eligible costs under the terms of the Agreement for that specific project.

As a result, we did not duplicate the work with this review.

We utilized a sample of 6 BCF-CC and Top up projects (2 from each ministry – MOTI, CSCD and JAG) from project 034068 as our sample for this project.

## Comments and Recommendations

---

### 1.0 Compliance with the Agreement and Legislation

**Objective 1: To determine whether the BCF-CC program complies with the Agreement between British Columbia and Canada and the appropriate legislation and follow-up processes.**

Overall, this criterion is met. Key processes in the project cycle, including application evaluation, contribution agreement signing, project monitoring, claim process and project completion procedures were all found to comply with the BC-Canada Agreement.

#### 1.1 Application Review Process

The application review process is sound and ensures that only appropriate projects are selected/supported.

The Agreement was originally signed in March 2008, with two amendments made October 2009 and February 2011 respectively. As per section 4.7, the amended agreement requires the OC to develop joint "guidelines, procedures and forms" for the program, which starts with application submission, assessment and recommendations. Specifically, section 4.8 lists the following requirements of the joint application review process:

- Applications are filed online or other method as approved by OC.
- OC will, after receipt of an application:
  - a. advise the applicant of receipt and any additional information required;
  - b. review and rank the application against mandatory screening criteria and the ranking criteria as set out in Schedule A - Project review and assessment framework and all other requirements of the Agreement;
  - c. note and record what requirements the project fails to meet;
  - d. make recommendations, with reasons to Provincial Government of British Columbia and the Federal Government (the Parties) as to the applications suitability for funding and advise them as to any requirement that is not yet met.

All funding applications are submitted through the federal "Shared Information Management System for Infrastructure" (SIMSI) using standard forms. The Federal Government developed an online program guide to provide application instructions, available on the official website of the program. We were advised that a supplemental provincial program guide was also developed to assist applicants in preparing their applications.

The three British Columbia ministries have developed application checklists, technical assessment forms and guidelines for management and staff to use in reviewing and assessing funding applications against program criteria.

We sampled and reviewed the files of six approved funding applications and eight unsuccessful funding applications. The project technical assessments were all completed by ministry staff. OC makes recommendations to the federal and provincial ministers whether to approve or reject funding applications based not only on ministry recommendation, but also other considerations including the technical merits of the proposed project, the funding requested, the number of people served, geographical allocation, safety concerns, etc.

Although clear reasons for rejecting a funding application were usually not kept on file, we noted that letters of rejection stating that the program was over-subscribed were included in the files.

The range of criteria used to screen a project indicates a diligent effort made to select meritorious projects and allocate funds in line with the government's objectives. The process of selecting through a ranking process and ensuring a reasonable distribution of the best projects throughout the province, balanced with other factors within a finite program funding allocation is warranted. Files contained letters of rejection.

### **Recommendation**

- (1) **We recommend that ministries record the reason(s) for rejecting a funding application on file, if rejected for reasons other than over subscription.**

## **1.2 Environmental Assessment Requirement**

This requirement was consistently met.

The Agreement, in section 4.9, requires the OC to ensure that "all legislated environmental assessment requirements have been fully met" before funds are disbursed for a project.

We reviewed the Contribution Agreement templates provided to us by the three ministries. The Contribution Agreement templates all include requirements to adhere to the conditions and mitigation requirements of the federal environmental assessment.

In the sample approved project files, we evidenced Environmental Assessments and related documents. The formal approval letters/notifications from the OC to the recipients all indicated that the "project approval is also conditional on the completion of the Environmental Assessment review, as required by the *Canadian Environmental Assessment Act*".

### 1.3 Budgetary Controls and Forecasting

Budgetary control procedures are adequate and support accurate forecasting and financial management of the program.

Section 3 of the Agreement details the Parties' roles, responsibilities and requirements regarding financial provisions, including the following:

- Budget Setup - Annual notional contributions are set up by the Parties, including the Communities Component Top-up (Agreement section 3.1a, 3.2, 3.3).
- Maximum Federal Contributions - By the end of the Agreement, the federal contribution from all federal sources will not exceed one third (1/3) of the total of the Eligible Costs incurred by all approved projects. (Agreement section 3.1b)
- Re-profiling - If in a fiscal year less than the estimated amount is paid or payable by Canada, any adjustment required must be approved by the OC and requested by the province in writing, prior to the end of the applicable Fiscal Year. (Agreement section 3.3)
- Forecasting - The Joint Secretariat (JS) will prepare annual cash-flow forecasts to be shared with the Parties prior to June 30, and update the forecasts at October 31 and January 31. (Agreement section 3.5)

We found that both Parties have implemented adequate financial controls to ensure that the program budget is not exceeded in any year.

The three ministries keep track of project notional allocations, in real time. The ministry program analysts review and verify both the forecast update and actual cost to date for each project, before rolling up the information for ministry-wide internal records.

These financial results are then reported to the Western Economic Diversification Canada (WD) department of the Federal Government on a quarterly basis, with the third quarterly forecast taken to be the annual budget. We were advised that WD uses the financial forecasts provided by the Ministries, does its analysis, and reports to Infrastructure Canada the federal share forecast. At each OC meeting, WD provides a financial update on the status of the programs. Periodically, WD requests the Ministries provide documentation to support the updating of the financial information in SIMSI to better align with the forecast expenditures for the year.

CSCD is responsible for the program's budget development within the Provincial Government. The ministry has prepared a detailed procedures manual, including forecasting, and has experienced staff carrying out the process. We were advised by federal staff that the program has been successful in their federal forecasting, usually within a 5% variance, with the exception of the introduction of a new Infrastructure Canada policy in March 2012 that impacted fiscal year 2011/12. Recently Infrastructure Canada changed its policy to require annual accrual setup with claim documents by March 29, while CSCD normally does not confirm the provincial accruals until April 5. Given the earlier cut-off dates and stricter documentation requirements, some claims if not submitted in a timely manner, cannot be accrued in the fiscal year and consequently impacts the province's ability to meet its annual forecasted targets.

Nevertheless, the reliability of the forecasting process depends mostly on the due diligence of the local governments, who provide the raw project-specific input in the forecasting process. To help mitigate the risks, CSCD has created a forecasting working group, the focus of which to come up with ways to improve the forecasting process. CSCD has also been working with Treasury Board Staff and keeping them informed with the progress of improving the forecasting and accrual set up processes.

## **Recommendation**

- (2) **We recommend that the CSCD continue to work with Treasury Board Staff to develop a mutually workable process around forecasting and accrual setup.**

## 1.4 Contribution Agreements

Agreements include the required terms and conditions.

Section 6 of The Agreement requires that contribution agreements between the province and the grant recipients contain certain clauses, including the following:

- Contract Awarding – be transparent, competitive, following relevant BC policies, TILMA and the “value for money” principle.
- Data Gathering and Audits – authorize the Parties to gather data and perform audits.
- Record Keeping – keep for a minimum of 6 years including invoices, receipts, statements and vouchers, available for inspection by the Parties.
- Indemnifications – save the Parties harmless from damages and loss caused by improper or illegal actions from the project.
- Infrastructure Maintenance & Operations – maintain and operate the asset for at least half of the expected life, after project completion.
- Infrastructure Disposition – a table detailing the amount the grant recipient must repay the Parties if the asset is leased, sold or disposed within 10 years after project completion
- Asset Revenue - pay the Parties a portion of any excess asset revenue over expenses

---

## 2.0 Payment Legitimacy and Effectiveness

**Objective 2: To determine whether funds were expended for the purposes intended and with regard to economy, efficiency and effectiveness, by examining payment approval processes, including the nature and extent of supporting documentation, accuracy of claim information and evidence of proper authorizations and such other due diligence reviews as appropriate.**

Overall, this criterion is met. The project claim payment approval process is effective including the nature and extent of supporting documentation, accuracy of claim information and evidence of proper authorizations.

## 2.1 Payment Approval Process

In accordance with section 4.7 and section 7 of the Agreement, templates, instructions and forms for use in the claim process have been developed and are available on the program's official website.

As evidenced in the files reviewed, claims were first reviewed by program analysts who verify financial and construction data reported, before ministry management, with the appropriate expense authority, approved the claims.

The claim approval timeframe might vary with staff workloads; however, we noted that most claims were processed within a reasonable timeframe. Delays are often a result of the grant recipient not conforming to reporting and submission requirements in a timely manner.

JAG which is responsible for the flood protection component of this program was unable to provide a claim processing procedures manual, and the files reviewed did not contain a claims review checklist. We also noted one processed claim which did not show evidence of having been approved by ministry management.

Most of the expenditures included in the claims we reviewed were eligible, with ineligible costs totalling \$4,307 or 0.034% of the \$12,853,660 expenditures examined. These audit results have previously been reported under the recipient audit reports and have been successfully resolved by ministry responsible.

### Recommendation

- (3) We recommend that JAG develop a procedures manual covering all processes involved in the management and day to day operation/administration of the flood protection component of the program, including a claims review checklist.

---

## 3.0 Program Management

**Objective 3: To assess the overall management and day to day operation/administration of the program to determine if program management is effective.**

Overall, this criterion is met. Program objectives and delivery partner's roles and responsibilities are clearly laid out and adequate controls are in place to ensure these objectives are achieved. However, we noted opportunities to improve communications between partners, in addition to opportunities to enhance program performance measurers in order to more clearly identify project outcomes and results achieved.

### **3.1 Program Mandate and Objectives**

The program's official website clearly identifies that the purpose of the program is to "support local government infrastructure projects in communities with a population of less than 100,000 people, in addressing their infrastructure pressures and serve as a complementary instrument to Gas Tax Funding". The news release announcing the signing of the BC-Canada Agreement also indicated that the program was to "help meet the needs of a growing population and strong economy, on a cost-sharing basis to support provincial infrastructure priorities, including transportation; tourism; public transit; green energy; and waste and water systems."

Specifically, Schedule A of the Agreement laid out the objectives and evaluation criteria for each project category, including the objectives and/or outcome for tourism, water, solid waste management, public transit, highway, airports, green energy and recreation infrastructure projects, etc.

The roles and responsibilities of each program delivery partner are identified in the BC-Canada Agreement and the contribution agreements. For example, section 3 – Financial Provisions of the BC-Canada Agreement, lays out the contribution commitments and forecasting responsibilities of the Parties, section 4 – Oversight Committee, describes the responsibilities of the OC, and sections 5-10 outlines the roles and responsibilities for the Parties on the claim process, project implementation, monitoring, reporting and audits, communication, etc.

### **3.2 Program Performance Measures**

At the program level, we noted the absence of specific or formal, quantifiable performance measures. The BC-Canada Agreement does not require any specific or quantified program performance measures.

At the project level, most projects managed by MOTI and JAG identified their non-quantifiable benefits as per Schedule A of the Agreement. CSCD has developed some additional, specific project targets or engineering conditions such as waste water reduction rate at project milestones (prior to 25% or 85% of eligible costs, etc.) that grant recipients need to comply with.



Previous programs, such as the Canada-British Columbia Infrastructure Program and the Municipal Rural Infrastructure Fund, had more specific and quantifiable project benefit/performance measures.

### **Recommendation**

- (4) We recommend that the ministries review the performance measures used in previous infrastructure programs, and determine whether it would be beneficial to adopt similar performance measures in future infrastructure programs in British Columbia.**

### **3.3 Communication between Program Delivery Partners**

In general, each of the three ministries, and WD all indicated that their working relationship is strong, collaborative and continuing to improve as the program matures. Delivery partners regularly discuss opportunities to improve and streamline the program, and incorporate lessons learnt and best practices identified from administering infrastructure programs in prior years.

To further enhance the communication between the three levels of governments and facilitate the program delivery, some communication improvement opportunities have been identified:

- The ministries would welcome more consultations before key federal decision making. For example, the recent change in federal policy on setting accruals, identified earlier in this report, was implemented with little to no consultation, with tight time-frames making it difficult for the provincial staff to meet the new requirements as well as meet provincial budgetary needs/policies.
- MOTI is the provincial program lead while CSCD is responsible for the budget. On occasion they may have been left out of timely communications which pertain to their areas of responsibility. The program would benefit if communications procedures were developed and distributed to each of the three ministries.

### **Recommendation**

- (5) To develop a federal (WD and INFC) and provincial (MOTI, MCSCD and JAG) communications protocol which would ensure each department is included in all communications related to their area of responsibility.**

---

## **4.0 Information and Monitoring Processes**

**Objective 4: To ensure the program information and monitoring processes and systems are sufficient for the identification, capture, validation and monitoring of contributions to intended benefit.**

Overall, this criterion is met. The information systems and monitoring processes in place are effective and sufficient for program delivery.

### **4.1 IT Program System**

The system in use supports effective program management.

As previously mentioned in Section 1.1, all project applications are submitted through SIMSI, and the Federal Government has developed an online program guide to assist proponents with the application process.

SIMSI is a user-friendly project database that can be used to generate a multitude of reports. The Federal Government relies on the system to provide online project information and to share information with other program delivery partners.

The three ministries are satisfied with the use of SIMSI, though they do not rely entirely on the system for project information, as the Federal Government does. Ministry staff rely more on their spreadsheets, and communication with proponents, such as progress reports, claim form submissions and emails for project management.

Ministries report project status to WD, which then updates SIMSI. We sampled a few approved projects, and found their SIMSI records complete, accurate and updated.

BC is developing a provincial system – the Local Government Information System (LGIS). This system is expected to simplify communication, reporting and claim processing. Phase 1 of the implementation is anticipated to occur in July 2013.

### **4.2 Program and Project Monitoring**

Monitoring activities were adequate.

Section 9.1 of the BC-Canada Agreement deals with reporting and requires the Parties to monitor the performance of approved projects, throughout the project cycle. Schedule C outlines

mandatory progress reporting by the province to the OC, including annual updates of project progress, environmental issues, benefits, financial performance, risk management and communication activity highlights. We found that both BC and the Federal Government had implemented adequate controls to ensure program and project objectives are met, in accordance with these reporting requirements.

The three ministries and the OC have jointly developed standard project reporting templates, including the Pre-Construction Report, the Monthly Progress Report for the projects under CC Top-up, the Quarterly Progress Report for the projects in the BCF-CC program and the Final Report. These templates for the grant recipients are available on the official website of the program. These progress report templates require the grant recipients to describe updated project progress, environmental issues, risks and financial status, etc.

As previously mentioned in section 2.1, the ministry program analysts verify both financial and construction status information reported by the recipients as required by the contribution agreement, before passing the project claim files to senior ministry management for expense authority authorization.

As we evidenced in the sample project files, the ministry staff consistently monitor project performance and take appropriate responses or follow-up actions on variances from original project plans. For example,

- explanations sought and reported for the projects which are behind schedule;
- unused funding is de-committed for projects completed below budget;
- in cases where the ministry staff and the recipient determine that a project change (scope or schedule) is required, the recipient would follow the regular project change process to submit the request, which is first approved by senior ministry management and then forwarded to the JS for review, and then approved by the appropriate party provincially and federally.

After verifying project status and information, the three ministries roll up the project status information and report quarterly to WD, who updates SIMSI and provides the rolled-up information to the JS.

CSCD, as the ministry responsible for the Province's BCF-CC budget requests financial updates from MOTI and JAG. Since these are for CSCD's internal reporting only, they are ad-hoc requests, not necessarily in formal report format.

When necessary each ministry prepares a watch-list for projects at risk of not completing on schedule, or within budget or scope, to more closely monitor progress. These watch-lists are first reviewed internally and then shared with the JS. Watch lists were prepared for BCF-CC Top Up projects as the program neared the March 31, 2011 completion date, and again for BCF-CC Top Up projects which were approved for an extension of the completion date to October 31, 2011.

---

## **5.0 Follow-up on Audit Findings**

**Objective 5: To ensure that prompt and timely corrective action is taken on audit findings and/or recommendations.**

IAAS has conducted recipient audits of differing infrastructure programs including BCF-CC and BCF-CC Top UP and found that our recommendations were actioned by the ministries to ensure that funds are expended as intended with regard to economy, efficiency and effectiveness.

## 2011/12 Review of Transfers Under Agreement

### Distribution

Assistant Deputy Minister Finance & Management Services Ministry of Transportation and Infrastructure	Nancy Bain
Chief Financial Officer Finance Ministry of Transportation and Infrastructure	Dave Stewart
Assistant Deputy Minister Infrastructure Department Ministry of Transportation and Infrastructure	Kevin Richter
Executive Director Infrastructure Department Ministry of Transportation and Infrastructure	Renee Mounteney
Assistant Deputy Minister Management Services Division Ministry of Community, Sport and Cultural Development	George Farkas
Assistant Deputy Minister Local Government Division Ministry of Community, Sport and Cultural Development	Julian Paine
Director and Chief Financial Officer Finance & Administrative Services Branch Ministry of Community, Sport and Cultural Development	Jim MacAulay
Executive Director Local Government Infrastructure & Finance Ministry of Community, Sport and Cultural Development	Glen Brown
Assistant Deputy Minister Corporate Services Management Services Branch Ministry of Justice	Tara Faganello
Executive Director Strategic Business Services Ministry of Justice	David Curtis
Director Flood Protection Program Emergency Management BC Ministry of Justice	Carol Loski

*This is an unofficial copy of a draft/ final report of the Internal Audit & Advisory Services Branch (IAAS), prepared in PDF format for distribution to certain authorized officials. If you are in receipt of this report, the following conditions apply:*

- 1. If you have received this report in error, delete this report and any accompanying note or material from your system, destroy any copies made of them, and immediately notify IAAS using the contact information at [http://www.fin.gov.bc.ca/ocg/ias/IAAS\\_Contacts.htm](http://www.fin.gov.bc.ca/ocg/ias/IAAS_Contacts.htm).*
- 2. Do not distribute this report or any of its contents in whole or in part (electronically or otherwise) other than to officials in your organization with a need to know unless you are required by law to do so or you have received the written approval of IAAS. Any distribution of this report or any part of it must include this disclaimer.*
- 3. Do not modify this report in any way. Modifications may only be made by authorized staff of IAAS.*
- 4. IAAS does not warrant the accuracy or the completeness of this report. To request an official copy of this report, contact IAAS using the contact information described above.*

# MEMORANDUM

To: (see distribution list attached)

April 24, 2012  
File No.: 034068

From: Chris D. Brown, CA  
Assistant Deputy Minister  
Internal Audit & Advisory Services

Subject: 2011/12 Review of Transfers Under Agreement

We are pleased to provide you with our report on the 2011/12 review of Funding Transfers Under Agreement made under the Building Canada Fund – Communities Component (BCFCC) and the Canada – British Columbia Municipal Rural Infrastructure Fund (MRIF).

The purpose of this engagement was to provide reasonable assurance to the ministries' executive that individual project costs financed under the program comply with the terms and conditions of the agreement and that all project costs are supported by appropriate documentation.

The Ministry of Transportation and Infrastructure, in conjunction with the Ministry of Community, Sport and Cultural Development and the Ministry of Justice, identified 20 projects from the fiscal year 2011/12. Of these 20 projects, 12 of them are under the BCFCC program and eight of them are under the MRIF program. Our review of these projects occurred between November 2011 and March 2012.

As part of ensuring compliance with program procedures and policies, ministry staff reviews claims to determine whether the costs submitted by proponents for reimbursement are deemed eligible or ineligible prior to payment. As part of the audit process, Internal Audit & Advisory Services (IAAS) reviews claims that have been processed and paid as well as claims that have not been reviewed, processed and paid by the ministry. Based on our reviews, some claimed expenditures were either categorized as ineligible or questionable expenses under the contract criteria of the BCFCC and the MRIF.

Overall, there was a high level of compliance of 99.32% with program eligibility requirements across the 20 projects that were reviewed.

Of the \$65,154,453 (1,186 transactions) we reviewed, \$441,111.73 or 0.68% proved to be ineligible or questionable.

Category	No. of findings (in transactions)	Amount	% in total amount claimed
Ineligible	9	\$18,130.23	0.03%
Questionable	30	\$422,981.50	0.65%
Total	39	\$441,111.73	0.68%

Please find our detailed observations and recommendations, and a list of projects selected for review is attached as Appendix 1.

## **Observations and Recommendations**

### **Unpaid Amounts**

**District of West Kelowna Wastewater Collection System Expansion Phase II (Project #25895)** – The District claimed one invoice that had not paid to the service provider at the time of audit.

- \$4,405.78 – invoice #IMTG-10-0542 (InSite Materials Testing Group Ltd.).

#### **Recommendation:**

1. The ministry should ensure that the unpaid invoice amount of \$4,405.78 is not claimed again.

**Town of Ladysmith Chemainus Road Upgrade Project (Project #17591)** – The Town claimed holdbacks that had not yet been released at the time of the claim submission.

- \$250,862.57 – progress claim #1 to claim #8 (Windley Contracting).

We reviewed the subsequent holdback release payment and confirmed that the Town of Ladysmith had paid all the holdback amounts to the contractor on March 26, 2009. Therefore, no action is required by the ministry.

**City of Cranbrook Fibre Optic Broadband Project (Project #26076)** – The City was asked by Columbia Basin Trust (CBT), a third party, to extend the fibre optic line to their building. The City issued a sales invoice of \$9,933 to CBT for this work. However, the fibre optic line extension was not installed correctly and CBT had to repair it. CBT issued an invoice to the City for the repair work in the amount of \$4,100. Instead of issuing a cheque to CBT for the repair work, the City has asked CBT to deduct the sales invoice by \$4,100. The City then submitted the \$4,100 invoice from CBT to the ministry for reimbursement. While the City claimed the repair cost as an expense, they did not declare the net revenue of \$5,833.

- \$9,933.00 – sales invoice #023049 (issued by the City).
- \$4,100.00 – sales invoice #106 (issued by CBT).

In addition, the fibre optic line extension should be considered out of project scope and the cost should not be claimed in the project. However, we were not able to identify whether any of the costs were included in their submissions due to insufficient information on the invoices issued by the service provider.



**Recommendations:**

2. The ministry should review the policy on revenue generated by the proponents that directly related to the project.
3. The net revenue generated from Columbia Basin Trust should be incorporated into a future claim, or alternatively the repair cost on Claim 3 should be reversed in a future claim.

**City of Chilliwack West Dyke Upgrades Left Bank Project (Project #27548)** – The City claimed holdback for extra work which was unpaid to the contractor:

- \$626.24 – invoice #780366 (Golder Associates Innovative Applications Inc.).

**Recommendation:**

4. The ministry should, after considering the materiality, request documentation from the City for the release of the holdback to the contractor, if applicable.

**Duplicate Payments**

**City of Cranbrook Fibre Optic Broadband Project (Project #26076)** – The City paid invoice #31134 (Petro Comm Industries) and claimed for \$3,680.28; this same amount was also paid and claimed under LTS Infrastructure Services (#222453).

**Recommendation:**

5. The ministry should monitor future claims to ensure the duplicate payment of \$3,680.28 is adjusted.

**The District of West Vancouver Ambleside Park Artificial Turf Project (Project #25997)** – The District claimed \$139.62 on two different transactions on claim 2:

- \$3,780 – invoice #24694 (RF Binnie & Associates included payment of invoice #24793 in the amount of \$139.62).
- \$139.62 – invoice #24793 (RF Binnie & Associates).

As the District of West Vancouver would still claim the maximum grant level even after deducting the findings above, no adjustment to their grant payments is required.

### Other Ineligible or Questionable Expenditures

**City of Kamloops Rayleigh Slo-Pitch Park Phase 1 Project (Project #25917)** – The City of Kamloops claimed the following expenditures on claim 1 and claim 3:

- Three transactions totalling \$4,701.13, where the date of invoice preceded the September 23, 2009 commencement date, are as follows:
  - \$148.50 – invoice #45096 (Urban System) – September 17, 2009.
  - \$3,653.63 – invoice #43420 (Urban System) – May 31, 2009.
  - \$899.00 – invoice #43419 (Urban System) – May 31, 2009.
- One transaction was found where the invoice was for contractor work to develop a business case for funding purposes for a different project (Brownfield project):
  - \$3,422.13 – invoice #45627 (Urban System).
- One invoice was found where a portion of the work was completed in April 2009, prior to the September 23, 2009 commencement date. City staff were unable to identify what portion of the invoice was for April work. The maximum possible ineligible amount was :
  - \$13,772.00 – invoice #46494 (Urban System).
- One transaction was found where the value of claim was overstated due to a tax calculation error:
  - \$1,155.05 – invoice #50097398 (ITT W & WW).

### **Recommendation:**

6. The ministry should adjust the final claim by \$9,278.31 and the portion of the \$13,772.00 invoice that was for work completed prior to the commencement date.

**City of Chilliwack West Dyke Upgrades Left Bank Project (Project #27548)** – Two \$10,000 honorarium payments were made to Jakes Construction Ltd. and Strohmaier's Excavating Ltd. who later dropped out of the bidding process. The payment was for the significant work done on submission of the proposal. We were advised by the proponent that they received approval of the payments from the Emergency Management BC, although written documentation was not evidenced.

### **Recommendation:**

7. The ministry should review the nature of the two honorarium payments made by the City to ensure these are eligible expenditures.

**District of Coldstream Grid Road Connection Project (Project #25864)** – The District had made several clerical errors on the following invoices:

- (\$1,944.17) understated – invoice #7391 (CGL Contracting Ltd.).
- \$1,208.05 overstated – invoice #IN20112924 (Kelowna Pacific Railway).
- \$307.39 overstated – invoice #7540 (CGL Contracting Ltd.).

As the District of Coldstream would still claim the maximum grant level even after adjusting the findings above, no adjustment to the grant payments is required.

**District of Ucluelet Multipurpose Centre Project (Project #17486)** – The District claimed the following expenditures that were questionable:

- The District was not able to provide proof of payment for one of the progress claims due to vandalism which occurred in late 2011 that caused damages to their financial records:
  - \$160,478.84 – invoice #4913 (Heatherbrae Builders Co. Ltd.).
- The District incorrectly subtracted the 10% holdback as GST rebate when calculating the claim amount. The amount underclaimed was:
  - (\$6,198.81) – Progress claim #3 (Heatherbrae Builders Co. Ltd.).
- The District incorrectly calculated the cost of daycare facility to be excluded in the claims by applying 7.55% instead of 7.055%. The total amount underclaimed was:
  - (\$31,526.28) – Progress claims #7 to #18 (Heatherbrae Builders Co. Ltd.).

As the District of Ucluelet would still claim the maximum grant level even after deducting the findings above, no adjustment to the grant payments is required.

**Village of Keremeos Upper Bench Sewer System Phase II Project**

**(Project #17142)** – The Village was unable to provide documentation confirming the approval of hiring one of their employees as the project manager.

- \$6,088.91 – Bob Stanley.

The amount of the wages claimed is \$1,065.38 less than the supporting documentation provided. There was no explanation from the Village as to why the lower amount was claimed. The Village also was not able to provide proof of payment.

**Recommendation:**

8. The ministry should ensure that a claim adjustment of \$6,088.91 is made, if ineligible, to future payments.

We would like to thank management and staff from the Ministry of Transportation and Infrastructure, the Ministry of Community, Sport and Cultural Development and the Ministry of Justice, as well as the representatives from the projects we reviewed, for their assistance and cooperation throughout this review.



Chris D. Brown, CA  
Assistant Deputy Minister  
Internal Audit & Advisory Services

## Appendix 1 – List of Projects Selected for Review

Ministry	Project #	Program	Applicant Name	Project Title	Total Eligible Costs	Fed + Prov Share
MOTI	17063	MRIF	Village of Anmore	Anmore - East Road Reconstruction - Phase 1	\$2,250,000	\$1,500,000
MCSCD	17142	MRIF	Village of Keremeos	Keremeos - Upper Bench Sewer System Phase 2	\$1,027,968	\$685,312
MOTI	17195	MRIF	Metro Vancouver	Delta/South Surrey Regional Greenway Pedestrian Overpass	\$684,408	\$433,332
MCSCD	17293	MRIF	District of Mission	Mission Landfill Leachate Treatment Facility	\$6,250,000	\$3,646,666
MCSCD	25895	BCFCC	West Kelowna, District of	Wastewater Collection System Expansion -- Phase 2	\$7,650,000	\$5,100,000
MOTI	17388	MRIF	City of Cranbrook	Cranbrook - Rails to Trails	\$2,828,000	\$1,885,332
MOTI	17486	MRIF	District of Ucluelet	Ucluelet - Multipurpose Centre	\$7,089,500	\$2,000,000
MOTI	17591	MRIF	Town of Ladysmith	Ladysmith - Chemainus Road Upgrade	\$2,700,000	\$1,800,000
MCSCD	17672	MRIF	District of Kent	Agassiz Wastewater Treatment Plant Upgrades	\$713,899	\$475,932
MOTI	22337	BCFCC	City of Port Moody	Noons Creek Bridge	\$1,522,519	\$1,003,782
MCSCD	22777	BCFCC	City of Fernie	Fernie - NW Reservoir / James White Well	\$7,245,721	\$4,830,480
MOTI	25864	BCFCC	District of Coldstream	Grid Road Connection	\$6,921,418	\$4,614,278
MOTI	25917	BCFCC	City of Kamloops	Rayleigh Slo-Pitch Park Phase 1	\$9,790,000	\$6,526,666
MOTI	25997	BCFCC	District of West Vancouver	Artificial Turf Project	\$4,500,000	\$3,000,000
MOTI	26076	BCFCC	City of Cranbrook	Fibre Optic Broadband Infrastructure Development	\$2,250,000	\$1,500,000
MOTI	26160	BCFCC	City of White Rock	White Rock - Pedestrian Improvements Initiative	\$1,480,800	\$987,200
MOTI	26249	BCFCC	City of Campbell River	Airport Runway Extension	\$8,331,250	\$5,554,166
Justice	27548	BCFCC	City of Chilliwack	West Dike Upgrades Left Bank	\$3,255,000	\$2,170,000
Justice	27690	BCFCC	District of Hope	Silverhope Creek Riprap Bank Protection	\$152,150	\$101,432
MCSCD	22677	BCFCC	City of Kimberley	Kimberley - Marysville Watermain Replacement Upgrade	\$2,001,000	\$1,334,000

## Detailed Action Plan – 2011/12 Review of Transfers Under Agreement

Rec. #	Recommendations	Management Comments to be Included in Report (Action Planned or Taken)	Assigned To	Target Date
<b>Unpaid Amounts</b>				
1.	<b>District of West Kelowna Wastewater Collection System Expansion Phase II (Project #25895)</b> We recommend: <ul style="list-style-type: none"> <li>The ministry should ensure that the unpaid invoice amount of \$4,405.78 is not claimed again.</li> </ul>	The ministry has received all claims for this project and has confirmed the invoice amount of \$4,405.78 is not claimed again.	MCSCD	N/A
2.	<b>City of Cranbrook Fibre Optic Broadband Project (Project #26076)</b> We recommend: <ul style="list-style-type: none"> <li>The ministry should review the policy on revenue generated by the proponents that directly related to the project.</li> </ul>	The ministry may include policy on revenue generated by proponents in future programs.	MOTI	N/A
3.	<b>City of Cranbrook Fibre Optic Broadband Project (Project #26076)</b> We recommend: <ul style="list-style-type: none"> <li>The net revenue generated from Columbia Basin Trust should be incorporated into a future claim, or alternatively the repair cost on Claim 3 should be reversed in a future claim.</li> </ul>	The repair cost on claim 3 in the amount of \$4,100 has been deducted from the final claim.	MOTI	N/A
4.	<b>City of Chilliwack West Dyke Upgrades Left Bank Project (Project #27548)</b> We recommend: <ul style="list-style-type: none"> <li>The ministry should, after considering the materiality, request documentation from the City for the release of the holdback to the contractor, if applicable.</li> </ul>	The City of Chilliwack has provided the documentation to support that the holdback has been released to the contractor.	MoJ	N/A

<b>Duplicate Payments</b>				
5.	<b>City of Cranbrook Fibre Optic Broadband Project (Project #26076)</b> We recommend: <ul style="list-style-type: none"> <li>The ministry should monitor future claims to ensure the duplicate payment of \$3,680.28 is adjusted.</li> </ul>	The ministry has deducted \$3,680.28 from the final claim.	MOTI	N/A
<b>Other ineligible or Questionable Expenditures</b>				
6.	<b>City of Kamloops Rayleigh Slo-Pitch Park Phase 1 Project (Project #25917)</b> We recommend: <ul style="list-style-type: none"> <li>The ministry should adjust the final claim by \$9,278.31 and the portion of the \$13,772.00 invoice that was for work completed prior to the commencement date.</li> </ul>	The ministry has deducted \$9,278.31 and \$3,000.25 (a portion of the \$13,772 invoice) from the final claim. The portion amount of \$3,000.25 was provided by the supplier and agreed by the proponent.	MOTI	N/A
7.	<b>City of Chilliwack West Dyke Upgrades Left Bank Project (Project #27548)</b> We recommend: <ul style="list-style-type: none"> <li>The ministry should review the nature of the two honorarium payments made by the City to ensure these are eligible expenditures.</li> </ul>	While the ministry is of the opinion that this cost is an eligible expense in this unique case, the federal partners (WD and INFC) would have to make determination whether this cost is also eligible. If they are in the opinion that this cost is an ineligible expense, an adjustment will be made to recover the federal contribution for this expense.	MoJ	March 31st
8.	<b>Village of Keremeos Upper Bench Sewer System Phase II Project (Project #17142)</b> We recommend: <ul style="list-style-type: none"> <li>The ministry should ensure that a claim adjustment of \$6,088.91 is made, if ineligible, to future payments.</li> </ul>	The ministry will adjust the claim in the amount of \$6,088.91 from the final claim.	MCSCD	March 31st