
2013/14 Review of Transfers Under Agreement

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MEMORANDUM

To: (see distribution list attached)

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

July 18, 2014
File No.: 060056

Subject: 2013/14 Review of Transfers Under Agreement

We are pleased to provide you with our report on the 2013/14 Review of Funding Transfers Under Agreement made under the Towns for Tomorrow program.

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 Community, Sport and Cultural Development selected 14 projects from the 2013/14 fiscal year. All of the projects, which are funded under the Towns for Tomorrow program, were reviewed from September 2013 to December 2013.

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 pending claims.

Overall, there was a high compliance with program eligibility requirements of 99% across the 14 projects reviewed.

The review examined 634 transactions with a total invoice amount of \$6,255,771. Five claims were for charges incurred before or after program eligibility dates, and there were also three instances where holdback procedures were not consistently followed and four other claim errors. Total errors of \$87,332.04 were identified, the majority of which do not require recovery as the proponents submitted claims exceeding the maximum grant approved. The net amount to be recovered by the ministries is \$2,250.26. The total errors represent 1% of the total invoice amounts reviewed.

Please find detailed observations and recommendations below, along with the list of projects selected for review in Appendix 1.

Observations and Recommendations

Work Performed Before or After Contract Period

The following proponents claimed amounts where the work was performed or goods were delivered before or after the contract completion date:

Town of Oliver Water System Chlorination Improvements (Project #30317) – \$1,724.58.

- The proponent claimed an invoice relating to work performed during the funding pre-approval stage. This does not require recovery as the proponent has submitted claims exceeding the maximum grant approved.

Town of Lake Cowichan Domestic Water Metering (Project #30310) – \$1,642.01.

- The proponent claimed an invoice where the work was partially performed after the contract completion date. According to the invoice, the value of the work performed after the completion date was \$563.76.
- The proponent also claimed labour expenses from their own payroll for periods after the contract completion date. The total labour expenses were \$1,078.25.

Village of Gold River Community Center/Curling Rink Upgrade (Project #30265) - \$428.00.

- The proponent claimed an invoice where the goods were received after the project completion date. This does not require recovery as the proponent has submitted claims exceeding the maximum grant approved.

City of Nelson Mountain Station Reservoir Disinfection Upgrade (Project #30328) - \$498.58.

- The proponent claimed an invoice that was for work completed before the contract commencement date.

Recommendation:

1. The ministry should review future claims of the following proponents to ensure the necessary adjustments have been made:

- **Lake Cowichan (Project #30310) – \$1,313.61 (80% of \$1,642.01)**
- **City of Nelson (Project #30328) – \$373.94 (75% of \$498.58)**

Manufacturer's Holdback claimed in advance

The following proponents claimed amounts representing manufacturers' holdbacks before the holdbacks were released and paid:

District of Barriere Universal Water Meter Installation (Project #30348) – \$44,009.31.

- The proponent claimed its manufacturer's holdbacks before paying it. We confirmed the holdback was fully paid and was not claimed twice.

Boston Bar Water System (Project #30280) – \$4,074.89.

- The proponent claimed its manufacturer's holdback before paying it. We confirmed the holdback was fully paid and was not claimed twice.

Town of Gibsons Galvanized Water Main Replacement (Project #30340) – \$32,224.38.

- The proponent claimed its manufacturer's holdback before paying it. We confirmed the holdback was fully paid and was not claimed twice.

Other Ineligible Expenditures

The following proponents claimed amounts that were greater than the appropriate amount due to clerical or other errors:

Cowichan Valley Regional District Cobble Hill Wastewater System Amalgamation (Project #30345) – \$79.76.

- The proponent received a purchaser's discount on this invoice but claimed the gross amount.

Village of Lumby Recreation Facility Enhancements (Project #30249) – \$1,971.56.

- The proponent overstated a line item as the result of a clerical error on the claim form. This does not require recovery as the proponent has submitted claims exceeding the maximum grant approved.

District of Clearwater Russell Creek Water System UV (Project #30305) – \$55.35.

- The proponent overstated two line items by claiming gross invoice amounts without reducing them by ineligible HST costs (85.42% of HST paid). This does not require recovery as the proponent has submitted claims exceeding the maximum grant approved.

Town of Gibsons Galvanized Water Main Replacement (Project #30340) – \$623.62

- The proponent claimed \$740.80 as an adjustment to account for the eligible HST portion of the holdback. The adjustment should have amounted to \$117.18. The initial adjustment claim is therefore overstated by \$623.62.

Recommendation:

2. The ministry should review future claims of the following proponents to ensure the following adjustments are made:

- **Cowichan Valley Regional District (Project #30345) – \$63.81 (80% of \$79.76).**
- **Town of Gibsons (Project #30340) – \$498.90 (80% of \$623.62).**

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



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

Appendix 1 – List of Projects Selected for Review

Program	Project #	Applicant Name	Project Title	Total Eligible Costs	Prov Share
T4T 2011	30348	Barriere	District of Barriere Universal Water Meter Installation	\$580,000	\$400,000
T4T 2011	30345	Cowichan Valley	Cobble Hill Wastewater System Amalgamation and Wastewater Effluent Re-use	\$800,000	\$400,000
T4T 2011	30289	Sunshine Coast	Sechelt Aquatic Centre – Energy & Emissions	\$623,658	\$375,000
T4T 2011	30267	Greenwood	Well Replacement/Rehabilitation	\$493,000	\$394,400
T4T 2011	30340	Gibsons	Galvanized Watermain Replacement	\$393,199	\$314,559
T4T 2011	30317	Oliver	Water System Chlorination Improvements	\$539,500	\$400,000
T4T 2011	30251	100 Mile House	Enhancements to Effluent Reuse System	\$522,000	\$400,000
T4T 2011	30280	Fraser Valley	Boston Bar Water System	\$650,000	\$400,000
T4T 2011	30310	Lake Cowichan	Domestic Water Metering – Second and Final Phase	\$596,325	\$400,000
T4T 2011	30249	Lumby	Lumby Recreation Facility Enhancements	\$587,468	\$400,000
T4T 2011	30265	Gold River	Community Center/Curling Rink Upgrades	\$572,000	\$286,000
T4T 2011	30271	Ashcroft	Ashcroft Sewer Treatment Plant Upgrades	\$575,000	\$400,000
T4T 2011	30305	Clearwater	Russell Creek Water System UV	\$576,000	\$400,000
T4T 2011	30328	Nelson	Mountain Station Reservoir Disinfection Upgrades	\$1,006,850	\$375,000

Appendix 2 – Detailed Action Plan – 2013/14 Review of Transfers Under Agreement

Rec. #	Recommendations	Management Comments to be Included in Report (Action Planned or Taken)	Assigned To	Target Date
1.	<p>The ministry should review future claims of the following proponents to ensure the necessary adjustments have been made:</p> <ul style="list-style-type: none"> Lake Cowichan (Project #30310) – \$1,313.61 (80% of \$1,642.01) City of Nelson (Project #30328) – \$373.94 (75% of \$498.58) 	<p>Lake Cowichan has been asked to remit \$1,313.61.</p> <p>Adjustment will be made on next claim.</p>	<p>MOTI</p> <p>MOTI</p>	<p>September 1, 2014</p> <p>March 31, 2015</p>
2.	<p>The ministry should review future claims of the following proponents to ensure the following adjustments are made:</p> <ul style="list-style-type: none"> Cowichan Valley Regional District (Project #30345) – \$63.81 (80% of \$79.76). Town of Gibsons (Project #30340) - \$498.90 (80% of \$623.62). 	<p>Adjustment was made on Claim 7.</p> <p>Town of Gibsons has been asked to remit \$498.90.</p>	<p>MOTI</p> <p>MOTI</p>	<p>Completed</p> <p>September 1, 2014</p>

2013/14 Review of Transfers Under Agreement

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MEMORANDUM

To: (see distribution list attached)

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

July 18, 2014
File No.: 034073

Subject: 2013/14 Review of Transfers Under Agreement

We are pleased to provide you with our report on the 2013/14 Review of Funding Transfers Under Agreement made under the Building Canada Fund – Communities Component (BCF-CC). Under the BCF-CC Agreement, both the provincial and federal governments have committed \$136 million each (2/3 of the total cost) in support of local government infrastructure projects to communities with populations of less than 100,000 people.

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, requested Internal Audit & Advisory Services (IAAS) review 17 projects from the 2013/14 fiscal year. All of the projects, which are funded under the BCF-CC program, were reviewed from September 2013 to December 2013.

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, IAAS reviews claims that have been processed and paid as well as pending claims.

Overall, there was a high compliance with program eligibility requirements of 98.3% across the 17 projects reviewed. The review examined 1,183 transactions with a total invoice amount of \$63,365,169, and identified errors totalling \$1,649,218.06. Proponents over claimed \$1,052,265 in ineligible expenditures which represents 1.7% of the total invoice amount reviewed. The majority of the ineligible expenditures do not require recovery as the proponents submitted claims exceeding the maximum grant approved, although \$235,908.06 should be recovered. We also found under claimed amounts equivalent to \$596,953.06, of which \$185,513.05 should be reimbursed to the proponents. The net amount to be recovered by the ministries is \$50,395.01.

Please find detailed observations and recommendations below, along with the list of projects selected for review in Appendix 1.

Observations and Recommendations

Unpaid Holdbacks Claimed in Advance

The following proponents claimed unpaid holdbacks in their claim submissions. For one proponent we were able to confirm that the holdback had subsequently been fully paid and was not claimed twice. The exception was for \$17,985 which remained unpaid by the District of West Kelowna at the time of the fieldwork:

City of Prince Rupert, Hays Creek Sewer Relocation (Project #22722) – \$27,637.90 (2/3 Fed/Prov. \$18,425.27).

District of West Kelowna, Sewer Services Extension (Project #22731) – \$17,985 (2/3 Fed/Prov. \$11,990).

Recommendation:

- 1. The ministry should follow up with the proponent to ensure that the outstanding holdback of \$17,985 is paid to the vendor.**

Duplicate Claims

Regional District of Okanagan - Similkameen, Okanagan Falls Sewage Treatment Plant (Project #22318).

- Same invoice was claimed twice in different claim submissions – \$26,728.57 (2/3 Fed/Prov. \$17,819.05). This does not require recovery as the proponent has submitted claims exceeding the maximum grant approved.

District of West Kelowna, Sewer Services Extensions (Project #22731).

- Proponent claimed based on a purchase order and claimed again when official invoice was received and paid – \$19,395.60 (2/3 Fed/Prov. \$12,930.40). This does not require recovery as the proponent has submitted claims exceeding the maximum grant approved.

Fraser Valley Regional District, Hatzic Prairie Water System Extension (Project #22535).

- Proponent claimed holdback in advance and claimed the holdback again when released - \$8,640.40 (2/3 Fed/Prov. \$5,760.27).

Recommendation:

- 2. The ministry should recover \$5,760.27 from Fraser Valley Regional District.**

Other Ineligible Expenditures

Town of Creston, Wastewater Treatment Plant Improvements – Phase 1 (Project #22521).

- Proponent made errors in allocating progress payments to two different projects \$179,438.37 (2/3 Fed/Prov. \$119,625.58).
- Some progress costs are split 74%/26% between this project and project #26041 which is out of our audit scope. After reviewing the progress payments, we have the following concerns:
 - cost allocation between the two projects may not be consistent;
 - allocation percentage of holdback release may not be consistent with the percentage used at the time when holdback was taken;
 - a risk of progress costs being claimed in both projects exists; and
 - since two projects have different funding, allocation of costs between the two projects could be manipulated.
- Proponent over claimed eligible provincial portion of HST on several holdbacks – \$2,106.36 (2/3 Fed/Prov. \$1,404.24).

Recommendation:

- 3. The ministry should ensure the proponent makes the adjustment of \$121,029.82 in their next claim submission.**
- 4. The ministry should further review the future claims of this project as well as project #26041 to ensure project costs are properly claimed.**

District of Central Saanich, East Saanich Road Renewal (Project #22405).

- Proponent used the incorrect HST amount on invoices to calculate the eligible provincial portion of HST – \$1,933.89 (2/3 Fed/Prov. \$1,289.26).

Recommendation:

- 5. The ministry should recover \$1,289.26 from District of Central Saanich.**

Fraser Valley Regional District, Hatzic Prairie Water System Extension (Project #22535).

- Proponent discounted the HST amount by 85.42% before calculating the 25% provincial portion of HST. The net invoice amount was inflated resulting in an over claim amount – \$15,719.36 (2/3 Fed/Prov. \$10,479.57).

- Proponent made addition errors when preparing the Detailed Summary of Expenditures. This error inflated the claim total by \$188,781 (Fed/Prov. \$97,233.46).

Recommendation:

6. The ministry should recover \$107,713.03 from Fraser Valley Regional District.

Regional District of Okanagan – Similkameen, Okanagan Falls Sewage Treatment Plant (Project #22318).

- Proponent mistakenly claimed portion of the cost for another project to this project – \$18.01 (2/3 Fed/Prov. \$12.01). This does not require recovery as the proponent has submitted claims exceeding the maximum grant approved.

City of Vernon, Okanagan Landing Flood Protection Works (Project #41707).

- An invoice was issued and goods were delivered prior to the commencement date – \$39.68 (2/3 Fed/Prov. \$26.45).

Recommendation:

7. The ministry should recover \$26.45 from City of Vernon.

Regional District of Central Okanagan – Westside – Wastewater Treatment Plant, Stage 3 (Project #26104).

- Four invoices were found claiming provincial portion of HST when only GST was charged and paid – \$3,348.84 (2/3 Fed/Prov. \$2,232.56). This is not recoverable as the proponent has submitted claims exceeding the maximum grant approved.

District of Port Edward, Replacement of Aging and Failing Watermains – Phase I (Project #22334).

- Proponent used an inconsistent approach to allocate project costs into two phases of the project which were funded by different programs – \$560,358 (2/3 Fed/Prov. \$373,572). This does not require recovery as the proponent has submitted claims exceeding the maximum grant approved.

Fraser Valley Regional District, Electoral Area D Integrated Water System (Project #22997).

- Several invoices were found claiming 25% provincial portion of HST when only 5% GST were charged – \$133.84 (2/3 Fed/Prov. \$89.23).

Recommendation:

8. The ministry should recover \$89.23 from Fraser Valley Regional District.

Under Claimed Amounts

Fraser Valley Regional District, Hatzic Prairie Water System Extension (Project #22535).

- Two invoices were under claimed by inputting incorrect numbers into the expenditure summary sheet – \$1,727.73 (2/3 Fed/Prov. \$1,151.82).

Recommendation:

9. The ministry should reimburse \$1,151.82 to the Fraser Valley Regional District.

Regional District of Okanagan – Similkameen, Okanagan Falls Sewage Treatment Plant (Project #22318).

- Two invoices used the net invoice amount rather than the gross invoice amount to subtract the HST on the expenditure summary sheet for calculating the eligible claim amount – \$217,935.76 (2/3 Fed/Prov \$145,290.51). No reimbursement is required as the proponent has submitted claims exceeding the maximum grant approved.

District of West Kelowna, Sewer Services Extensions (Project #22731).

- An eligible item on an invoice was inadvertently subtracted from the claim – \$252.39 (2/3 Fed/Prov \$168.26). No reimbursement is required as the proponent has submitted claims exceeding the maximum grant approved.
- Proponent calculated the provincial portion of HST using the HST amount before 10% holdback was deducted – \$33,338 (2/3 Fed/Prov \$22,225.33). No reimbursement is required as the proponent has submitted claims exceeding the maximum grant approved.

Town of Creston, Wastewater Treatment Plant Improvements, Phase I (Project #22521)

- Proponent did not claim costs incurred in this phase of the project – \$97,476.42 (2/3 Fed/Prov. \$64,984.28).

Recommendation:

10. The ministry should reimburse \$64,984.28 to the Town of Creston.

District of Central Saanich, East Saanich Road Renewal (Project #22405).

- Proponent used net invoice amount as opposed gross invoice total to calculate eligible cost on the expenditure summary spreadsheet – \$179,065.44 (2/3 Fed/Prov. \$119,376.95).

Recommendation:

11. The ministry should reimburse \$119,376.95 to the District of Central Saanich.

City of Prince Rupert, Hays Creek Sewer Relocation (Project #22722).

- Proponent did not claim the eligible provincial portion of HST – \$67,157.32 (2/3 Fed/Prov \$44,771.55). No reimbursement is required as the proponent has submitted claims exceeding the maximum grant approved.

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



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

Appendix 1 – List of Projects Selected for Review

Program	Project #	Proponent	Project Name	Total Eligible Costs	Funding (Fed + Prov.)	Ministry
BCF-CC	22405	Central Saanich, District of	East Saanich Road Renewal	\$7,000,000	\$4,666,666	MOTI
BCF-CC	40980	North Cowichan, District of	Joint Utility Board Wastewater Treatment Plant Flood Protection Upgrade	\$4,153,047	\$2,768,698	MOJ
BCF-CC	22997	Fraser Valley Regional District	Bridal Falls (Electoral Area D) – Integrated Water System	\$2,726,000	\$1,817,332	MCSCD
BCF-CC	22535	Fraser Valley Regional District	Mission – Hatzic Prairie Water System Extension	\$1,478,400	\$985,600	MCSCD
BCF-CC	40973	Delta, The Corporation of	Boundary Bay Dike Upgrade: Oliver Pump Station Area	\$600,000	\$400,000	MOJ
BCF-CC	40971	Delta, The Corporation of	Boundary Bay Dike Upgrade: 96 Street and 104 Street Area	\$600,000	\$400,000	MOJ
BCF-CC	26104	Central Okanagan Regional District	Westside – Wastewater Treatment Plant, Stage 3	\$7,377,160	\$4,918,106	MCSCD
BCF-CC	41703	Summerland, District of	Summerland – Prairie Creek Stormwater Diversion Works	\$752,950	\$501,966	MOJ
BCF-CC	22726	Lake Country, District of	Vernon – Wood Lake Water Quality & Supply Improvements	\$5,040,000	\$3,360,000	MCSCD
BCF-CC	22318	Okanagan – Similkameen, Regional District of	Okanagan Falls – Sewage Treatment Plant	\$9,380,000	\$6,253,332	MCSCD
BCF-CC	41707	Vernon, City of	Vernon – Okanagan Landing Flood Protection Works	\$960,000	\$640,000	MOJ

Program	Project #	Proponent	Project Name	Total Eligible Costs	Funding (Fed + Prov.)	Ministry
BCF-CC	22731	West Kelowna, District of	West Kelowna – Sewer Services Extension	\$17,196,789	\$6,000,000	MCSCD
BCF-CC	22521	Creston, Town of	Creston – Wastewater Treatment Plant Improvements – Phase 1	\$4,710,000	\$3,140,000	MCSCD
BCF-CC	40972	Reclamation Dyking District	Creston – Kootenay River Dike Upgrades	\$477,180	\$318,120	MOJ
BCF-CC	22334	Port Edward, District of	Port Edward – Replacement of Aging and Failing Watermains	\$1,570,000	\$1,046,666	MCSCD
BCF-CC	22722	Prince Rupert, City of	Hays Creek Sewer Relocation	\$3,996,326	\$2,664,216	MCSCD
BCF-CC	28109	North Vancouver – District of	Installation of Priority Sidewalks	\$1,480,001	\$986,666	MOTI

Appendix 2 – Detailed Action Plan – 2013/14 Review of Transfers Under Agreement

Rec. #	Recommendations	Management Comments to be Included in Report (Action Planned or Taken)	Assigned To	Target Date
Unpaid Holdbacks Claimed in Advance				
1.	The ministry should follow up with the proponent to ensure that the outstanding holdback of \$17,985 is paid to the vendor.	On June 10, 2014, emailed District of West Kelowna to confirm whether the holdback amount of \$17,985 had been released and paid to the contractor. Awaiting response from District of West Kelowna	MCSCD	Sept 1, 2014
Duplicate Claims				
2.	The ministry should recover \$5,760.27 from Fraser Valley Regional District.	On June 11, 2014, the Ministry requested (via email), Fraser Valley Regional District to remit \$5,760.27.	MCSCD	Sept 1, 2014
Other Ineligible Expenditures				
3.	The ministry should ensure the proponent makes the adjustment of \$121,029.82 in their next claim submission.	Town of Creston has submitted their Final Claim. Currently reviewing claim to ensure amount of \$121,029.82 has been adjusted.	MCSCD	Sept 1, 2014
4.	The ministry should further review the future claims of this project as well as project #26041 to ensure project costs are properly claimed.	The ministry will be reviewing the claims for project 26041 ensuring project costs are properly claimed. In future, the ministry will consider including all phased projects funded under the same or multiple programs for audit to ensure compliance in all projects.	MCSCD	Mar 31, 2015
5.	The ministry should recover \$1,289.26 from District of Central Saanich.	The ministry has recovered \$1,289.26 from the District of Central Saanich.	MOTI	Completed
6.	The ministry should recover \$107,713.03 from Fraser Valley Regional District.	On June 11, 2014, the ministry requested (via email) Fraser Valley to remit \$70,815.21. Audit determined \$107,713.03 less eligible claim subsequently submitted after the audit of \$35,746 (federal and provincial share) less under claimed amount of \$1,151.82 (Rec. #9)	MCSCD	Sept 1, 2014
7.	The ministry should recover \$26.45 from City of Vernon.	On June 20, 2014, the ministry requested (via email) the City of Vernon to remit \$26.45.	JAG	Sept 1, 2014
8.	The ministry should recover \$89.23 from Fraser Valley Regional District.	On June 11, 2014, the ministry requested (via email) Fraser Valley Regional District to remit \$89.23.	MCSCD	Sept 1, 2014

Rec. #	Recommendations	Management Comments to be Included in Report (Action Planned or Taken)	Assigned To	Target Date
Under Claimed Amounts				
9.	The ministry should reimburse \$1,151.82 to the Fraser Valley Regional District.	The ministry will deduct \$1,151.82 to the amount Fraser Valley RD is to remit. See Rec. #6.	MCSCD	Sept 1, 2014
10.	The ministry should reimburse \$64,984.28 to the Town of Creston.	Town of Creston has submitted their Final Claim and the ministry will be reviewing the adjustment of \$64,984.28.	MCSCD	Dec 1, 2014
11.	The ministry should reimburse \$119,376.95 to the District of Central Saanich.	The ministry has reimbursed \$119,376.95 to the District of Central Saanich.	MOTI	Completed