



FINAL REPORT

SYDNEY SPECIAL AUDIT

Project No. 449/98

Audit Team

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1.0 BACKGROUND

Coastal Business Opportunities inc. (CBO) project # B54010-2 was part of TAGS audit projects sample. This is a Self Employment Assistance agreement where CBO provides support services, advice and guidance to qualified tags participants.

Irregularities were suspected on this project, and the decision was made to conduct a special review which encompassed 11 other projects with same sponsor. The coverage ranges from April 96 to August 98. This review was not intended to be a full audit of CBO but an exploratory visit to determine with more precision the nature and the extent of the problem.

2.0 FINDINGS

The review has identified problems for most projects in the following areas: initial application by CBO, contracting, management of the project and payments to sponsor.

The overall conclusion is that there was inappropriate handling of the projects by the _____ and payments were made on claims that both the _____ and the sponsor knew to be false, inaccurate or contrary to the agreement.

There is a strong suspicion that in at least one occasion, the contribution funds were used at the request of the _____ to pay for a training session that was not related to any of the contribution contracts with CBO.

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The main findings of the review specific are presented below.

Initial application by CBO

- Initial applications include detailed salary and overhead expense budget but there are no indications as to how many participants will receive the service. It is therefore not possible to determine if the cost per unit requested by the sponsor is acceptable or reasonable before recommending the approval of the project. There is no indication in the file of any cost and benefits analysis. The value of each contract is always the amount requested in the proposal.

Contracting

- Some projects have gone through several amendments which steadily increased projects costs. No rationale is given for those increase; just a note from the project officer stating “increase of costs”.
- Some Agreements do not specify what kind of overhead expenses are allowed. The information was sometime available in the application, but outside of the contract or its Appendices, it is not legally binding and the Department is restrained to the concept of “reasonable expenses”, which is much more difficult to apply.

Management of the project

None of all 11 files examined since April 1996 show any trace of monitoring, either operational and financial, despite the fact that the sponsor was one of the major partner of HRCC Sydney or any list of name of participants or evidence that the participants were eligible. As a matter of fact, there was no indication in the file of any visit to the sponsor’s site.

Payments to the sponsor

Salary

- A wage rate of \$ per hour is claimed for the Director and all employees of CBO. During the visit on site by IAB, the sponsor has admitted that \$ per hour was the maximum authorized, not the actual salary paid to the employees.
- In the absence of any information on the total number of clients and the total time spent servicing them, it is not possible to determine if the number of employees for which a salary is claimed is realistic or reasonable, or even is all the employees for which a salary is claimed were engaged in activities related to the contracts with HRDC. CBO has other activities not related to HRDC projects, for which it employs the same people. Considering that the time required to assist a self-employment participants varies from case to case, it would be extremely difficult to reconcile the number of employees for whom a salary is claimed to the actual salary expenses incurred by the sponsor on HRDC projects.

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Overhead

- CBO has made the following written statement to IAB:

“CBO, and its predecessors, typically claims overhead expenses as per the forecast cash flows attached to each contract. Because the claims are based on the projected cash flows they do not necessarily correspond to the actual expenses of the period”.

“during the fourth quarter of the funding period, projected and actual expenses are analyzed to determine variances. This information is then relayed to the HRDC Official. Different scenarios can and have occurred in the past”:

Our investigation revealed that when some of the funds had not been claimed by the sponsor at the end of the fiscal year, one, or a combination of the following scenarios occurred:

- ◆ HRDC Official directs the excess funds to be applied to core overhead items such as rent, phone charges, systems and even assets;
- ◆ HRDC Official directs the excess funds to a HRDC “mini-project” in the form of wages and benefits thereby reducing the variances;
- ◆ Part of the unclaimed fund is returned to HRDC, the balance allocated under the first two scenarios

In the cases of contracts that provide a definition of eligible costs, approximately 50% of the costs claimed are not eligible.

In at least one occasion, the _____ has asked CBO to pay for a \$1,700 training session that did not appear to be related to CBO or to any of the contribution contracts with contributions already paid under one of the contracts.

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Finally, we have noticed an irregularity in the type of salary claimed. Under self-employment assistance Agreements rules, the only participant wages that can be claimed by the sponsor are those related to top-up the benefits of the participant. Administrative and other non-participant staff wages and benefits must be claimed as overhead. Sponsor’s salaries were authorized, claimed and paid as “participant wages. Under the caption “number of participants”, the number of employees of the sponsor was indicated rather than the number of participants to the project. These are administrative issues that do not modify the overall conclusions of the review, but which could create legal problems, should the Department decide to bring the case to Tribunals.

3.0 RECOMMENDATIONS

In order to prevent any further losses, HRDC should take the following action on existing contracts immediately:

- amend all contract where eligible salary and overhead expenses are not described to include a detailed breakdown and clear definitions;
- review new claims to ensure that only allowable salary and overhead expenditures are claimed;
- monitored the projects to ensure that all expenses claimed were actually incurred by the sponsor within the performance of the contract

Contract number B63205-7 with CBO is based on the payment of a flat fee per participant. This contract does not clearly define what level or quantity of service must be provided to the participants before CBO is entitled to the full fee. It must be amended to clarify that, and new similar contracts, if any, should be more precise in that matter.

Finally, a decision must be made as to whether or not a full audit of CBO is warranted. Keeping in mind that the _____ and the HRCC have a strong responsibility in the problems detected with CBO, those two options can be considered:

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- Option 1:
Conduct a one week audit, including 2 to 3 days on site, that would focus on claims for non-eligible, non-salary expenses, will likely lead to the establishment of at least \$10 000 in overpayment for the year 1997/98. The cost of such audit would range between \$3,000 and \$5,000.
- Option 2:
Conduct an extensive audit including overhead and salary costs claimed over the past years might generate an overpayment of more than \$75 000. The cost of that audit would range between \$20,000 and 25,000.
- Option 3:
Do not conduct any audit but concentrate on eliminating present shortcomings and preventing further errors, misuse and abuses.