

Corporate Internal Audit Services Report

FOR THE DEPUTY MINISTER, EXECUTIVE COUNCIL

Examination of Transactions between the Government of Alberta
and
Bob Maskell & Associates Inc. and/or Mr. Robert C. Maskell

July 18, 2007

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- (b) information that would reveal information about an audit by the Chief Internal Auditor of Alberta.**

CORPORATE INTERNAL AUDIT SERVICES

1. Introduction

Pursuant to discussions in the Legislature between April 10, 2007 and April 16, 2007, Corporate Internal Audit Services (CIAS) conducted an examination of transactions between the Government of Alberta and Bob Maskell & Associates Inc. and/or Robert C. Maskell.

We examined documentation of contracts, invoices and other transactions from November 1, 2004 to April 17, 2007. Total payments for this period were \$200,368 and were comprised of a series of contract payments at Aboriginal Affairs and Northern Development (AAND), now part of International, Intergovernmental and Aboriginal Relations, (IIAR), a grant at Alberta Education and honoraria and travel expenses at Alberta Foundation for the Arts.

2. Terms of Reference

The purpose of this examination was to determine whether amounts billed were appropriately supported, and to determine if the process by which contracts or agreements were issued were appropriate. The specific objectives of this examination are included as Appendix A.

Our examination was limited to the contracts, transactions and entities described above; we did not examine agreements, transactions or processes beyond this specific scope.

3. Summary of Results

Controls applied to transactions at the Alberta Foundation for the Arts were satisfactory.

Processes at Alberta Education were generally satisfactory; we noted that some improvements to documentation of grant awards could be implemented.

We have calculated that AAND was over-billed for services and travel expenses by \$7,138. In its management response (below), the department committed to recovering the overpayment. The department has since advised that it has recovered the full amount. While the value of the over-billing is not significant, we identified a number of issues in the contracts and invoices at AAND that are significant:

1. Expenditure Officer processes were not effective in identifying or resolving a number of issues noted in invoices. Over a period of six months, three separate Expenditure Officers approved invoices in which issues were noted. We obtained no evidence that the items discussed in section four of this report relating to continuous billing, travel expenses and multiple billings were identified, questioned or adjusted. Sufficient evidence could not be obtained to support a conclusion on the reasons why the Expenditure Officer function did not resolve the issues.

2. Documentation demonstrates partial compliance with the guidance contained in the "Decision to Contract" section of the Accountability Framework for Contracts.
3. Contract administration and monitoring activities require improvements. On two occasions, work commenced and invoices were submitted prior to a contract being in place to govern the relationship. Work continued, and additional billings were submitted after contract maximums were exceeded.

This examination focused on three specific contracts and the eighteen invoices processed under those contracts. The focused scope of this project does not allow an overall conclusion on AAND's contracting and Expenditure Officer processes.

We were advised that AAND had undertaken several activities, subsequent to the period examined in this report, designed to strengthen administrative processes:

- The Department contract policy was updated in September of 2006;
- First Nations and Métis Relations Division (FNMR) hired a Coordinator, Financial Reporting in February 2006 to ensure all financial activities are managed appropriately and adhere to Government and departmental procedures, policies and regulations;
- An Administrative Grants Coordinator was hired in July of 2006 to assist with centralized record keeping, tracking and monitoring of all FNMR grants and contracts;
- All FNMR staff involved in contracting attended a 2 day "Managing Government Contracts" course in September of 2006.

As these activities were implemented subsequent to the period being examined, we have not audited these processes.

Based on our observations we have the following recommendations:

We recommend that IIAR investigate why the processes used by Expenditure Officers did not identify and correct issues and implement appropriate corrective actions.

We recommend that IIAR strengthen processes to ensure that contracts are entered into prior to contractors beginning work, and that amendments be processed prior to contract limits being exceeded. We further recommend that contract monitoring be strengthened to ensure that deliverables are documented. We are aware that the Government is currently developing additional guidance to assist ministries in incorporating the Accountability Framework for Contracts into policies and procedures.

Management Response/Action Plan:

We recognize that in this particular case the staff designated to perform Expenditure Officer responsibilities did not fully meet their duties as required. In order to address this situation we have identified several actions to ensure our Expenditure Officers fully understand their responsibilities and more specifically the requirements around contract management. Actions planned include:

- Refresher EO training for all existing EOs (July/August 2007).
- Updating our Contract Policy to provide specific direction on the requirements of the Contract Accountability Framework (July 2007).
- Conducting compliance reviews on a random sample of contracts (also grants, expense claims, and procurement cards) on a quarterly basis (July 2007).
- Providing additional contract management training (Fall 2007).
- Linking EO responsibilities to performance agreements.

Additionally, our Ministry Senior Financial Officer is on the committee reviewing the Accountability Framework for Contracts and will ensure that all recommendations from the committee are incorporated into our contract policy and procedures.

Furthermore, we have sent a letter to the contractor requesting repayment of the \$7,138. We will follow up to ensure the payment is received.

We recommend that Alberta Education re-examine its Conditional Grant Policy to ensure that documentation requirements provide clear support for the considerations laid out in the Accountability Framework for Grants.

Management Response/Action Plan:

We will re-examine the Alberta Education Conditional Grant Policy (developed and implemented in 2004) to ensure that documentation requirements align with the Accountability Framework for Grants.

4. Observations

Alberta Education

Grants

Alberta Education entered into a conditional grant agreement on March 30, 2007. Alberta Education advised that the grant agreement originated from a verbal proposal submitted to the former Minister of Education for the production of two First Nations, Métis and Inuit Education Showcases.

The events being funded align with Alberta Education's mandate as well as the First Nations, Métis and Inuit Education Policy Framework. The grant agreement, provided primarily for the purposes of funding facility costs associated with the Showcases, was approved in accordance with Alberta Education's Delegation of Financial Signing Authority pursuant to section 9(1) of the *Government Organization Act*.

The agreement contains appropriate terms and conditions to ensure accountability for the funding provided, including: Reporting of project results and all project finances; recovery of funding where deliverables have not been met, or recovery of surplus funding; and to allow inspection of supporting documentation.

Two documents provide guidance on the approval of grants: The Accountability Framework for Grants, and Alberta Education's Conditional Grant Policy. The Conditional Grant Policy generally aligns with the Accountability Framework for Grants; however the policy does not require specific documentation of all considerations laid out in the Accountability Framework for Grants.

Documentation retained by Alberta Education explicitly supported some, but not all of those considerations.

The Conditional Grant Policy requires that other information be documented, including other sources of funding received by the grant recipient.

Documentation retained by Alberta Education identified other organizations participating in the project but did not identify funding contributions if any provided by those organizations.

Aboriginal Affairs and Northern Development (now part of IIAR)

Expenditure Officer Processes

Our examination of invoices submitted to AAND identified three issues for which we found no evidence to indicate that Expenditure Officers had identified, questioned or resolved the issues. For the issues discussed below, all amounts billed were paid.

Continuous Billing

During the period from June 16, 2005 to November 26, 2005 invoices contained amounts for nine separate trips, each of which extended over a period of several days. The time billed for the trips equaled or exceeded the entire elapsed time of the trips. One of three Expenditure Officers approved each invoice.

For example, one invoice identified a trip where the departure from Edmonton was 11 AM on June 16, 2005 and the return to Edmonton was 7 PM on June 18, 2005. The total elapsed time for this trip was fifty-six hours. The invoice claimed fifty-nine hours for this trip.

The contract provided for both a daily and a separate hourly rate. Although the contract did not require the use of the hourly rate to a maximum of the daily rate, continuous billing should have been disallowed. Billings and payments should have been limited to preparation, travel and event attendance time.

Travel Expenses

Contracts required compliance with the Public Service Subsistence, Travel and Moving Expense Regulation (the Regulation) when submitting travel expenses. The requirements of the Regulation were not consistently followed when travel expenses were claimed.

For example, the expenses claimed for the month of June, 2005 included both \$1,710 in mileage and \$365 for gasoline. The Regulation does not permit claims for fuel or other vehicle costs where mileage is being reimbursed. The total amount of ineligible travel expenses paid was \$1,538.

Multiple Billings

Invoices included multiple billings on fourteen separate dates. The amount of multiple billings ranged from two hours to one day.

Twelve of those instances occurred during the month of November, 2005, during which period two separate contracts existed.

- On five of those dates the amount of additional billings was three hours or less.
- Detail included on invoices was not sufficient to determine if the activities undertaken would have required the number of hours billed.

Management sought, and received, representations for the November multiple billings. The response did not clarify the multiple billing.

One invoice included two separate billings for January 24, 2005. One billing line stated "one day" and the second line indicated "9 hours". The activity descriptions attached to those two items are different and mutually exclusive.

Alberta Foundation for the Arts Board and Committee meetings took place in Calgary on February 23, 2006. An honoraria payment was made for nine hours of Foundation Board and Committee work on February 23, 2006; AAND was also billed for research that day. As neither AAND nor the Foundation would have been aware of amounts billed to the other entity, Expenditure Officers could not have identified or questioned the billings.

Contracting Processes

Three contracts were entered into with AAND. The first two contracts were to assist in the organization and coordination of the Aboriginal Centennial Initiative. The

maximum amount payable under these contracts was \$123,000. The third contract was to manage the development of an Edmonton Aboriginal Gathering Place. The maximum amount payable under this contract was \$35,000 (\$30,000 for fees and \$5,000 for expenses).

Contract Administration and Monitoring

Certain aspects of contract administration were satisfactory. For example, the contracts contained reasonable terms and conditions to govern the contractual relationship, including terms governing billing detail, reporting, identification of deliverables, insurance and indemnities.

Contracts and amendments were approved by individuals with the delegated authority to enter into or to amend contracts.

Other areas of contract administration and monitoring require improvement. Contracts and amendments were not executed on a timely basis. The first two contracts entered into were executed two months after services commenced. The second contract was amended twice to extend both the term of the contract and the fees payable under the contract. Neither amendment was executed until after the maximum amount payable under the contract had been exceeded. The second amendment was not executed until one month after the termination date of the contract.

Documentation Supporting the Decision to Contract

Documentation retained did not demonstrate that contracts were approved in accordance with all the principles outlined in the Accountability Framework for Contracts. Specifically:

- We obtained no evidence that service delivery alternatives were considered.
- No risk analysis was prepared discussing the risks associated with contracting for the services to be provided.

Contract approval documentation indicated that one of the justifications for sole sourcing the contract(s) was the relatively low dollar value of the contract(s). Our analysis of contract documents indicates that the first two contracts, and associated amendments, were for the same scope of work. The total maximum amounts payable under this series of contracts was \$123,000. If AAND had identified the total scope of the contract at the time the original contract was entered into, the department's contract policy, and the Agreement for Internal Trade would have required that a competitive process be used.

Deliverables

The third contract was for project management in the development of an Edmonton Aboriginal Gathering Place. AAND was billed \$30,000 for activities undertaken, the maximum amount of fees allowed by the contract. AAND was unable to obtain funding for the development of the facility. As a result, further work was suspended in March of 2006.

We have the following observations relating to deliverables under this contract:

Invoices prepared for this contract identified activities such as researching Aboriginal Gathering Places and preparation of an action plan for the development of the Edmonton Aboriginal Gathering Place. An action plan document was received. However, documented research provided was limited to pages printed from various websites and did not include a summary, analysis, or interpretation on its applicability to the project or the action plan.

A key deliverable of the contract was to identify potential funding sources from the various levels of government. No written record was provided of the results of specific meetings with representatives of other government levels.

Appendix A - Audit Criteria

With respect to contracts:

- To determine if contract(s) contained clauses identifying:
 - Detailed deliverables and/or reporting requirements for the contractor;
 - Invoicing standards or requirements;
 - The maximum amount payable under the contract, supplemented by hourly rates of pay and reimbursable expenses;
- To determine if contract(s) were approved in accordance with the principles outlined in the Accountability Framework for Contracted Services;

With respect to invoices:

- To determine if invoices contained or are supported by information regarding the quantity and nature of services provided;
- To determine if fees or expenses were claimed more than once;
- To determine if the invoice and supporting information was prepared in accordance with contractual requirements or other authoritative guidance such as the Public Service Subsistence, Travel and Moving Regulation and the Committee Remuneration Order;

With respect to grants:

- To identify if an agreement was, or should have been, in place to govern the payment;
- To determine what conditions were required to be met prior to payment, and to obtain evidence that such conditions were met prior to payment;
- To determine if the payment was authorized in accordance with applicable policy and/or accountability framework.