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Private and Confidential

Office of the Premier
Deputy Minister's Office
Government of the Province of British Columbia
Room 272 – West Annex
PO Box 9041 Stn Prov Govt
Victoria, BC V8W 9E1

Attn: Jessica L. McDonald,
Deputy Minister to the Premier and Cabinet Secretary

September 28, 2007

Dear Ms. McDonald:

Review – Mr. Paul Taylor

Mandate

KPMG Forensic Inc. (“**KPMG**”) was formally retained on April 13, 2007 by the Deputy Minister to the Premier and Cabinet Secretary (the “**Client**”) on behalf of the Province of British Columbia (the “**Government**” or “**Province**”) to independently review the facts and circumstances regarding an August 23, 2003 email (“**Email**”). The Email was authored by a government relations consultant formerly with a British Columbia based government relations firm (the “**Government Relations Firm**”) that has since closed.

The purpose of our review was to confirm the authenticity of the Email, to clarify, where possible, the content of the Email and the events surrounding the Email, as well as to review Mr. Taylor's actions as they related to the British Columbia Automobile Dealers Association (“**BCADA**”) or its members, while he held the position of Deputy Minister, Ministry of Finance for the Province so as to allow the Government to make its own assessment of Mr. Taylor's conduct, focused around the following issues:

- Whether Mr. Taylor's dealings with the BCADA and its members were compliant with the standards of conduct accordant with Mr. Taylor's role as Deputy Minister; and

- Whether Mr. Taylor attempted to influence the Government on behalf of the BCADA or its members during his tenure as Deputy Minister (“**Influence**”) in a manner that was inconsistent with his position.

At the conclusion of our review, we prepared a full-length written report of our review procedures and findings (“**Detailed Report**”) which will soon be issued to the Government. Legal counsel for the Government conducted a preliminary review of the Detailed Report to consider the nature and extent of personal information outlined in the Detailed Report in the context of Privacy legislation in the Province of British Columbia. As a result, KPMG was instructed to prepare this summary reporting letter of our findings removing most references to third parties and other information identified by legal counsel as personal information. The Government has confirmed to KPMG that it will obtain any required written consent regarding personal information from individuals prior to releasing this report.

The reader is cautioned that in accordance with our reporting instructions, this letter has been prepared to provide a high-level summary of our findings and it omits much of the detailed findings found in our Detailed Report as a result of privacy concerns. In particular, we have not incorporated interview and other evidence we gathered regarding the relationships between individuals, the specific text of the Email and much of the interview evidence addressing the specific passages contained in the Email. This represents a significant limitation on our ability to report our detailed findings but it does not impact the findings set out herein in terms of Influence and the Standards of Conduct.

The determination of whether information contained in this reporting letter is personal is a legal matter beyond the scope of our expertise. KPMG has therefore relied on the legal counsel for the Government to provide this assessment.

Background

The Email refers to a fishing trip on August 23, 2003 involving Mr. Taylor and the government relations consultant. The government relations consultant makes a number of statements and comments in the Email, some of which he attributes to Mr. Taylor. The topic of the Email was the BCADA (which has since changed its name to the New Car Dealers Association of British Columbia). The Email also addresses the following general topics:

- BCADA management issues;
- A potential opportunity for the Government Relations Firm to provide services to the BCADA and the possible cost;

- Mr. Taylor's relationship and ongoing interaction with members and employees of the BCADA;
- A \$1.0 million fund; and
- A proposal for a used car vehicle registry and Mr. Taylor's and others views on the merits of this proposal.

Mr. Paul Taylor

Mr. Taylor joined the BCADA in approximately May 2000 and held the position of President and Chief Executive Officer. In early June 2001, Mr. Taylor joined the Government in the position of Deputy Minister, Secretary to Treasury Board, Ministry of Finance. At that time, there were three Deputy Ministers in the Ministry of Finance serving concurrently, including Mr. Taylor. We were told by public officials that the responsibilities of the Deputy Ministers were divided up with Mr. Taylor.

Effective April 1, 2002, Mr. Taylor also became the Deputy Minister of Finance. He continued to hold the position of Secretary to Treasury Board until another individual became the Deputy Minister, Secretary to Treasury Board, in August 2004. Mr. Taylor continued in the role of Deputy Minister of Finance following the appointment of this other individual until September 2004 when he joined the Insurance Corporation of British Columbia as President and Chief Executive Officer. ICBC is a Provincial Crown Corporation established in 1973. Mr. Taylor continues in his role at ICBC at the date of this report.

BCADA

The BCADA is a voluntary association of over 340 new car and truck dealers in British Columbia with executive offices in Richmond, British Columbia. According to their website, the BCADA's purpose is to:

“represent franchise new car and truck dealers in matters of common interest – to create an industry voice that represents each dealer's concerns relative to public, media, government and industry matters. The Association also creates partnerships, alliances, and other business connections that result in services and products being made available to members on an exclusive or cost-effective basis.”

The BCADA formally changed its name to the New Car Dealers Association of British Columbia in June 2004.

Government Interaction with the BCADA

Interviewees told us that interaction between the Government and the BCADA and its representatives took place as part of the activities of a number of Government ministries. We were told that interaction occurred between the BCADA and the Government involving the Ministry of Small Business and Revenue and Ministry Responsible for Regulatory Reform (which was renamed from Ministry of Provincial Revenue and later to Small Business and Revenue), and to a lesser extent with the Ministry of Finance. Our review was focused primarily on the interaction with these Ministries.

August 23, 2003 Email

The Email that is the subject of our review was sent from the government relations consultant to two colleagues on August 23, 2003. The time stamp of the message is 6:15pm and the corresponding email string finished with a response by a colleague on August 24, 2003 at 10:16am. The Email appears to be the author's depiction, for the benefit of his colleagues, of a discussion with Mr. Taylor. The author makes a number of statements which he attributes to Mr. Taylor. The outgoing message from the author contains a subject line making reference to the BCADA.

One colleague replied by email to the author at 10:55pm on the same day. A second colleague replied the following day to both the author and the other colleague responding with what appears to be his view on pursuing work with the BCADA.

The Email entered the public realm and it was the subject of media articles. The Email became the subject of an article in a Canadian newspaper on March 30, 2007. A poor quality paper copy of the Email was provided to KPMG by the Province at the start of this review. KPMG subsequently met with the author and he provided us with an improved paper copy of the Email.

As mentioned previously, we have been advised by the Government that we are unable to incorporate the specific text of the Email in the body of this summary reporting letter.

Approach

We initially sought to clarify whether the Email provided to us by the Province was authentic and whether the events that the Email intimates took place occurred. Our focus then moved to reviewing the specific comments and statements in the Email made by the author. Our approach generally focused on a review of selected electronic and paper documents combined with interviews of individuals who were likely to have knowledge of the Email and Mr. Taylor's conduct in respect of issues of interest to the BCADA and its members. We spoke to 34 individuals, some on multiple occasions. The volume of evidence we gathered from these

individuals is substantial. We reviewed documents from the Ministry of Finance and the Ministry of Small Business and Revenue because it was evident that these Ministries had a more active role in dealing with the BCADA on behalf of Government. In particular we reviewed the following:

- Available documentation related to Mr. Taylor’s calendar, telephone records and correspondence;
- Telephone records of Mr. Taylor’s former executive assistant;
- Mr. Taylor’s Ministry of Finance correspondence files and select Ministry of Finance correspondence identified by a key word search criteria provided by KPMG;
- Calendar entries and correspondence relating to the BCADA, provided by Minister Thorpe;
- Documentation related to changes and proposed changes in tax policy, including Revenue Binders and the Budget Legislation Briefing Books;
- Documentation related to the administration of tax policy issues impacting the members of the BCADA;
- Treasury Board Major and Minor Minutes, to assess whether there were requests to access Government contingencies related to the BCADA or its members; and
- Emails of certain government employees identified by key word search criteria provided by KPMG.

The period we reviewed began in June 2001 and ended in September 2004. Since Mr. Taylor’s departure from Government approximately three years have passed. It did not surprise us, therefore, to find that at times, there was a divergence in the detail and depth of what interviewees recalled about the issues under review. The reader should be aware that out of necessity and in the interest of brevity, we have focused our findings presented in this summary reporting letter to the particular issues under review and any contradictions in the evidence that impact these issues. We have not attempted to outline or contrast all documentary or interview information we gathered.

Scope of Review

Documents and Information Reviewed

In preparing our report we have reviewed and relied upon the following documents and information:

- E-mail dated August, 23 2003;
- Canadian Newspaper article dated March 30, 2007;
- Information about government employees, officials and processes obtained from publicly available online resources;
- A summary of various enacted changes to tax policy that have an impact on the BCADA or its members as provided by the Ministry of Finance;
- Phone records for the period from January 2001 to December 31, 2005 for Mr. Taylor's and his executive assistant's office telephone lines;
- Various on-line directories and internet resources, such as the BC Government Directory and excerpts from the 2003 and 2004 BC Government directory;
- Mr. Taylor's list of contacts, appointments and e-mails from his Microsoft Outlook obtained from a system 'snapshot' taken March 26, 2004;
- The paper copy business calendar of Mr. Taylor for the period June 6, 2001 to October 29, 2004;
- Letter from an individual dated July 26, 2004 to Minister Thorpe;
- Letter from an individual dated March 22, 2005 to Minister Thorpe and Minister Hansen;
- Revenue Binders for budget years 2001 to 2005;
- Various Budget Legislation Briefing Books for budget years 2001 to 2005;
- Various Treasury Board Major and Minor Minutes and agendas from June 2001 to February 2005;
- British Columbia Standards of Conduct for Public Service Employees, Policy Directive 5.4;

- Various Comments to Standing Committee which includes BCADA Submissions to the Government from 2001 to 2004 as provided by the Ministry of Finance;
- Various Ministry of Finance correspondence for the period June 2001 to October 2004;
- Ministry Initiatives Fund reconciliation and supporting documents provided by a public official for fiscal years ending March 31, 2002-2005 for the Ministry of Finance;
- Excerpts of the Budget Estimates and Supplements to the Estimates for fiscal years ended March 31, 2002 through 2005;
- System queries generated by the Ministry of Finance to identify any payments by the Government to key individuals who were of interest in our review;
- Calendar entries of Minister Thorpe and the Ministry of Small Business and Revenue retrieved from the 'CLIFF' system, provided by Minister Thorpe;
- Selected emails and calendar entries provided by a relevant public official related to the BCADA and auto export issues;
- Selected emails provided by a relevant public official;
- Various BC Government organizational charts;
- Letter from a reader to the author of a Canadian Newspaper article; and
- Select hard copy and electronic documents obtained from the Ministry of Small Business and Revenue.

Interviews and Discussions

During the course of our investigation, we interviewed or held discussions with Mr. Taylor and 33 individuals both within and outside the Government.

KPMG was told that certain key interviewees had spoken with Mr. Taylor in advance of their interview with KPMG.

Scope Limitations

Our investigation was subject to a number of scope limitations, the most prominent of which are as follows:

- We were unable to contact one of the witnesses;

- The Government’s electronic document preservation policies limit the period that server backup tapes are maintained. Therefore we were unable to obtain most of Mr. Taylor’s emails for the period of our review. Our review was limited to a ‘snapshot’ of his email at March 26, 2004. Certain public officials provided us with selected emails they were able to identify between themselves and Mr. Taylor during the period of our review;
- We conducted a review of telephone calls received by and made by Mr. Taylor and his executive assistant. Our review was limited to calls to and from certain individuals, to the extent that their telephone numbers were obtained. A large portion of the telephone calls received by Mr. Taylor and his executive assistant were passed through a switchboard and this precludes the telephone number from being captured. Approximately 93% of Mr. Taylor’s telephone calls and 74% of his executive assistant’s telephone calls received were routed through the switchboard;
- We were unable to obtain a phone number for one of the recipients of the Email and therefore calls with Mr. Taylor and this individual, if any, have not been considered in our analysis of telephone records;
- We do not have a complete listing of all phone numbers associated with each individual of interest during the period. There may have been numerous numbers including home, cellular phone, workplace and other numbers. It is also possible that telephone numbers changed in the period of review;
- We were unable to obtain the telephone records for Mr. Taylor’s cellular telephone from his service provider, TELUS, because the cellular telephone was registered to Mr. Taylor personally;
- Mr. Taylor brought a folder to the interview that he told us contained his personal notes in preparation for the interview and emails. We asked that Mr. Taylor provide us with any relevant information he had and in particular, we asked if he would provide the contents of the folder and the emails. The contents of the folder and emails were not provided but Mr. Taylor subsequently sent us a list of the contents of the folder. Mr. Taylor told us during his interview that he had “*some emails*” with a particular individual external to the Government but he subsequently confirmed in writing that he only had one general email with a distribution list of recipients which was unrelated to the KPMG review. Apart from the personal notes, the items Mr. Taylor represents were in the folder would not appear to impact on our review and its outcome. Mr. Taylor also offered to provide us with access to his calendar; however he was only willing to provide entries for the period from January 1, 2003 to September 30, 2004. Because our period of review covered the entire time that Mr. Taylor was with the Government, we chose to obtain his calendar from another source; and

- KPMG received a number of telephone calls from individuals claiming to have information and documentation relevant to the review that they intended to provide to KPMG. The first call was received June 12, 2007, and our last contact was July 19, 2007. The individuals were encouraged to deliver the information and documentation, however, this information was never received by KPMG.

In reviewing our findings, the scope limitations set out above must be taken into consideration, as it is possible that had we not encountered these scope limitations, our findings might have been impacted.

Findings

The findings of our review are set out below in three broad categories, as follows:

- The content of the Email;
- Evidence regarding the issue of Influence or attempted Influence by Mr. Taylor; and
- Evidence related to the Standards of Conduct for Public Service Employees Policy Directive 5.4 (the “**Standards of Conduct**”).

The Content of the Email

As outlined previously, our comments that follow have been prepared in accordance with our reporting instructions and therefore exclude the specific text of the Email and much of the detailed findings found in our Detailed Report. In particular, we have not incorporated interview and other evidence we gathered regarding the relationships between individuals, the text of the Email and much of the interview evidence addressing the text in the Email. The evidence indicates that Mr. Taylor had business and personal relationships to a varying extent with representatives of the BCADA and its members and the author of the Email. These relationships are discussed in our Detailed Report.

The evidence gathered with respect to the Email suggests that:

- The Email is authentic. Many issues and events referred to in the Email were found to be consistent with what actually occurred.
- In reference to the fishing trip on August 23, 2003, Mr. Taylor could not specifically recall the event occurring or the specific conversations that occurred. Other evidence we obtained regarding the event was consistent.
- Mr. Taylor provided KPMG with what he thought might have been said in the Email and what might have been intended during the conversation referenced in the Email. Mr. Taylor

was able to recall that he had spoken to certain individuals referenced in the Email about particular issues referred to in the Email but often could not recall when. At times, Mr. Taylor emphasized that the manner in which the Email had characterized comments attributed to him would not have been what he said.

- There is reference in the Email to a \$1 million fund but it is unclear what this reference is referring to. We found no evidence of a \$1.0 million special contingency fund within the Government directed at the BCADA or its members. We were told by a number of interviewees that the BCADA has a contingency fund referred to as a “*special issues fund*” but that the dollar amount was historically less than \$1.0 million. Mr. Taylor said that the \$1 million special fund was not making reference to the Government but to a BCADA special issues fund which was created after he left the BCADA.
- We obtained clarification from interviewees regarding the Used Car Registry mentioned in the Email. We understand that the Used Car Registry was an initiative discussed by the Government and the industry around developing a database on used car history. Mr. Taylor could not recall very much about the Used Car Registry. Neither Mr. Taylor or Minister Coleman could recall speaking about the Used Car Registry. Minister Coleman was clear that he made the decision not to proceed with the Used Car Registry without Mr. Taylor being involved and told us there were a number of sensible reasons he took this decision.

Influence or Attempted Influence by Mr. Taylor

One of the concerns of the Government, given the statements made in the Email, is whether Mr. Taylor Influenced or attempted to Influence the Government on behalf of the BCADA and its members during his tenure as Deputy Minister.

We identified points of possible interaction between Mr. Taylor and the BCADA, the Government Relations Firm and certain representatives of these organizations. In order to assess the interaction, we reviewed Mr. Taylor’s calendar entries, Mr. Taylor’s telephone calls, various documents and conducted interviews. We also identified points of regular interaction between the BCADA and the Government during the period of our review and looked for evidence of Mr. Taylor’s involvement. Although we did identify various relationships and interactions between Mr. Taylor and individuals relevant to the issues under review, our review did not identify any instances of Influence.

We have the following observations and findings addressing the issue of Influence:

- There are a number of entries in Mr. Taylor’s calendar that made reference to individuals of interest or the BCADA. For the meetings, we were able to obtain some information on whether the meetings occurred and their purpose. Some of the explanations we received from interviewees regarding the meetings in Mr. Taylor’s calendar dating back to 2001 were

unclear as to what was discussed or contradictory on whether the interviewee thought a meeting had actually occurred.

- There are 21 identified phone calls in the telephone records we were able to obtain, which were made from Mr. Taylor's office phone to individuals of interest and the BCADA office during the period of our review. A total of 16 of these identified calls were to the BCADA main telephone¹ number, ranging from 1 to 26 minutes in duration², as follows:
 - 11 calls between June 5 and October 23, 2001 (within 6 months of Mr. Taylor leaving the BCADA);
 - Two calls between January and October 2002, the call on October 8, 2002 was approximately 25 minutes in duration;
 - One call on July 29, 2003 (less than a month before the date of the Email); and
 - Two calls in January 2004.

There are also ten identified phone calls from the office phone of Mr. Taylor's executive assistant, to the BCADA office and one call from her office phone to an individual of interest. We obtained minimal information from interviewees regarding the purpose and particulars of individual phone calls. Mr. Taylor thought that the calls he made to the BCADA in 2001 may have been to individuals at the BCADA in respect of transition issues.

- Our review of Mr. Taylor's emails, which was limited by the emails available, did not identify any email between Mr. Taylor and individuals of interest.
- Mr. Taylor did not attend meetings with the BCADA, hosted by the Ministry of Small Business and Revenue and attended by representatives of the Ministry of Finance, where both tax policy and tax administrative changes were discussed.
- As Deputy Minister responsible for Tax Policy, Mr. Taylor participated in and would have been present during meetings where proposed changes impacting the BCADA and its members would have been discussed with the Minister of Finance. However, we were also told that the final decisions with respect to tax policy changes were made by the Minister of Finance, and may have been made in consultation with the Premier. No one we interviewed told us that Mr. Taylor had at any time attempted to Influence the Minister of Finance in terms of proposed changes in tax policy that impacted the BCADA or its members.
- The most significant changes to tax policy during the period of our review, which we were told impacted the BCADA or its members, were the increases at July 31, 2001 and

¹ We have not been able to determine to whom Mr. Taylor was speaking at the BCADA.

² 3 of the 16 calls were more than 5 minutes in duration. 13 of the 16 calls were 5 minutes or less in duration.

February 16, 2005 to the threshold at which luxury tax was applied to vehicles. A number of interviewees told us that the change in July 2001 was related to the Liberal's election platform, was made without staff involvement and was therefore in no way influenced by Mr. Taylor. Mr. Taylor left the position of Deputy Minister, Ministry of Finance in September 2004 prior to the change in the luxury tax in February 2005.

- We identified correspondence between Mr. Taylor and an individual associated with the BCADA related to an automobile export issue that was raised by the BCADA for consideration by the Government. The correspondence reflects that Mr. Taylor told the individual that the Government would not be making the requested changes. The only other correspondence between Mr. Taylor and the BCADA appears to be general distributions made to multiple recipients that are of an informative nature only.
- Other correspondence within the Government involving the BCADA (and its members) and Mr. Taylor appeared to have occurred in the normal course of business and Mr. Taylor's role as Deputy Minister.
- We found no evidence of the \$1.0 million contingency fund referenced in the Email contained within the Government to which Mr. Taylor had access without submitting a request to Treasury Board. Furthermore, we reviewed Treasury Board Major and Minor Minutes and found no evidence of such a request made by Mr. Taylor. We were told about the existence of a BCADA contingency fund referred to as the "*special issues fund*" although we were told that the amount was less than \$1.0 million.
- We reviewed the spending of the Ministry of Finance, Ministry Initiatives budget and search results related to a system query for any payments made by the Government to the BCADA, and key individuals of interest. We found no evidence of Government spending related to the aforementioned individuals or organizations.

We asked many interviewees whether they had knowledge of any attempt by Mr. Taylor to influence Government actions in terms of changes sought by the BCADA and its members. They were universally consistent in their response that they had no knowledge of this occurring. Most people we spoke to who routinely interacted with Mr. Taylor were aware of Mr. Taylor's employment history, and said they would have been alert to attempts by Mr. Taylor to influence Government in a manner they considered inappropriate. Most had the view that Mr. Taylor was careful in terms of how he conducted himself and some thought Mr. Taylor was quite cautious in terms of what he perceived as possible conflicts of interest (and provided examples). We also heard from interviewees that Mr. Taylor is a person of integrity. Others told us they did not know Mr. Taylor well enough to comment one way or the other.

Standards of Conduct

You asked us to comment where possible on evidence obtained that would assist the Government in its assessment of Mr. Taylor’s conduct in relation to the “Confidentiality” and “Conflict of Interest” sections of the Government *Standards of Conduct*.

We found no evidence in the work we performed that Mr. Taylor:

- used confidential information received through his employment with the Government to further his private interests, or make personal gains;
- divulged confidential information received through his employment with the Government;
- was under obligation to a person who might benefit from or seek to gain special consideration or favour;
- benefited from the use of information acquired by reason of his employment;
- benefited from a government transaction over which he could Influence decisions;
- requested or accepted any personal gifts or benefits that arose out of his employment; or
- solicited or accepted gifts, donations or free services for work-related leisure activities.

Restrictions and Limitations

This summary reporting letter has been prepared in accordance with our reporting instructions, and provides a high-level summary of our findings while omitting much of the detailed findings contained in our Detailed Report due to privacy concerns. This represents a significant limitation on our ability to report our detailed findings but it does not impact the findings set out herein in terms of Influence and the Standards of Conduct.

As with our Detailed Report, this summary reporting letter was prepared to assist the Government in clarifying the facts surrounding the Email and whether there was any evidence to support or refute the occurrence of Influence by Mr. Taylor in respect of the BCADA or its members. Our summary reporting letter is not to be published, circulated, reproduced or used for any purpose, other than that outlined above, without our prior permission in each specific instance. We understand that our summary reporting letter may be disclosed by the Government to the public.

We will not assume any responsibility or liability for any costs, damages, losses, liabilities or expenses suffered by the Government as a result of the circulation, publication, reproduction, use of or reliance upon our report, which is not consistent with the restrictions above, the scope of our



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mandate and the terms of our engagement contract. We will not assume any responsibility or liability for any costs, damages, losses, liabilities or expenses incurred by anyone else as a result of the circulation, publication, reproduction, use of or reliance upon our report.

Comments in our report are not intended, nor should they be interpreted to be, legal advice or legal opinion.

Our report is based upon information available to us at the date thereof. We reserve the right to review information that becomes available after the date of our report and revise our report as required.

Yours very truly,

KPMG FORENSIC INC.