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From: Stephen Ward
Executive Director
Internal Audit & Advisory Services

Re: 2016/17 First Year Audit of Rural Dividend Program Funding Recipients

We are pleased to provide you with our memorandum on the 2016/2017 First Year Audit of Rural Dividend Program Funding Recipients. The Program was introduced in the middle of 2015 and launched in April 2016. It intends to provide \$100 million in funding over a four year period to support rural communities in BC that are located outside the boundaries of Metro Vancouver and the Capital Regional Districts. The funding is structured to grant up to \$25 million each fiscal year (two project application intakes per year) to rural communities with a population of 25,000 or less, in order to strengthen and expand their local economies.

The Ministry of Forest, Lands, Natural Resource Operations & Rural Development requested Internal Audit & Advisory Services (IAAS) audit proponents who received funding through the first and second intake process within the 2016/17 fiscal year. The first intake process began and was funded by 2016. The second intake process began in 2016 and was funded by the end of the 2016/2017 fiscal year. Special circumstance cases were only sample tested if funding was received within the fiscal year.

The purpose of this engagement was to:

- Provide the Ministry's executives reasonable assurance that project applicants awarded with the Program funding have complied with the terms and conditions of the grant agreement, and their respective project costs are supported by appropriate documentation; and
- Review the Risk Assessment and Audit Methodology Process of the Program and provide management with feedback for improvement.

The total projects funded for the year amounted to \$24,182,166 for a total of 311 proponents, of which \$4,163,828 (23 proponents) were examined using random sampling methods. The 23 proponents selected for random audit are broken down into types of funding recipient as follows:

- Two project development;
- 10 individual applicants;
- Four partnership initiatives;
- One special circumstance; and
- Six proponents were randomly selected for audit from a list of projects that management deemed to be significant risk, based on the results of the Program's monitoring process (four individual applicants and two partnership initiatives).

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

Observations and Recommendations

Out of the 23 proponents, 12 resulted in an Audit and/or Program non-compliance resulting from major¹ exceptions.

- **Audit non-compliance:** an instance where a proponent has not provided sufficient information to complete the audit testing, or prevent IAAS' ability from making a reasonable judgement.
- **Program non-compliance:** an instance when a proponent is not meeting criteria detailed in the grant agreement or program guide (i.e., did not submit interim reporting, financial contribution falls below threshold, etc.).

The other remaining 11 proponents resulted in no exceptions, or minor² exceptions from immaterial monetary claims or the proponents have properly communicated late filing of extensions to the Program.

The following table identifies seven types of exceptions:

- One exception that can result in Audit non-compliance; and
- Six exceptions that can result in Program non-compliance, identified based on the results of the audit.

¹ Major exceptions are defined as exceptions that involve claims of significant ineligible expenses (significant is based on professional judgement taking into consideration of their total funded amount). Any report of ineligible salary and wages expenses are considered major as IAAS only test samples of transactions within an expense report, therefore total impact is yet to be determined. Proponents who did not appropriately file project extensions in time or were not transparent with the Program regarding project delays are also considered a major exception.

² Minor exceptions are defined as exceptions that are of insignificant monetary infraction, or where proponents have not used the appropriate avenues to file project extensions but have been transparent with the Program regarding project delays.

The table also details the number of proponents' instance that resulted in an exception, where one proponent may have one or more exceptions.

Summary of Exceptions	Major Exception (out of 12)	Minor Exception (out of 11)	Total (out of 23)
<i>Audit Non-Compliance</i>			
1. Insufficient supporting documents provided to validate expenses.	3	-	3
<i>Program Non-Compliance</i>			
2. Program funds spent when project has not started.	1	-	1
3. Program funds spent on ineligible salaries & wages, i.e. organizational salaries.	3	-	3
4. Program funds spent on other ineligible expenses included, i.e., taxes, food and beverage, gifts, insurance, donations, other operational costs, legal, etc.	4	8	12
5. Program funds spent on costs related to another project/phase not stipulated in agreement.	4	-	4
6. Reported expenses incurred by partners/contractors as own, or reimbursed contractor for their cash contribution when contractor is not listed as partner in agreement.	2	-	2
7. Project extension not filed or filed after agreement's project end date.	6	1	7

Based on the audit results, the following is a statistic of proponents resulting in zero to four exceptions:

Number of Proponents with:	Major Exception	No / Minor Exception	Total
Zero Exception	-	3	3
One Exception	5	7	12
Two Exceptions	4	1	5
Three Exceptions	2	-	2
Four Exceptions	1	-	1
Total	12	11	23

The following is a list of recommendations proposed based on the exceptions noted. One proponent may have one or more recommendations for which management should consider. A list of detailed comments and recommendations pertaining to each proponent has been provided to Program management to follow-up where necessary.

Summary of Recommendations
A. Create guidance document outlining eligible expenses with instruction on keeping eligible project expenses separate from other projects. Share and review guidance document with funding recipients.
B. Review and revise Program's eligible cost policy involving administration and operational costs.
C. Provide guidance document on extension process. Share and review guidance document with funding recipients.
D. Management to conclude if proponents are non-compliant with Program requirements. Program to determine follow-up actions for non-compliant proponents, including but not limited to: <ul style="list-style-type: none">• Providing additional information and support;• Notification of disqualification from future funding; or• Recovery of Program funds.

There were added challenges in the audit for five of the 23 proponents that did not file November Interim or Final Report(s), resulting in reduced ability to validate the amount of claimable eligible expenses and the number of direct jobs created as a result of the project(s).

IAAS conducted site visits with four proponents without issues.

IAAS has reviewed the Risk Assessment and Audit Methodology Process, and provided comments and feedback for improvement to Program management.

We would like to thank the management and staff of the Rural Dividend Program, as well as the representatives of the projects we reviewed, for their assistance and cooperation throughout this audit.

As the scope of the audit only covers the first fiscal year intakes and project funding, we acknowledge the Program is making continuous progress in the improvement of their application and grant agreement process to mitigate identified risks to the Program in the intakes thereafter.



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Appendix 1 – List of Projects Selected for Review

#	Reference #	Applicant Type	Funding Request	\$ Amount of Ineligible Expenses Excluding Salary and Wages ¹	# of Ineligible Staff Salary and Wages Included ²
1	2016100064	Project Development [*]	\$10,000	-	-
2	2016100206	Project Development [*]	\$10,000	-	Two - \$1,689
3	2016110009	Individual Applicant	\$77,760	1,192	-
4	2016060060	Individual Applicant	\$100,000	760	-
5	2016060085	Individual Applicant [*]	\$100,000	124,976	-
6	2016060143	Individual Applicant	\$100,000	-	-
7	2016060174	Individual Applicant	\$100,000	1,648	Misclassified ^{**}
8	2016060217	Individual Applicant	\$100,000	-	All - \$6,000
9	2016100068	Individual Applicant	\$100,000	107	-
10	2016100097	Individual Applicant	\$100,000	2,334	Misclassified ^{**}
11	2016100226	Individual Applicant	\$100,000	939	Misclassified ^{**}
12	2016100228	Individual Applicant	\$100,000	1,396	-
13	2016100235	Individual Applicant	\$100,000	41	-
14	2016060033	Individual Applicant	\$100,000	917	Three - amount undetermined
15	2016060049	Individual Applicant	\$68,329	-	-
16	2016060168	Individual Applicant	\$99,197	-	-
17	2016100246	Partnerships Initiative	\$369,000	51,597	Inconclusive ^{***}
18	2016110006	Partnerships Initiative	\$499,948	137,873	Misclassified ^{**}
19	2016100207	Partnerships Initiative	\$500,000	1,527	-
20	2016060218	Partnerships Initiative	\$498,000	-	-
21	2016100018	Partnerships Initiative	\$499,094	40,654	Misclassified ^{**}
22	2016100204	Partnerships Initiative	\$300,000	-	-
23	2017030007	Special Circumstances	\$132,500	44,713	-

¹ Projects not yet completed have time to incur appropriate eligible expenses that may prevent the project from being offside with the grant agreement terms, prior project completion.

² Salary and Wages are separated as the total cost impact has not been assessed due to sampling of transactions that cannot be reasonably extrapolated.

^{*} These projects are completed, or have claimed to be completed; therefore any ineligible expenses identified in the audit are considered final as no new costs can be incurred to meet eligibility requirements.

^{**} These are costs that have been improperly classified as Salary and Wages when costs were related to professional fees, training stipend, or labour costs paid by contractors. Not all identified misclassified costs are considered eligible.

^{***} There were insufficient reporting and audit evidence to verify any costs incurred for the project; IAAS could not conclude if there were any inappropriate Salary and Wages included.

Appendix 2 – Detailed Action Plan

Rec. #	Recommendations	Management Comments (Action Planned or Taken)	Target Date
1.	Create guidance document outlining eligible expenses with instruction on keeping eligible project expenses separate from other projects. Share and review guidance document with funding recipients.	<ul style="list-style-type: none"> Program staff will create a guide detailing eligible/ineligible costs with instructions on how to keep project expenses separate from other organizational/project expenses: <ul style="list-style-type: none"> ➤ The guide will be distributed to recipients with the Grant Agreement. <p>There is potential to host informational webinars/sessions for recipients on eligible costs and how to use a separate GL for Rural Dividend projects.</p> <p>An Indigenous Coordinator will offer further support to First Nation recipients.</p> <p>A separate section on the website for reporting requirements will be created. It will include the guide document and helpful tips for keeping separate project expenses.</p>	October/ November 2018
2.	Review and revise Program's eligible cost policy involving administration and operational costs.	<ul style="list-style-type: none"> Eligible administration and operational costs will be reviewed during a Program Review, to be completed by an external consultant. 	November 2018
3.	Provide guidance document on extension process. Share and review guidance document with funding recipients.	<ul style="list-style-type: none"> Create a guide on the extension process and include details on how to ensure the process to approval is efficient and timely: <ul style="list-style-type: none"> ➤ Distribute the guide to recipients with the Grant Agreement. ➤ Include the guide and request form with the Interim and Final report reminders. (Program currently includes the request form with interim and final report reminders.) ➤ Create a page on the website that includes the extension guide and request form. 	October/ November 2018

The Detailed Action Plan represents the Rural Dividend Program's response to the issues identified and the four recommendations detailed in the Program review: This document was prepared by the Rural Dividend Program and submitted to Internal Audit & Advisory Services to be included as an Appendix to the report.

Appendix 2 – Detailed Action Plan (continued)

Rec. #	Recommendations	Management Comments (Action Planned or Taken)	Target Date
4.	<p>Management to conclude if proponents are non-compliant with Program requirements. Program to determine follow-up actions for non-compliant proponents, including but not limited to:</p> <ul style="list-style-type: none">• Providing additional information and support;• Notification of disqualification from future funding; or• Recovery of Program funds.	<ul style="list-style-type: none">• Program staff has provided recommendations regarding follow-up actions and communication to audit proponents. Internal Audit & Advisory Services (IAAS) and program staff are currently working together to follow up with proponents on their audit results, based on the recommendations provided:<ul style="list-style-type: none">➤ IAAS will communicate audit results to proponents and, if non-compliant, indicate that program staff will arrange a follow-up conversation regarding the details of the non-compliance. The severity of the non-compliance will determine the follow-up action from program staff.	September 2018

The Detailed Action Plan represents the Rural Dividend Program's response to the issues identified and the four recommendations detailed in the Program review: This document was prepared by the Rural Dividend Program and submitted to Internal Audit & Advisory Services to be included as an Appendix to the report.