

Crown-Indigenous Relations and Northern Affairs Canada

**Métis National Council - Financial
Review**

March 11, 2020



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1. Introduction

1.1 Retainer of Ernst & Young

Ernst & Young LLP (“EY” or “we”) was retained by Crown-Indigenous Relations and Northern Affairs Canada (“CIRNAC”) to conduct a financial review to determine whether CIRNAC funds provided to the Métis National Council (“MNC”) were used in accordance with the financial terms and conditions of the funding agreements for the 2015-16 to 2017-18 fiscal years (the “Period of Review”). Specifically, EY was asked to analyze financial records to assess alleged potential mismanagement by MNC of certain consulting contracts and other uses of CIRNAC funding.

In conducting the financial review, EY was asked to complete the following:

- ▶ Analyze the financial statements and other relevant documents related to CIRNAC funding for the Period of Review
- ▶ Read the funding agreement(s) between CIRNAC and MNC in effect during the Period of Review, including the specific terms and conditions placed on the funding received and eligible expenditures
- ▶ Determine and understand the issues identified from the RCMP
- ▶ Prepare a report providing an assessment on whether funding was expended appropriately and for its intended purpose including recommendations, if applicable, on strengthening management practices and financial controls

1.2 Background

The MNC was formed in 1983 to be a Métis-specific national representative body. The MNC represents the Métis Nation nationally and internationally and receives its mandate and direction from the elected leadership of the Métis Nation’s governments from Ontario, Manitoba, Saskatchewan, Alberta and British Columbia. The MNC is comprised of a democratically elected President and five provincially elected Presidents, representing the Métis Nation of Ontario, the Manitoba Métis Federation, the Métis Nation - Saskatchewan, the Métis Nation of Alberta, and the Métis Nation British Columbia. The MNC is headquartered in Ottawa and represents almost 400,000 Métis across Canada.

We understand that the Assessment and Investigation Services Branch (“AISB”) of CIRNAC received a number of concerns/allegations of potential mismanagement by MNC of consulting contracts for IT services from the RCMP’s Sensitive and International Investigations Division. The concerns raised by the complainant relate to consulting expenditures of up to \$3 million over the last three (3) years.

Our work focused on identifying any evidence to substantiate the allegations raised. This required an analysis of the MNC’s books and records, supporting documentation and discussion with the MNC staff.

1.3 Scope of work

Our financial review covered the period from April 1, 2015 to March 31, 2018 (the “Period of Review”) and included an analysis of the potential uses of CIRNAC funds. Our work focused on payments to third parties, specifically payments for consulting services, but also included reimbursements for travel and expenses incurred by individuals and other expenditures. Payments were deemed to have been funded by CIRNAC if they were coded to CIRNAC funded departments within MNC’s records.

Details with regard to the information and individuals we relied upon and the nature and extent of work performed are included in Section 2.

1.4 Scope limitations

We were not granted complete access to MNC’s books and records. Specifically, we were not permitted by MNC to search their hard copy records for documents to support the items selected for testing nor were we provided with a complete General Ledger (“GL”) for CIRNAC funded programs. The GLs provided for ISC funded programs included revenue and expense accounts only. As such, we have relied on the information provided to us by MNC pursuant to our requests for documentation. We understand from MNC that the majority of the records were in electronic form.

Further, we were not provided with original hard copy supporting documentation for each of the GL entries selected for testing. We were provided with original hard copy documents for a subset of the GL entries selected for testing detailed below. For all other payments selected, we relied on photo copies or electronic documents prepared and provided to EY by MNC.

As a result of these limitations, our work was limited as follows:

- ▶ We were unable to observe whether there were any MNC inter-departmental transfers affecting the use of CIRNAC funding nor could we confirm whether duplicate expenses were recorded in multiple departments

1.5 Restrictions on use of this Report

This Report is intended solely for the information and use of the AISB within the Audit and Evaluation Sector (“AES”) of CIRNAC and is not intended to be and should not be used by anyone without the authorization of CIRNAC. EY assumes no responsibility to any other user of the Report. Any unauthorized persons who choose to rely on our Report do so entirely at their own risk.

This Report is not intended for general circulation or publication. It is not intended to be reproduced or used for any purpose without written permission in each specific instance. We do not assume any responsibility or liability for losses occasioned to any party as a result of circulation, publication, reproduction or use of this Report.

This Report is based on our review of information and documents available to date as described in this Report. In the event further documents or other information become

available that could impact our findings, we reserve the right to review such records and reconsider and amend the findings set out in this Report.

2. Nature and extent of work performed

2.1 Tasks conducted

We relied on the information provided during discussions with MNC employees, documentation obtained while on-site at MNC and documentation provided by the MNC in response to our enquiries. In completing this engagement, we performed the following tasks:

- ▶ Analyzed MNC's departmental income statements from the audited financial statements to identify the programs that received CIRNAC funding. For the CIRNAC funded programs, we obtained electronic copies of the profit and loss section of MNC's GL by program, reconciled the GLs with the departmental income statements and selected a judgmental sample of transactions based on amount, expenditure type, vendor/payee and GL coding for detailed testing
- ▶ Analyzed supporting documentation provided by MNC for the sample of transactions selected to determine the nature and business purpose of the transaction and confirm payment(s) made
- ▶ Held discussions with MNC staff and consultants, the Complainant and former MNC employees.
- ▶ Obtained and read the funding agreements in place during the Period of Review between MNC and CIRNAC.

In order to conduct our work, we have obtained and relied on the following information:

- ▶ Electronic copies of excerpts of MNC's GL by program for the Period of Review
- ▶ MNC audited financial statements and program schedules for fiscal years 2015-16 through 2017-18
- ▶ MNC aged overdue payables detail as at March 31, 2018 (CIRNAC Contribution Agreements)
- ▶ MNC Provider list - CIRNAC Vendor List
- ▶ Various hard copy supporting documents for our sample of payments including:
 - ▶ MNC Finance Voucher forms
 - ▶ Travel and expense forms
 - ▶ Cancelled cheques
 - ▶ Bank statements
 - ▶ Invoices and receipts
 - ▶ Contracts and agreements
 - ▶ Other supporting documentation including deliverables, as required

3. Findings and observations

The following summarizes the facts and information collected in our meetings and discussions held during the course of our financial review.

3.1 General observations

We were provided with some level of supporting documentation for all 229 transactions selected for testing. However, we have identified certain areas for concern based on the documentation provided and procedures followed by MNC during the Period of Review. We classified two (2) transactions as ineligible¹, however based on supplemental information provided and consultations with CIRNAC and MNC it was determined that both transactions were eligible for funding. Based on our work to date and the transactions tested, we did not identify any evidence to substantiate the concerns raised regarding consulting contracts for IT services.

We provide the following additional general observations regarding the information obtained in completing our work including our discussions with MNC and analysis of the documentation provided.

3.1.1 Supporting documentation

EY was not granted physical access to MNC's file storage room but understand that current hardcopy records were maintained in filing cabinets and older records were stored in boxes on site. We did not observe how the records were organized or what information was maintained in the filing cabinets or boxes. Therefore, we are unable to comment on the general organization and state of MNC's supporting documentation. Supporting documentation for all the transactions selected for testing was gathered by MNC staff and provided to EY either in hard copy or electronically.

At MNC's request, only a subset of the hardcopy supporting documentation received from MNC were original documents. This included original invoices, receipts, contracts, bank statements, cancelled cheques and other supporting documentation. After analyzing the original hard copy documents for the subset of transactions selected, EY agreed to MNC's request and accepted either electronic or photo copied documents for the remainder of the transactions selected.

Except as noted below, we received adequate documentation to ascertain the nature and business purpose of the transactions selected for testing and confirmed that payment was made and eligible for CIRNAC funding. However, in some cases, it took multiple requests and several months before obtaining all of the information required to complete our work.

¹ For the purposes of our Report, we define ineligible transactions as those transactions where based on our review of the supporting documentation provided and our understanding of the funding agreement(s) in place, the expenditure does not appear to be eligible for CIRNAC funding based on the nature and purpose of the expenditure.

Our initial document request for the items selected for testing was made on September 7, 2018. Subsequent requests were made on October 1, 2018, November 26, 2018, February 25, 2019, May 23, 2019 and July 17, 2019. The last documents received pursuant to our requests were received from MNC on August 27, 2019. Additional supporting documentation was provided by MNC on October 18 and 31, November 1 and 5, 2019 and January 22 and 29, 2020 in response to our initial draft findings. We understand the time required to fulfill our request was, at least partially, caused by MNC's limited staff, the detailed nature of the requests and the workload being managed by MNC staff in completing their daily duties.

Additionally, we note that the supporting documentation provided included limited evidence to support what, if any, review was completed on the supporting documentation provided prior to payments being issued for the transactions selected. Specifically, what if any, review was completed to confirm that goods/services were provided, the invoices were accurate, compliance with contracts, or the nature of the purchase was consistent with the authorized use of funding. In several instances, where requested, MNC provided supplemental documentation to evidence review and acceptance of invoices by MNC prior to processing payments. The 229 transactions tested represented approximately \$4.34M in expenditures. We had concerns around the level of documentation provided and MNC's procedures for 102 transactions which represent 45% of the transactions tested totaling approximately \$2.02M in expenditures, see further discussion below.

We were told by MNC that MNC Finance Vouchers were used to indicate that the requested payment had been authorized by MNC finance prior to preparing the cheque for signature. There were 16 transactions where we were not provided with a MNC Finance Voucher or the MNC voucher was not signed. Of those 16, there were eight (8) transactions totaling \$172,696 where our only concern was that no Finance Voucher was provided. Additionally, we note the following with respect to the MNC Finance Vouchers provided.

- ▶ We observed incomplete vouchers that did not include information such as voucher number, date, project code(s), account number(s), description(s) of the product or service being purchased or were not signed.
- ▶ The vouchers do not provide any indication of the level of review completed by the individual authorizing the payment, if any. Although, the voucher contains a description field, examples of information contained within that field, when completed, included the invoice number and/or date of the invoice, generic descriptions such as "reimbursement" or "travel reimbursement".
- ▶ The vouchers do not provide any indication of segregation of duties, if any, between payment authorization and cheque preparation. Signatures for payment authorization on the vouchers received were either the Director of Finance or the Director of Operations.
- ▶ We observed that payments for MNC's rent were not supported by Finance Vouchers. We were told that post dated cheques are written and sent to the landlord all at once, therefore Finance Vouchers are not prepared for each individual payment. As a result, we have not included the rent payments tested in the amounts listed above.

- ▶ We were told by MNC that in some cases, payment authorization for travel expense reimbursements was included on the travel expense form and therefore the Finance Voucher may not be signed.

We note that for one of the transactions tested, a \$25,000 invoice from a consulting firm, no contract was signed and the limited details from the invoice did not correspond with the deliverable provided by MNC. Specifically, the invoice indicated that it was to provide services in relation to fiscal year 2016-17 funding proposals, but the deliverable provided was a document requesting funding for the 2015-16 fiscal year. Following our discussions with MNC, we were provided with a confirmation from the vendor stating that the invoice was in fact for the deliverable provided by MNC.

3.1.2 Contracting

As part of our work, we requested any contracts issued to vendors for the transactions selected for testing. As noted above it took several months before we received all the contracts requested. We were not provided with a contracting/procurement policy from MNC. We were told MNC did not always enter into contracts with vendors nor was it MNC's practice to obtain quotes for services in excess of \$10,000. Additionally, we understand that MNC issued triennial requests for standing offers for consulting services in October 2013 and 2016. In response to that standing offer the MNC received proposals from certain consultants. We were provided with the response to the standing offer request from one of MNC's consultants from 2013. We were told by MNC, that consultants who replied to the standing offer in 2013, were not required to resubmit responses in 2016 unless their pricing had changed. We have not examined the process followed by MNC to evaluate the proposals received as it was outside of the scope of our mandate.

We identified 36 transactions totaling approximately \$783,907 for which we had concerns regarding the supporting documentation and/or procedures followed by MNC but did not warrant being classified as unsupported or ineligible. We note the following with respect to those transactions and the procedures followed by MNC.

- ▶ We observed inconsistencies between the contract clauses and the documentation provided. Specifically, we noted contracts that indicated services were to be rendered pursuant to a Statement of Work ("SOW"), however no SOW was included in the contracting documents provided. Additionally, we observed contracts that indicated payment would be made upon approval of a consultant activity report. We were not provided with any consultant activity reports and were told by MNC that invoices received were used to approve payment and regarded by MNC as consultant activity reports. However, we note that based on the documentation provided, there was limited evidence to support what type of review was conducted on invoices received prior to payment being authorized and invoices had limited details regarding the specific activities completed by the vendor(s).
- ▶ We observed four (4) SOWs that did not appear consistent with other contracting documents provided, specifically the document headers and footers including page numbers were inconsistent between the main contract and the SOW and/or different fonts appear to have been used. Further, one (1) SOW provided referred to a previous period to the one covered by the contract.

- ▶ We note that certain consultants have had long standing contracts with the MNC that are renewed on an annual basis. It is unclear, what if any, review is conducted regarding these contracts prior to renewal.
- ▶ We observed two (2) instances where consultants retained subcontractors to perform work under the consultant's agreement with MNC. There is no provision in MNC's contracts for the use of subcontractors. Additionally, none of the invoices provided by MNC's consultants detail the costs incurred for the subcontractors used by the consultants and in both cases, it appears that MNC paid its consultant a fixed fee for the services provided.
- ▶ We identified two (2) payments to an independent consultant totalling \$60,000, who we were told is an individual for the development of two policy papers. Although no adjustment has been made, we were told that no contract was signed for these services. The invoices were dated and received on the same day and do not include any details regarding the level of effort provided or the amount of time spent by the consultant providing services. MNC provided us with several emails to/from the consultant demonstrating that several draft reports were prepared by the consultant for one of the papers and discussions were held between the consultant and MNC. However, without a contract or details regarding the time spent by the consultant to complete the work we are unable to assess whether the consultant was paid within the agreed upon terms or that the amount was reasonable given the requirements of the work requested.
- ▶ Other observations included, a contract being signed after the end date of the contract, deliverables being issued outside of the term of the contract and payments not in accordance with the terms of the contract.

3.1.3 Consultants and related parties

Based on our discussions with MNC, we understand that it has had some long-standing relationships with certain consultants, some in excess of 10 years. Furthermore, in addition to the consulting agreements in place, MNC reimburses these consultants for travel and other expenses.

We note that one of MNC's main consultants is a related party, partner, of MNC's Director of Operations. We note the following regarding the payments made to this consultant during the Period of Review:

- ▶ \$1.46M (33.5%) of the transactions tested were payments or reimbursements made to this consultant.
- ▶ \$1.33M of the \$1.46M paid to this consultant was reimbursement for travel and accommodations paid for by the consultant on behalf of MNC.
- ▶ As at March 31, 2018 payables to this consultant totaled approximately \$189,500.
- ▶ We observed two (2) instances where the payment authorization on the finance vouchers for payments to this consultant were authorized by the Director of Operations. The vouchers were also signed by the Director of Finance.

- ▶ Of the 16 payments for which we did not receive a finance voucher, 7 were payments to this consultant totalling \$321,284.

As mentioned above, we understand that MNC did not have a corporate credit card during the Period of Review. As such, most payments made for travel, accommodations and meeting space paid for by credit card were charged to the credit card of the individual identified as the related party. Based on the items tested, an invoice is prepared by the consultant for the costs and submitted to MNC, then the consultant is reimbursed via cheque.

In addition to the annual fixed fee agreement between MNC and another of its primary consultants, the consultant received three (3) fixed fee payments (one in each fiscal year) totaling \$23,906. We were told that these payments were for services in addition to the annual fixed fee agreement between MNC and the consultant, but that a separate contract was not signed.

The consultant was paid pursuant to invoices submitted to MNC. The invoices indicate that the payments are a fixed fee arrangement for IT related work including domain registration, hosting fees and management for the upcoming fiscal year and includes direct external hosting expenditures and associated costs to manage email accounts at approximately \$140/hour based on an average of 1.5 hours per month.

The invoices did not provide details of the actual level of effort supplied by the consultant or the actual external costs incurred for services provided by third parties. In addition to the invoices, we were provided with supporting documentation by MNC from the consultant detailing the payments made to third parties for services provided to MNC totaling approximately \$17,010. We understand that the remaining \$6,896 was, at least in part, to compensate the consultant for time spent managing the MNC email accounts. At the hourly rate invoiced, this represents approximately 49.26 hours over the three-year period covered by the invoices.

We were told that MNC did not track, nor require the consultant to submit time sheets to substantiate the time spent managing the MNC email accounts. Therefore, we are unable to confirm the number of hours provided to MNC by the consultant pursuant to these invoices.

3.2 Other issues

3.2.1 Travel costs

As part of our work, we tested approximately \$1M in travel costs incurred during the Period of Review. Given that during the Period of Review MNC did not have a corporate credit card, travel expenditures for airfare, accommodations and meeting space were purchased on credit cards held by consultants who were then repaid via cheque. Repayments were made pursuant to invoices received from either Uniglobe or the hotel which include details regarding the traveler, destination, room and/or meeting costs. Other travel and expenses were reimbursed to individuals based on expense claim forms submitted. However, forms were incomplete and/or did not provide sufficient details to ascertain the purpose of the travel being reimbursed and were not signed by the recipient.

Repayments for airfare and accommodation costs were processed independently of each other by MNC and MNC did not maintain information on the purpose of the flights booked through Uniglobe on invoices received. As such, we were unable to reconcile a traveller's airfare with accommodations and other expense reimbursements to confirm whether an individual attended a specific event. Given the volume of flights booked and the fact that the legitimacy of travel costs was not one of the areas of concern, we did not conduct further work into this issue. We note that we did not identify any destinations that raised concerns.

4. Conclusions and recommendations

4.1 Conclusions

Based on the work completed to date we did not identify any evidence to substantiate the concerns/allegations raised regarding consulting contracts for IT services. Although, we had concerns around approximately \$2.02M (102 of the 229 transactions selected for testing) in CIRNAC funding as a result of MNC's procedures, record keeping and certain relationships and payments to MNC's primary consultants we did not identify any unsupported or ineligible expenditures which would require a recovery of CIRNAC funds from MNC.

4.2 EY recommended control improvements for MNC

Based on our analysis and work undertaken to date, we recommend that MNC consider the following recommendations which, if implemented, could improve the organization's internal controls and financial oversight and administration of CIRNAC funding. We caution that this is not an exhaustive list and should not be considered as such. We provide the following recommendations to serve as a starting point for MNC to fully develop and implement an internal control framework for administering CIRNAC funds and improving the organization's internal controls.

- ▶ Prepare updated formal written policies and procedures around their payment processes, procurement, signing authorities, and expense reimbursements, including travel and details the required authorization(s), underlying principles of the policy and eligible costs/reimbursements
- ▶ Revising travel reimbursement procedures to ensure that various travel and accommodation expenditures for specific events are tracked to quantify costs specific to individual events
- ▶ Draft and implement a payment process that clearly sets out the necessary approvals required, forms to be submitted (and signed) prior to payment and acceptable forms of supporting documentation to be maintained and retained for audit trail purposes
- ▶ Provide finance and accounting staff with training and clear instructions regarding the reimbursement policy to ensure that payments are not processed until all the required approvals and authorizations have been obtained and documented
- ▶ Draft and implement a process to obtain quotes or fee estimates from vendors or execute a contract for services to be rendered prior to commencing work or consider implementing formalized standing offer agreements/contracts
- ▶ Implement a risk-based process for the execution of contracts with vendors and consultants for significant projects and services, including key elements of a contract such as services and deliverables to be provided and fee structure
- ▶ Ensure that complete vendor master data is maintained and periodically reviewed for accuracy within MNC's accounting software, including HST numbers

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