

**Confidential**

**Portland Hotel Society Community Services  
Contracts**

**Internal Audit Report**

**Feb 26, 2014**

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## I. EXECUTIVE SUMMARY

### Background and Scope

Internal Audit Services (IAS) conducts audits of 3<sup>rd</sup> party health services providers to provide assurance to Vancouver Coastal Health Authority (VCH) that key service objectives are being met. The audit of a 3<sup>rd</sup> party health service provider was on the Board approved audit plan for fiscal year 2013/14 and PHS Community Services Society (PHS) contracts were selected based on specific risk factors assessed. This audit is carried out under the IAS Risk and Compliance service line.

PHS receives a majority of its funding from the British Columbia Housing Management Commission and the VCH. The March 31, 2013 audited financial statements indicate the PHS received \$28,594,059 in revenue during fiscal 2013. This revenue was received from the following sources:

BC Housing Management Commission grants	8,757,719
Vancouver Coastal Health Authority grants	8,319,766
Rent (partially under "BC housing fund" per financial statements)	4,122,558
Health Canada grants	2,270,833
Transfer from deferred grants relating to capital assets	1,273,640
Other Income	1,182,875
Other service grants	2,221,214
Vancouver Coastal Health Authority grant – Unity Housing	256,110
Donations and fundraising	99,344
BC Gaming Commission grant	90,000
	<u>\$28,594,059</u>

In fiscal 2013, VCH held 17 contracts with PHS totaling approximately \$7.88 M in baseline funding. Additional funding is provided for specific purposes during the fiscal year which increase total funding to \$8.3M as noted above. IAS carried out key procedures at the corporate level applicable to all contracts as well as detailed testing on the four largest contracts based on funding amount. The four largest contracts for detailed testing total \$4.05 M in baseline funding, or 51% of the total baseline funding provided to PHS in fiscal 2013. These four contracts were Onsite, Supervised Injection Site, Community Transitional Care Team & Pennsylvania Supported Suites and Portland Hotel.

The main objectives of the audit were to:<sup>^</sup>

- 1) Ensure that funding provided to PHS by VCH has been spent as reasonably intended for programs and services, and in compliance with our service agreements.
- 2) Assess the financial health of PHS to ensure continuity of services to clients.
- 3) Review the financial reporting to VCH and key financial transactions for accuracy and completeness.

### Positive Findings

During interviews, observations from site visits, and discussions with various stakeholders, it was apparent that PHS is achieving service objectives in providing specialized services to a unique population.

## **High Risk Findings**

### **I. Lack of Clarity over Administrative Expenses**

In FY 2013, VCH provided PHS with roughly \$788K in funding for administrative costs. VCH contracts stipulate that PHS contract administrative expenses are not to exceed 10% of total contract expenditures and that, *“monies will only be expended by the Service Provider to provide Program Services.”*

In its reporting to VCH, PHS states that 10% has been spent on administrative expenses. This amount is a straight deduction from total funding which seems to be pooled with other funding and spent. There is no reconciliation or identification of actual amounts spent on administrative expenses. In addition, the PHS accounting system does not distinguish which administrative expenses are funded by VCH versus the other funders. Lastly, many of the administrative expenses noted in PHS' general ledger lack supporting documentation and/or detailed descriptions.

VCH management should require PHS to segregate the actual amount of administrative expenses that are funded by VCH from those that are funded by others. The actual amount of VCH program related administrative expenses should be reported to VCH. Lastly, the general ledger should include clear descriptions of the transactions made. VCH management should then periodically review administrative expenses for appropriateness. Detailed Report Finding # 1.

### **II. Many Expenses are questionable and/or lack supporting documentation.**

IAS selected a sample of expenses and reviewed for reasonability, compliance with agreements, and existence of supporting documentation. PHS was unable to provide supporting receipts for many of the transactions, particularly those relating to credit card purchases. It was also found that a number of expenses were not reasonably incurred to provide programs and services. Some of the concerning expenses are included below:

- \$678.23 was paid to a limousine company for travel of 11 individuals from Fairmont Pacific Rim to Grouse Mountain and then to a PHS director's house. This executive charged \$8,657.96 to the limousine company during fiscal 2013.
- \$8,323.22 was spent on travel to the UK to look into heroin prescription programs and for other business purposes. The hotel room cost 478 (Including 20% VAT) pounds per night. A 35 pound charge for flowers was included on the hotel invoice.
- \$5,850.20 was spent on travel to Austria to teach harm reduction practices. Of these expenses, one night was spent in a luxury king size room with a rate of \$549 per night.
- \$3,175.12 was spent on travel to Bristol for business purposes. One 288 pound per night room and one 420 pound per night room were charged at a hotel; charges relating to alcohol and spa services were also noted. 25 pounds were expended on flowers.
- \$1,636.51 was spent at a restaurant for a staff appreciation event.
- Between 5/21/2012 and 5/23/2012, transactions totaling \$2,694.95 were noted for the Disney Resort Grand Anaheim. The receipt detailed a hotel reservation for 2 adults and 2 children. PHS management stated that a hotel room was upgraded to accommodate a staff member in poor health as staff appreciation. Through further inquiries IAS found the staff member noted was one of the Directors (management) of PHS.
- \$5,950 was spent on Transat Holidays. No receipt or documentation was provided for this transaction. Also, IAS was advised the expense related to a PHS director's trip to the United Kingdom for program related purposes. Over \$8,900 was expended on a minibus and driver expenses in the United Kingdom. Explanations were offered however IAS questions reasonability of the amount and nature of the expenses.

- \$917.83 for a staff baby shower.
- \$1,807.68 for a staff Christmas Dinner.
- \$7,024.72 paid for a Celebration of Life for a deceased employee.
- Monthly expenses of approximately \$1,600 charged to PHS by the Executive Director for use of office space within their personal residence. In addition, improvement expenses such as cabinets were also charged to PHS for this space.
- A PHS employee was reimbursed \$5,832 for the purchase of a Danube Cruise made on what appears to be their personal credit card. A handwritten note on the invoice indicates this was a gift for a PHS Director (management). The invoice lists the director and another individual as passengers

In addition to the above, it was found proper approvals are not always followed. For example, at times, employees authorize expenditures incurred by their superiors. IAS could not ascertain that a consistent process is in place to ensure expenses are for legitimate PHS business and that expenses are approved and properly supported prior to or subsequent to payment.

VCH management should ensure PHS expenses do not continue to be expended as noted, and that appropriate supporting documentation and approval processes are implemented. Detailed Report Finding # 2.

### **III. Questionable Benefit of Separately Incorporated Entities**

PHS provides accounting, operational support, payroll and other services to eight incorporated entities. These entities were set up and provide service to primarily PHS. The shares of these entities are owned by PHS employees and external acquaintances. Some of these entities provide support for various programs such as pest control or laundry services; however, some are unrelated to direct provision of health services (e.g. thrift clothing store, café). Per PHS, two key reasons for this structure are to provide employment for individuals in downtown eastside and to benefit from potential profits generated. The existence of these entities creates potential transparency issues as to use of funding received by PHS.

Five of the eight corporations generated losses in the year; however, all eight corporations have negative retained earnings, which indicate a history of losses. Furthermore, as of Oct 31, 2013, PHS had outstanding cash advances to these corporations of approximately \$481 K.

As these organizations have a history of losses, it is not clear that the benefits of running these companies outweigh the cost. There is no clear documentation or process to continuously assess the cost/benefit of continuing these operations versus acquiring them elsewhere (such as through tendering processes). Use of funds to cover losses by these organizations are questionable. VCH management should converse with PHS whether the above services can be acquired at lower rates through tendering. PHS management indicated they are working towards moving these entities under a Community Contribution Company structure where PHS would own the shares of these entities. The use of a Community Contribution Company should also be discussed further. Detailed Report Finding # 9.

### **IV. Financial Condition of PHS**

Analysis of 2013 audited financial statements indicates PHS is in a weak financial condition. The Society's current ratio of 0.54 suggests that PHS would have difficulty paying off its obligations if they came due. Also, PHS is using bank financing to cover expenditures as indicated by a bank overdraft position of \$113,843 and has also drawn \$1.2 M on operating lines of credit and a business loan. Overall, PHS generated a surplus of \$3.9 M, however, this surplus was achieved through a \$6 M non-cash one time gain on disposal of an investment. The statement of cash flows indicates that PHS had a decrease in cash of \$657K during fiscal 2013.

VCH should discuss with PHS regarding any plans to address its financial concerns to ensure continuity of programs and services. Detailed Report Finding # 5.

#### **V. Board of Directors Oversight and Governance should be Strengthened**

PHS's Board of Directors do not have oversight and governance processes IAS expected to see at a society with over \$28 M in annual revenue. Some of these lacking processes include a board approved formal strategic plan, executive director expense review and approval, position descriptions, and a board chair rotation schedule. PHS's Board should incorporate best practices in governance and oversight into their operations. Detailed Report Finding # 6.

#### **VI. Non-Compliance with the Criminal Records Review Act**

Contracts with PHS specify that individuals working with vulnerable adults, as defined by the Criminal Records Review Act, shall undergo criminal record checks. This check helps minimize the risk an individual may pose in a position where they work with or have access to vulnerable adults. Mandatory checks are required every five years. PHS management was unable to provide evidence of a criminal record check for all four of the individuals selected for criminal record check testing.

VCH should require PHS to implement a process to ensure adherence to the Criminal Record Review Act. Detailed Report Finding # 4.

### **Moderate Risk Findings**

#### **VII. Compliance with Certain Contract Deliverables**

IAS selected 21 financial and other key deliverables from four service contracts. There was no evidence to determine whether the following three deliverables were being met:

- Portland Hotel – Minimum number of hours of cleaning and laundry service are delivered.
- Pennsylvania Supported Suites (PSS) & Community Transitional Care Team (CTCT)– a manager of maintenance services is on site for five days/week.
- PSS & CTCT – a maintenance worker is on site three days/week.

IAS found that two requirements were not being met:

- Portland Hotel – a tenant record of service is not kept as required.
- There are no program based evaluation plans.

VCH should require PHS to schedule the required maintenance staff so that service can be verified. VCH should work with PHS to develop documentation guidelines for Portland Hotels record of service as well as work with PHS to develop program based evaluation plans. Detailed Report Finding # 10.

#### **VIII. PHS Programs Over Budget**

Three of the four contracts examined exceeded 2013 baseline budget funding amounts. Additional funding was provided to PHS for these programs through cheque requisitions.

VCH management indicates PHS has historically under-budgeted program services and then required additional funding throughout the year. In fiscal 2014, VCH management has increased the budgets of PHS programs to ensure additional funding is not required during the year. This is of particular concern as, referring to finding II above, there are many questionable expenses by PHS.

VCH should work with PHS management to review staffing levels and ensure funding for staffing and relief is appropriate for each program. VCH should also have appropriate formalized processes for review and signoff on additional funding provided. Detailed Report Finding # 3.

### **IX. Lack of Written Policies and Procedures**

PHS did not have up-to-date policies in key financial areas including expenses, purchasing, travel, credit card use etc. Per PHS management, draft policies are being created to address these areas. VCH management should converse with PHS to ensure the policies are put in place and followed. Detailed Report Finding # 7.

### **X. Program Staffing Levels**

Each contract lists the number of FTEs expected to be supplied by PHS. The four contracts examined do not specify whether these levels include a component dedicated to staff relief (coverage for vacation, sick time, training, etc.).

IAS compared FTE levels specified in contracts to the FTE levels reported by PHS. It was found the staffing levels reported by PHS do not match the levels required in the contracts. These differences may be due to confusion over whether the FTE level required in the contracts includes a component for staff relief.

VCH management states contracts in other program areas include a staffing plan which clearly articulates the minimum staffing requirements. Such a plan should also be considered for the PHS and other community contracts to ensure required staffing levels are clear. Detailed Report Finding # 11.

### **XI. Lack of a Robust Purchasing Process**

During testing of expenses, IAS noted the lack of a formalized purchasing process used to initiate orders, approve orders and document the receipt of goods and services. Without a purchase order system that compares the purchase order, receiving record and vendor invoice prior to authorizing payment, there are increased risks, including missed or unauthorized purchases. VCH management should consider discussing with PHS the need for an improved purchasing process. Detailed Report Finding # 8.

### **XII. Opportunity to Coordinate Funding with BC Housing Management Commission**

PHS is dependent on two provincial public funding sources to support its low income housing programs. VCH provides funds for program staff and support, whereas the BC Housing Management Commission (BC Housing) provides funding for building costs. Two of the four contracts selected for testing, rely on BC Housing grants to operate.

VCH management should consider liaising with BC Housing to create an information sharing agreement. VCH could then collaborate with BC Housing regarding contracts and funding provided to PHS and other service providers that are jointly funded. Detailed Report Finding # 12.

### Overall Conclusion ▲ Significant

Due to the accounting practices followed, it is not clear how much VCH funds are spent on administrative expenses. The nature of expenditures incurred by PHS are a serious concern as they are not reasonably in line with providing programs and services. There is a significant lack of supporting documentation for expenses, particularly on credit card expenses.

Analysis of the PHS 2013 audited financial statements indicated a low current ratio and limited cash on hand which could make it difficult for PHS to meet short term debt obligations. PHS would have reported a deficit of \$2.07 M in fiscal 2013 if not for a one-time non-cash gain related to the disposal of an investment. In this case, debt covenants may also have been breached. These financial issues could negatively impact the ability of PHS to continue to deliver services to clients. In addition, based on IAS assessment of the Board of Directors, governance processes are inadequate for a organization the size of PHS.

The PHS corporate structure is complex as the society administers, but does not directly own, eight corporations. At the time of audit fieldwork the Society had advanced approximately \$481 K to these corporations. The rationale for setting up these companies initially is questionable as well as the lack of an ongoing assessment process to determine the continued benefit of operating them.

Of the 21 financial and other key VCH reporting requirements selected for testing there was no evidence to support whether three of the requirements were delivered. There were two requirements that were not being performed. In addition, PHS could not provide evidence of criminal record checks for four employees selected for testing which is non-compliant with VCH contract requirements.

While IAS has offered recommendations individually for each finding in this report, taking into consideration the serious nature of all findings VCH management may want to assess its continued relationship with PHS as a service provider. As part of this process, VCH should consider if alternative service providers or methodology may present a lower risk profile than the current arrangement.

## II. DEFINITIONS

### Overall Conclusion:

- ✔ **Good** No reportable findings were noted during the audit. Minor issues have been communicated to management separately.
- ✓ **Improvement Needed** Some findings should be addressed by management in the near term to mitigate moderate levels of risk.
- ▲ **Significant** Immediate action is required by management to mitigate the organization's exposure to significant levels of risk.

### Findings:

- **Low Priority** The finding does not have a material impact on the organization.
- **Moderate Priority** An important issue that should be addressed in the near term.
- ▲ **High Priority** An issue that could have a significant impact and should be corrected immediately.

### Abbreviations:

Noted below is a list of abbreviations used in this report.

CTCT & PSS	Community Transitional Care Team & Pennsylvania supported Suites
DTES	Downtown Eastside
FY	Fiscal Year (April 1 – March 31)
PHS	Portland Hotel Society
SIS	Supervised Injection Site
VCH	Vancouver Coastal Health

### III. INTRODUCTION

Internal Audit Services (IAS) conducts audits of 3<sup>rd</sup> party health services providers to provide assurance to Vancouver Coastal Health Authority (VCH) that key service objectives are being met. The audit of a 3<sup>rd</sup> party health service provider was on the Board approved audit plan for fiscal year 2013/14 and PHS Community Services Society (PHS) contracts were selected based on specific risk factors assessed. This audit is carried out under the IAS Risk and Compliance service line.

The following webpage<sup>1</sup> excerpt describes PHS' services: *'PHS is a non-profit organization that was created in 1993 to advocate, develop and implement services for persons living with concurrent disorders. The Portland Hotel itself was initiated in 1991 by Vancouver's Downtown Eastside Residents Association (DERA). The Association converted a local hotel and named it after the US city of Portland, where Canadian organizers had been inspired by housing programs for homeless people. The facility was transferred to the Portland Hotel Society on its completion. The program moved to a new building (re-named the Portland Hotel) in the downtown eastside in 1999'.*

PHS receives much of its funding from the British Columbia Housing Management Commission and VCH. The March 31, 2013 audited financial statements indicate the PHS received \$28,594,059 in revenue during fiscal 2013. This revenue was received from the following sources:

BC Housing Management Commission grants	8,757,719
Vancouver Coastal Health Authority grants	8,319,766
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Health Canada grants	2,270,833
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Other service grants	2,221,214
Vancouver Coastal Health Authority grant – Unity Housing	256,110
Donations and fundraising	99,344
BC Gaming Commission grant	<u>90,000</u>
	\$28,594,059

In fiscal 2013, VCH held 17 contracts with PHS totaling approximately \$7.88 M<sup>2</sup> in baseline funding. Additional funding is provided for specific purposes during the fiscal year which increase total funding to 8.3M as noted above. IAS carried out key procedures at the corporate level applicable to all contracts as well as detailed testing on the four largest contracts based on funding amount. The four largest contracts for detailed testing total \$4.05 M in baseline funding, or 51% of the total baseline funding provided to PHS in fiscal 2013. These four contracts were Onsite, Supervised Injection Site, Community Transitional Care Team & Pennsylvania Supported Suites and Portland Hotel. Information relating to these contracts is noted below.

#### OnSite – Baseline funding \$827 K

OnSite is a program for the Downtown East Side (DTES) community members who are seeking help to withdraw from active drug use or are seeking respite from active drug use. The program offers outreach-style clinical, educational and psychosocial supports in the context of a residential

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<sup>1</sup> Source: <http://www.sharedlearnings.org/index.cfm?fuseaction=Prof.dspProfileFull&profilesId=18131194-83ff-4f31-aea0-37e8756b3d0e>

<sup>2</sup> Source: VCH's Contract Management Database.

hotel. The second floor offers a detox program and the third floor offers short to medium term housing for residents who have finished detox, are trying to remain abstinent and are transitioning to appropriate housing opportunities or to further residential recovery or treatment programs. Clients are often referred from InSite (Supervised Injection Site).

Supervised Injection Site (InSite) – Baseline funding \$1.45 M

The site allows marginalized individuals a safe place off the street to inject under the supervision of a nurse, using sterile equipment.

Community Transitional Care Team and Pennsylvania Supported Suites (CTCT & PSS) – Baseline funding – \$859 K

CTCT is a program comprised of outreach-style clinical services embedded within a residential hotel setting. The primary focus of the CTCT is to assist individuals with addictions issues who require long-term IV antibiotic therapy (4-12 weeks) to finish their course of treatment in a low threshold community setting. Historically, this population has faced difficulties finishing treatment in the hospital setting.

PSS provides housing with some clinical supports to chronically hard-to-house individuals. PSS residents are non-geriatric individuals who are active or recovering drug users and/or alcohol addicts who require some assistance with activities of daily living and/or with medication management.

Portland Hotel – Baseline funding \$914 K

The Portland Hotel is an 86 room hotel which provides support services to tenants who have either a mental illness and/or have been involved with Forensic Psychiatric Institute. The Portland Hotel provides a housing environment that is focused on “hard to house” individuals who may present behavioral challenges that may not be tolerated in many other housing settings.

#### **IV. AUDIT OBJECTIVES**

The main objectives of the audit were to:

- 1) Ensure that funding provided to PHS by VCH has been spent as reasonably intended for programs and services, and in compliance with our service agreements.
- 2) Assess the financial health of PHS to ensure continuity of services to clients.
- 3) Review the financial reporting to VCH and key financial transactions for accuracy and completeness.

#### **V. SCOPE**

The following PHS service agreements were examined:

- Portland Hotel
- Supervised Injection Site
- Community Transitional Care Team and Pennsylvania Supported Suites
- OnSite

Scope Limitations:

- The clinical aspect or quality of services provided was not examined during the audit.
- PHS management was unable to provide detailed receipts for over half (15 of 29) of credit card transactions that were selected for testing. Without detailed receipts, IAS cannot conclude on the appropriateness of the expenses.

## **VI. AUDIT APPROACH**

This audit was conducted within the guidance provided by the Institute of Internal Auditors Professional Practices Framework which states that auditors shall perform their work with proficiency and due professional care.

The following audit procedures were performed to provide evidence and substantiation of the audit findings and conclusions:

- Interviewed management and staff at PHS and VCH.
- Examined relevant policies, procedures and manuals.
- On a test basis or through other audit procedures considered necessary, examined relevant documents, processes and controls.
- Conducted site visits.

## **VII. POSITIVE FINDINGS**

During interviews, observations from site visits, and discussions with various stakeholders, it was apparent that PHS is achieving service objectives in providing specialized services to a unique population.

## VIII. FINDINGS

**OBJECTIVE 1: Ensure that funding provided to PHS by VCH has been spent appropriately and in compliance with service agreements.**

### **Finding 1: Lack of Clarity Over Administrative Expenses**

**▲ High Priority**

VCH contracts stipulate that PHS contract administrative expenses are not to exceed 10% of total contract expenditures. The contracts selected for testing state, “*monies will only be expended by the Service Provider to provide Program Services.*” In FY 2013, VCH provided PHS with roughly \$788K in funding for administrative costs.

- a) On PHS’ reports to VCH, it is stated that 10% is spent on administrative expenses. This amount is a straight deduction from total funding which seems to be pooled with other funding and spent. There is no reconciliation or identification of the actual amounts spent on administrative expenses.
- b) The PHS general ledger administrative account includes expenses related to BC Housing funding as well as other sources of funding.
- c) IAS obtained and examined a listing of expenses charged to the administrative expenses account in PHS’ general ledger. Many of the charges in this listing lacked detailed descriptions. Also, there are expenditures in this account which appear unrelated to direct program services specified in VCH contracts. Finding 2 describes some of these expenditures in more detail.

#### **Implications:**

- a) PHS is not reporting the actual amount of admin expenses to VCH.
- b) As admin expenses relating to other funders are aggregated, it is difficult to determine how much was expended on direct program administration for VCH funded programs.
- c) As the general ledger account lacks clear descriptions, it is difficult to determine the nature of expenses incurred without reviewing the supporting invoices.

#### **Recommendations:**

Consider discussing the manner in which administrative expenses are charged with PHS management. Management should require PHS to:

- a) Report the actual amount spent on administrative expenses. On an annual basis, consider requiring PHS to provide the actual general ledger account details and follow-up on any unusual expenditures.
- b) Segregate administrative expenses that are being funded by VCH from those being funded by others.
- c) Clearly document the nature of administrative expenses in the general ledger.

**Finding 2: Many expenses are questionable and/or lack supporting documentation.**

**▲ High Priority**

**Credit Card Expense Testing**

11 credit cards are used by PHS to pay for various expenses. These cards are held by executive directors, other PHS employees and employees of various other corporations that PHS administers<sup>1</sup>. A review of fiscal 2013 credit card statements indicates a total of \$446,094 of expenses was paid through the credit cards. There is no process in place to ensure these expenses are for legitimate PHS business or to ensure that the expense is approved and properly supported prior to or subsequent to payment. Credit card files on hand at PHS only contained a small portion of receipts supporting credit card transactions noted in the statements.

IAS obtained PHS credit card statements and created a summary of vendor expenses per card holder. A judgmental sample of 29 expenses was selected from this summary to determine the business purpose of the expense. IAS requested supporting documentation for expenses incurred by four members of executive management.

The accounting department was unable to provide original receipts for any of the expenses. As such, the individuals searched at home for the receipts. It took two of these individuals 19 days to provide some receipts and explanations for the expenses. Ultimately, PHS did not provide receipts for 15 of the 29 expenses. Of the 14 transactions that were supported by a receipt, 10 may not be an appropriate use of funds.

Some of the purchases of concern are detailed below. While some of these expenses may not have been directly paid for using VCH funding (see finding 1 and revenue breakdown in summary) the seeming lack of regard for adequate controls to ensure funds are spent in an economical and efficient manner are concerning.

- On 4/17/2012, \$678.23 was paid to a limousine company for travel of 11 individuals from Fairmont Pacific Rim to Grouse Mountain and then to a PHS director's house. This executive charged \$8,657.96 to the limousine company during fiscal 2013.
- On 7/7/2012, \$8,323.22 was spent on travel to the UK to look into heroin prescription programs and for other business purposes. The hotel room cost 478 (Including 20% VAT) pounds per night. A 35 pound charge for flowers was included on the hotel invoice.
- On 1/12/2013, \$5,850.20 was spent on travel to Austria to teach harm reduction practices. Of these expenses, one night was spent in a luxury king size room with a rate of \$549 /night. .
- On 7/21/2012, \$3,175.12 was spent on travel to Bristol for business purposes. One 288 pound per night room and one 420 pound per night room were charged at a hotel; charges relating to alcohol and spa services were also noted. 25 pounds were expended on flowers.
- On 3/25/2013, \$1,636.51 was spent at a restaurant for a staff appreciation event. Per the receipt provided, the total bill was \$3,636.51. The receipt did not contain the name of the attendees or the business purpose for the expense.

The restaurant wrote off \$2,000 of the bill as "exchange". PHS management states this is because they helped the restaurant secure their location and offer reduced rent as the

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<sup>1</sup> For more details on the corporations PHS administers see Finding 9.

bistro is in the Pennsylvania Hotel (a hotel owned by PHS). There is no written agreement between the restaurant and PHS documenting the nature of this discount.

- Between 5/21/2012 and 5/23/2012, transactions totaling \$2,694.95 were noted for the Disney Resort Grand Anaheim. The receipt detailed a hotel reservation for 2 adults and 2 children. PHS management stated that a hotel room was upgraded to accommodate a staff member in poor health as staff appreciation. Through further inquiries IAS found the staff member noted was one of the PHS directors.
- On 5/3/2012, \$5,950.60 was spent on Transat Holidays. No receipt or documentation was provided for this transaction. Reason provided for the expense flights for a PHS director's trip to the United Kingdom.
- On 12/10/2012, \$917.83 was spent on goods for a staff baby shower.
- On 12/19/2012, \$1,807.68 was spent for a Christmas "thank you" event.
- On 6/6/2012 \$4,142.68 was spent on a mini-bus, driver and guide in the United Kingdom. No receipt was provided for this transaction. Reason provided was transportation while conducting research.
- On 6/6/2012 \$4,757.52 was spent for a mini-bus, drive and guide in London. Reason provided was to cover transportation of equipment and supplies needed at various presentations and events.

#### **Accounts Payable Expense Testing**

IAS examined PHS' FY 2013 general ledger and selected a judgmental sample of 39 expense items totaling \$516 K to determine if the expense was well supported and if the business purpose of the expense was noted. Issues found include:

##### Improper payment approval / Conflict of Interest

- A \$13,887.14 payment was made to Bugs Be Gone, a corporate entity administered by PHS. The payment was approved by a PHS manager, who is also the shareholder of Bugs Be Gone.

##### Improper payment approval and payment with questionable business purpose

- A \$7,024.72 reimbursement was made to a director relating to catering and payment to VanDusen Botanical Garden for the Celebration of Life for a deceased employee. This reimbursement was authorized by PHS' accountant, who is an employee that reports to the director.
- Monthly expenses of approximately \$1,600 charged to PHS by the Executive Director for use of office space within their personal residence. In addition, improvement expenses such as cabinets were also charged to PHS for this space.

##### Poorly supported payments

- A \$5,600 payment was made to a PHS employee, which was only supported by a document requesting stipends based on an estimate and no physical proof that an actual provision of the stipends took place. The document also did not indicate what service the stipend was for.

- DTES Maintenance, a corporation administered by PHS, is paid a monthly amount based on a contract signed by PHS and DTES Maintenance. No details of the specific services conducted by DTES Maintenance are provided to PHS.
- A company owned by a PHS employee was paid a total of \$8,820 for providing various services including playing piano and driving a bus for PHS clients. There is no written contract for these services. The individual who owned the company was also paid \$11,191.80 for other reimbursements.
- An \$800 per month payment was made to an individual tasked with helping facilitate purchase of a laundromat. This payment is not supported by a contract. Total payment to this individual in FY 2013 was \$22,504.84.
- A PHS employee was reimbursed \$5,832 for the purchase of a Danube Cruise made on what appears to be their personal credit card. A handwritten note on the invoice indicates this was a gift for a PHS director. The invoice lists the director and another individual as passengers.

Payroll advances / improper payment approval

- Per management, all PHS staff and managers are allowed up to 3 payroll advances per year. There is no interest charged on these advances.
- A payroll advance of \$9,000 to the executive director was approved by the finance director. The amount was subsequently repaid to PHS.
- A payroll advance of \$6,200 to the co-executive director was approved by the finance director. The amount was subsequently repaid to PHS.

Implications:

- a) Allowing the shareholder of a company PHS uses for services to authorize PHS payments creates the risk of erroneous invoices being approved for payment.
- b) Without a process to authorize and approve credit card expenses prior to payment, there is a significant risk that expenses that do not support PHS related business are being paid for.
- c) Allowing employees at an organizational level below the executive director and co-executive director to authorize their expenses is an ineffective control that increases the risk of non-business related expenses being approved for payment.
- d) Not maintaining receipts for all credit card transactions makes it difficult to verify the validity of the business purposes claimed for such expenses.
- e) The lack of a contract for an employee who also provides contracted services limits the understanding of what is considered regular work and what is considered contract work.
- f) Without guidelines as to acceptable use of VCH funding, PHC may be using funds in a manner inconsistent with funding intent. There is a reputational risk to VCH if service providers spend funds on goods and services which can be seen as questionable purposes (e.g. catering and funeral expenses for a deceased employee). Furthermore, such questionable use of funding weakens PHS's financial position and diverts funds

- from services that can be provided to clients. Funding such expenses may also create an environment where employees feel they are not being treated equally.
- g) Cash advances to PHS employees carry an interest cost that may weaken PHS' already poor financial condition (see Finding 5). Cash advances also increase administrative duties by requiring that time is spent ensuring such advances are appropriately documented and recovered.
  - h) Maintaining an undocumented agreement for reduced rent in exchange for staff food and beverage discounts is not a transparent business practice.

**Recommendations:**

VCH management should consider meeting with PHS to improve payment processes to ensure funds are used in an efficient and appropriate manner with accountability measures in place. The following could be discussed with PHS:

- a) b), c) and d): PHS should implement a documented expense approval process. Such a process should involve the use of an expense reimbursement form requiring that the original receipt along with the business purpose of the expense be documented. These expenses should be reviewed and approved by an individual with a level of authority above the one claiming the reimbursement for the expense. The Board of Directors should consider approving expenses for the executive director and the co-executive director. Expense details should be maintained in a central location with easy access for administrative staff. PHS should create a list of signature authorizers and approval levels.
- e) PHS should maintain written contracts with all individuals providing contracted services.
- f) VCH should consider providing PHS with more specific guidelines on the acceptable use of funding. PHS should clearly define allowable and non-allowable expenses in policy.
- g) PHS should consider abolishing or decreasing the number employee cash advances allowed per year.
- h) PHS should document the purpose and nature of vendor discount agreements.

**Finding 3: PHS Programs Over Budget**

**■ Moderate Priority**

Near the beginning of each fiscal year, VCH approves a detailed line item budget for each PHS contract. IAS compared the FY 2013 budget to the actual results for payments made for the four contracts selected for testing. It was found that PHS received more funding than budgeted for three of the four contracts (See Table 1 below).

**Table 1: Budget to Actual Analysis**

<b>Budget to Actual Analysis</b>	<b>Portland Hotel</b>	<b>Supervised Injection Site</b>	<b>CTCT &amp; PSS</b>	<b>OnSite</b>
Fiscal 2013 budget baseline	874,863	1,340,956	818,897	744,642
Approved increases for benefit lifts and wage parity	38,644	110,659	39,937	82,518
One-time adjustments	-	76,898	-	-
Baseline with approved lifts & one-time adjustments	913,507	1,528,513	858,834	827,160
PHS reported expenditures	913,507	1,552,283	869,439	850,910
<b>Total Over Budget</b>	<b>0</b>	<b>\$23,770</b>	<b>\$10,605</b>	<b>\$23,750</b>

Additional over budget funding was provided through cheque requisitions authorized by VCH program managers for training and other purposes. VCH management notes that PHS has had a history of under budgeting and then requesting additional payments for staff relief in the past. Managements states that PHS FY 2014 budgets have been increased so that additional payments should not be required.

**Implications:**

Increased staffing compared to budget appears to be the reason for program budget overages. Either budgeted staffing levels are too low or relief costs are higher than anticipated.

**Recommendations:**

VCH should work with PHS management to review staffing levels and ensure funding for staffing and relief is appropriate for each program. VCH should also have appropriate formalized processes for review and signoff on additional funding provided.

**Finding 4: Non-Compliance with Criminal Records Review Act**

■ ***Moderate Priority***

Contracts with PHS specify that individuals working with vulnerable adults, as defined by the Criminal Records Review Act, shall undergo criminal record checks. This check helps minimize the risk an individual may pose in a position where they work with or have access to vulnerable adults. Mandatory checks are required every five years.

IAS selected four individuals who work with vulnerable that the individuals had undergone a criminal record check. PHS management was unable to provide evidence of a criminal record check for all four of the individuals selected for review.

**Implications:**

PHS may not be in compliance with legislation regarding vulnerable adults. PHS is to use VCH funds for employees that have undergone criminal record checks.

**Recommendations:**

VCH management should discuss the following with PHS:

- PHS should ensure compliance with the Criminal Records Review Act by requiring all individuals to whom the Act applies undergo criminal record checks.
- PHS should develop a tracking mechanism to ensure individuals to whom the Criminal Records Review Act applies undergo a criminal record check once every five years.

**Conclusion for Objective 1**

Due to the accounting practices followed, it is not clear how much VCH funds are spent on administrative expenses. The lack of supporting documentation, particularly on credit card expenses, and the nature of expenditures incurred by PHS are of concern. PHC could not provide evidence of criminal record checks for four employees selected for testing which is non-compliant with VCH contract requirements.

**OBJECTIVE 2: Verify the financial health of PHS to ensure the continuity of services to clients.**

**Finding 5: Financial Condition of PHS**

**▲ High Priority**

Analysis of PHS's 2013 audited financial statements indicates the society is in a weak financial condition. Details are noted below.

- Low Current Ratio - PHS's current ratio is 0.54. The current ratio is used to assess an organizations' ability to pay back its short-term liabilities (debt and payables) with its short-term assets (cash, inventory, receivables). The higher the current ratio, the more capable PHS is of paying its obligations. A ratio under 1 suggests that PHS would be unable to pay off its obligations if they came due. While this shows PHS is not in good financial health, it does not necessarily mean that it will go bankrupt, as there are many ways to access financing.
- Use of bank financing to cover expenditures - PHS is in a position where it already is reliant on bank financing to cover its expenditures. PHS is in a bank overdraft position of \$113,843 and has also drawn \$1.2 Mon operating lines of credit and a business loan.
- Gain on Disposal of Investment – The Statement of Operations for the year ended March 31, 2013 notes a gain on disposal of investment of \$6M. This gain is notable because it creates a \$3.9M surplus as opposed to a \$2.07M deficit. IAS examined supporting documentation for this gain, including a letter from PHS' auditor, land appraisal documentation and a Memorandum of Agreement with a developer and confirmed this is a one-time, non-recurring gain.
- Cash flow – The statement of cash flows indicates that PHS had a decrease in cash of \$657K during fiscal 2013. As at March 31, 2013, PHS had \$842K of cash on hand but only \$25K of this cash was unrestricted.

When external auditors have concerns over whether an entity can continue to operate, they will include such concerns in a commentary in the audit financial statements. There was no such commentary on the financial statements of PHS; however, the above noted issues do indicate that PHS has financial challenges. PHS' financial condition may be the result of poor budgeting (see Finding 3) and poor use of funds (see Finding 2).

**Implications:**

A scarcity of unrestricted cash creates challenges for PHS to meet its liabilities. This could in turn result in the need for additional funding from VCH in order to keep PHS operating.

**Recommendations:**

VCH management should converse with PHS regarding their financial situation to ensure continuity of programs and services. Key areas to focus include:

- Improving cash flow to meet current liabilities.
- Managing use of credit to ensure the society does not overextend itself.

- Consider selling assets to free up cash, although this is a short term solution.
- Reduce spending that is not essential for providing care.

In general, PHS should have continuity plans in place such that VCH is not overly reliant on PHS to provide specialized services.

**Finding 6: Board of Directors Oversight and Governance should be Strengthened**

**▲ High Priority**

PHS' Board of Directors do not have the oversight processes IAS expected to see at a society with over \$28M in annual revenue. The following are the key issues noted:

- The board does not require PHS executive management to formulate a formal strategic plan which takes into account the opportunities and risks.
- The board does not set any specific measures or targets used to judge the progress of PHS senior management in reaching its goals and objectives. There is no formal monitoring process used to ensure PHS is achieving its intended objectives.
- The board does not have a process in place to review and approve executive director expense reports.
- The board has not developed position descriptions or defined the competencies and skills it needs.
- No board assessment has ever taken place.
- There is no formal process for monitoring and managing potential conflicts of interest regarding board members or the executive.
- There is no process for board chair rotation.
- IAS was advised that PHS' current board chair is a long time friend of the executive director. While the board may have the best of intentions in providing oversight, a long standing personal relationship could impair objectivity.

**Implications:**

- a) Without a documented, board approved, strategic plan opportunities may be missed and risks may become too great. Lack of setting and measuring progress toward goals and objectives means longer term interests of the society may not be realized.
- b) Lack of board review and approval of executive management expenses increases risk of misuse of the society's assets.
- c) Lack of monitoring of potential conflict of interest of management and board members may increase risk of misuse of the society's assets and abuse in related party transactions.
- d) Lack of board position descriptions will cause difficulties in succession planning as the required competencies required are not formalized.
- e) VCH is a significant funder to PHS. Without VCH representation on the board, there is a risk that PHS will conduct business that could negatively impact the services required.
- f) Lack of a defined board chair rotation schedule increases the risk the board does not have the independence needed to sufficiently review and challenge management performance.

**Recommendations:**

VCH management should consider working with the PHS board to improve oversight. The following are some actions that could improve governance at PHS:

- a) The board should consider having executive management develop a strategic plan which takes into the account the opportunities and risks faced by PHS. PHS' board should develop specific measures or targets used to judge the progress of senior management in reaching its goals and objectives. Progress toward these objectives should be monitored on a regular basis.
- b) The board should approve executive management expense reports and be responsible for approving any bonuses paid to PHS staff.
- c) The board should focus on ensuring financial controls, including controls to mitigate conflicts of interest, are developed for the organization.
- d) The board should consider performing an assessment to determine what skills and competencies are required. Formal position descriptions should be developed based on this assessment.
- e) As VCH is such a large funder of PHS it may be appropriate to place a VCH representative on PHS' BOD.
- f) Implement a board rotation timeline.

**Finding 7: Lack of Written Policies and Procedures**

■ ***Moderate Priority***

PHS operational budget has grown over the years. With such growth comes the need to create and maintain up-to-date policies and procedures to assist in organizational governance. At the moment, PHS does not have up-to-date policies and procedures concerning the following key financial areas:

- Accounts Payable
- Accounts Receivable
- Budget planning
- Cash handling
- Corporate credit cards
- Expenses
- Purchasing
- Travel

Per PHS management, draft policies are being created to address these areas.

**Implications:**

Without documented policies and procedures, PHS management and the board will have difficulty in ensuring appropriate processes are followed.

**Recommendations:**

VCH management should consider conversing with PHS regarding the need to implement policies noted in the above financial areas. Stronger policies could guide PHS in ensuring funds received by VCH are used in an efficient, effective and transparent manner.

**Finding 8: Lack of Robust Purchasing Process**

**■ Moderate Priority**

During testing of expenses, IAS noted the lack of a formalized purchasing process used to initiate orders, approve orders and document the receipt of goods and services.

**Implications:**

Without a purchase order system that compares the purchase order, receiving record, and vendor invoice prior to authorizing payment, the following are some of the risks present:

- One person could order a good or service, indicate they received the service when they never did and authorize payment. The payment could be to a company which the employee owns, or to a company owned by a friend/relative.
- Lack of reconciliation between goods ordered, goods received and entries into accounting records may mean discrepancies and/or irregularities are not discovered and that no proper action is taken to rectify missed or unauthorized purchases.
- Lack of approval of an expense or purchase before it is incurred. A purchase order system would allow PHS to better manage budgets, understand costs and proactively run projects. Such as system would also places the approval where it belongs – at the beginning of the purchasing process.

**Recommendations:**

VCH management should consider communicating with PHS to improve the purchasing process to include the following aspects:

- Authorization of purchases within approved limits.
- Matching purchase orders (PO), invoices and receiving documents prior to approving payment.
- Ensuring segregation of duties between initiation of a PO, authorizing a PO and receiving the goods or services.

**Conclusion for Objective 2:**

Analysis of the PHS 2013 audited financial statements indicated a low current ratio and limited cash on hand which could make it difficult for PHS to meet short term debt obligations. PHS would have reported a deficit of \$2.07 M in fiscal 2013 if not for a one-time non-cash gain related to the disposal of an investment. These financial issues could negatively impact the ability of PHS to continue to deliver services to clients.

**OBJECTIVE 3: Review the financial reporting to VCH and key financial transactions for accuracy and completeness.**

**Finding 9: Questionable Benefit of Separately Incorporated Entities**

**▲ High Priority**

PHS management identified eight separate incorporated entities for which it provides accounting, payroll, operational support, training, access to counseling, other staff support mechanisms and loans. Some of these corporations are used by PHS to provide support for various program functions. The following are the names of the companies and the nature of the services provided:

- Bugs B Gone – Pest control company
- Wishy Washy Laundry – Laundromat
- Mop Squad Cleaning and Homemaking – Room cleaning services
- Our Community Security – Security Services
- Downtown Eastside Maintenance and Construction – Maintenance services
- Radio Station Café – Coffee shop
- Our Community Thrift and Vintage Ltd. – Thrift shop
- Downtown Eastside Janitorial Supplies – Janitorial Supply Provider

PHS management stated that these separate companies were established so that union wages would not need to be paid. PHS management also indicated that they had hoped these companies would also provide services to non-PHS entities.

The corporations' shares are not owned by PHS and as such, are not consolidated in PHS' annual financial statements. According to PHS management, the shareholders of these corporations are external acquaintances of PHS executive management and/or employees or contractors of PHS. Management informs us there is an implicit agreement that these shares are held in "trust" for PHS; these agreements have not been formalized in writing. Per PHS, two key reasons for this structure are to provide employment for individuals in downtown eastside and to benefit from potential profits generated.

PHS management informed IAS that they are in the process of moving these corporations under a Community Contribution Company which is a new hybrid corporate model created by the BC government. Once this move is complete, PHS will own the shares of these companies.

As of Oct 31, 2013, PHS had outstanding cash advances to these companies of approximately \$481K. Five of the eight corporations generated losses in the year; however, all eight corporations have negative retained earnings, which indicates a history of losses.

**Implications:**

- a) There is a question of why PHS, an entity established to provide health care, has set up non-health care related companies. Operating companies such as the cafe and vintage clothing store may not be the best use of VCH funding intended for health care services.
- b) It is difficult to determine the value for money received in PHS' use of these companies as PHS is basically contracting with themselves for the provision of services such as pest control and room cleaning.
- c) Legally, the shareholders, not PHS, have a right to any profits of the corporation.
- d) Public funds are at risk as it is questionable whether all of the outstanding advances made to these companies will be paid back to PHS, based on some of these company's historical losses.

- e) Management's reasons for some non-program related travel and other expenses include using profit earned from one of PHS' related parties. This is difficult to justify when PHS has significant outstanding advances to these parties.

**Recommendations:**

VCH management should consider discussing with PHS regarding the various companies that it administers. The following could be mentioned in the discussions:

- a), b) Consider tendering pest control and cleaning services to determine if PHS is offering a competitive rate for such services.
- c) Consider modifying the corporate structure of PHS so that it owns shares of these corporations (if legally possible).
- d) A policy should be put in place that specifies the amount of funding PHS is able to advance to its separate incorporated entities. The PHS BOD should formally authorize each of these advances.
- e) Travel and other non-business related expenses should not be attributed to related party profits unless the companies are profitable as a whole and there are no outstanding advances to these companies.

### **Finding 10: Compliance with Certain Contract Deliverables**

**■ Moderate Priority**

IAS selected 21 financial and other key reporting requirements from the four service agreements selected for testing and determined whether these requirements were being met. There was no evidence to support that 3 of the 21 requirements were not being met. IAS could not conclude on a further four requirements as documentation supporting provision of the requirement was lacking. The following is a summary of the requirements that were not met (a and b) and where it was not possible to conclude whether certain requirements were met (c ,d and e):

- a) The Portland Hotel contract requires individual record of service to be maintained. Interviews with staff and management at VCH and PHS indicated no such record was maintained. Staff and management were also unsure as to what type of information such a record would hold.
- b) Two of the four contracts noted that PHS and VCH will develop and implement an outcome based program evaluation plan. No evaluation plans appear to be developed for these programs.
- c) Invoices of services provided by PHS administered corporations Mop Squad and Bugs B Gone do not list details, such as hours or number of units cleaned.
- d) The CTCT and PSS contract states that a day manager is to be on site 5 days/week to cover building maintenance for the entire building. PHS management stated that BC Housing also funds an individual to provide this service, however no such individual was noted on the FY 2013 schedules.

The CTCT and PSS contract states that a maintenance worker is to be in the building 3 days/week in the daytime. It was not possible determine if such an individual was on site as the schedules did not include the employee.

- e) The SIS contract requires a targeted minimum of 220,000 service events annually. An Excel based report maintained by PHS SIS staff indicates this service level was met. VCH management has not verified the accuracy and completeness of this report, however, they believe the amount is reasonable.

### **Implications:**

- a) Without an individual record of service for each tenant, it is difficult to determine whether the appropriate level of support services were delivered.
- b) Lack of a well developed and monitored evaluation plan means that services may not be provided in an optimal manner and that issues may not be addressed on a timely basis.
- c) Without invoices detailing amount of time spent or number service events provided it is difficult to assess value for money of services provided by PHS related entities.
- d) By not scheduling a day manager and maintenance worker at CTCT and PSS, VCH cannot verify whether this required service was being delivered in FY 2013. There is a risk that this required services are not being provided.
- e) Without performing independent spot checks or test counts, it is difficult determine if the number of service events reported by PHS staff at the SIS is accurate.

**Recommendations:**

- a) VCH and PHS should jointly develop requirements of expected record of service documentation.
- b) VCH and PHS should jointly develop and monitor program evaluation plans.
- c) Invoices provided by PHS related parties should detail numbers and types of service events per location.
- d) VCH and BC Housing should develop an agreement to share PHS related service contracts in order to minimize the risk of duplication of funding. The day manager and maintenance worker required at CTCT/PSS should be scheduled.
- e) Consider monitoring the SIS program to determine if it is reasonable that 220,000 service events are being provided. This may be done through conducting spot checks throughout the year.

**Finding 11: Lack of Clarity Over Program Staffing Levels**

**■ Moderate Priority**

Each contract lists the number of FTEs expected to be supplied by PHS. The four contracts examined do not specify whether these FTE levels include a component dedicated to staff relief (coverage for vacation, sick time, training, etc.).

IAS compared FTE levels specified in contracts to the FTE levels reported by PHS. It was found the staffing levels reported by PHS do not match the levels required in the contracts. These differences may be due to confusion over whether the FTE level required in the contracts includes a component for staff relief.

Contract	Position	FTEs Required per Contract	FTEs Provided Per FY 12/13 Annual Report	Difference: More FTEs reported by PHS than required / (Fewer FTEs reported by PHS than required)
Portland Hotel	Support Staff	9.24	11.84	2.6
	Professional Staff (nursing)	0.5	0.5	0
CTCT	Program Staff	9.12	9.12	0
Pennsylvania Supported Suites	Program Staff	4.16	4.14	(0.02)
Onsite	Union Staff	12.26	10.58	(1.68)
	Non-Union Staff	2.18	2.01	(0.17)
SIS	Program Staff	19.73	24.21	4.48
	Non-Union Staff	2.39	2	(0.39)
	Peer Staff	4.78	5.66	0.88

In addition to FTE levels, the four contracts also detail five other staffing requirements such as the number of individuals required on shift at all times and staffing certain areas 24/7. Through analysis of PHS' 2013 shift schedules, IAS noted that the appropriate number of individuals were scheduled to meet the five staffing requirements. However, IAS was unable to confirm whether the employees were on site as scheduled because sign-in sheets are not used.

**Implications:**

FTE levels reported differ from those required in contracts, possibly due to lack of clarity over relieve levels.

**Recommendations:**

- Contracts should specify whether required FTE levels include an amount dedicated to relief.
- VCH management states contracts in other program areas include a staffing plan which clearly articulates the minimum staffing requirements. Such a plan should also be considered for the PHS and other community contracts to ensure it is clear what the required staffing levels are.

**Conclusion for Objective 3**

The PHS corporate structure is complex as the society administers, but does not directly own, eight corporations. At the time of audit fieldwork the Society had advanced approximately \$481 K to these corporations.

Of 21 financial and other key reporting requirements selected for testing there was no evidence to support whether three of the requirements were delivered. There were two requirements that were not being performed.

**OTHER OBSERVATIONS:**

IAS noted findings that were not within the scope of the audit objectives. These findings are noted below.

**Finding 12: Opportunity to Coordinate Funding with BC Housing Management Commission**

**■ Moderate Priority**

PHS is dependent on two public funding sources to support its low income housing programs. VCH provides funds for program staff and support, whereas the BC Housing Management Commission (BC Housing) provides funding for building costs. Two of the four contracts selected for testing, rely on BC Housing grants to operate (Portland Hotel - \$509,291 BC Housing grant in FY 2013 and Pennsylvania Hotel - \$633,600 BC Housing grant in FY 2013).

Additionally, under the PSS & CTCT contract, VCH provides funding for maintenance staff. The contract states that VCH is to pay \$65 per residential suite for regular maintenance and pest control services and resident laundry access. During the audit, IAS was advised that BC Housing also provides funding for such maintenance staff.

**Implications:**

- Potential duplication of efforts as both parties fund PHS staffing and administration costs without knowing the specifics of each party's funding requirements.
- There is a risk that VCH may not be able to guarantee continuity of services if BC Housing ceases to fund PHS.
- Lack of open communication of any issues noted at PHS.

**Recommendations:**

VCH management should consider liaising with BC Housing to create an information sharing agreement. VCH could then collaborate with BC Housing regarding contracts and funding provided to PHS and other service providers that are jointly funded.

## IX. CONCLUSIONS

**Conclusion for Objective 1:** *Ensure that funding provided to PHS by VCH has been spent appropriately and in compliance with our service agreements.*

Due to the accounting practices followed, it is not clear how much VCH funds are spent on administrative expenses. The lack of supporting documentation, particularly on credit card expenses, and the nature of expenditures incurred by PHS are of concern. PHS could not provide evidence of criminal record checks for four employees selected for testing which is non-compliant with VCH contract requirements.

**Conclusion for Objective 2:** *Verify the financial health of PHS to ensure continuity of services to clients.*

Analysis of the PHS 2013 audited financial statements indicated a low current ratio and limited cash on hand which could make it difficult for PHS to meet short term debt obligations. PHS would have reported a deficit of \$2.07 M in fiscal 2013 if not for a one-time non-cash gain related to the disposal of an investment. These financial issues could negatively impact the ability of PHS to continue to deliver services to clients.

Based on IAS assessment of the Board of Directors, governance is inadequate for a organization the size of PHS.

**Conclusion for Objective 3:** *Review the financial reporting to VCH and key financial transactions for accuracy and completeness.*

The PHS corporate structure is complex as the society administers, but does not directly own, eight corporations. At the time of audit fieldwork the Society had advanced approximately \$481 K to these corporations.

Of 21 financial and other key reporting requirements selected for testing there was no evidence to support whether three of the requirements were delivered. There were two requirements that were not being performed.

While IAS has offered recommendations individually for each finding in this report, taking into consideration the serious nature of all findings VCH management may want to assess its continued relationship with PHS as a service provider. As part of this process, VCH should consider if alternative service providers or methodology may present a lower risk profile than the current arrangement.

## X. ACKNOWLEDGMENT

Internal Audit Services gratefully acknowledges the support and assistance provided by all management and staff during the course of the audit.