



Indian and Northern
Affairs Canada

Affaires indiennes
et du Nord Canada

REPORT ON FORENSIC AUDIT INVESTIGATION

DECEMBER 2008

Chief Audit and Evaluation Executive



Canada 

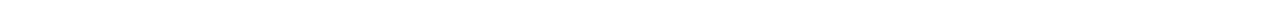


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MANAGEMENT RESPONSE AND STATUS OF THE ACTION PLAN

Responsibility: CAEE

Three national audits resulting from the 2007 Management Practices Review of the Manitoba region have been concluded and results of that audit work have been or will be presented to the Committee in a timely fashion. The deck presentation of the Manitoba Management Practices Review is available on the INAC website.

Responsibility: CAEE

Further forensic audit work was completed with a draft final report provided on August 1st, 2008. That report included conclusions on financial arrangements with Manitoba Hydro, Governance House and Fairford First Nation.

Responsibility: DG Human Resources

A disciplinary investigation was undertaken on the basis of the draft final report in regard to three employees and appropriate follow-up was completed based on the recommendations flowing from that investigation. The employees involved received copies of the draft report that had been severed to exclude personal information other than their own.

Responsibility: CFO

In regard to INAC contributions to the North Central project, the CFO has established a contact point at Manitoba Hydro to review the accounts for the period in question.

Responsibility: CAEE

The CAEE has contracted an independent firm to conduct a forensic audit of the accounting for the period.

Responsibility: CAEE

In regard to inappropriate use of contributions provided for social services and related matters, the CAEE has contracted an independent firm to conduct a forensic investigation.

Responsibility: CFO

Financial accounting practices will be strengthened, delegation of authority reviewed and enforced and vigorously, updated training on the Transfer Payment Policy provided, by April 1st, 2009.

Responsibility: CFO / CAEE

With regard to the other audit issues which have been drawn to the attention of the CAEE and the CFO in the context of this investigation, further work will be recommended by CAEE based on risk, materiality and the priority use of audit resources. Audit and Assurance Services staff will be supervising the work on a number of other issues raised in the course of the forensic investigation. The Assessment and Investigation group will contract and manage any further forensic work required.

Reports will be presented to Committee by the CAEE as soon as possible, when conclusions have been reached, either in the case of audit issues or in the event that further work is not required or not feasible.

We recommend that the Committee receive and approve this response and the proposed actions.

Submitted and approved on December 4, 2008.

Signed by:

Anne Scotton, CAEE

Jim Quinn, CFO

Marielle Doyon, DGHR

1.0 INTRODUCTION

1.1 Background

- A Management Practices Review (MPR) of the Indian and Northern Affairs Canada (INAC) Manitoba Regional Office (MRO) was contracted by INAC Audit and Evaluation Sector (AES) and completed in May 2007 with the final report issued on June 20, 2007. The MPR tested the adequacy of Human Resources (HR) management practices, grant and contribution program, management, contracting and financial controls.
- The MPR concluded that further work was required in a number of areas. The review observations included the following:
 - staffing and classification practices were weak and staffing actions were poorly documented;
 - little functional direction was provided from headquarters (HQ) in proposal-driven funding programs;
 - a large proportion of economic development project awards were just below or exactly at the \$100,000 ceiling for regional approval;
 - the rationale for the creation of management control frameworks for budget reserves was unclear as was the criteria for assessing them; and
 - there was an emphasis on spending all allocated funds each year with the effect that INAC may have been supporting weak projects, particularly for proposal-driven projects in the economic development and capital areas.
- During the MPR a number of allegations were received.
- At the September 28, 2007 meeting the Audit and Evaluation Committee (AEC) was informed of the status of the review.
- On October 2, 2007, **Raymond Chabot Grant Thornton (“RCGT”)** Consulting Inc., under contract, commenced a preliminary assessment of allegations received.
- On November 22, 2007, **RCGT Consulting Inc.** briefed the Senior Associate Deputy Minister (ADM), indicating that a full forensic audit/investigation was required based on the assessment of the following three (3) specific files:
 - *The Funding of the Manitoba Hydro North Central Project (NCP) (Electrification and Soil Remediation projects).* The assessment concluded that among other issues, there were misrepresentations to approving authorities, an unauthorized write-off of a

recoverable \$2.7 million and a failure to maintain proper books and records;

- *Funding of the Governance House Project.* The assessment concluded that officials/employees exceeded their respective departmental authorities and the majority of the project should have been deemed ineligible for funding under the Community and Economic Opportunities Program (CEOP); and
 - *Pinaymootang (Fairford) First Nation Flood Advance.* The assessment concluded that \$1.2 million advanced toward a settlement had not been set up as an advance and that there were questions from community members about what the money had been used for.
- On November 26, 2007 notification was received at HQ of an unusual amount of document disposal occurring at the MRO. A notice was sent to employees advising them of their responsibilities under the policy regarding retention/destruction of material (documents) that might be involved in an investigation.
- The full forensic audit/investigation commenced on December 3, 2007.

1.2 Objective and Scope of the Forensic Audit/Investigation

Objective and Scope

The objective of this engagement was to conduct a forensic audit/investigation of allegations regarding MRO management practices and actions as they relate to the following three (3) transactions:

1. Funding of the Manitoba Hydro NCP (Electrification and Soil Remediation projects);
2. Funding of the Governance House project; and
3. Flood Compensation Expenditures – Pinaymootang First Nation (Formerly known as Fairford First Nation).

The forensic investigation was primarily focused on the actions taken by management of the MRO in connection with the matters that became the subject of the three (3) preliminary assessments described above.

The investigation covered the period from April 1, 1997 to November 30, 2007, the period in which the transactions described in the three (3) preliminary assessments occurred.

The investigation began on December 3, 2007. Field work ended on May 23, 2008. Subsequent to the end of field-work and before August 1, additional information and documentation was received pertinent to two (2) of these transactions. This information is reflected in this report.

During the course of the preliminary assessment and subsequent investigation, many other allegations were brought to the attention of the investigation team. The investigation team did not have these additional allegations as their prime focus and these allegations were not documented to a forensic level¹.

In addition to the three (3) allegations that are the subject of this report and that have been investigated, the team was able to partially document several of the other allegations. The remainder have not been verified beyond what was noted and obtained in the initial interviews.

A brief description of all these other allegations and a recommendation for action will be provided to INAC's Chief Audit Executive (CAE) after presentation of this report.

¹ The word *forensic* means relating to, used in, or connected with a court of law. *Forensic audit/investigation* means the applied use of investigative knowledge to develop evidence to a level that can be used in a court of law, civil or criminal or equivalent judicial form.

In all, during the course of the preliminary assessment and the subsequent investigation, a total of ninety-one (91) individuals were interviewed including:

- forty (40) current employees;
- twenty-four (24) past employees;
- eight (8) First Nations members; and
- nineteen (19) other parties.

Of the sixty-four (64) past and current employees who were interviewed, thirty-four (34) came forward voluntarily to express concerns about the management of the MRO.

Of the current employees that we interviewed twenty-nine (29) expressed concerns about the management of the MRO. This represents approximately 15% of the total MRO personnel.

1.3 Scope Limitations

Because the primary focus was on the actions of management, limited documentation was collected related to, and interviews conducted with, individuals or parties external to the MRO.

Specific scope limitations are described in the following sections.

1.3.1 *INAC Headquarters*

The involvement of INAC HQ was not a focus of the forensic audit investigation and the direct or indirect involvement of HQ officials in these three transactions was not examined.

Some HQ officials were contacted, however, to provide contextual and corroborative information. This level of contact was not intended to, and did not, support the development of conclusions regarding the discharge of responsibilities at HQ. Accordingly, this report makes no comment on whether or not HQ responsibilities were discharged appropriately.

1.3.2 *Flow of Funds*

This investigation focused on MRO management practices and the financial arrangements which that office entered into with specific focus on the three (3) transactions. Accordingly, the investigation team did not follow the flow of funds that were provided from the MRO to external recipients.

This report therefore makes no comment on whether or not regional employees and/or senior management received benefits, directly or indirectly, from these transactions.

2.0 INVESTIGATIVE PROCEDURES

2.1 Allegation Approach

RCGT Consulting Inc.'s approach was to investigate and report on each allegation/transaction separately in this report. Each allegation usually related to a specific financial transaction. Each transaction involved many regional staff. Financial transactions are initiated and authorized by program managers or Funding Services Officers (FSO's) who sign for Section 34 of the Financial Administration Act (FAA). Initiation is approved and funds are released by Corporate Services staff who sign for Section 33 of the FAA. A single transaction is therefore administered by numerous staff members.

MRO employees involved in these transactions are identified by generic or specific job titles, as appropriate. Due to the numerous changes in position, the lack of current job descriptions and the changing organizational structure, it was often difficult to determine which employees had the authority and responsibility in regard to the transactions at any given time.

2.2 Interviews

Interviews were used to obtain information about and to understand the allegations and to verify facts. During the forensic audit investigation, we conducted one-hundred and twenty eight (128) formal interviews with ninety-one (91) individuals. Seventeen (17) of these interviews were conducted with the assistance of a court stenographer (*see 2.3 below*).

For formal interviews, notes were taken and/or recordings were made. In some instances, the person was asked to sign the interview notes. If the interview was of importance to a particular allegation, the interviewee was informed that he or she would possibly have to confirm his or her statement at a later date.

The investigation team also conducted numerous informal interviews to collect information relating to documents and activities. Informal interviews were not recorded although hand written notes were frequently taken.

2.3 Sworn Statements

Certain interviews were more important than others due to the position of the employee or their significance in confirming facts. These interviews were recorded by an official court stenographer, who took an oath from the interviewee before commencing the session. Transcripts of the completed sworn statements were provided to the person who was interviewed, shortly after the sessions.

Any major errors which occurred in transcribing the interviews were identified by the parties involved in the interview and were corrected during the next interview session. Minor errors were corrected by attachment notices to the individual transcript. All individuals who participated in providing sworn statements were informed that they could have their legal counsel attend the session.

The primary reasons for obtaining sworn statements using a court stenographer were as follows:

- rapid turnaround to allow for analysis and follow-up questions;
- feedback as to what was stated could be provided to the interviewee;
- independent and accurate transcription of all questions and answers stated by the interviewer and interviewee during the session; and
- clear notification to interviewees that their responses should be well considered.

2.4 Document Review

During the course of the investigation, more than 2,700 documents were registered, catalogued and reviewed. Documents ranged from bulky legal agreements, submissions and reports, through electronic files to individual e-mails. The documents were reviewed and used to corroborate or disprove major points in the allegations and/or sworn statements.

2.5 The Use of an Information Line

An information line was set up by the investigation team to facilitate and encourage past and present staff members of the MRO to come forth in a secure and anonymous environment. The information line was brought to the attention of current employees by means of an all-regional-staff e-mail. The text of the e-mail was sent by surface mail to those former employees who had left INAC in the last five (5) years and for whom the personnel office could provide an address. Sixteen (16) current employees and twelve (12) past employees took advantage of the information line to initiate contact with the investigation team.

After a period of time, individuals started to contact members of the investigation team directly. In the initial months, contact was frequent. Over time, contact by individuals increased, and additional individuals were willing to speak directly to the investigation team members who were present in the MRO.

No steps were taken by INAC to bring the information line to the attention of First Nations or their members. Nevertheless, the investigation team was approached through the information line by eight (8) individuals from four (4) of the sixty-three (63) First Nations in Manitoba.

3.0 OVERVIEW OF THE MANITOBA REGION

3.1 General Overview

Information obtained at the time of the investigation indicates that:

The Manitoba region has sixty-three (63) First Nations, including nineteen (19) remote communities which rely on winter roads for essential supplies and four (4) urban reserves.

The region's political landscape is also impacted by the seven (7) tribal councils and three (3) Political/Territorial organizations operating in the region.

There are 127,159 registered First Nation members in the region, with 61.92% (78,747) living on-reserve and 44.02% (33,239) of the population under the age of eighteen (18) (as of December 31, 2007). The on-reserve workforce participation rate is less than 50% and the First Nation high school graduation rate is 28%. First Nations in the region have the lowest own-source revenues in Canada (with less than \$1M in trusts) and are among the poorest in Canada.

The MRO has five (5) directorates focused on the provision of services to First Nations: Government, People & Trust Responsibilities, Lands, Infrastructure & Housing and Funding Services.

Primary programming areas include:

- capital and infrastructure;
- economic development;
- education;
- environmental issues;
- housing;
- self-government;
- specific claims;
- Treaty Land Entitlement; and
- lands and resources.

In addition to the five (5) directorates providing services to First Nations, there are four (4) directorates providing operational support and strategic direction: the Regional Director General's (RDG) Office, Corporate Services, Human Resources (HR), Strategic Planning and Executive Services.

The activities of the MRO have been particularly impacted by the Manitoba Framework Agreement (MFA) Initiative on self-government, which was signed in December 1994. It committed the Assembly of Manitoba Chiefs (AMC) and the Federal government to a ten (10) year process aimed at:

- dismantling INAC's regional operations in Manitoba;
- recognizing and developing Manitoba First Nations governments; and

-
- restoring jurisdiction to First Nations in Manitoba.

Of the sixty-three (63) First Nations in Manitoba, twenty-nine (29) have Treaty Land Entitlement claims; of these, settlement agreements have been made with twenty-two (22) First Nations. Three (3) specific and two (2) special claims processes are also on-going in the region.

With respect to education, fifty-one (51) First Nations in Manitoba operate seventy-six (76) elementary and secondary schools, including seventeen (17) facilities that teach mature students. Approximately 17,100 students are educated on-reserve and a further 5,300 attend schools off-reserve.

Please Note:

The above information was not verified by the investigation team. This information is included in this forensic audit report to provide context for the reader.

3.2 Expenditures

The following section outlines the budgets and actual expenditures by vote for the Manitoba region from 2002 to 2008.

	02/03		
	Initial Region Budget	Current Budget	Actual
V01 - INAC NON SALARY	6,856,400.00	11,555,407.73	11,552,962.93
V01 - INAC SALARY	10,530,466.00	11,594,138.99	11,594,137.95
V05 - CAPITAL EXPENDITURES	3,268,000.00	610,416.00	610,415.31
V07 - FORGIVENESS OF DEBT	0.00	0.00	0.00
V10 - GRANTS AND CONTRIBUTIONS	598,840,400.00	668,156,405.86	668,156,405.86
V25 - FEDERAL INTERLOCUTOR - G&C	0.00	0.00	0.00
Total	619,495,266.00	691,916,368.58	691,913,922.05

	03/04		
	Initial Region Budget	Current Budget	Actual
V01 - INAC NON SALARY	7,764,100.00	11,190,147.56	11,180,361.73
V01 - INAC SALARY	11,218,887.00	12,615,103.73	12,615,103.73
V05 - CAPITAL EXPENDITURES	3,268,000.00	49,100.00	49,100.00
V07 - FORGIVENESS OF DEBT	0.00	406.99	406.99
V10 - GRANTS AND CONTRIBUTIONS	600,684,100.00	689,757,344.95	689,757,344.95
V25 - FEDERAL INTERLOCUTOR - G&C	0.00	0.00	0.00
Total	622,935,087.00	713,612,103.23	713,602,317.40

	04/05		
	Initial Region Budget	Current Budget	Actual
V01 - INAC NON SALARY	9,654,800.00	9,993,296.67	9,844,293.20
V01 - INAC SALARY	12,184,738.00	12,501,532.49	12,492,721.39
V05 - CAPITAL EXPENDITURES	3,268,000.00	0.00	0.00
V07 - FORGIVENESS OF DEBT	0.00	0.00	0.00
V10 - GRANTS AND CONTRIBUTIONS	673,733,800.00	721,181,487.03	721,180,536.80
V25 - FEDERAL INTERLOCUTOR - G&C	0.00	0.00	0.00
Total	698,841,338.00	743,676,316.19	743,517,551.39

	05/06		
	Initial Region Budget	Current Budget	Actual
V01 - INAC NON SALARY	7,265,400.00	8,242,898.52	8,023,827.39
V01 - INAC SALARY	12,195,769.00	12,427,863.82	12,406,038.08
V05 - CAPITAL EXPENDITURES	3,268,000.00	0.00	-3,670,055.05
V07 - FORGIVENESS OF DEBT	0.00	0.00	0.00
V10 - GRANTS AND CONTRIBUTIONS	675,868,600.00	750,217,711.39	750,217,711.39
V25 - FEDERAL INTERLOCUTOR - G&C	0.00	0.00	0.00
Total	698,597,769.00	770,888,473.73	766,977,521.81

	06/07		
	Initial Region Budget	Current Budget	Actual
V01 - INAC NON SALARY	6,449,900.00	6,668,245.71	6,659,787.23
V01 - INAC SALARY	12,976,000.00	13,161,321.21	13,161,321.21
V05 - CAPITAL EXPENDITURES	3,268,000.00	61,065.00	12,075.03
V07 - FORGIVENESS OF DEBT	0.00	0.00	0.00
V10 - GRANTS AND CONTRIBUTIONS	730,396,200.00	803,347,597.45	803,347,597.43
V25 - FEDERAL INTERLOCUTOR - G&C	0.00	0.00	0.00
Total	753,090,100.00	823,238,229.37	823,180,780.90

	07/08		
	Initial Region Budget	Current Budget	Actual
V01 - INAC NON SALARY	3,453,994.00	6,273,129.28	5,616,497.95
V01 - INAC SALARY	13,602,824.00	13,361,510.11	12,946,703.44
V05 - CAPITAL EXPENDITURES	3,268,000.00	0.00	0.00
V07 - FORGIVENESS OF DEBT	0.00	0.00	0.00
V10 - GRANTS AND CONTRIBUTIONS	756,435,600.00	792,807,632.72	792,794,837.11
V25 - FEDERAL INTERLOCUTOR - G&C	0.00	30,000.00	29,252.00
Total	776,760,418.00	812,472,272.11	811,387,290.50

Notes:

- Source: The above information was provided by INAC HQ and has not been verified by the investigation team;
- Initial Region Budget represents the amount sent to the region on April 1;
- Current budget represents the year end budget in the region;
- Actual figures represent the expenditures that were recorded in the financial system for the fiscal year; and
- Budgets and actuals prior to 2004/05 have been restated to reflect the current vote structure. Prior to 2004/05, the department had three (3) programs with their own O&M and G&C votes which have been consolidated into the vote structure represented here.

The figures above show that the running costs of the region (*Votes 1 and 5*) have decreased by 22% over the period, from \$23.6 million to \$18.5 million (all figures in nominal dollars). As can be seen from the tables, almost all of this decrease is attributable to a decrease in non-salary costs. Over the same period, grant and contribution disbursements increased by 19%, from \$668 million to \$793 million.

In the period 2002 to 2008, the region disbursed increasing amounts of funds, while devoting a declining percentage of the disbursements to the task of managing and administering the disbursements – from 3.4% of disbursements to 2.3%.

3.3 Working Environment in the Manitoba Regional Office

3.3.1 Introduction

This forensic audit report deals with an investigation of three (3) specific allegations and the management practices and actions related thereto. It is important, however, to understand the individual allegations/transactions discussed in this report, and the overall patterns revealed by them, in the context of the working environment of the MRO. *See text box “Why the Control Environment Matters.”*

In recent years, accountants, comptrollers and auditors have recognized the impact of the working environment on an organization and its people. Therefore, it is important to understand and assess the working environment, before commencing more detailed work upon governance, management, control or accountability. To reflect and codify this growing understanding and to differentiate it from traditional approaches to systems and controls, they have adopted and defined the phrase “*control environment*.”

The *control environment* is the first and arguably the most important of five (5) elements of the control framework originally described by the U.S. Committee of Sponsoring Organizations (COSO) of the Treadway Commission. [The other four (4) elements of the COSO framework are: Risk Assessment; Control Activities; Information and Communication; and Monitoring.]

Since its initial publication in 1992, the COSO framework has achieved high levels of acceptance and provided the intellectual and practical underpinning for other, later frameworks including those promulgated by the Canadian Institute of Chartered Accountants (CICA) [i.e. Criteria of Control (CoCo)] and the Government of Canada (GoC) [i.e. Management Accountability Framework (MAF)].

Under CoCo, the phrase “*control environment*” refers to the overall attitude, awareness and actions of an organization’s leaders toward internal control and its importance to an entity or organization. It is expressed and detected primarily through their actions rather than words. The style, culture, values and philosophy reflected in the day-to-day actions

Why the Control Environment Matters

An assessment of the quality of the *control environment* is important for a number of reasons, including:

1. The *control environment* provides the context within which all of the individual transactions and interactions took place. It is not possible to understand the transactions without understanding the control environment.
2. The quality of the *control environment* has a determining effect on *all* other aspects of control. People respond to the incentives and disincentives that they see in action around them far more than they do to philosophical exhortations.
3. Management over-ride of internal control systems is almost always enabled by the creation of a *control environment* that puts personal loyalty above loyalty to the organization, its mission and its values.

and interactions of senior management determine an organization's control environment as much, if not more than, things like its structures, policies and procedures.

Key factors that determine the control environment include: the integrity, ethical values and operating style of management; delegations of authority; the processes for managing, rewarding and developing people in the organization; and the system of rewards and sanctions operated by management.

Accordingly, this section (3.3) of this forensic audit report examines evidence regarding key aspects of the control environment in the Manitoba region over the last ten (10) years, specifically the:

- clarity of mission and goals (3.3.2);
- clarity of individual roles and responsibilities (3.3.3); and
- nature of incentives and rewards (3.3.4).

3.3.2 *Clarity of Mission and Goals*

Very few of the interviewees who spoke with the investigation team referred to any overall strategic or tactical directions for the region other than the MFA initiative, also referred to as the Manitoba dismantling initiative. Most references to it by staff were neutral or negative.

One (1) senior manager identified the MFA and the way that it was handled and communicated by HQ as the major factor that contributed to poor understanding and acceptance of the Manitoba region's mission and goals. As a result, he had discounted the results of the Public Service Commission (PSC) Staff Surveys, conducted in 2002 and 2005 and their indications of a poor and worsening control environment.

This senior manager maintained this position despite the fact that the MFA was announced in December 1994. By the time the PSC conducted these surveys it was already becoming clear that "*dismantling*" would not take place overnight. Indeed, somewhat after the expiry of the initial ten-year period of the agreement, funding for the

A Word about Terminology

Different approaches to planning, achieving and reporting on performance use a variety of terms to articulate what organizations do and how they do it.

As used in this report the word/phrase:

- *mission* refers to the specific task, or purpose for which an organization exists;
- *goal* refers to a specific, measurable and time-targeted objective to be achieved in support of the mission;
- *mission and goals* connotes the direction established by management for the organization;
- *plan* refers to a document that sets out management directions; and
- *planning* refers not only to the process of preparing a planning document, but also to the process of communicating the plan to, and securing engagement for it, from those affected by it.

initiative was suspended. By 2007-08, few of the staff interviewed by the investigation team referred to the MFA as a major source of anxiety.

Other facts identified by the investigation team also pointed to a lack of clarity regarding mission and goals:

- the investigation team found no evidence of any express or implied strategy that would explain the reasons for, or any analysis of the effects of, redeployments of efforts or resources, such as those outlined in *Section 3.2* of this forensic audit report (the reduction of running costs from 3.4% to 2.3% of total costs);
- the investigation team found no evidence that there had been any organized consideration given to whether or not any of the reviewed expenditures had been evaluated as delivering benefits that relate to the mission and goals of the organization;
- in 2005, 41% of regional respondents, to the PSC survey, disagreed with the proposition that their work unit periodically took time out to re-think the way the MRO conducted business (2002 = 39%). In comparison, less than 1/3 of staff on a national basis reported similar perceptions; and
- the only operating strategy in place during the relevant period (1997 – 2007), as revealed in comments of staff to the investigation team, seemed to be to “*keep the money flowing.*”

3.3.3 Clarity of Individual Roles and Responsibilities

Job Descriptions and Frequent Job Rotations

The investigation team noted that job descriptions for the directors and senior leaders of the MRO were not up to date.

The job description for one director, for example, had last been revised in 1998. When we attempted to review this individual’s responsibilities with the incumbent, by reference to the job description, it became clear that there were significant differences between the responsibilities as understood by the incumbent and those reflected in the job description and classification level. Among the responsibilities assigned to this director, but not “accepted” by the incumbent, were those of:

- assuring the integrity and appropriateness of capital and operating allocations;
- oversight of regional data-bases, including those for social assistance and education;
- overseeing the process for responding to complaints and allegations by members of the public or First Nations; and
- assessing the effectiveness of the regional system of internal control.

The investigation of specific transactions reflected in this forensic audit report raises serious questions about the systems and practices employed by the MRO in respect of each of the above areas of responsibility.

When the incumbent was asked how she had formed her understanding of the nature and extent of her responsibilities, she told the investigation team:

“Work is assigned to people, and you do the work assigned... (usually through)...a series of e-mails from headquarters with tasks. ... For the areas that I'm not familiar with, work really comes to your desk from the staff that are there.”

The investigation team did not compare assigned responsibilities with those “accepted” by incumbents for all managerial positions in the Manitoba region. It noted, however, that:

- all but one (1) senior manager position descriptions were out of date (*See Exhibit 3.3 – 1: Dating of Selected Job Descriptions*, below);
- this was not the only instance where managers told the investigation team that they had established the nature and extent of their responsibilities by reference to the work that staff brought to them; and
- the 2005 PSC survey showed that more than half the staff in the MRO felt that their work suffered because of organizational instability.

Exhibit 3.3 – 1: Dating of Selected Job Descriptions

Regional Director General	1992
Associate Regional Director General	1998
Director, Funding Services	1999
Zone Manager, Funding Services	2001
Manager, Program Planning and Allocations	2004

Out-of-date job descriptions are not unusual in the public service as is the case in many other large organizations. In the case of the MRO, however, significant organizational events that were not subsequently reflected in position descriptions and classifications included:

- 2004 Regional Re-organization (the place-mat re-organization);
- 2005 Expenditure Review; and

2006 Re-alignment of Funding Services and Economic Development.

Throughout the ten (10) year period, 1997 to 2007, senior staff were rotated through key positions, sometimes faster than the planning horizons for their jobs. Others were kept on acting status and would therefore have been uncertain of their tenure. *See Exhibit 3.3.-2: Manitoba Region – Staffing Changes – Selected Positions, 1997 – 2007. Each colour identifies the career paths of specific individuals.*

Exhibit 3.3-2: Manitoba Region – Staffing Changes – Selected Positions, 1997 - 2007										
Year	RDG	ARDG	Director, FS	Associate Director, FS	Manager, PPA	Director, Government	Director, Corporate Services	Manager, Capital		
1997	(Ex03) 15 June 92 – Jan 98	(Ex02 - EI) Mar 96 – Feb 98	(Acting - Aug 97-Jun 98 Aug 98 Feb/99-Dec/00			Acting Director of Lands and Trusts Services - 97	1998 - 2001			
1998	(Ex03 – Execl/chnge)	(Ex01) Acting Ex 02: April 98 – Sept 98. Appointed (Ex02) Sept 98 – Jun 04	(Ex01) jan 2001 – Oct 2004	() Feb/02 – Oct/04	(AS06, AS07 Jun 02)	Director of Lands and Trusts Services 1998 - 2004				
1999	1 Feb 98 – 9 Mar 01				Jul 98 -- Jun 04					
2000										
2001	(Acting) March 01								Acting Dec 01 – April 06	Jan 01 – June 01 (A)
2002	(Ex03) Secondment from CGC, 9 Apr 01,					Confirmed,		Jul/01 – Oct/04		
2003	Appointed 6 Sept 01 – 2 Feb 04			Position unused Oct 04 – Jul 06	Jun 04 – Dec 04	Jun/04 – May/06				
2004	(Ex03) 2 Feb 04 – 1 Aug 04		6/04-10/04 - Acting							
2005	(Ex 02 Acting Ex03) Jun 04 – Mar 05	Ex 01, Acting Ex 02) Jun 04 – April 06	Acting Oct/04 – Feb/05		Dec/04 – April 07 (position WFA'ed)		Acting Jun/04 – Oct/06	PM06, May/05 – July/06		
2006	Appointed Ex 03, March 05 –	(Ex02) May 2006	Appointed Mar 05 – Nov 07	AS08, July 2006		May/06 -	Confirmed Oct/06 – date /			
2007										

Staff Understanding of Responsibilities

According to PSC surveys, more than 1/3 of staff had not discussed with their supervisors the results they were expected to achieve. Communications generally appear to be poor. According to evidence obtained through interviews, communications were often highly selective. Further, survey evidence shows that by 2005 a majority of MRO staff disagreed with the notion that management did a good job of sharing information.

Question 78: I feel that senior management does a good job of sharing information “ <i>mostly disagree</i> ” and “ <i>strongly disagree</i> ” responses.		
Year	2005	2002
INAC National	41% (14% <i>strongly</i> , 27% <i>mostly</i>)	38% (<i>breakdown not available</i>)
Regional	55% (27% <i>strongly</i> , 28% <i>mostly</i>)	43% (<i>ditto</i>)
Source: PSC Surveys & INAC Manitoba region analysis thereof. [D 190-2, 3, 4]		

The investigation team noted in particular interviews and documentary evidence regarding confusion on the part of verification and compliance staff as to what was expected of them in their function. Current members of the compliance unit informed the investigation team of their frustrations with regard to being sent back repeatedly to perform the activities until they reported a compliance result acceptable to the First Nation in question.

- More than one (1) member of the unit reported that (management should just)... “*tell me what number you want*” (before I start the compliance review).
- One (1) member of the compliance review team wrote... “*I do not know what the intention of the department was or is in regards to this ... compliance review*”

The answers to *Question 12b* in the PSC staff survey provide further indication of the detrimental effects of organizational instability on the ability of individuals in the MRO to understand and discharge their personal responsibilities.

Question 12b: I feel that the quality of my work suffers because of lack of stability in the organization (“ <i>always</i> ” or “ <i>often</i> ”, responses).		
Year	2005	2002
INAC National	36% (13% <i>always</i> , 23% <i>often</i>)	33% (<i>breakdown not available</i>)
Regional	54% (29% <i>always</i> , 25% <i>often</i>)	53% (<i>ditto</i>)
Source: PSC Surveys & INAC Manitoba Region analysis thereof. [D 190-2, 3, 4]		

Tenure at the Top

As discussed in *Section 3.2* of this report, senior MRO staff oversaw the management of annual fund flows ranging between \$670 million and \$800 million. The MRO distributed almost all of this money to a relatively small stakeholder group, consisting of:

- sixty-three (63) First Nations;
- seven (7) Tribal Councils; and
- three (3) PTO's.

As discussed in the text box "*Why Banks Rotate Senior Officials,*" extended postings invite the development of relationships with stakeholders that can become unduly close. A substantial risk is inherent in the combination of long tenure, a relatively small stakeholder group and large sums of money.

Substantial inherent risks demand effective systems of control, starting with a strong control environment. In the case of the MRO, however, the control environment has been compromised by unclear mission and goals, and lack of clarity regarding individual roles and responsibilities, as discussed above.

The control framework, and the effectiveness of standard processes and procedures, has further undermined by the dominance at the top of the MRO and the men and women who worked within it. This dominance was reflected in the interviews that the investigative team held and in the systems of incentives, rewards and punishments described in the next sub-section of this forensic audit report.

Why Banks Rotate Senior Officials

(I) takes time to get to know others well enough to trust that they will co-operate and not blow the whistle), many collusions can be prevented simply by requiring mandatory vacations or job transfers. When organizations leave one employee in close contact with the same vendors or customers for long periods of time, the risk ...increases dramatically.

Albrecht & Albrecht, Thompson Learning, 2004,
Page 69 (emphasis added).

3.3.4 The Nature of Incentives and Rewards

The investigation team looked for both documentary and interview evidence of the level of encouragement for staff to take initiative in their work. Documentary sources reveal less encouragement in the MRO than for the department generally (or for the Public Service as a whole) and fully 30% fewer of regional respondents indicated that they are “always encouraged” than at the National level.

Question 16: I am encouraged to be innovative or to take initiative in my work (“always” or “often”, responses).		
Year	2005	2002
INAC National	63% (28% always, 35% often)	63% (breakdown not available)
Regional	50% (19% always, 31% often)	63% (ditto)
Source: PSC Surveys & INAC Manitoba Region analysis thereof. [D 190-2, 3, 4]		

Evidence obtained from the interviews included a number of examples where staff were micro-managed so that their work produced results with which they felt uncomfortable. One (1) former staff member reported that she had been instructed to re-work and re-work a piece of analysis using increasingly unrealistic assumptions until it produced an answer that met the preferred outcome, even though the staff member thought it to be incorrect. Repression of differences such as this instance affect not only the individual concerned but also send a message throughout the organization.

Staff from a number of areas reported that:

- There was a small inner circle of favourites; and
- Disagreeing invited reprisals, ranging from exclusion from meetings to punitive reorganizations.

One former staff reported the use of the HR function as an instrument to ensure that people did what was wanted or that those who had not done so were punished. Specific techniques used included:

- ordering workplace assessments to cast doubt on the mental health of individuals and ease them out;
- leaking or inappropriately accessing confidential personnel information to the detriment of the individual;
- smearing or demeaning the reputation of individuals; and
- declaring individuals as surplus to discipline them and/or eliminate them from creating embarrassing information and allegations.

She reported that she felt ashamed of some of the things that she had done. Other staff

members confirmed that this negative feedback and reinforcement had been received and was understood within the MRO:

“Everybody knew what it meant when you didn’t get invited to the meetings.”

A senior observer of the regional executive over a number of years added further detail to this picture based on his experiences and observations. Both current and former staff of the MRO alluded to the use of a mix of incentives and disincentives to encourage and reward loyalty and to discourage and penalize other ways of thinking, including:

- selective inclusion and involvement in an “*in-group*”;
- exclusion from meetings and access to information;
- other favouritism; and
- reprisals, ranging from demeaning individuals to reorganizing them out of the MRO.

Both current and former staff members recalled one director berating a staff member who had questioned his use of an inappropriate funding instrument [a Notice of Budget Adjustment (NoBA) to initiate payment to a First Nation. We heard of abusive conduct more recently at meetings of the Audit Review Committee, including one instance at which a funding officer was reduced to tears by another director, while being pressed to make changes to her summary report on the audit of a First Nation.

The evidence seen and heard by the investigation team did not suggest a healthy work environment in which staff were encouraged and incented to discharge their responsibilities. Rather, it suggested an environment where staff were pushed to do what they were told, regardless of whether that meshed with public service values or their specific responsibilities.

The results of independent surveys conducted by the PSC supports this version rather than that put forward by senior managers of the MRO. It is noteworthy that fear of reprisal increased by almost 50% between 2002 and 2005 and a number of individuals interviewed spoke openly of their fear of reprisal.

Question 25: I feel I can disagree with my immediate supervisor on work-related issues without fear or reprisal (“ <i>mostly disagree</i> ” or “ <i>strongly disagree</i> ”, responses).		
Year	2005	2002
INAC National	20% (12% <i>mostly</i> , 8% <i>strongly</i>)	19% (<i>breakdown not available</i>)
Regional	29% (15% <i>mostly</i> , 14% <i>strongly</i>)	19% (<i>ditto</i>)
Source: PSC Surveys & INAC MB Region analysis thereof. [D 190-2, 3, 4]		

The reported rate of harassment by “*individuals with authority over*” respondents in the MRO was about 50% higher than the rate reported for INAC as whole, which in turn corresponded to the national rate for the PSC. Fully 31% of respondents from the MRO, or forty (40) people, reported that they had been harassed in the two (2) years prior to 2005. Thirty-three (33) of those people (or 25% of MRO respondents) reported that “*individuals with authority over me*” had harassed them. Eight (8) people (6%) reported being harassed once or twice by individuals with authority over them, and twenty-five (25) people (19%) reported being harassed more than twice. Such levels of harassment are indicative of a hostile work environment.

Further indicators of the level of hostility in the workplace are found in discussions of absence and turnover figures. One (1) departmental manager summed it up thus:

“If I look at my area alone, last year, if I took the sick leave for the folks in my area, I lost I think it was 350 some odd days for sick leave with [the seven (7)] staff in my area alone. I said that alone should tell you folks that it is not just people getting sick, you know, they are sick and tired.”

3.3.5 Summation

The evidence seen and heard by the investigation team does not suggest the existence of a working environment conducive to the maintenance of public service values or to the proper conduct of public business.

Rather, the investigation team noticed many of the “*red flags*” that, according to the research, contribute to a high risk environment.

As described above, these “*red flags*” include:

- a hostile work environment;
- autocratic or dictatorial management;
- high turnover and absenteeism;
- negative feedback and reinforcement; and
- prolonged relationships.

Whether inadvertently or by design, many “*red flag*” conditions and procedures were allowed to persist for a time and to a degree that exposed the region to an unacceptably high risk of fraud or breach of fiduciary responsibilities.

In the public sector managers are expected, and trusted, to work within their delegated authorities. Non-compliance with authorities, then, breaches or may breach, their fiduciary as well as their administrative responsibilities.

One (1) indication that the MRO may have been operating outside of authorities is provided in an interview by the Grand Chief of the AMC, given to the *Winnipeg Free Press*:

“...INAC Manitoba’s senior managers often made side deals with bands outside the rules to ensure the bands got the funding they needed for housing, education, child care or other programs.

But since the regional director, the associate regional director and a third senior manager were put on administrative leave in December, Evans says those outside-the-box agreements aren’t being honoured.”

Grand Chief of the AMC,
quoted in the Winnipeg Free Press

4.0 SPECIFIC ALLEGATIONS

This forensic audit/investigation in the Manitoba Region deals with three (3) specific matters. During the course of the investigation, numerous other allegations were brought to the attention of the investigation team. The investigation team did not have these allegations as their prime focus and as a result, these allegations were not fully documented. Details of these allegations will be provided, however, to the CAE together with a recommendation as to possible actions to be taken.

For reasons of privacy and confidentiality, all names have been removed from this report and three specific senior managers are referred to only as Managers, A, B and C. Other job titles have also been generalized, where appropriate.

4.1 The Funding of Manitoba Hydro North Central Project

4.1.1 Background

The North Central Project

The NCP undertook to expand transmission and hydro facilities in the north so that First Nations and other remote communities could be switched from diesel generation of electrical power to the Manitoba Hydro power system.

In 1992, the NCP Agreement was signed by four (4) parties: the Federal government, Provincial government, local communities and Manitoba Hydro. The NCP was to link nine (9) communities located on the north-eastern side of Lake Winnipeg, each served by diesel generation, to the Manitoba Hydro power system. The communities are Wasagamack, God's Lake, God's River, Red Sucker Lake, Garden Hill, Oxford House, St. Theresa Point, Island Lake, and God's Lake Narrows. Previously, the residents of these communities received only a 15-amp supply of electricity from their community-based diesel generating stations. The NCP Agreement included a requirement to remediate environmental damages caused by the diesel generation stations.

In 1995 INAC prepared a proposal which adjusted the amount of funding for the Electrification project and removed from the proposal the soil remediation activities and their related costs (the specific terms are described later in the report).

In 1997, the northern communities began to connect to the Manitoba Hydro power system. The First Nation communities of Oxford House, God's Lake Narrows, God's River and the non-reserve community of God's Lake, all located in a remote area northeast of Lake Winnipeg, received full electricity service. Over the next few years Red Sucker Lake, Garden Hill, Wasagamack, St. Theresa Point and Island Lake were connected to the system.

The official in-service date for the Electrification project was April of 1999 and the completion date was March 2001.

The soil remediation of the diesel generating station sites in several North Central Manitoba communities continued after the completion date of the Electrification project.

Approval was obtained in February 1995 for a capital contribution toward the NCP transmission line with a ceiling limit of \$106,359,900 [current dollars]. This contribution amount was based on a cost share of 75% for Canada, 15% for the Province of Manitoba and 10% Manitoba Hydro. The total cost of the transmission line project was estimated as \$141,813,200 including a provision of \$25,608,600 for risk events [stated in current dollars].

Given the size of the Electrification project and the desire to have a proper level of accountability for the expenditure of public funds, a “*project management team*” [Agreement Management Committee (AMC)] composed of INAC regional and HQ staff along with specialists from Public Works and Government Services Canada (PWGSC) was established.

The position held by Manager A (and, later, by Manager B) was designated as the senior federal officer for this project and appointed him/her as a member of the Agreement Management Committee.

The same proposal established that the soil remediation costs and activities had been removed from the Electrification project. It confirmed that the costs for the soil remediation activities were to be shared between Canada and Manitoba Hydro on a 50/50 basis reflecting Hydro’s role (as operator) in contaminating the diesel sites. The maximum amount payable by Canada under the Soil Remediation project was \$6.3 million.

North Central Project Agreements with Manitoba Hydro

INAC officials entered into agreements with Manitoba Hydro to amend the 1992 NCP Agreement and give effect to the approved terms and conditions, specifically those relating to soil remediation. The more important amendments are discussed below:

The February 1995 Amendment Agreement

This Amendment Agreement replaces certain sections of the 1992 NCP Agreement. It adjusts the costs of the Electrification project to reflect the removal of costs associated with the soil remediation activities. It amended the Electrification project as follows:

- Section 24 (1), to estimate the total costs at \$112,258,000 plus \$24,642,000 risk dollars (expressed in 1994 constant dollars). Based on this, Canada’s maximum contribution would be \$102,275,000 (1994 constant dollars). The investigation team found that this amount had been adjusted to \$106,359,900 (current dollars).

-
- the federal share for both project costs and risk event costs was set at 75% (subject to the acceptance of risk event costs).

The Soil Remediation Agreement Dated March 31, 1995

The Soil Remediation Agreement dated March 31, 1995 establishes the terms, conditions and activities under which Manitoba Hydro would remediate the diesel sites and would share costs related to project costs (remediation activities) and risk event costs.

The Soil Remediation Agreement estimated total project and risk events costs to be \$12.6 million of which Canada's share was not to exceed \$6.3 million (50 % of the total cost and in accordance with the federal approval.)

Soil remediation activity is defined in Section 1 of the Soil Remediation Agreement. Clause 2 (1) set Canada's share [to be paid to Manitoba Hydro] for the soil remediation activities at a ceiling of \$3,940,000 of Manitoba Hydro's estimated costs. This amount equals 50% of Schedule B1 "*site remediation*" costs.

The risk event costs were set at a ceiling amount of \$2,364,000 [Section 2 (2)] which represents 50% of the costs listed in Schedule B2 "*site restoration risk estimate*."

Clause 2 (3) states "*in no event shall Canada be required to provide any monies to Hydro in excess of the amounts set out in subsections 2(1) and 2(2).*"

Analysis of the Soil Remediation Agreement

The following section reflects the interpretation and analysis of the investigation team.

The above provisions capped Canada's contribution for both project activity and risk event costs at 50% of the estimated costs. The agreement is silent on what percentage of the project activity costs are to be claimed against the federal contribution.

With respect to the risk events, clause 2 (2) requires Hydro to charge costs against risk event monies in accordance with the following process. It is to inform Canada of:

- 2(2) a) i the nature of the risk event;
- 2(2) a) ii the proposed method to address the risk event; and
- 2(2) a) iii 75 % of the estimated costs of activities associated with the risk event.

According to Clause 2 (2) b) Canada has fifteen (15) days to either accept or reject a risk claim.

The investigation team found that the 75% claim is inconsistent with the intent of the proposal which indicated that all costs for the soil remediation should be shared on a 50/50 basis. It did not differentiate between project activity costs and risk event costs.

Section 7(5) of the agreement assigns the responsibility for the soil remediation project to

the position then held by Manager B.

INAC paid its contributions, on an accelerating basis up to the amount of the approved limits, which were \$106 million, including estimated risk contingency in the case of the Electrification project and up to the limit of \$6.3 million, including estimated risk contingency for the Soil Remediation project. The final payments were made during the 1997-1998 fiscal year.

Manitoba Hydro charged costs against the Electrification project until the March 2001 completion date and on the Soil Remediation project until the close-out which occurred in March 2006.

4.1.2 North Central Project Close-out Letter

The last known meeting of the AMC took place in March 2006. Following this meeting, in May 2006, Manitoba Hydro sent Manager A a close-out letter for both the Electrification and Soil Remediation projects. This close-out letter included summaries of both the Electrification and Soil Remediation project costs and contributions for each of the projects together with a cheque for the net amount refundable which was determined by Manitoba Hydro as set out below.

	Electrification	Soil Remediation
Federal Contribution	\$106,355,642	\$6,304,000
GST Deduction	\$484,039	\$0
Interest on Contribution	\$30,668,362	\$6,905,836
Total Contribution	\$136,539,965	\$13,209,836
Costs Charged by Hydro. Includes interest.	\$138,203,436	\$8,010,319
Over/(under) Payment	(\$1,663,471)	\$5,199,517
Add: Interest on Over/(Under)	(\$152,279)	\$0
Over (Under) payment @ March 2001	(\$1,815,751)	\$0
Interest on above to March 2006	(\$884,046)	
Transfer between projects	\$2,699,797	(\$2,699,797)
Refund		\$2,499,720

The letter ended with the statement that *“the return of...monies to Canada, closes out the North Central Project Agreement. It also brings to an end a very successful project...”*

MRO officials deposited the refund cheque to the credit of the Receiver General of Canada on May 31, 2006.

The investigation team found that no formal communication with Manitoba Hydro was undertaken by MRO officials acknowledging the receipt of the cheque and letter, which would be normal practice.



Investigation Team Analysis of the Close-out Letter's Contents

The investigation team identified the following issues with Manitoba Hydro's calculations described in the close-out letter for both the Electrification and Soil Remediation projects:

- On the Electrification project, Manitoba Hydro charged Canada \$2.7 million more than the ceiling amount of \$106,359,900 that Canada had agreed to contribute to the project. This additional charge started with \$1,663,471 in cost overruns, on which Manitoba Hydro charged interest of \$152,279 up until March 2001 (the Electrification project completion date). Manitoba Hydro continued to charge a further \$884,046 in interest until March 31, 2006 (the completion date of the Soil Remediation project). The Federal government had paid its agreed contribution in full under the NCP 1995 Amendment Agreement Section 3(2.1) and therefore, it had neither a legal obligation nor the authority to pay more, regardless of the costs incurred by Manitoba Hydro.
- Manitoba Hydro's accounting provides insufficient detail to allow comparison of the actual costs with the agreed limits. There are separate limits for project costs and risk events; however, the schedules provided by Hydro ("*Summary of Registry Statement Expenditure and Party Shares*") provided no distinction between project costs and risk event costs for either project. Accordingly it was not possible, from Manitoba Hydro's letter, to determine whether or not the costs charged exceeded the agreed limits for project activity and risk event costs.
- Further, regarding the remediation portion of the settlement, Manitoba Hydro charged the Federal government 75% of the costs of remediation activities and risk event costs, rather than the 50% share that was the rationale for separating the Soil Remediation project from the NCP Agreement.
- The Electrification and Soil Remediation projects were subject to separate agreements and the over-run of costs in the Electrification project could not be netted against the surplus in the Soil Remediation project as this would effectively allow for payment of costs incurred over the ceiling amount stated in the NCP Agreement.

All of these issues resulted in the overpayment of millions of dollars. Based on the information in the close-out letter and the analysis above, the investigation team calculates that Manitoba Hydro should have paid the Federal government as much as \$7.9 million made up as follows.

Elements of the Settlement	Manitoba Hydro Calculation	Investigation Team Calculation
Electrification Costs Overrun @ March 2001	\$1,815,751	\$0
Electrification Interest March 2001- 2006	\$884,046	\$0
Total Federal Contribution (including interest of \$6,905,836) on Soil Remediation	-\$13,209,836	-\$13,209,836
Federal Share of Remediation Costs [including interest] *	\$8,010,319	\$5,340,212
Amount Owing	\$2,499,720	\$7,869,624
*As discussed, the ambiguous wording in the Soil Remediation Agreement may entitle Manitoba Hydro to charge the federal government 75% of the risk event costs up to the risk event ceiling (notwithstanding the clear intent of the parties as committed). If it does, the proper federal share depends on the breakdown between project and risk event costs.		

Manager A corroborated the investigation team’s calculation in a sworn statement:

“My calculations says it’s probably higher than that [the investigation team’s estimate of the amount payable by Hydro].”

The investigation team’s estimate is based solely on the close-out letter. The team describes additional amounts potentially owing later on in this report.

4.1.3 *Actions and Management of the Manitoba Regional Office in Relation to the North Central Project and its Close-out*

In addition to the examination of the contents of the close-out letter, the investigation team looked at the way in which INAC’s MRO handled the close-out phase of the projects. In particular they considered the following questions:

- Who were the responsible officers?
- What did senior management know about the terms and conditions of the agreements?
- Who attended the “close-out” meeting?
- How did INAC follow-up on the close-out meeting?
- How was the close-out letter and cheque processed?
- How was the transaction reflected in the financial books and records of INAC?
- What did INAC communicate to Hydro, and when?

Key Responsibilities

The proposal named the position held by Managers A (and, later, Manager B) as the senior federal officer for the NCP. During the review period covered by this report, the position was also held by two others: With respect to the Soil Remediation project, the

agreement names the position held by Manager B as Project Manager. Manager B held this position for most of the review period.

On June 18, 2008, the investigation team interviewed the Division Manager, Transmission and Line Maintenance and the NCP Project Manager, both of Manitoba Hydro. The team asked who had attended the AMC meetings on behalf of INAC and who Manitoba Hydro understood was the INAC individual able to make a decision on behalf of INAC.

The Division Manager, who has been on the NCP project since 1998, replied that:

“In 1998...the lead person at the table was (Manager A)...when we move into soil remediation the fellow that was leading that [was]...(Manager B)...”

The Division Manager indicated that although the attendees from INAC changed at the various AMC meetings:

“Everyone seemed to defer to (Manager A)”

The Division Manager also confirmed that from 1998 on all correspondence went to Manager A.

Manager A, in a sworn statement asserted that:

[After April 1998] ...“Hydro was advised that he [a designated staff member] was then Project Manager representing the Department of Indian Affairs at the Project Management Committee meeting...and he attended all of the meetings...He is still in it” [the position of Project Manager].

In the staff member’s sworn statement he acknowledged that he had provided support to Manager A on the Electrification project up until 2004 at which time his involvement ended. His position is corroborated in an exchange of e-mails between him and Manager B on June 20, 2005. Manager B initiated the exchange by saying:

“...not sure whose file this [Soil Remediation] is anymore ...”

The staff member responded that:

“...(The position then held by Manager A) was always the lead role in the [Electrification] project...the key parties are (Manager C) (Capital \$) (Environmental Expertise) and (Audit policy and Transfer payments management)...[with] Capital now reporting directly to (Manager A’s) office makes this a logical fit to be housed there”.

From the evidence described above the investigation team is led to believe that Managers A and B were the responsible INAC officials for the period for both the Electrification and Soil Remediation projects. Manager A had been extensively involved with the NCP project since February 1998 and was viewed by Manitoba Hydro as INAC's primary decision maker.

Manager B played a leading role in various capacities throughout the period under review 1997 to 2007. Due to his positions, he was directly involved with the Soil Remediation project. He was the senior INAC representative at the AMC meeting of December 2005.

Knowledge of Senior Managers Concerning the Terms and Conditions of the Agreements and Proposal

As early as 1998, INAC officials knew that Manitoba Hydro was anticipating a cost overrun in the Electrification project and recognized that a proposal would be required if INAC were to pay more than the agreed ceiling contribution. In an exchange of e-mails between the then RDG, Manager A and other officials:

The approval capped the upper limit of the federal spending and this limit has been reached. Any further spending by the department requires a new proposal.

The then RDG, made it quite clear in an e-mail to Manager A, then in the lead position for the project, that INAC would not pay for any cost overruns.

"...the agreement... clearly states that we do not pay cost overrun."

On the other hand, it was apparent that Regional Officials knew as early as 2002 that the Soil Remediation project would cost significantly less than estimated, resulting in an amount repayable to INAC. Minutes of the AMC from April 2002, which were sent to Manager A, show that at that point INAC would recover approximately \$4.5 million. Those same minutes also show that in 2002 Hydro was already suggesting that the electrification cost overrun be charged against the soil remediation surplus.

Manitoba Hydro was not alone when it came to wanting to use the soil remediation surplus. Between 2001 and 2006, officials within the MRO discussed possible ways to use the surplus on the soil remediation account for other purposes. For example, a 2001 e-mail to the then RDG with cc's to Managers A, B and C, said:

It appears that the substantial surplus...on the soil remediation side is growing... By nature, being opposed to returning surplus funds to headquarters...I asked...whether there was any way we could...use...the surplus funds for other remedial work [outside the agreement] within the region. (Manager A and the previously designated staff member) are the experts on the agreement and I am sure that they will have concerns with this.

Advice on the ability to net one project against the other should have been available from corporate services had who the knowledge, expertise, and contacts to advise.

In December 2002, an e-mail from the staff member to Manager A suggests that Manitoba Hydro was looking to use different indexes to increase the ceiling amount, thereby allowing the cost over-run to come in under the ceiling amount.

The issue of offsetting was again raised at an AMC meeting attended by Manager B, on February 15, 2005. Following the meeting, Manager B reported to Manager A that:

“...there needs to be some analysis of the deficit...and a review of our authorities and options (if any) to retain all or part of the surplus, or the ability to apply the surplus to the deficit.”

Under questioning, Managers A and B individually stated that they were aware that the:

- a. Electrification project agreement set a maximum contribution level of \$106,359,900;
- b. Soil Remediation project was established in a separate agreement; and
- c. Costs for the Soil Remediation project were to be shared on a 50/50 basis.

For example, Manager A clearly stated that *“the cost sharing on soil remediation was 50-50 not 75-25.”*

The foregoing evidence indicates to the investigation team that senior management was aware of all of the issues identified by the investigating team relating to the close-out letter.

Attendance at Close-out Meeting

Although Manager A had been notified by Manager B that 2006 would be a close-out year for the Soil Remediation project, none of the analysis or preparatory work called for in the above cited e-mail had been performed by the time of the eventual close-out meeting, held March 17, 2006.

On February 8, 2006, the NCP Project Director for Manitoba Hydro, e-mailed Manager A’s office to arrange for a meeting of the *“Agreement Management Committee (Project Close-out)”* at Manitoba Hydro’s head office.

As early as February 21, 2006, Manager C had been selected to attend the AMC meeting on March 17, 2006. Manager A’s office e-mailed Manager C to confirm that he had entered the meeting into his calendar. Manager C replied that he had done so. The subject line of the exchange of e-mails was *“North Central Project - AMC (Project Close-Out).”*

On March 10, 2006, Manager B e-mailed Manager A to suggest that:

“since the last remaining NCP issues are to my knowledge, money related, I think (Manager C) would be better equipped to deal with this than I.”

In his sworn statement, Manager C confirmed that he met with Manager A prior to the meeting but that he was given no specific briefing and no mandate to agree to anything. In his sworn statement, Manager B stated that Manager C did not have the authority on his own to agree to anything at this meeting. Manager B said that he was not aware if Manager C had received direction to close-out the projects.

It is incomprehensible to the investigation team why Manager A would have sent someone to a close-out meeting, the purpose of which was to settle outstanding issues with financial implications that ran into millions of dollars, without providing the individual with direction and authority to address the issues. Manager A’s instructions to Manager C were:

“...very, very clear. Listen to what is being said and do not agree to anything. ...I was asking him not to agree to anything.”

By assigning Manager C to attend and instructing him that he was not to agree to anything, the purpose of the meeting was compromised and the exercise of due diligence rendered impossible.

Follow-up to the March 16, 2006 Close-out Meeting

On March 22, 2006, Manitoba Hydro sent an e-mail to Manager C attaching the minutes of the March 17, 2006 AMC meeting. The e-mail requested the reader to advise if there are any errors in the minutes. The minutes concluded with a list of action items, specifically:

- *“the Project is substantially complete and will be closed out as of March 31, 2006;*
- *a letter will be sent as written confirmation of close-out. The letter will also reiterate benefits and outcomes of the project;*
- *(Manager C) to supply instructions for return of remaining funding as required under the Agreement...; and*
- *(Manager C) to meet with (the NCP Project Manager for Manitoba Hydro) to gain a better understanding of project costs and the application of interest.”*

The investigation team could not find any response by INAC officials indicating

disagreement or concerns with the minutes.

Manager C and the Project Manager met on April 5, 2006 to discuss the questions raised by Manager C relating to project costs and the application of interest. In his sworn statement, Manager C said that the Project Manager and he primarily focused on the application of interest. The Project Manager recalculated the interest on a different basis to confirm that it had been appropriately charged.

The interest issue had been addressed in a Kroll Lindquist Avey (Kroll) report dated April 24, 2003, in which Kroll concluded that Manitoba Hydro had been entitled to charge interest and the calculation had been reasonable. However, the report indicated several other significant issues such as a new accounting system combined with a new system for allocating overhead, the treatment of GST and a charge of \$23 million (representing 16% of total costs) in the month of March 1997.

According to the investigation team, based on their review of the Kroll report, these other significant items should have been addressed by the regional staff and subsequently with Manitoba Hydro, as they could have materially affected the settlement amount.

The investigation team had obtained the Kroll report from Manager A's e-mail. Manager A had been advised that further investigation of possible excessive cost allocations was required.

Regarding his question on costs, Manager C reviewed the outstanding items making up the \$1.5 million excess funding being sought by Manitoba Hydro and noticed that many of these items were risk related and had been previously refused by INAC seven (7) years ago.

Manitoba Hydro officials told the investigation team that INAC had requested that final resolution of these contentious risk-related costs be deferred until project close-out, thereby increasing the importance of INAC due diligence efforts at or before the close-out meeting.

It is clear from the foregoing that INAC officials had registered no formal objections with either project costs or the offset before or after the close-out meeting and receipt of the close-out letter. Given that Manager C had no mandate to commit INAC in any way, the onus to do so fell upon Manager A, who took no action to register disagreement or address these issues before Manitoba Hydro proceeded to close-out of the account.

4.1.4 Processing of the Close-out Letter

Circulation of the Letter

On May 26, 2006, Manitoba Hydro wrote to Manager A enclosing a net settlement cheque for the two (2) accounts in the amount of \$2,449,720 and close-out accountings for the Electrification and Soil Remediation projects. The distribution of the letter (including the close-out accounting) was the:

- cheque was provided to the Director of Corporate Services; and
- letter was distributed to Manager C and copied to the Manager B and to the Director of Government, the previously designated staff member's supervisor.

In an interview with the Director of Corporate Services, she stated that had she seen the letter she would have objected to the netting of the projects.

Thus the Director of Corporate Services was provided with the cheque and not the letter that described the calculation and netting of the funds.

Manager C received the original of this letter along with an action slip from Manager A marked "*direct reply or action if necessary*"... Manager C determined that no action or reply was required and he closed the document and asked his assistant to note "*No response required*" in the document management system.

Manager B's response was to do nothing as the matter was being attended to by someone else. He stated that he had just assumed his new position, was in the process of getting accustomed to it and was extremely busy. According to him, this letter was another in a very large pile and therefore the letter was set aside.

The investigation team found that he did not initiate a reply to Hydro to advise them that the accounting was not in compliance with the agreement nor that the Manitoba Region had not agreed the file was closed. He did not initiate a review of the file as he had recommended to Manager A in his e-mail dated February 17, 2005.

The Director, Government, was copied on the action request and Manitoba Hydro's close-out letter of May 26, 2006. According to Manager A, the Director was copied because she was the staff member's manager and was expected to pass the letter on to the staff member. (He denied receiving the letter).

Manager A suggested that her office acted as a distribution centre for all mail received, and the mail is distributed to those who are expected to either respond or redirect letters received to the appropriate party for their response.

The letter of May 26, 2006 and the attached calculations, along with the \$2.4 million

cheque, was never acknowledged nor challenged in writing by any of the individuals who received the letter.

Audit Team: Would it not have been prudent to have sent a letter to Hydro reserving INAC's position, irrespective of the settlement cheque that they sent to you?

Manager A: More than likely. But you are asking me to write a letter to every letter that I receive then?

- Manager A's statement dated May 20, 2008 page 184 lines 8 to 15.

To confirm whether Manitoba Hydro had been notified orally of INAC's reported disagreement, the investigation team contacted its Division and Project Managers on June 18, 2006. They confirmed that no notification of a discrepancy had been received and that no further AMC meetings were scheduled, as the projects were closed.

What is inconceivable to the investigation team is that:

- not one of the three (3) senior individuals involved, all of whom were knowledgeable of the file and the issues, seemed to notice the obvious problems apparent from the face of the letter; or
- having noticed that the settlement was in contradiction to the agreements they should have sent a letter expressing their concern with the close-out letter on a prompt basis. Therefore, not one of them sought to protect INAC's position with Manitoba Hydro.

Recording of the Transaction

TB accounting standard 3.2 (2001-2002) states:

“Paragraph 15. Once it is certain that full or partial repayment [of a contribution] is required, departments will set up a receivable.... Appropriate valuation allowances would be recorded.”

The evidence available to the investigation team indicates that a recovery was certain as early as 2002, at which time officials from both Hydro and INAC were looking for ways in which to use the projected surplus. Despite the fact that the recoverable should have been set up at this point, no accounting was made until INAC received the cheque from Hydro in May 2006.

In May 2006, the net cheque received was deposited to the credit of the Receiver General of Canada and the net amount was recorded in the books of account as prior year revenue.

The failure to follow the above TB accounting standard had the effect of:

- Preventing the exercise of accounting control;
- Causing the intervening financial statements of the region to be misstated; and
- Obscuring from HQ that approved limits had been exceeded.

Two (2) days after he deposited the refund cheque, the responsible accounting manager was advised that:

“...the region appears to have exceeded the authority for construction by about \$1.8M.”

The accounting manager, whose position description makes him responsible for certifying - under Section 33 of the Financial Administration Act (FAA) - the appropriateness and legality of almost all financial transactions in the Manitoba Region, responded:

“... what does [that] authority really mean....in any case it's [a] fait accompli it really doesn't matter at this point. Someone had agreed to [this] and it will [be] left to the forensic auditors to unravel it all...”

Communication with Manitoba Hydro

The investigation team could not find any documentation either in the form of a letter or e-mail that was sent to Manitoba Hydro advising them that the MRO management had received the refund cheque but disagreed with Manitoba Hydro's calculation of the refund.

Manager A's sworn statement of May 20, 2008 included the following:

“Well, I would say I met with (a senior Hydro official) in 2006, it would have been the October timeframe. And I indicated to him that we are not accepting what Hydro has indicated. And I also met with (another Hydro official) in -- and (the latter) was just coming in to the meeting with (the former) and I, and I met with (her) in March of '07..... I met with her in August -- August, September and, again, reminded her that we were not accepting of Hydro's position on this. So they have been advised.”

For clarity, the investigation team pursued the question of what had been discussed between Manager A and the Manitoba Hydro officials, mentioned in the interview above, relating to the netting of the project costs and the accuracy of the close-out letter. On the next day, the investigation team commenced the interview session by seeking an in-person interview with the Hydro officials to confirm Manager A's recollections.

Manager A: “..... I can try to give them a call. Is Hydro opening today?”

Manager A’s Legal Counsel: “No.”

Audit Team: “Well, I have a phone you can use, is this what you want, to give them a call, if you want.”

Manager A: “I can call them on a cell.”

When the session started up again, the audit team was advised that the senior Hydro official could not be reached. Later in the session, Manager A offered the following clarification on her discussions:

“I did not discuss the offset with (the Hydro officials)... It was only the interest side.”

Manager A responded to the investigation team’s request (to help them arrange an in-person interview with one the Hydro officials to obtain his testimony about what Manager A had discussed with him concerning the close-out letter and the netting of the refund cheque) by asking the official to provide a letter from Manitoba Hydro, which he did, dated May 30, 2008, that stated:

In Manitoba Hydro’s view, the project was closed out as part of our accounting processes, as most of the work had been completed. The costs of leaving the project open, in our view, were no longer justifiable. We then netted out what each of the parties owed. Consequently, Manitoba Hydro sent Indian and Northern Affairs Canada a cheque for \$2.5 million in 2006.

In the past, Manitoba Hydro and INAC have resolved outstanding concerns, so our assumption was that, if there were unresolved issues, INAC would approach us in the same manner. As we have yet to receive a formal response to our earlier correspondence, we are still waiting for confirmation of our understandings.

The Hydro official’s letter confirms what the investigation team knew about the close-out letter. However, the letter does not address whether or not the asserted discussions about the netting of the amount between Manager A and Hydro officials had taken place.

4.1.5 Closing Remarks

The INAC officials responsible for the NCP told the investigation team that delays in raising - and resolving - issues with Manitoba Hydro stemmed from over-worked senior officials and a lack of competent support. Notwithstanding Hydro's actions, their own (in) actions and the lack of any formal objection to Hydro, they argued that:

- the NCP remained open after May 2006; and
- they had every intention of re-opening the subject with Hydro (when resources became available) even before the investigation team raised questions in November of 2007.

The investigation team was not convinced by these contentions. In particular, the investigation team was concerned about the:

- pattern of delay and deferral in dealing with disputed charges, beginning with risk events amounting to \$1,663,471, some seven (7) years ago;
- failure to assert a formal claim, putting millions of dollars of public money at risk, due to possible expiry of Canada's cause of action due to the *Limitations of Actions Act*;
- length of the time, seventeen (17) months, during which no response was made to Manitoba Hydro regarding the close-out of the NCP;
- failure of the MRO to notify HQ about spending in excess of the approved amount.

4.2 The Governance House Project

4.2.1 Introduction

Background

The First Nations Governance House and Service Centre Project (hereinafter called the Governance House Project) is the name given to an Urban Development Plan for an urban reserve within the city of Winnipeg. The cornerstone of the plan is the Governance House facility. This facility is projected as a 253,000 ft.², multi-function building that will house a First Nation legislative body, commercial office space (between 150,000 ft.² and 200,000+ ft.²), a gas bar and a possible goods receiving/shipping depot. At the time of writing, the project is in a pre-construction phase, where its viability, along with other significant issues, are to be assessed prior to commencing construction.

Initially, the future site for this development was located in St. Boniface on land owned by Roseau River Anishinaabe First Nation. This land was formerly the old Canada Packers site.

On September 15, 2005, the Assembly of Manitoba Chiefs (AMC) Grand Chief presented a report entitled "*AMC Government House – Functional Plan*" (hereinafter called the

Functional Plan Report). The objective and purpose of this presentation was to “...obtain approval from the Assembly for the construction of the building...”

In this Functional Plan Report, the proposed site changed from the former Canada Packers site owned by Roseau River First Nation to a site located on Madison Avenue, which was owned by Manitoba Hydro. According to the Functional Plan Report, this site was selected because the land was available, able to accommodate the program requirements, appropriately zoned to accommodate the Urban Development Plan, centrally located and easily accessible. Further, it presented the AMC with fewer environmental obstacles than the old Canada Packers site.

The Functional Plan Report set out the AMC vision for the:

- “development of a central place for governance...the delivery of programs...and sustainable economic development...”; and
- “building of a ‘Gathering Place’ and a visual ‘Brand’ for First Nations within...Winnipeg.”

The Functional Plan Report also listed what had been accomplished to that point, including:

- completion of the architectural program which was included with the Grand Chief’s presentation;
- obtaining the support of other levels of government;
- obtaining a sample Municipal Development and Services Agreement and City of Winnipeg template to complete an Additions to Reserves (ATR) form;
- identifying all steps to execute and complete the ATR process;
- completing the preliminary financing arrangements for the project with Tribal Council Investment Group; and
- receiving expressions of interest from various types of organizations willing to relocate to the site.

An updated Urban Development Plan (First Nation Urban Development Plan, dated May 2006), described three (3) Phases of the project.

- *Phase 1 activities:* (including a feasibility study, an architectural concept plan and approval of the initiative and these activities in Assembly) had been completed by November 15, 2005.
- *Phase 2 activities:* including land acquisition, designation of the land as reserve, business, marketing and tenancy plans, Municipal and Development and Services Agreement and pre-design architectural plans to support a class “D” budget were to be completed by March 2007.

➤ *Phase 3 activities:* including working drawings, a finance plan and construction.

The AMC's May 2007 Business Plan projected the total cost of construction and tenant fit-out at \$91.8 million.

INAC Support for the Governance House Project

To date, INAC has contributed \$443,440 in support for the Governance House Project under two (2) program authorities, upon the approval of Manager A, as follows:

Fiscal Year	Program Authority Used	Category of Spending Supported	Amount of Support
2005-06	341 - Consultation & Policy Development	Phase 1	\$143,440
2006-07	372 - Community Economic Opportunities Program (CEOP) - a sub program of Economic Development Program	Phase 2: Architectural Services	\$100,000
2006-07		Phase 2: Project Management	\$100,000
2006-07		Phase 2: Legal Services	\$100,000
			\$443,440

In June 2006, the AMC submitted a further proposal requesting \$805,000 in additional contributions. That proposal was forwarded to INAC HQ in November, 2006. Over the following months, the amount of that proposal has been progressively reduced and at the time of writing stands at \$496,000.

It is not inappropriate to reduce a proposal for funding to cut out, for example, support for the costs of ineligible activities or to reflect an adjusted estimate of the cost. It is not appropriate, however, to reduce a funding proposal arbitrarily to bring the amount sought within signing authorities.

The attached *Annex* provides a chronology of events relative to INAC's support of the Governance House Project.

Issues

The investigation team's analysis of INAC's support for the Governance House Project raises the following, related issues:

1. Questionable use of program funding authorities (4.2.2);
2. Exceeding regional approval limits (4.2.3); and
3. Failure to advise HQ of the proposal on a timely basis (4.2.4).

The investigation team's analysis relating to each of these issues is discussed below.

4.2.2 Questionable Use of Program Funding Authorities

INAC contributions toward the Governance House Project were provided under two (2) different program authorities. The initial contribution of \$143,440 was provided under *Authority 341* (Consultation and Policy Development). The next three (3) contributions, each of \$100,000, were provided under the CEOP component of the Economic Development Program *Authority 372*. (A final and pending application under CEOP, which originally requested a contribution of \$805,000, was also made against *Authority 372*).

The investigation team questions the use of both these program authorities.

It is difficult to see that the initial contribution supported any input into departmental policy that would be eligible under the authority used, *Authority 341*.

The use of *Authority 372* for the four (4) subsequent CEOP applications, in the cumulative amount of \$1,105,000 (3 x \$100,000 + \$805,000) is problematic because:

- the bulk of the expenditures for which support was sought should have been classified as capital and would, in that case, have been ineligible for support under the Economic Development Program; and
- any support properly provided under the Economic Development Program should be restricted to that portion of eligible expenditures attributable to the creation of active business income, which AMC estimates at 40%.

The Initial Contribution - \$143,440 provided under Authority 341:

According to Manager A, the Minister had undertaken to add \$145,000 to AMC's core budget for 2005-06 to support its expenditures for negotiations leading to the creation of the Governance House Project. While no departmental minutes were taken of the meeting at which the Minister gave this undertaking, the meeting and the undertaking are referred to in subsequent correspondence from AMC.

The initial contribution of \$143,440 was provided by INAC in response to an AMC request for an amendment to its work plan for 2005-06. Extensive discussions were held between the AMC and INAC in the period from December 2005 to March 2006, including correspondence between the Director of Special Projects for AMC (former RDG, Manitoba Region) and Manager A.

Based on these discussions, on March 1, 2006, the AMC submitted an updated Amended Work Plan for 2005-06 that requested \$143,440 (as itemized in the table below) for Governance House Project negotiations, plus \$56,560 for the Grand Chief's office. These requests were accepted and \$200,000 was incorporated into Amendment #12 to the AMC's funding agreement with INAC, signed by the Director of Funding Services, on March 31, 2006.



Phase 1:	Cost
Administration	\$10,790
Travel	\$12,500
Professional Fees	\$120,150
Total New Funding	\$143,440

Funds were transferred from the Regional Reserve on March 24, 2006 using *Authority 341, [Contributions for the purpose of consultation and policy development]* to flow the initial funding of \$143,440 for the Governance House Project.

The purpose of *Authority 341* is to provide support to Indians, Inuit and Innu so that INAC “*may obtain their input on all policy and program developments.*” Eligible expenditures under this authority pay for “*activities that investigate, develop, propose, review, inform or consult on policy matters within the mandate of DIAND....*”

When asked how the construction of the Governance House Project would qualify for support as consultation or policy development, Manager A replied as follows:

“Well, let’s back up. We have never, nor would we ever support the construction of a building, that building. ...\$143K didn’t go out for the construction of the building. ...It went out for negotiations. ...they were negotiating with Hydro. They had to pay up for the negotiation on Hydro. They had expended resources, legal resources, et cetera...in their negotiations with Hydro...and in their discussions with Long Plain, who ultimately started to look at putting that particular parcel of land under their Treaty Land Entitlement.”

When the investigation team asked Manager B how development of the Governance House Project qualified under *Authority 341*, he responded:

“That’s a pretty wide open authority. ...my understanding is that [it is] far too open to interpretation. Well, looking at it through the year 2008, you know, this looks like it doesn’t fit.

But, you know, you can’t just start applying today’s rules to yesteryear. There was a convention of practice and you’re – you know, this isn’t quite as clear-cut as it may look. ...there was far more flexibility in the systems, and there has been a conscious effort by the government over the last number of years to make sure that any flexibilities are very clear, and there isn’t a gray zone. ...Now, there are still gray zones, but the gray zone used to be very large and that has been ratcheted down.”

In a briefing note for the Parliamentary Secretary dated May 16, 2006, Manager B had advised him:

“Although the objectives of the Governance House and Service Centre are laudable...There are no authorities that could be used to provide funding assistance for any part of the project other than business planning.”

Expanding on this briefing note, Manager B said that its primary purpose had been to ensure that the Parliamentary Secretary did not inadvertently commit the MRO to spend capital funds that it did not have. According to Manager B:

“...business planning is economic development. ... [F]or the purposes of the meeting [with] the Grand Chief...the Parliamentary Secretary... needed to know, ‘No capital, no authority, forget about that. And if you want to submit an economic development proposal, feel free to do so’.”

Regarding Manager A’s justification, the investigation team found no wording in the authority that would justify its use to support negotiations for the acquisition of property or for adding lands to a reserve. Further, the team found no evidence on INAC’s files to suggest that AMC had, within the context of this project, investigated, developed, proposed, reviewed, informed or consulted on any policy matters.

The Next Three Contributions - \$300,000 (plus Additional Requests) under CEOP:

As shown on the chronology in the *Annex*, on April 11, 2006 consultants for AMC with project management responsibilities, met with an economic officer in the MRO of INAC to discuss further funding of the Governance House Project under CEOP.

Their preliminary draft application for Phase 2 funding showed projected spending of \$1,300,000 as detailed in *Table 4* on the following page.

Table 4 – Details of Proposed Phase 2 Spending, as at April 11, 2006		
Phase 2:		
Professional & Technical Services* ¹	605,000	
Communications & Office Supplies	40,000	
Conferences, Workshops, Meetings	40,000	
Secretarial Salaries & Wages	40,000	
Travel	30,000	
Overheads	60,000	
Project Management	200,000	
Project coordination	160,000	
Research & Development	90,000	
Land Purchase Costs	35,000	
Total New Funding*²		1,300,000
* ¹ Professional & Technical Services included:		
Legal	205,000	
Architectural	110,000	
Media Relations	50,000	
Accounting	50,000	
Tenancy Marketing	50,000	
Business Plan	30,000	
* ² INAC provided \$300,000 of this through regional approval of the next three (CEOP) proposals. The balance was reduced to \$805,000 in the final CEOP application. Following third-party assessment, this final CEOP proposal was reduced by \$161,000 (to \$644,000) before being recommended by Manager A to HQ. It was further reduced at HQ to \$496,000. At the time of writing, this application was still pending at HQ.		

Proposed sources of funding were identified as:

INAC – CEOP	\$800,000
Western Economic Diversification	\$400,000

Funding for CEOP is provided under *Authority 372*. The objectives of this authority are to increase community employment, community resource values, community government revenues and community business sales.

It seeks the following specific results:

Long range 15+yrs	increased participation of First Nation communities in the economy
Mid range	reduced unemployment and increased incomes
Short range (1-5yrs)	at least \$5 in community economic benefits for each \$1 of public expenditures

Projects and activities that are eligible for CEOP funding address:

- community economic planning and capacity development;
- proposal development and leverage of financial resources; and
- community economic development

Eligible expenditures, within eligible projects, are defined quite broadly to include salaries & wages, travel, professional and technical services and economic infrastructure costs. In this context, the investigation team was advised that eligible infrastructure costs refer to the provision of community services and access external to the building envelope.

Ineligible expenditures include any costs within ineligible projects and economic infrastructure projects that have a reasonable prospect of capturing their costs through user fees and other means or that are eligible for funding under INAC's Capital Facilities Management Program or other federal programs.

In interpreting and applying these eligibility criteria, the investigation team understands that CEOP funds are not available in support of:

- capital costs; or
- the development of passive income (i.e. rental) opportunities.

Notwithstanding the merits of the Governance House Project, it is difficult to see how the costs involved in acquiring and developing a physical site can be considered as anything other than capital costs. Under both TB accounting rules and Generally Accepted Accounting Principles (GAAP), the cost of a capital project includes the costs of architects, lawyers and project management.

Regional staff contended that the costs incurred and supported under CEOP proposals 1 to 3 (3 x \$100,000) should be considered as business planning or incubator costs rather than capital costs.

Even if the investigation team were to accept this contention, it believes that business planning costs would be eligible only to the extent that such costs:

- related to active businesses; and
- met the 5 to 1 return rate specified in the program authority.

Active businesses represent a relatively small proportion of the Governance House Project. The majority of the space was to be leased to tenants including INAC. Leasing income is "*inactive*" and the costs of leased space ineligible for support. AMC itself estimates the proportion of space devoted to active income at 40%, a figure that HQ has asked to be verified by a professional engineer. As such, the investigation team asserts that the authorities require that any support should have been pro-rated.

4.2.3 Exceeding Regional Authority Approval Limits

Under the CEOP element of the Economic Development Program, Manager A had authority to approve contributions of up to \$100,000. The signing authority for amounts between \$100,000 and \$500,000 rests with the Assistant Deputy Minister (ADM). Contributions in excess of \$500,000 require Ministerial approval.

As discussed above, regional staff argue that the different types of professional fees (legal, architectural and project management) within Phase 2 represent different phases, each eligible for a maximum regionally-approved contribution of \$100,000. In this way, they contend that Manager A had the authority to approve almost \$450,000 to support the Governance House Project (\$300,000 under CEOP plus a further \$143,440 under Consultation and Policy Development).

The investigation team is not persuaded by this “*phasing*” argument. If accepted, it would effectively eliminate any meaningful limit to the authority delegated to Manager A under CEOP – any project, no matter what size, could be broken down into classes of expenditure that fell below the limit.

Rather, the investigation team believes that INAC expects a holistic treatment of proposals, as reflected in Economic Development Program guidance:

“regional offices should...advise applicants submitting proposals only for initial stages of projects that the approval process for subsequent stages will be based on the cumulative funding request...”

... if stage one costs \$75,000 and stage two costs \$75,000, the approval process for stage two will proceed through headquarters in line with project approval authorities.” (Emphasis added)

4.2.4 Failure to Advise Headquarters of the Proposal on a Timely Basis

The chronology of events in the *Annex* shows that the MRO was well aware that the AMC was expecting more than \$1 million in support from INAC. This information was documented in the December 19, 2005 draft revision to the Annual Work Plan, and specifically brought to Manager A’s attention in a January 30, 2006 e-mail from AMC to Manager A enclosing a Phase 2 Projected Budget of more than \$1.2 million.

According to Manager A, it had already been determined (by January 2006) that Phase 2 funding would be provided from the Economic Development Program. Further, at the April 11, 2006 meeting between the AMC project managers and Regional Economic Development staff it was evident that AMC was looking to INAC for more than \$1 million in support for the Governance House Project from the

Economic Development Program.

As discussed above, INAC policy and procedures guidance for Economic Development projects requires that approval of phased projects be provided on a holistic basis.

The investigation team interprets the above direction to mean that the AMC request should have been referred to HQ as soon as the cumulative funding request under the Economic Development Program authority exceeded \$100,000. Depending on how the proposals were classified, this threshold was reached as early as late 2005 and no later than June of 2006.

- If the initial Phase 1 contribution of \$143,440 had been classified in the same way as the subsequent contributions (i.e. as economic development) the initial request would have exceeded the regional approval limit for Economic Development support and should have been referred to HQ (with a regional recommendation) in late 2005.
- Even if one accepts the use of *Authority 341* the treatment of the three (3) \$100,000 projects, received in June of 2006, as separate “*phases*” (discussed above, under the heading “*Exceeding Regional Approval Limits*”) the guidance above makes it clear that the second and third \$100,000 proposals should have been referred to HQ because, together, the three (3) projects exceeded the regional approval limit.
- At the very latest, HQ should have been advised upon receipt of the final Phase 2 proposal, for \$805,000 in late June 2006.

Instead, the earliest notification to HQ that the investigation team was able to substantiate did not occur until November 3, 2006, in the form of a “*heads-up*” email. A formal proposal, together with a regional recommendation for approval, followed on November 29, 2006.

Because the region did not inform HQ when it should have, HQ officials had no opportunity to provide advice on two (2) issues that subsequently proved problematic to them. These matters, as discussed above, are:

- the eligibility of certain expenditures under the program; and
- whether the splitting of the project into “*phases*” was appropriate.

By the time that HQ was advised and raised these issues, however:

- INAC had been publicly committed;
- expectations had been established; and
- almost half a million dollars had been spent or promised.

The economic officer told HQ officials, and the investigation team, that he had felt no need for consultations with HQ. He had relied on the third-party assessor's opinion that costs were eligible and he believed that:

“Each proposal represented a specific component of the...plan and even though activities and deliverables are interconnected...they remain separate in focus within the context of each project.”

(Neither the economic officer, nor any other official, could provide the investigation team with other examples where a larger project had been split into “*phases*”, based on the class of expenditure).

Manager A felt there was no need to consult with HQ and had relied on the economic officer.

“It has always been my contention, ...based on the expertise that is provided from (the economic officer), who is an individual with great integrity, for whom I have the utmost of professional respect in terms of advice that he provides me, that if he tells me that this is a phasing of a project and it has been checked and re-checked that, in fact, it is a phasing of a project.”

The investigation team believes that, on a project of this magnitude and profile, and one that affected so materially the interpretation of authority, Manager A should have required and received confirmation from the economic officer, that HQ had been consulted, certainly no later than June of 2006.

4.3 Pinaymootang First Nation Advance

4.3.1 Background

In 1993, the Pinaymootang First Nation (formerly Fairford First Nation) started legal action against Canada regarding the extent of Canada's fiduciary responsibility. A judgement in the case was issued by the Federal Court of Canada on November 12, 1998. The First Nation appealed the judgement and a cross appeal was filed by Canada in 1999.

According to Manager B the decision rendered by the court was useful for Canada.

The department decided to proceed with a negotiated settlement and \$2 million was established as a negotiating mandate. This was confirmed by responsible officials on July 24, 2008 and one also indicated that there was no change to the mandate. Manager B was the regional lead on a five (5) person negotiating team established by INAC to deal with this matter.

4.3.2 Advance Against Settlement

Negotiation of Advance

On June 29, 2001 there was a meeting involving the Chief of the First Nation, the Minister, the then RDG and the Minister's executive assistant for the Manitoba Region.

During the course of the investigation, the investigative team found a draft of the Minister's letter to the Chief of the Fairford First Nation, confirming the agreement at the meeting. This draft, dated July 5, 2001, appears to have been prepared with the involvement of Manager B as his name was typed as the person to sign the letter. (Manager B states that he does not recall being involved in the development of the Minister's letter and that he may have been asked to do so after he was told of the Minister's decision. It seems clear from the above that, whether or not he had been involved in drafting the Minister's letter, Manager B knew about the \$1.2 million).

The draft letter offered the sum of \$1.2 million to help persuade the First Nation to enter into negotiations and put their legal action on hold. The draft letter states that:

“the money is to be used solely for housing and is to be applied as a credit on account of any negotiated settlement.”

The Minister announced the appointment of a Federal negotiator who was mandated to deal with flooding issues at Pinaymootang First Nation.

In return for the advance and the appointment of the negotiator, Pinaymootang First Nation was to place their litigation in abeyance in favour of a negotiation process leading to a final settlement.

On September 4, 2001 the letter from the Minister, addressed to the Chief of Pinaymootang First Nation, was finalized with some wording changes from the July 5, 2001 draft. The intent concerning the \$1.2 million advance remained unchanged although the section was phrased slightly differently.

“...to provide for a combination of new and renovated housing. As earlier agreed upon, this sum shall be taken into account as against any amount eventually advanced within the context of any longer Term Resolution.”

Payment of the Advance

On September 4, 2001 the third party manager, hired by INAC for Pinaymootang First Nation, completed and signed a “*Minor Capital Project Information Form*” to initiate the payment of the \$1.2 million. The project information form indicated that the project involved the construction of new houses as well as renovations to current housing.

The third party manager signed and faxed, to the MRO, a “*Certificate of Completion*”

dated January 16, 2002. The certificate was supported by single sheet which listed twenty (20) names of individuals, presumably the householders of the renovated properties. The sheet states that “*major renovations including cabinet replacement, total window replacement, siding, interior doors and flooring replacement*” had been completed to the twenty (20) homes listed. There did not appear to be any other supporting documentation to justify the \$1.2 million, nor were cost amounts identified related to specific individual names on the one-page list.

Another “*Certificate of Completion*”, this one for \$200K, was faxed from the third party manager on the same day, January 16, 2002. This “*Certificate of Completion*” was also supported by a single sheet that listed twenty (20) names, again presumably of the householders, where minor renovations had been carried out. The minor renovations were described as “*including exterior doors, window replacement and flooring replacement*”, many of the same types of repairs as the major renovations.

The faxed information does not demonstrate in any way that the owners of the homes acknowledged the major and minor renovations, costing \$1.4 million, reportedly performed to their homes, nor that these renovations were done.

The investigative team finds that the supporting documentation was incomplete and inadequate for INAC Regional staff to perform meaningful due diligence activities. The evidence supporting payment was of poor quality, particularly in the context of questions raised by members of the community (at the time and subsequently) and the reputation of the third party manager. Neither regional management, nor the Minister, would have reasonable grounds for assurance that the advance had been used for the purposes intended as set out in the Minister’s letter.

Concerns about the Use of the Advance

In an e-mail dated December 18, 2001, Manager B summarized discussions with the First Nation which had taken place the day before. Members of the First Nation had expressed concern about what had been done with the \$1.2 million advance:

“There’s a band meeting on 15 January. [Chief Negotiator] will be invited to attend the next meeting. Members are interested in knowing what the \$1.2 million provided for housing was actually used for. FN says all of it was used as intended and will be filing a completion report soon, hoping to get the holdback payment ASAP.”

When asked about complaints by members of the First Nation, Manager B acknowledged that some members had questioned whether the \$1.2 million had, in fact, been used for housing. He pointed out that direct responsibility for housing matters lay outside his duties at that time..

It was not only band members who had concerns. On October 12, 2001, an INAC staff member wrote requesting details of the major renovations, pointing out discrepancies between the scope of the work and the project description, asking how the First Nation

could construct a new unit without providing for sewage disposal and requesting a map showing the location of new construction. The investigative team was unable to find a reply to this request.

Reputation of the Third Party Manager

The investigative team was provided with a Canadian Broadcasting Corporation (CBC) Manitoba webpage concerning the third party management company and its owner at the time that the renovation work allegedly took place. The article suggests that there were serious concerns over the administration of the Band's affairs under this same third party manager.

A 2007 Health Canada audit of another set of financial irregularities stated that:

“the financial audit of a number of agreements between Health Canada and another service provider from April 1998 to March 2005 indicated that the service provider had transferred \$272,000 of Health Canada funds to...[the third party manager]...who administered those funds on behalf of a First Nation community. The money went into a [the service provider's] trust account, but had not been recorded in the community's records.”

In April 2002, the third party manager's term expired and INAC appointed another firm.

Accounting for the Advance

The investigative team was provided with accounting reports indicating the disbursement of the \$1.2 million. The \$1.2 million advance was paid to the third party manager in installments over the period November 2001 to March 2002.

The \$1.2 million advance was recorded in the formal accounting records of INAC as a housing expenditure in that year. At the point that it was recorded, the formal accounting records did not show it as an advance.

At the same time as it was entered into the formal accounting records (as an expenditure) a memo account was created on the capital plan to keep track of the fact that this was an advance. The capital plan does not form part of the formal double-entry accounting records of the region and INAC.

Manager B stated that the advance was inappropriately added to the capital plan and inappropriately labeled. He contends that:

- It was inappropriately reflected as an advance because it had been paid out using the mechanism of the flexible transfer agreement. Manager B believes that use of this vehicle, in effect, over-rode the Minister's direction to take the advance into account against the eventual settlement.
- It was inappropriately labeled and got overlooked within a list of “*Flooding Preparation Advances*” that were normally reflected on the capital plan and that staff

were accustomed to handling. *“Even if the [negotiating] team had checked the capital plan, it is unlikely that they would have found this advance.”*

He acknowledged, however, that it might have been justifiable to reflect this advance on the capital plan, with suitable labeling and linkages.

“...if you want to create a new label – settlement advances or whatever – just so that we have it somewhere and can track it, well, fine – maybe the capital plan is the tool.”

The investigative team found that in fact, the 2001/2002 capital plan reflected the following capital advances, which appears to provide an appropriate “label” for the advances.

First Nation	Project	Advance Amount
PAUINGASSI	Housing Pre-buy	149.80
PEGUIS	Debt Retirement	2,000.0
PEGUIS	Flooding Preparation	550.0
PINAYMOOTANG (Fairford)	Flooding Preparation	295.0
PINAYMOOTANG	Flooding (Acct. Advance)	1,200.0
ROSEAU RIVER	Flooding Preparation	175.0
SANDY BAY	Flooding Preparation	100.0
SAYISI DENE	Base Capital Advance	108.0
WAR LAKE	Base Capital Advance	230.0

Whether the negotiating team or the housing team or someone else bore primary responsibility for initiating recovery of the advance, the region:

1. had recognized that there was an amount recoverable;
2. had established accounting control over the recoverable amount through the capital plan; and
3. senior officials had approved the Capital Plan, showing the advance.

4.3.3 Final Settlement

On December 3, 2003, the First Nation and Canada signed a non-binding “*Higher Ground Strategy Protocol Memorandum*” which eventually led to a settlement agreement with INAC. The agreement required approval by a majority of Band members and a referendum was held on April 3, 2004. According to a Band Council Resolution, a majority of the eligible Band members voted in favour of accepting the agreement, and the Chief and Council signed a settlement agreement on April 5, 2004.

The agreement reached provided for the payment of \$2 million to the Band, which represented the full amount mandated in November 1999. The Band directed that \$1,199,000 be paid from the settlement proceeds to cover legal fees and technical service costs. The \$801,000 balance of the settlement was paid as a per capita distribution to band

members, which was in conformance with the settlement agreement.

On March 25, 2008, Manager B acknowledged that he and the negotiation team had been aware of the \$1.2 million payment.

“...the 1.2 came about before he was our negotiator...the team was informed this housing money went out the door, and that was, ‘Oh Gee, we could have used this’...”

In that interview, he also acknowledged that settlement with the First Nation should have triggered recovery of the advance of \$1.2 million.

“...we just continued with what we were doing. I don't know if it ever connected or clicked, or whatever, that somehow we needed to be continually sort of reminding folks that this money is part of it. I don't know how that got lost, I really don't. But, you know, that's -- I'm responsible, I let that one slip, with a number of other people, but I definitely let that slip.”

The failure to recover the \$1.2 million was attributed by Manager B to be an honest mistake.

Yes, absolutely, and it was an oversight, it was a mistake...made in good faith by a team that was busy.

According to Manager B, this failure to adhere to the Minister's instructions can be attributed to a combination of events. The first was that the Minister had created an unprecedented transaction by linking the \$1.2 million advance against a future settlement with the First Nation with regards to housing. (Regular program funding and negotiating funding are , and should be kept, separate and distinct).

Second, the Minister had, according to Manager B, acted in isolation from the negotiating team and had thrown the \$1.2 million on the table without first discussing and obtaining the input of the negotiating team. Manager B stated that the letter from the Minister had come as a complete surprise to the negotiating team. He felt that the team had lost a valuable bargaining chip with this announcement and the Minister should not have advanced the First Nation these funds. According to Manager B, this decision by the Minister took away some of the leverage of the negotiating team. It lengthened the negotiation process and delayed the eventual settlement agreement.

Manager B: “No. Well, yeah, and the miffed part of it was that we were instructed to try to settle something. And then this decision gets made around the back of the team. And is that productive? We didn't think so. But we moved on. It's the minister. He can do what he wants, within, you know, ministerial power.... So we had a quick discussion, well, you know, this is kind of dumb, in our view. We could have used the \$1.2M to start getting things on track in a better way than just letting it go out the door and lose our ability to use it for any leverage or quid pro quo”

Audit Team: “But didn't you, in effect use the full amount, the \$1.2

million, as part of the overall settlement? As you said, the agreement should have read \$3.2 million?”

Manager B: “Well, I guess so, yeah. ”

For further insight into this transaction, the investigative team contacted the Minister’s Executive Assistant for Manitoba at the time, who had attended the meeting with the First Nation. She stated her understanding as follows:

- The First Nation had understood and agreed to accept the \$1.2 million as a repayable advance to be repaid when an agreement was reached.
- It was the negotiating team that suggested that the Minister make the advance to get the First Nation to the bargaining table.
- There was no “*quid pro quo*” negotiating leverage lost and there was no mistake as the advance was made at the request of the negotiating team.
- To her knowledge, the department had not increased the settlement mandate to \$3.2 million.
- She was surprised to learn that the advance had not been recovered.

Manager B strongly disputes the statement that the negotiating team had requested or recommended the payment of the advance and indicates that other members of the negotiating team would confirm this.

The Removal of the Memo Record of the Un-Recovered Advance

The memo record of the recoverable advance of \$1.2 million created in 2001-02 continued to be carried forward in the Capital Plan until 2005-06.

In January 2007, an acting manager responsible for the Capital Plan decided to “*clean (it) up*” of amounts which had been on there for what appeared to be an eternity and non-recovery of which might “*be deemed to be evidence of very poor financial management.*”

He asked staff to obtain any documentation they could on the \$1.2 million advance. The staff looked for documentation and the acting manager e-mailed a number of individuals for information about this amount. The acting manager e-mailed Manager B but said that he received no reply. Manager B said that he would have responded verbally at a meeting.

In an e-mail dated January 18, 2007, the manager instructed:

“Upon further review and January 16, 2007 discussion, we have determined that this was a housing allocation related to the higher ground strategy and not an accountable flooding advance. This amount was a special...allocation and is not repayable. [The Capital and Housing Resource Administrator], please remove this project and

amount from the Capital Plan.”

When asked about the removal of the \$1.2 million from the Capital Plan Manager B said:

“ It wasn't written off. The accounting for that \$1.2 was through a capital contribution in 2001. So the fact that it was on the capital plan didn't mean that Fairford still had to account for this \$2 -- or this \$1.2, or that this \$1.2 was owed to the Crown. That's my point, that it was inappropriately on the capital plan because it had already been accounted for in a 2001 contribution arrangement.

The above statement describes how the \$1.2 million advance was paid to the First Nation and recorded as part of a regular contribution. In fact, the \$1.2 million should have been recorded as a recoverable advance at that time.

Had this been done, the \$1.2 million would have been recorded in INAC's accounts as a recoverable advance, thereby:

- making visible the fact that it remained outstanding until it was recovered and therefore less likely to be “*forgotten*”; and
- ensuring that it could not be written off without formal approval according to TB rules.

As described above, the \$1.2 million advance was not set up as a recoverable advance but as a memo record of recoverable advance in the Capital Plan. As such, the record of this transaction came under the direction and control of Manager B at that time responsible for the capital program.

While the investigative team could find no written reply from Manager B to the request from the acting manager for information about this transaction and what to do with it, Manager B took responsibility for the removal of this record from the capital plan by his signature approving the capital plan. He acknowledged his responsibility for the capital plan and the removal of this record.

Manager B defended the removal of the record:

“Through the process which the new capital plan, which has been revised, gets approved. So it is not like the acting manager, just wrote it off. Nothing was written off because there was no \$1.2M of real money recoverable in the plan. Even though the plan looked like it did, that money was not recoverable. It had already been accountable through the separate contribution arrangement, so it was inappropriate for that to be looking like a recoverable advance.”

The above statement suggests to the investigation team that Manager B understands only one side of this transaction and its accounting, the outflow of funds.

The effect of removing the memo record of the recoverable advance from the capital plan was to eliminate evidence concerning the failure to follow the Minister's direction to complete this transaction and recover this advance.

Annex: INAC Support for Governance House – Chronology of Events

2005	Aug	9	Grand Chief writes the Minister about proposed Aboriginal Urban EcDev Zone.
	Sep	23	Minister assures GC that <i>regional officials are committed to...assist your organization ... in achieving your urban economic development goals</i>
	Dec	19	AMC Revised Annual Work Plan prepared showing total GH budget of \$1,414,440 – (Phase 1 \$143,440 + Phase 2 \$1,271,000) payable in 2005/6: \$143,440 + \$530,000 = \$673,440. 2006/7: \$741,000.
2006	Jan	3	AMC writes Manager A, acknowledging Minister's commitment of \$145,000 for 2005/6, departmental indication of added \$\$ for 2005-6 and 2006-7, and advising that AMC not in a position to cash-manage added \$\$ for 2005-6.
		30	AMC sends Manager A revised Phase 2 work plan and budget, reducing amount requested for 2005-6 to \$500,000 (from \$530,000) and referencing total Phase 2 costs of \$1,271,000.
	Feb	17	AMC (Dir Fin) submitted amended work plan for 2005-6 by e-mail to Manager B requesting \$143,440 in support for Gov House Phase 1 as addition to 2005-6 Work Plan.
		21	Manager A re-sends amended Work Plan to Manager B, asking for comments, Manager B confirms.
	Mar	1	AMC (Dir Fin) provides Manager A with Amended 2005-6 Work Plan, requesting \$143,440 for Gov. House & \$56,560 for the Grand Chief's office.
		27	Manager A writes AMC confirming approval of Amended 2005-6 Work Plan as submitted by AMC's Dir Fin on Mar. 1, cc Manager B and a capital manager
	Apr	11	AMC project managers meet with MRO economic officer to discuss Phase 2 support, present plan for \$1.3m, are told proposal is too rich, and represents more than 30% of total EcDev budget for Manitoba.
	May	16	Manager B briefs Parliamentary Secretary that region supports initiative but has no authority and no money to support anything more than business planning.
		18	Grand Chief signs three \$100k proposals (Proposals 1-3) for INAC support for architectural, legal, & project management 'phases' of the Governance House project.
	Jun	1	Three proposals (1-3) for architectural, legal and project management services, each requesting contributions of \$100,000 arrive on economic officer's desk.
		19	Economic officers sends out proposals 1-3 for review by third party assessor.
		20	AMC presents 4 th proposal for additional support in relation to balance of Phase 2 costs amounting to \$805,000.
		26	Third party assessor recommends approval of all three \$100k proposals (1-3).
		27-28	Manitoba Economic Development Advisory Committee recommends acceptance of all three \$100k proposals.
		28	Manager C recommends approval of all three \$100k proposals.
		30	Manager A writes AMC advising approval of the \$100k contribution toward Phase 2... costs, requesting accounting for Phase I support of \$147k.
	Jul		Manager B writes AMC advising approval of the Phase 2 architectural proposal.
		24	Economic officer refers \$805,000 4 th proposal (Phase 2: \$805,000) to third-party assessor for review.
	Aug	21	Manager C signs under S 34 to initiate flow of funds to AMC for proposals 1-3, \$65,000 each beginning October 06.
	Sep	7	Third party assessor reports on the 4 th (Phase 2) proposal identifying concerns about eligibility of certain costs reflected, recommending that further information be obtained & rating as high-risk.
Nov	3	Economic officer sends "heads up" e-mail to HQ re: 4 th Phase 2 proposal, by now reduced to \$644,000.	
	17	Manager A recommends \$644,000 for 4 th proposal of Phase 2 to HQ.	
	29	Economic officer officially forwards CEOP application for \$644,000 & recommendation to HQ.	
2007	Jan		HQ e-mails region re concerns about eligibility of expenditures for establishment of a physical site, land purchase, and questioning job creation claims.
	Mar	9	Economic officer prepares briefing note for ADM summarizing AMC proposals 1-4 under CEOP – \$300k + \$559K.
		9	HQ phones request that economic officer justify separate treatment of Phase 2 projects (i.e. not intentional project splitting) and demonstrate no duplication of activities between regionally approved and nationally submitted proposals.
		29	DM e-mail to Manager A, ADM, asking why region did not have...issues with eligibility of application.
	Apr	11	Manager A provides 'comfort letter' to AMC re funding support of \$290,000 in 2007-8 and \$206,000 in 2008-9 to be "officially notified by the Deputy Minister shortly".
	May	2	Ministers Office instructs EcDev not to approve the proposal.
Jul	3	ADM writes GC advising that approval of pending request requires <i>more detailed and precise description of activities related to the current funding request ... completion of ATR process and Ministerial approval.</i>	