



# **Community Living British Columbia**

## **Compliance Audits: A Guide for Service Providers Who Report Service Levels**

**October 2023**

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## Why do I need this guide?

This document explains Community Living British Columbia's (CLBC) compliance audit process for service providers who report service levels to CLBC. As set out in Sections 9 and 18.3 of the [Service Terms and Conditions for Contracts Between Community Living British Columbia and Service Providers](#) (*Terms and Conditions*), CLBC may verify Service Providers compliance with a contract by undertaking audits, reviews and/or inspections.

An organization may be for profit or not-for-profit or charity, and their employees may or may not belong to a union. However structured, service providers who contract with CLBC are responsible for delivering the services set out in the contract with CLBC.

In turn, CLBC is responsible for monitoring the performance of service providers. One aspect of monitoring service provider performance is through its compliance audit program. This guide describes the audit process, so service providers know what to expect and how to prepare when selected to be audited.

## What is the purpose of a compliance audit?

Monitoring of contracted services is a collaborative process between CLBC and service providers that respects and strengthens shared commitment to the quality of services being provided.

CLBC compliance audits help to assess whether an agency is compliant with the financial terms for the services as set out in the contract. CLBC uses a combination of various factors to determine which service providers will be audited.

CLBC's compliance audit program also supports CLBC to meet its own responsibility to make sure government funds are used efficiently and effectively, as per requirements under the BC Government's Taxpayer Accountability Principles.

The terms and conditions of CLBC's contracts include compliance auditing. In accordance with Section 9.2 of the *Terms and Conditions*, it requires service providers provide CLBC access to records and books of account, as well as any equipment and activities related to service delivery. In addition, service providers are required to provide CLBC with access to individuals, employees, and subcontractors, and their employment information, as needed.

**(Note:** See the section below on what happens in a compliance audit.)

## **Will I be selected for a compliance audit?**

Service providers are selected for audit through consideration of various factors. Some of the factors include:

- The size of the contracted service levels
- Funding analysis
- Previous compliance with reporting requirements
- Findings from previous audits
- Whether the service provider has ever been audited
- Quality assurance and quality reports
- Information received from third parties under CLBC's ethical reporting process

*Note: the list above is not exhaustive.*

CLBC cannot disclose the reasons for the selection of a service provider for audit to ensure confidentiality.

## **What happens in a compliance audit?**

### **Overview**

A compliance audit confirms if service providers are delivering what has been agreed to in their contract, specifically that:

- The services delivered are consistent with the reported service levels
- The service provider has accurately tracked and reported the services delivered
- The cost estimates the service provider provided to CLBC, and used to determine the level of funding in a contract, are reasonable and fair
- The service provider is in reasonable financial condition
- The service provider is operating in a responsible manner

When conducting audits, CLBC follows an established process to confirm the service provider is complying with the contract. CLBC will:

- Examine documents to verify reports of service levels delivered
- Refer to documentation to validate cost estimates and actual costs
- Obtain representations from management via a signed confirmation that the information provided during the audit is complete and accurate.

## **Scope of the Audit**

CLBC's funding is intended to cover the costs of staff providing care to individuals CLBC serves, as well as other direct program, administrative, and premises-related (i.e., land and building) costs. The audit helps CLBC understand if the funding provided to an agency is sufficient and reasonable for service delivery. CLBC staff conducting the audit will ask questions about staffing, scheduling, timekeeping, and accounting to understand the systems and information used to produce service level reports. They will also inquire into an agency's overall spending and financial health (see Appendix 1 for the list of documents an agency will need to provide).

Once CLBC has completed this process, a summary of issues identified will be provided to the service provider to address. If the service provider is in compliance, a closure letter will be provided confirming this.

## **Union vs. non-union organizations**

Specific elements of a compliance audit will also depend on whether an organization is fully unionized, partially unionized, or not unionized. In unionized organizations, pay rates and benefits are structured within the parameters of a collective agreement and are standardized within the program budget. Program budgets of non-union organizations depend more on cost estimates provided by the service provider.

## **Accounting systems**

The scope of the documentation the service provider will be required to provide for a compliance audit may also depend on the extent and reliability of the accounting records and system of internal controls. For example, supporting documents required for audits for service providers with mainstream time recording, payroll, and accounting systems are likely to differ from those required for audits of service providers that have systems and internal controls which are generally less robust.

For example, if CLBC's audit team notices limitations in internal controls or financial information, they may expand the audit by:

- Increasing the numbers of samples used for audit testing
- Expanding the time period under review

## The process in detail

A compliance audit consists of three phases:

1. Planning
2. Gathering documentation and information<sup>1</sup>
3. Reviewing and reporting

### Planning

If you are selected for an audit, it will begin with the audit team's planning process. They will analyze information on your service contracts and any other information available, such as CLBC's Regional Service Delivery office feedback or quality assurance activities.

The audit team will then contact you, by telephone or email, to tell you have been selected for an audit, and to explain the audit objectives. They will also arrange a time with you for an on-site or virtual visit.

During this initial call, the audit team may ask questions to clarify their understanding of your operations and may request other background information to update their planning.

Based on the information the team gathers, they will select the contracts to be audited and the time periods to be covered.

The audit team will then send you a letter that:

- Confirms when the audit will take place and its objectives
- Lists the time periods selected for audit
- Broadly identifies documents they expect to examine during the on-site or virtual visit. These documents will typically include the books of account and financial statements relating to the services provided to CLBC. (The precise documentation may vary, depending on the records you maintain.)

### *Tips for service providers*

Agree to dates and times for meetings within the 30-day deadline

Understand audit objectives

Understand how you will share personal information with CLBC (see the section on privacy of information)

Gather all requested material

Arrange for workspace for the auditors

Provide for access to documents (consider system access and office access)

Set aside time for meetings with the auditors

Review the FAQs (Appendix 3) and consider other possible questions you have for the auditor

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<sup>1</sup> **Note:** Gathering of information and documentation will usually take place during an on-site visit. Depending on the overall working environment, this may also be done remotely.

## Reviewing documentation and interviews

During the on-site or virtual visit, the audit team will ask questions and examine documents. Their purpose is to check:

- The accuracy of reports on service levels. This generally requires you provide the audit team with access to staffing schedules, time and attendance records, and payrolls for workers involved in the direct delivery of the service levels.
- The reasonableness of payroll-related cost estimates, and significant program and premises-related cost estimates for the contracts being audited. This typically involves reviewing invoices, receipts, contracts and accounting records related to specific elements in the program budget.

Before the audit team completes their on-site or virtual review, they will discuss preliminary findings with you, and let you know if there is any additional information they may require to complete the audit.

In some instances, the team may determine they need additional information after they have completed their on-site or virtual meeting and will contact you to request that information.

### ***Tips for service providers***

Schedule an introductory meeting on the first day of the audit

Anticipate, as best you can, requests for additional documents

Ask the purpose of questions and information requests<sup>1</sup>

Be available to answer questions, as necessary

Ensure a close-out meeting takes place to understand the auditors' findings and possible implications and to clarify further information to be provided

Agree on next steps and timelines

## Reviewing and reporting

After completing the gathering of information, the audit team will finalize their work and evaluate the service provider's compliance based on their findings. For audits with:

- **No significant concerns identified;** the audit team will send a letter to confirm no significant matters were identified that require the service provider's attention.
- **Noted matters of concern,** the audit team will discuss the concerns along with recommendations or improvements with the service provider. The service provider's response will be used by the audit team to complete an audit report. In some circumstances, the audit team may follow up to confirm action has been taken for the areas of concern.
- **If the audit identifies significant concerns,** details in the audit report will include:
  - Issues identified that a service provider may be asked to resolve within a certain time, and/or a follow-up audit may be scheduled to confirm that the noted issues have been addressed.
  - Findings where service levels were less than those reported and where CLBC may seek recovery of costs.
  - Significant variances between funded and actual costs where CLBC may seek recovery of funding, which may extend beyond the period of the audit.

### ***Tips for service providers***

Ensure you schedule a formal debrief meeting with the audit team (may be by telephone)

Ask questions as needed to understand any matters of concern and recommendations

Challenge matters of concern that you feel are not accurately represented in the findings

If needed, provide supplemental documentation to address report conclusions

Understand what steps you need to take next, including when to expect the audit report outlining concerns for your written comments and action plans

For action plans, think through the observations and:

- Be specific about what you will do
- Identify who within your organization will be responsible for addressing the observation(s)
- Establish reasonable timelines (don't delay; remember that the goal is improved performance)
- Provide for internal monitoring to ensure new practice "sticks" and becomes the norm

Note: the CLBC Compliance Audit team may also share this information within CLBC for their management of contracts.



## Privacy of information and your legal responsibilities

In accordance with Schedule E of the *Terms and Conditions* (Privacy Protection), you are responsible for assisting the audit team as needed. This includes providing explanations and allowing the team to have access to relevant records and work locations.

Because all service providers collect personal information on their employees, how that information is shared with the audit team during an audit must be done in a secure fashion. Normally, this means information will be shared through a secure Government of BC website, if preferable. The audit team will provide instructions on accessing this site in its introductory letter. Non-sensitive communications may be sent via email.

The relationship between you, as a service provider, and CLBC is governed by [Part 3 of the Freedom of Information & Protection of Privacy Act \(FOIPPA\)](#) for matters relating to information in your custody that relates to providing services for CLBC.

FOIPPA effectively permits you to disclose personal information relating to providing services to CLBC's employees or contracted representatives *only* if it is required for a compliance audit. If you need more information about FOIPPA in relation to CLBC and privacy concerns, please see the Privacy of Personal Information tab on the CLBC policy web page.

## Process for non-response to audit request

It is expected service providers will respond and comply with CLBC-related audit requests in a sufficient and timely manner. Such responses will allow for audit completion in accordance with CLBC's audit quality requirements. The requirement to cooperate with a compliance audit is noted under Section 9 of the *Terms and Conditions*.

In the event an adequate or complete response is not received from a service provider, CLBC will use a process of escalation that could lead to a Notice of Deficiency, non-renewal, or termination of applicable contracts with the service provider.

## **Appendix 1 – Tips for a Smooth Audit Process**

### **Before an audit**

- Be prepared by anticipating an audit and by maintaining complete and accurate records (as an on-going practice).
- Follow:
  - Your own policies, procedures, practices
  - Provisions of your contract with CLBC
  - Sound business practices
  - Practices that align with your organizations mission and vision
- Document:
  - Exceptions in your contracts – why an exception occurred and why decision/action was taken (and who was consulted at CLBC in making the decision and approval of the contractual exception)
  - Any “tricky” situations including resolution
  - Process deviations
  - Grey areas

### **During an audit**

- Be collaborative
- Be prepared and welcoming
- Be honest and candid
- Share all required information
- Stay open-minded and receptive

### **After the audit**

Maintain a copy of the audit report and signed representation letter (and any applicable notes) for reference if there are subsequent audits.

## Appendix 2 – Typical Audit Information Requirements

### General Information

- Organizational chart of key staff roles
- Business model diagram detailing ownership (if any) and all related organizations (whether other service providers, administrative organizations, or holding companies)
- Listing of any related party transactions associated with CLBC funding
- Names of those in key management roles and on the Board of Directors
- Listing of accreditations attained by the organization
- Signed management representation letter confirming information provided is accurate and complete.

### Finance Related Documents

- Most recent financial statements and prior year comparative (for the overall organization) including balance sheet (statement of financial position), statement of revenues and expenditures (statement of operations), and statement of cash flows
- Most recent audited financial statements, if applicable
- Segmented information detailing CLBC funding and non-CLBC funding

### Payroll Related Documents

- Name of the accounting software/service provider used
- List of employees and their organizational classifications for those involved in front-line service delivery, including subcontractors
- Employee and subcontractor payroll and accounting records, internal controls, and processes
- Time sheets, staffing schedules, payroll and other reports documenting time worked by front line and supervisory staff
- Time sheets and payroll records for management and administrative staff
- Bank statement and transaction records related to payroll
- Records of time spent on excluded activities ([refer to Section 2 of the Service Level Reporting: Guidance for Service Providers, which can be found on CLBC’s website](#))
- Records supporting the adjustment of total hours worked to eliminate excluded activities from reported service levels delivered
- Benefit payments relating to:
  - Municipal Pension Plan (contribution and participation rates)/RRSP
  - Long-term Disability (“LTD”)
  - WorkSafe BC (“WSBC”)

### Unionized Programs

- Employee and subcontractor payroll and time records for front line workers and supervisory staff,

together with their organizational classifications

- Bank statement and transaction records related to payroll
- Employment or other contracts with front line workers and supervisory staff
- Human resource policies and practice documentation
- Benefit payments relating to:
  - Employer Health Tax (“EHT”)
  - Municipal Pension Plan (contribution and participation rates)
  - Long-term Disability (“LTD”)
  - WorkSafe BC (“WSBC”)

### **Non-unionized Programs**

- Employee and subcontractor payroll and time records for front line workers and supervisory staff
- Benefit program documents and benefit reports with supporting bank transaction records
- Related accounting records including banking transaction records for payroll disbursements, paid absences, and benefits
- Employment or other contracts with front line workers and supervisory staff
- Human resource policies and practice documentation
- Financial information and documentation supporting the estimates
- Benefit payments relating to:
- Regular staff – paid time allowances:
  - Vacation
  - Sick leave
  - Education and training
  - Statutory holidays
- Regular staff - statutory benefits
  - CPP, EI, and WSBC
- Regular staff - health & welfare:
  - Extended Health Care (“EHC”)
  - Dental insurance
  - Employer Health Tax (“EHT”)
  - Life insurance
  - Accidental Death and Dismemberment (“ADD”)
  - Registered Retirement Savings Plan (“RRSP”)
  - Long-term Disability (“LTD”)
- Casual staff – statutory benefits: CPP, EI, WSBC, and in-lieu benefits for casual staff

## Appendix 3 – Frequently Asked Questions (FAQ)<sup>2</sup>

1. How long will auditors be on site?

The time on site will vary, although a normal period is three to five days. This could be longer for larger, more complex service providers.

2. How many people will be on site?

Our on-site team usually consists of three to five people. One will be in charge and the others will assist. In some instances, only one auditor may be on site.

3. Who might auditors want to talk to?

We will want to talk with the accounting team, the Executive Director or CEO, payroll staff, and others involved in preparing reports to CLBC. In some instances, we may also ask to talk to the Board Chair and Treasurer.

4. Is the audit only focused on hours we report to CLBC and supporting payroll?

No, the audit is broader than just payroll. We will inquire into how you spend the money provided from CLBC. While a large part of this will be spent on payroll, some will also be spent on administration and support. Your financial statements will help us better understand this.

5. How long will it typically take to complete the audit?

It will depend on the complexity of your organization. Generally, an audit can be concluded as early as six weeks. However, this can be reasonably extended to accommodate organization's competing time pressures.

6. What facilities will auditors need while working on site?

The team will usually need a shared working space with access to the internet.

7. What is the best way to share information with auditors?

We will normally ask you to share information through a secure Government of BC website. We will provide details with you at the time of the audit.

8. How long will I have to respond to an audit letter requesting information?

Within 30 days to allow the audit to be completed in a timely manner. As we acknowledge that certain records and information may require some time to prepare.

9. Who pays for the audit?

CLBC is responsible for its own audit costs. The service provider is responsible for costs relating to preparing for and responding to an audit.

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<sup>2</sup> Note: These FAQs are a general guide only and do not supersede the contract Terms and Conditions. Service Providers are encouraged to review and familiarize themselves with those Terms and Conditions.  
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10. When might CLBC schedule another audit?

Audits are chosen based on a variety of considerations. There is no way to determine the timing of the next audit.

11. Can a service provider opt out of an audit by giving other management statements, e.g., written confirmation of compliance, externally audited financial statements, etc.?

No, once a service provider is selected for an audit, the service provider must comply with the *Terms and Conditions* to complete the audit.

12. Are audit reports published by CLBC?

No, CLBC does not identify and publish service provider audit reports.