

## **A Difference of Opinion - Professional Skepticism uncovers cover ups on pricing**

"Here we go again," Bryan thought. He put down the Globe and Mail with another front page article on the Federal Public Service Department ("FPSD"). "\$20,000 for a new planter in front of the Bank of Canada is an outrage!" the article read. Government overspending, or accusations thereof, were nothing new, but now that it was in the newspaper people would demand immediate action – and he knew that nothing was ever simple in the world of government contracts.

Bigger-Than-Most LLP ("BTM") was one of the main firms called in to investigate government contracts for FPSD whenever there were disagreements, or misunderstandings. Real investigators are fact-finders, they get the truth, and don't pursue any side agendas or narratives. This one would be no different.

Bryan got the call from FPSD later that day when they asked him and BTM to start the investigation into how the costs could have gotten to be so far off budget, and to see if the contractor, Javelin, had breached their contract in the process. Bryan accepted the contract, and got his team together. He read them the news article, and explained the concerns and what needed to be done.

FPSD would exercise their right to audit Javelin as part of their contract for dispute resolutions, and BTM would be the ones to independently review the books and records to see what happened in this case, and to determine if the contract had been breached.

BTM would start by investigating the famous planter that put this story into the Globe and Mail, but FPSD also had suspicions about 10 other projects around Ottawa and Gatineau. Bryan divided his team in 3 groups and sent them to the regional offices to investigate the work being done.

The team investigating the planter got to work looking at the original purchase order and scope of work for the project. They looked at drawings and the budgets, and determined the following:

- The planter was supposed to be 4 feet wide, 10 feet long and 3 feet high
- It was supposed to support 2 pyramidal oak trees
- It was supposed to have one banner on it that read: "As We Grow"
- It would be 2 feet away from the road.
- The total cost was supposed to be \$4,500.
- Javelin had a "cost only" contract. Meaning that FPSD would pay for only the costs of the labour and materials to make the planter with no mark-ups.

After digging through the files for a couple of days, and interviewing the people involved at both Javelin and FPSD, BTM determined there were multiple change orders involved. It turned out that:

- The planter 4 ft X 10 ft X 3 feet could NOT actually hold 2 pyramidal oak trees. It could hold 2 emerald cedar trees, or 1 pyramidal oak.
- Rather than switching the trees, FPSD decided to make the planter large enough to hold the 2 pyramidal oaks because it was "crucial to the bilingual nature of Canada that we have a tree to represent both anglophones and francophones."
- This added \$3,000 of extra building materials and labour.

- The planter, now longer than 10 feet, and deeper than 3 feet, could no longer be 2 feet away from the curb.
- It needed to be moved back to 5 feet, and the entire \$7,500 planter had to be demolished, and completely rebuilt.
- While this happened, the 2 trees died, and had to be replaced by two new ones, which added another \$1,000.
- And to make things worse, following the bilingual nature of the planter, the "As We Grow" sign had to be removed, and 2 signs were needed instead - one in English and one in French, which added another \$2,000 to the project.

All in, the project did cost \$18,000 from an original budget of \$4,500. While frustrating for the taxpayers, nothing seemed nefarious about the costs – except for the last \$2,000.

However, while the team was busy tracing all the costs from invoices and purchases orders to the general ledger ("GL"), and all the way to payments, and they got good at tracing the Javelin GL codes. The 14-digit strings were easy enough to read and follow and were the primary keys for the data going through on each transaction. The \$18,000 ran through codes that all had 5 digits, 4 letters, and then 5 more digits.

But one of the investigators noticed something. \$18,000 of the costs had GL codes with the letters "RCPJ" - and \$2,000 had the 4 letters "NRPJ" in the GL codes. Both codes were added to the total of \$20,000 that the Globe and Mail had written about, and were confirmed by Javelin and FPSD to be the total cost of the planter. "What do they mean?" one of the investigators from BTM asked. "I am used to seeing consistent codes across projects this small." One of the Javelin employees told them that "PJ" meant project, and "RC" meant "Recoverable cost". The "NR" meant "Non-recoverable cost".

The investigator went back to the contract, and re-read that part about this being a "cost only" contract, and then looked back at the GL codes. \$18,000 could be supported, but not the last \$2,000. Yet, FPSD had been billed for the full \$20,000.

The BTM investigator went back to the Javelin employee and asked: "If there is a cost that is "NR", should it have been billed to FPSD? I mean, your contract says: "cost only", so I was curious as to why it was billed."

The employee shrugged and said: "We aren't a charity, and we should be paid for our work." The investigator asked again: "Right, but if the contract is cost only, then why was it billed?" The employee replied: "I guess we have a difference of opinion on what the contract means." and left the room.

The investigator called Bryan and told him about the "NR" codes in the GL, and what the employee had said. Bryan thanked them for digging into this as they may be on to something. He then called BTM's external counsel and requested an opinion on the contract. Then, he called the other teams investigating the 9 other projects and asked them if they had seen similar GL codes on their side. They all reported back "yes", and when taken in aggregate, the NR codes ended up representing close to 20% of the total billings FPSD was seeing. It was time for a call with FPSD.

FPSD, upon learning about the GL codes and the initial findings, was furious. "Javelin has hundreds of projects from us on the go! Are you telling us that they have been marking up their invoices?" After several meetings with their lawyers, and Javelin's lawyers, they got back to BTM, and gave them a new

mandate. Rather than just investigating the 10 projects, BTM would be given access to EVERY project where Javelin was the general contractor for the last 5 years.

Bryan was thrilled about receiving more work, but then realized that his teams needed 3 months just to get through 10 projects. How would they investigate hundreds? He ran the problem by his forensic technology team, and their director asked a simple question:

"Do you need to investigate every project? Or do you just need to look for the GL codes? It may not remove the need to do the proper investigative work, but it will certainly point you in the right direction."

Of course, Bryan thought, CAATs (computer-assisted auditing techniques) - that would need to be the next step. His investigators had done a great job narrowing down what to look for and possibly where. But the "how" was going to need a new approach.

This investigation was far from over, but once the CAATs started running looking for the "NR" GL code, Bryan and FPSD soon realized the massive scope of the problem ahead. And it was much larger than one planter... millions of dollars were ultimately at stake.

**Questions:**

1. What was a good example of Bryan's professional skepticism early in the case?
2. Why was it so important to hear Javelin's side despite the bad headlines in the newspaper?

*Source: Professional Skepticism Case Collection for Professional Accountants, University of Toronto Professional Accounting Centre, 2023, PAC website <https://www.utm.utoronto.ca/pac/case-collections/enhancing-professional-skepticism-case-collection>.*