

Audit Report
on
Travel & Hospitality
in the
Financial Consumer Agency of Canada
Audit and Consulting Services

The audit was conducted by Consulting and Audit Canada

The audit report was jointly prepared by Consulting and Audit Canada and Audit and Consulting Services (OSFI)

Financial Consumer Agency of Canada
(FCAC) Travel & Hospitality Audit

1. Background
2. Objectives of the audit
3. Scope and approach
4. Phases and timeframes
5. Audit observations and areas for improvement
6. Audit Opinion
7. About the audit team and resources

Appendices

Appendix A – Travel Process Map

Appendix B – Travel Control Points

Appendix C – Hospitality Process Map

Appendix D – Travel Claim Process Walkthrough

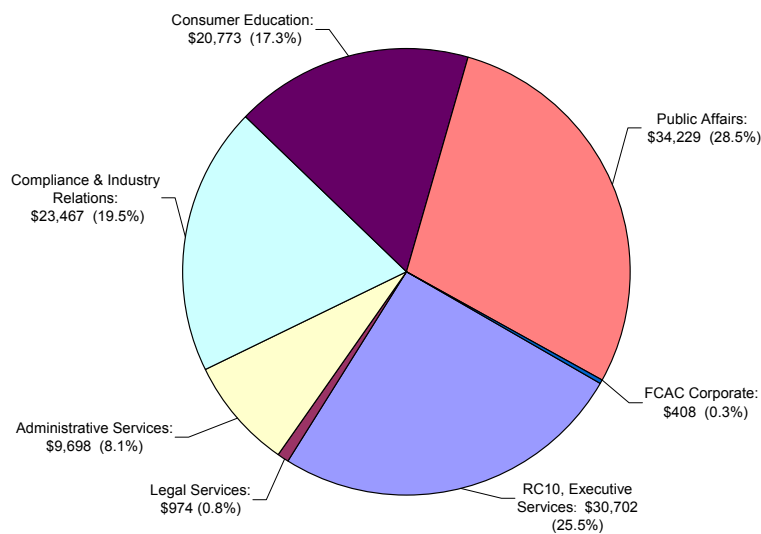
Audit and Consulting Services (A&CS) Audit Report on Travel and Hospitality

1. Background

The A&CS internal audit plan as approved by FCAC management includes an audit of FCAC travel and hospitality (T&H) practices.

As a separate employer, FCAC has the authority to develop its own travel and hospitality policies. This authority was granted in the Financial Consumer Agency of Canada Act. FCAC has chosen to adopt the travel and hospitality policies established by the Treasury Board Secretariat (TBS).

FCAC employees and RC Managers have the primary responsibility for application of T&H policy. FCAC Administrative Services, with OSFI Finance, is responsible for maintaining the control framework for processing claims and monitoring application of Policy through checks of submitted claims. The OSFI Finance group processes and reports on T&H expenses, and maintains on behalf of FCAC documentation and financial records under an MOU between FCAC and OSFI Finance.



The profile of the \$120,251 in T&H expenditures for the fiscal year ended March 31, 2004 shows that the major expenditures were incurred by Public Affairs (28.5%) and Executive Services (25.5%). Of the total T&H expenditures, hospitality expenses (4%) were nominal compared to Transportation / Airlines (48%) and Other Costs (48%).

Travel within Canada represented 93% of total Travel expenditures, with the remaining 7% being International and US travel.

Travel & Hospitality Audit Report**Protected B****2. Objectives of the audit**

The audit objectives were structured to:

- Facilitate a review of T&H practices and the respective roles of Users, RC Administrators and Managers, and OSFI Finance in the processing of claims
- Assess the processing of claims in four areas:
 - Consistency of T&H claims with TBS T&H policy (the Policy) and requirements
 - Effectiveness of management and reporting framework in place which:
 - Maintains, monitors, and reports on T&H expenses
 - Ensures appropriate information is maintained and available for internal and external reporting purposes
 - Promotes application of the Policy and guidance
 - Establishes & communicates the policy and guidance to FCAC staff
 - Effectiveness of T&H practices to ensure the financial integrity (accuracy, documentation, review and approval structure) of T&H expenses
 - Effectiveness of T&H policy application
- Provide an audit report on the results of the review of T&H expenses

3. Scope and approach

The scope and approach of the audit was organized into four distinct phases:

- I. Review of the framework for processing claims
- II. Compliance testing of claim items against TBS policy and supporting documentation
- III. Reporting on the T&H audit
- IV. Client group responsibilities

The audit involved:

I. Review of the framework for processing claims

- An assessment of T&H practices against policy and guidance
- Discussions with FCAC Administrative Services and selected administrative support regarding:
 - Current travel and hospitality claim processing activities
 - Advice and support provided by FCAC Administrative Services and OSFI Finance, including training and correction of detected errors
 - Documentation of T&H claims: T&H forms, Section 4 information requirements, supporting documentation and RC and FCAC approvals
 - Whether services provided by OSFI Finance are consistent with the complexity of T&H policy and processing of a claim
 - Whether Users have received value
 - Possible areas for improvement
- A review of FCAC and OSFI Finance's monitoring of T&H practices, and their improvement program
- A review with FCAC management related to the observations and areas for improvement

Travel & Hospitality Audit Report**Protected B***II. Compliance testing of claim items against TBS policy and supporting documentation*

Definition of “Claim Item”: A claim is composed of a series of individual expenses posted to the general ledger (e.g. airfare, accommodation, meals, etc.). These individual expense items are treated as “claim items” for sample testing purposes

- An extraction of all claim items posted to the general ledger for the fiscal year ended March 31, 2004 for establishing the sample population and random selection of claim items for detailed testing. The extraction file is reconciled to the general ledger accounts to ensure that the extraction file includes all claim items and the T&H general ledger account balances are correct.
- A detailed check of a sample of claim items for:
 - Application of TBS policy, in particular:
 - Checking for optimum transportation arrangement (lowest available fare)
 - Use of Bank of Canada foreign currency rates in calculating allowances while on international travel
 - Meal allowances
 - Use of the PWGSC Accommodation Directory for hotel rates
 - Incidentals and other charges
 - Completeness of supporting documentation such as justifications for non-standard travel arrangements, airfare tickets, boarding passes, receipts for transportation, accommodations, car rental, telephone charges, etc.
 - Evidence of appropriate Section 34 sign-off and Section 4 information requirements for hospitality expenses incurred (i.e. government attendee count, guest attendee, form of hospitality and circumstance, commercial establishment or caterer etc.)
 - Review and approval of claims by RC Administrators, RC Managers and OSFI Finance
 - Arithmetic accuracy of the processed claim
 - Posting of claim items to general ledger accounts and accounting period
- A review with FCAC management of testing results and areas for improvement

III. Reporting on the T&H audit

- A review of the audit results and report with FCAC management
- Report on the audit to Deputy Commissioner of FCAC
- Provide an audit report on the results of the T&H audit to the Audit Committee

IV. Client group responsibilities

FCAC management is the client for the purposes of this audit. FCAC management and OSFI Finance provided assistance in conducting the audit through timely access to the relevant personnel and documents.

Travel & Hospitality Audit Report**Protected B****4. Phases and timeframes**

The field audit work was carried out during the months of December 2004 and January 2005, with reporting to the Audit Committee in March 2005. The timeframes are as follows:

Audit Phase	Timeframes Week(s) Ending
Planning for the audit	August 2004
Conduct of the Audit <ul style="list-style-type: none"> • Review of the processing of claims • Testing of claim items and supporting documentation • Interviews with FCAC Administrative Service and RC Administrators on their understanding / awareness of T&H requirements • Analytical review of testing results • Review of draft observations and areas for improvement with clients & their comments 	December 2004 through February 2005
Reporting <ul style="list-style-type: none"> • Draft observations and areas for improvement and debriefing of FCAC management • Preparation of a draft audit report and debriefing with FCAC • Preparation of the final audit report, revised as appropriate • Presentation of the audit report to the Audit Committee 	February 2005 through March 2005 April 2005

5. Audit observations and areas for improvement

A&CS observations and areas for improvement relate to monitoring, measuring and reporting on the processing of claims.

Monitoring, measuring and reporting on the processing of claims

A random sample of 25 claim items was reviewed in detail against the pre-determined audit attributes. The audit attributes and the nature of an error are defined as follows:

- The *documentation attribute* tested whether supporting documentation to justify an expense was on file (e.g., receipts or declarations, supporting evidence for foreign exchange rates, or business purpose).

Travel & Hospitality Audit Report**Protected B**

- The *accuracy attribute* tested such things as appropriate cut-off between fiscal years, general ledger classification, claiming all expenses, and mathematical correctness of the claim.
- The *policy attribute* tested whether claims were in accordance with OSFI's T&H policy correct foreign exchange, meal and/or incidental rates, complete Hospitality Policy Section 4 information, number of meals claimed while on travel status.
- The *sign-off attribute* tested whether appropriate section 34 or section 4 sign-off was provided and whether the appropriate management level had approved the expense.

Of the 25 claim items audited, 9 observations were raised.

Testing Period	No. of Claim Items audited	No. of Claim Items where observations were noted	Attributes Tested – Number of observations			
			Documentation	Accuracy	Policy	Sign-off
Travel	21	7	4	3	0	0
Hospitality	4	2	0	1	1	0
Total	25	9	4	4	1	0

Of the \$115,960 in total travel expenses, 'travel – air and ground transportation' expenses accounted for \$58,090 (50%) while 'travel – other' expenses (e.g.: hotels, meals, etc.) accounted for \$57,870 (50%). Except for two items, the observations were made in the 'travel – other' accounts.

The observations made concerning matters of documentation and accuracy were attributed to attaching to a claim supporting explanation or rationale for the expense or ensuring expense receipts are correctly entered in the claim form. It was not a question of the amount or purpose of the expenses but rather the completeness of the supporting documentation. Two (2) claim items were related to overpayment of claim expenses, which were subsequently reimbursed, representing a nominal amount (\$41) of the total sample amount of \$120,251.

Total hospitality expenses for the audit period were \$4,291. The observations made on hospitality claims were not related to the legitimacy of the amounts claimed but rather to the completeness of the Section 4 information and a posting of the claim to a wrong general ledger account.

In discussions with RC Administrators who prepare a high volume of T&H claims, confidence was expressed with regards to the accuracy, completeness and policy compliance of claims. When specific guidance is needed, RC Administrators refer to the TBS policy or ask the FCAC Manager Administrative Services and/or OSFI Finance for clarification.

FCAC is considering additional process steps to provide for e-mail notification of claim adjustments of \$10 or more in either direction, and e-mail notification of the direct deposit of claimed amounts.

Travel & Hospitality Audit Report**Protected B****Recommendation**

To achieve high quality processing of claims, FCAC, with OSFI Finance, need to track and assess the completeness and accuracy of claims item errors by RC group and by error type. Such tracking is important in assessing the nature and scope of claim processing errors and in determining what support and training is required for effective application of T&H policy.

Meetings should be arranged with FCAC staff to review their practices for preparing travel and hospitality claims, with emphasis on supporting documentation, and to identify steps required to reduce errors in completing claims.

Management's Comments

- Deputy Commissioner and Administrative Manager to meet with key staff/managers in April 2005 to review the observations raised in this audit, emphasize the areas that need improvement and present management's action plan and expectations for improvement. A meeting with the administrative assistants, responsible for the processing of claims, is scheduled for April 28, 2005.
- FCAC reviewed its processes to include, as part of the documentation, a mandatory detailed itinerary and/or schedule related to business trips, which is now being implemented.
- From May 1, 2005 to October 31, 2005, the Administrative Manager or a delegated representative will review all travel and hospitality claim files before sending them for payment to ensure that all the areas of improvement have been implemented.
- Progress reports on the management's action plan will be tabled by the Senior Corporate Officer at the Audit Committee on June 28, 2005 and November 15, 2005.

Other

Certain tools / aids were developed in the course of conducting the audit. These have been given to the FCAC Manager Administrative Services and to OSFI Finance to assist them in establishing effective management and reporting on the processing of T&H claims. The tools / aids are travel and hospitality claim process maps (appendices to this report) with supporting control assessments

6. Audit Opinion

A&CS undertook a compliance audit of the processing of travel and hospitality claims for the fiscal year ended March 31, 2004 as described in Section 2 – Objectives of the audit. The audit was conducted in accordance with TBS Policy on Internal Audit Standards for the Government of Canada, which incorporates the Institute of Internal Auditors, Standards for Professional Practice of Internal Auditing. The work carried out in forming an audit opinion on the processing of claims is described in Section 3 – Scope and approach.

Travel & Hospitality Audit Report**Protected B**

Key tasks involved an examination of the T&H control frameworks and testing of selected claim items against predetermined audit attributes. A random sample of claim items was selected and tested for adequacy of supporting documentation, accuracy of the claim item, application of Policy and appropriate approval. For each claim item sampled, an overall reasonableness check of the underlying claim was also completed.

Based on a review of claim processing including discussions with FCAC management and selected RC Administrators, and a review of the activities followed for approving and recording claim expenses, the audit team concluded that the control structures, as described in Appendix A - Travel Process Map, Appendix B - Travel Control Points, Appendix C - Hospitality Process Map and Appendix D - Travel Claim Process Walkthrough, are appropriate. If control points are fully applied, there should be effective processing and recording of claim expenses.

In reviewing the types of observations made through this audit, improvements related to supporting documentation on claim files are required when it comes to RC Manager's claim review and approval of claims under section 34. It was not a question of the amount or purpose of the expenses but rather the completeness of the supporting documentation for the claims. Two (2) claim items were related to overpayment of claim expenses, which were subsequently reimbursed, representing a nominal amount (\$41) of the total sample amount of \$120,251.

The auditing of the 25 sample claim items raised 9 claim items where observations were noted. As a result, the audit team concluded that claim processing is not adequate.

7. About the audit team and resources

The A&CS audit team involved A&CS & Consulting and Audit Canada (CAC). A&CS managed the overall audit, participated in interviews, reviewed CAC work and jointly prepared the audit report to FCAC management and the Audit Committee.

Audit and Consulting Services
JoAnne Bagnall, Senior Director
Bart Burron, Director

Consulting and Audit Canada
Brian Gifford, Manager
Abby Seto, Chief Auditor
David Howell, Auditor

In conducting the audit, the team followed A&CS reporting protocol. The protocol is designed to provide transparency and maximum participation of all involved. It is structured to answer several key questions: Were the appropriate client groups involved in reviewing the report? Was there open and ongoing dialogue? Do we have the facts straight? Was the Client given the opportunity to comment on the findings and comments and to set out action plans and timeframes as appropriate?

The Consulting and Audit Canada budget for the three phases of the audit was:

Planning for the audit	2	Days
Conduct of the detail audit	21 ½	
Reporting to FCAC Management	1 ½	
Total	25	Days

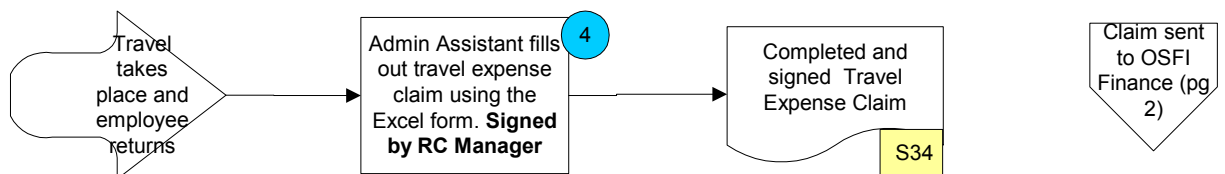
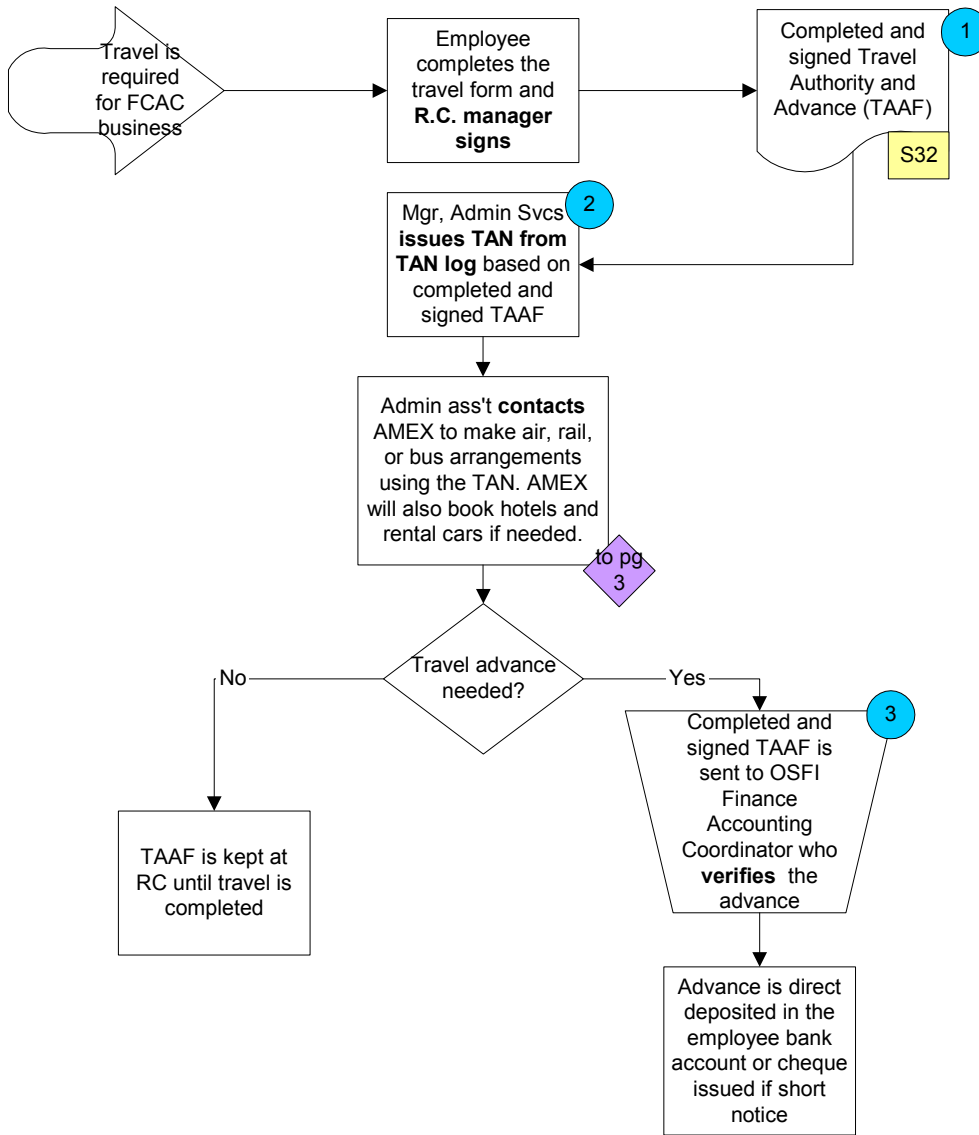
The CAC days used is estimated 23 days. CAC professional fees are estimated at \$18,000. The A&CS involvement in managing of and reporting on the review is estimated 4 days.

Travel & Hospitality Audit Report

Protected B

Appendix A – Travel Process Maps

Travel Claims Process Map - Responsibility Centre

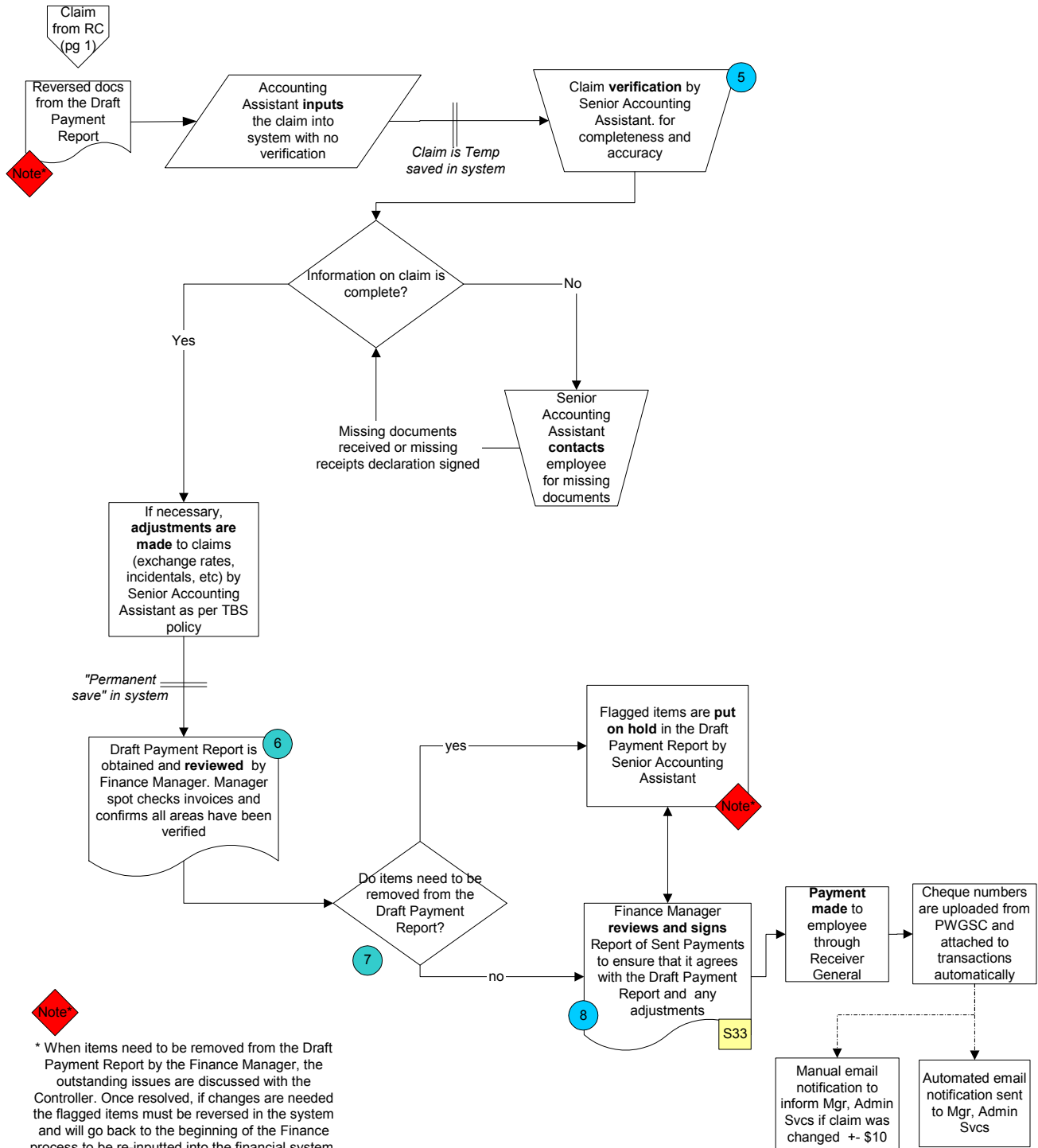


Travel & Hospitality Audit Report

Protected B

Appendix A – Travel Process Maps (cont'd)

Travel Claims Process Map – OSFI Finance



Note
* When items need to be removed from the Draft Payment Report by the Finance Manager, the outstanding issues are discussed with the Controller. Once resolved, if changes are needed the flagged items must be reversed in the system and will go back to the beginning of the Finance process to be re-inputted into the financial system.

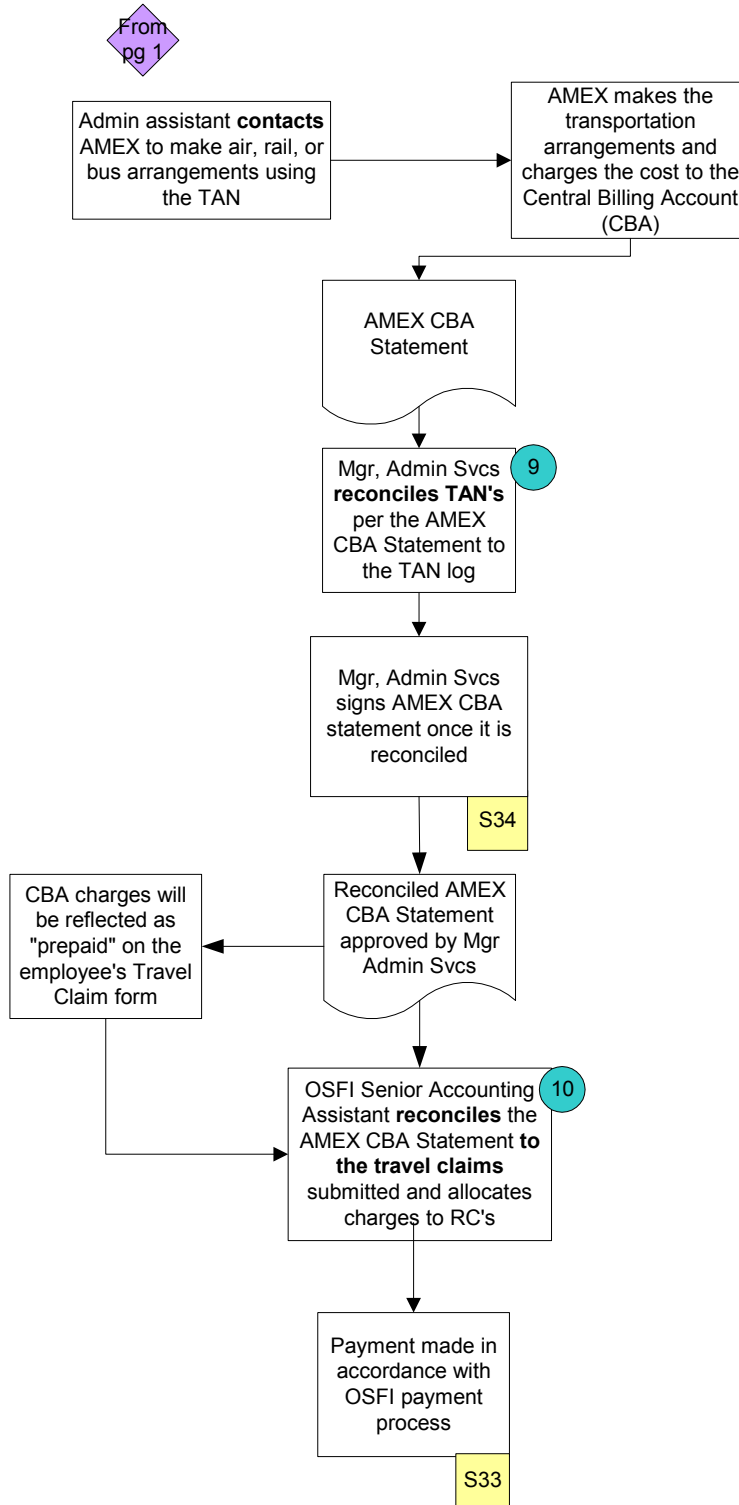
..... Dotted lines represent future process steps requested by FCAC

Travel & Hospitality Audit Report

Protected B

Appendix A – Travel Process Maps (cont'd)

Process Map – Reconciliation of AMEX Central Billing Account



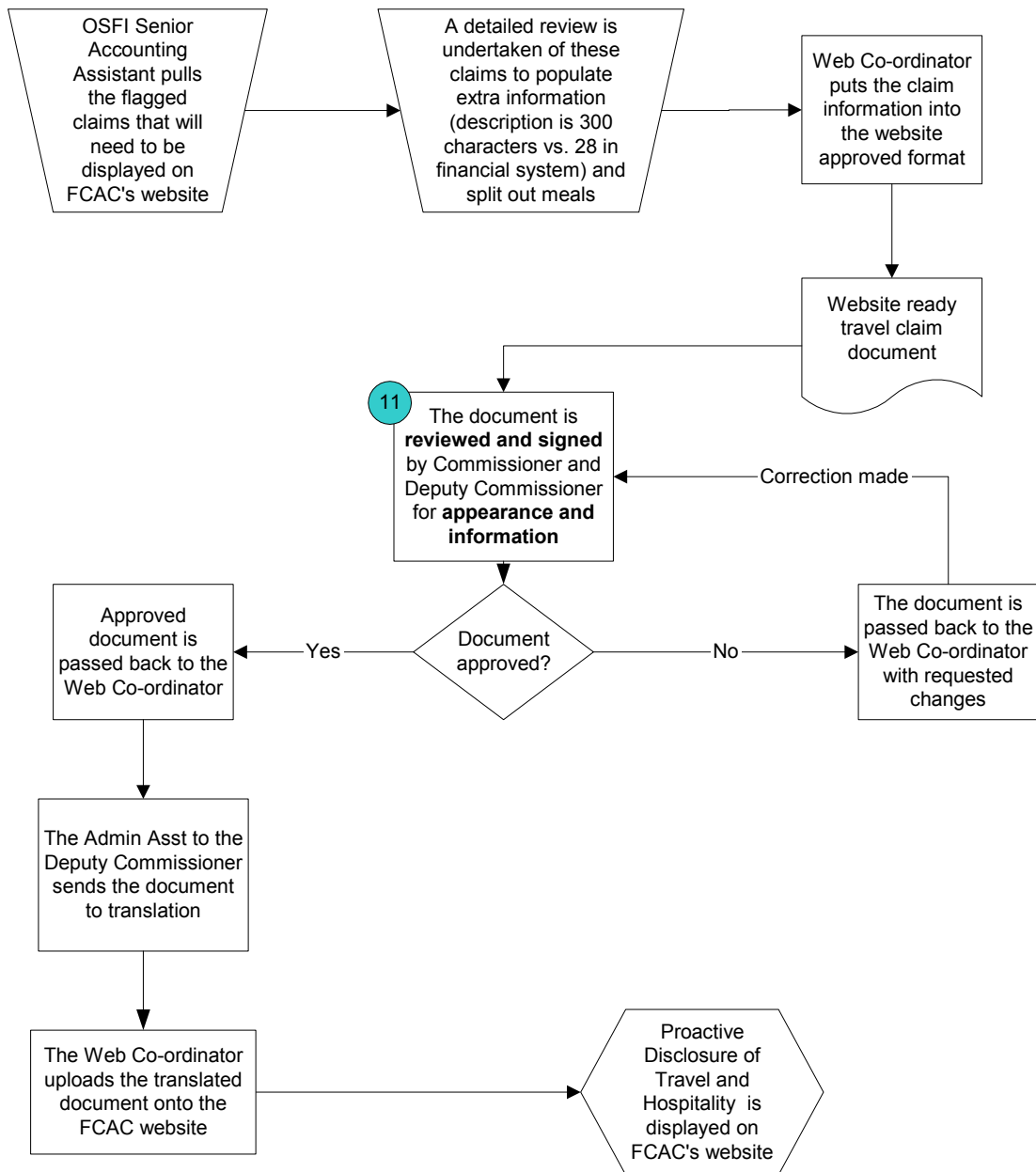
Travel & Hospitality Audit Report

Protected B

Appendix A – Travel Process Maps (cont'd)

Process Map – Proactive Disclosure of Travel & Hospitality Expenses

Certain files need to be published online for proactive disclosure purposes. These include the Commissioner and the Deputy Commissioner



Travel & Hospitality Audit Report**Protected B****Appendix B – Travel Control Points****Control Points** (Shaded numbers in the process maps)

1. The Travel Authority and Advance Form (TAAF) is used to authorize travel and commit funds (section 32) for the trip. RC Managers are responsible for pre-authorizing travel.
2. The use of Travel Authority Numbers (TANs) and a TAN log permits the monitoring of authorized work-related travel. Prepaid transportation arrangements cannot be made through AMEX Travel Agency without a valid TAN.
3. Sending the signed TAAF to OSFI Finance ensures that all travel advances are recorded in the financial system. Advances are issued based on the approval of the RC Manager, as represented by the signed TAAF.

OSFI Finance will process the advance as any other invoice with the information simply being entered into the financial system and being deposited to the employee when the payment batch is sent to PWGSC. Priority cheques may also be issued by OSFI Finance if the advance is of an urgent nature.
4. The signature of the employee's RC Manager on the travel expense claim confirms that the travel has taken place and that the expense claim is valid and should be paid (section 34).
5. Verification by the OSFI Senior Accounting Assistant ensures that the claim has been filled out properly and that all supporting documentation accompanies the claim.
6. The OSFI Finance Manager's "double-check" of the verification process helps to ensure the accuracy of travel and hospitality claims for reimbursement.
7. Reviewing the Draft Payments Report allows the OSFI Finance Manager to ensure that any amounts that have not been authorized will be taken out of the payment cycle.
8. The final review of the payment batch (Report of Sent Payments) ensures that all authorized payments are included for processing. The approval of the final batch supports the section 33 authorization.
9. Reconciliation of the TANs between the AMEX Central Billing Account (CBA) Statement and the TAN log ensures that all "prepaid" travel charges were authorized and were for business purposes.
10. The reconciliation of the AMEX Central Billing Account to individual travel claims allows OSFI Finance to confirm that all of the charges listed by AMEX were related to official FCAC business. This also ensures the appropriate distribution of travel expenses to individual RC budgets.
11. Having these special claims reviewed and approved by the Commissioner and the Deputy Commissioner ensures that the disclosure on the FCAC website is accurate and appropriate for public display.

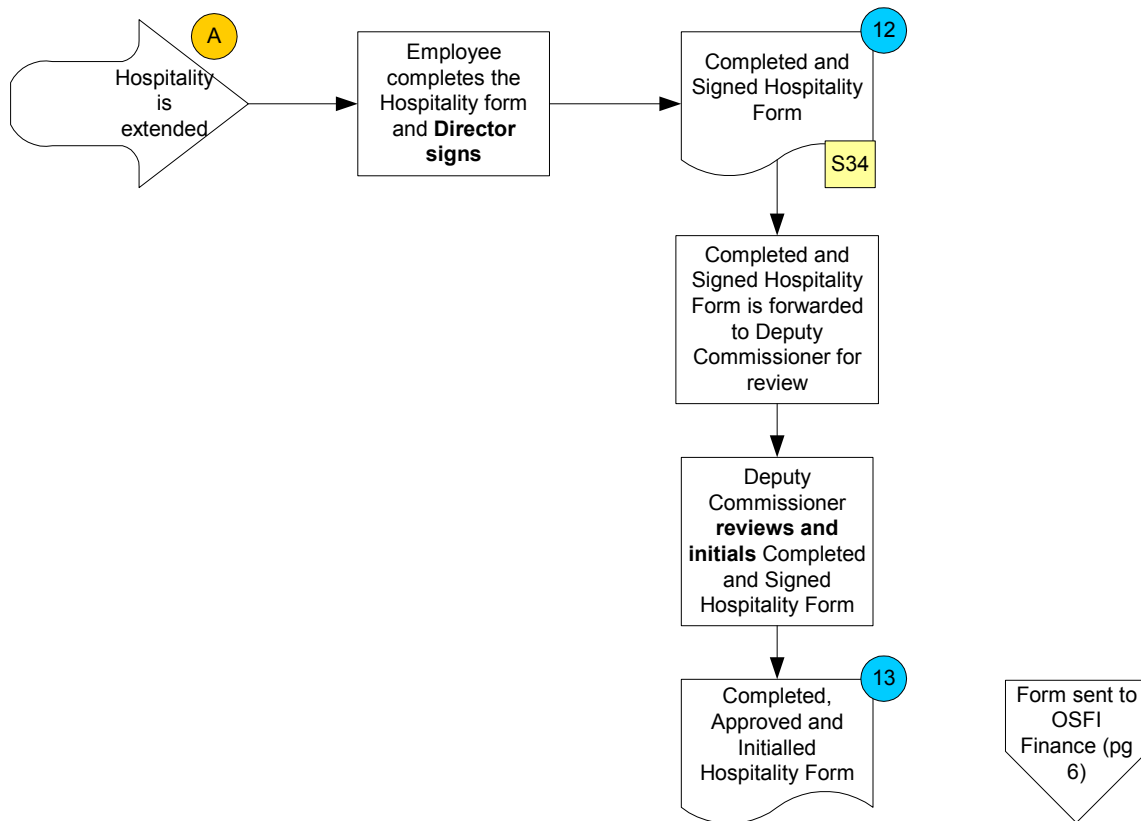
Travel & Hospitality Audit Report**Protected B****Appendix B – Travel Control Points (cont'd)**

12. The Hospitality Form is used to authorize hospitality and to capture hospitality details as required by the TBS Hospitality Policy. The signature of the RC Director on the Hospitality Form confirms that the hospitality is authorized and that the claim is valid and should be paid (section 34).
13. Review of the Hospitality Form by the Deputy Commissioner helps to ensure consistency in the nature and use of hospitality across all RCs. It also ensures that senior management is aware of all hospitality that was extended by FCAC. If necessary, follow-up with RC Directors can be done before reimbursement is made.

The process provides for 100% verification of travel and hospitality claims as well a second stage review on certain claims before posting to the general ledger and reimbursement of the employee.

Appendix C – Hospitality Process Map

Hospitality Process Map – Responsibility Centre

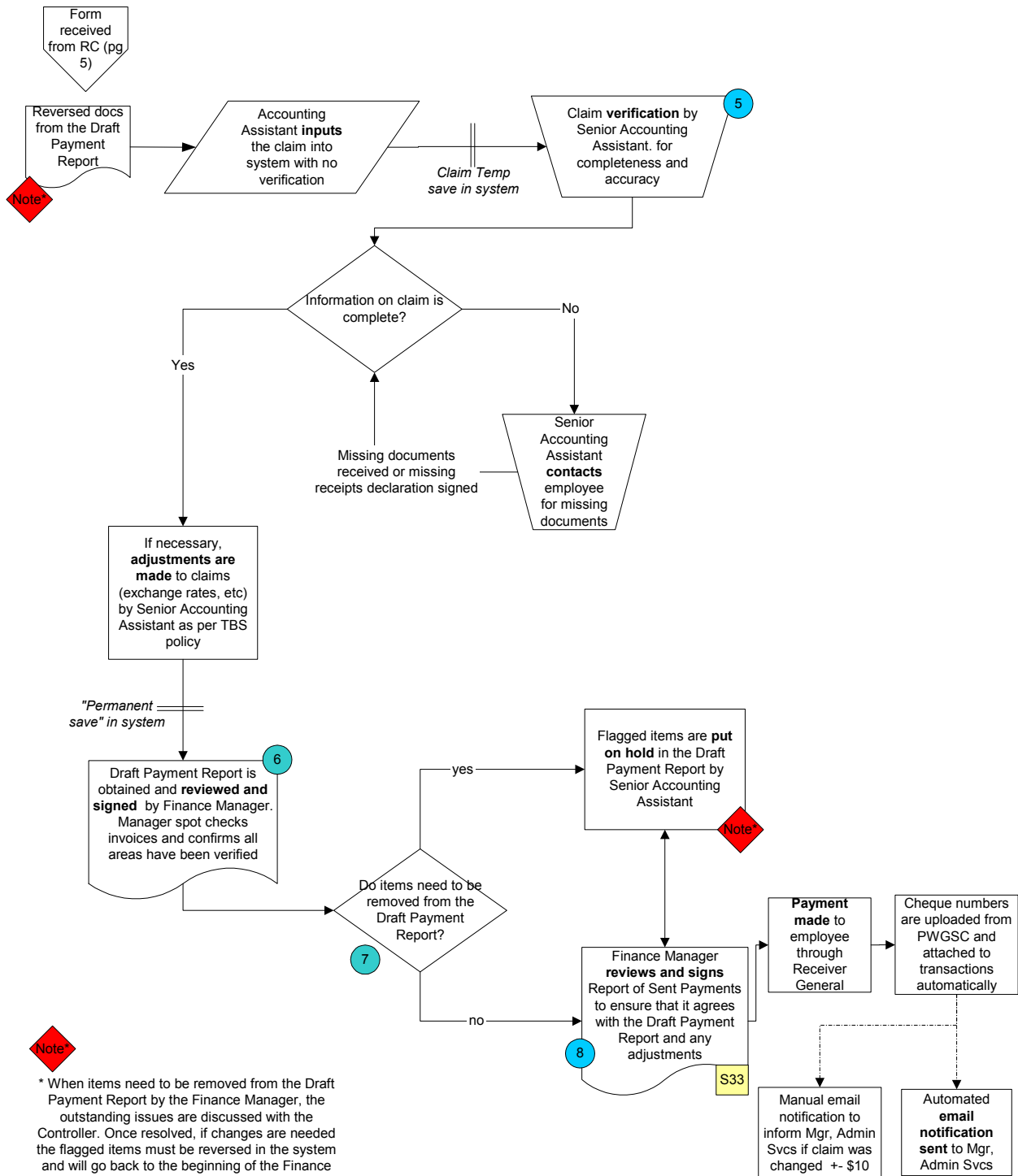


Travel & Hospitality Audit Report

Protected B

Appendix C – Hospitality Process Map (cont'd)

Hospitality Process Map – OSFI Finance



Note

* When items need to be removed from the Draft Payment Report by the Finance Manager, the outstanding issues are discussed with the Controller. Once resolved, if changes are needed the flagged items must be reversed in the system and will go back to the beginning of the Finance process to be re-inputted into the financial system.

----- Dotted lines represent future process steps requested by FCAC

Travel & Hospitality Audit Report**Protected B****Appendix D – Travel Process Walkthrough**

Note: All underlined text relates to a control point in the system. The number following the control point refers to the “Travel Control Points” document, which provides additional information on the control points.

Process before Payment**Employee and RC**

1. When travel is required for FCAC business, the employee completes and signs the Travel Authority and Advance Form (TAAF) (1) for the approval of the RC Manager.
2. The employee obtains a Travel Authority Number (2) from the Manager, Administrative Services, based on the approved TAAF.
3. The employee contacts the RC’s Administrative Assistant who shall contact the AMEX Travel Centre to arrange and pay for the transportation (airfare or rail) charges.
4. If a Travel Advance is required, the completed and signed TAAF is sent to OSFI Finance (3) and added to the payment batch. Otherwise, the TAAF is kept at the RC until travel is completed.
5. After travel is completed, the employee gives all his/her travel receipts to the RC Administrative Assistant who fills out the travel expense claim form (automated Excel spreadsheet). The completed travel expense claim is signed by the employee and the RC Manager (4). The signed travel expense claim and supporting documentation (including the signed TAAF) is sent to OSFI Finance for further processing and payment

OSFI Finance

6. Completed travel expense claims are received in OSFI Finance by the Accounting Assistant who enters the claim into the financial system without verifying any of the information. The claim is *Temporarily Saved* in the financial system by the Accounting Assistant.
7. The claim moves on to the Senior Accounting Assistant who performs a complete verification (5) of the claim against the TBS Travel Directive.
8. If the claim has been verified by the Senior Accounting Assistant and no errors have been found or no further information is required (for example, missing receipts, etc), the claim is *Permanently Saved* in the financial system and becomes an item in the Draft Payments Report.
9. If, during the verification process, the Senior Accounting Assistant needs additional information of a routine nature (such as a receipt or a receipt declaration), she contacts the employee’s administrative assistant for the information. Once all information is obtained, the claim is *Permanently Saved* in the financial system and becomes an item in the Draft Payments Report.

Payment Process**OSFI Finance**

Once a claim has been Permanently Saved in the financial system, it becomes an item in the Draft Payments Report, which is a listing of all of the payments to be processed in the next batch run through the Receiver General. This report contains both employee and supplier claims.

10. The Draft Payments Report is given to the OSFI Finance Manager who reviews all of the listings and conducts a spot check of travel and hospitality claims to confirm that all areas have been verified. The OSFI Finance Manager then signs the Draft Payments Report (6).

Travel & Hospitality Audit Report**Protected B****Appendix D – Travel Process Walkthrough (cont'd)****Meetings Between the OSFI Finance Manager and the OSFI Comptroller**

11. If, during the Draft Payments Report review, the OSFI Finance Manager determines that a claim needs to be reviewed in further detail (7), the transaction is put on *Hold* in the financial system. The OSFI Finance Manager meets with the OSFI Comptroller and a decision is made regarding the claim item (Note).
12. When a transaction is put on *Hold*, there are three possible outcomes that could result from the discussions between the OSFI Finance Manager and the OSFI Comptroller:
 - *Additional documentation is needed*: The claim is passed back to the Senior Accounting Assistant who requests the information from the employee's RC administrative assistant. Once the information is received, the claim is taken off *Hold* and becomes an item in the Sent Payments Report.
 - *Line items need to be adjusted*: The claim is reversed in the financial system and must go through the entire process again.
 - *The claim item is approved*: The claim is taken off *Hold* and becomes an item in the Sent Payments Report.

OSFI Finance

13. Once a claim has made it into the Sent Payments Report, the OSFI Finance Manager makes a final check to ensure that all of the items that were flagged for removal have been put on *Hold*. The OSFI Finance Manager then signs the Sent Payments Report (8) and transmits the listing to the Receiver General for payment.
14. The cheque numbers are uploaded from the Receiver General and automatically attached to the transactions in the financial system.

Request for Additional Process Steps

The current T&H claim processes do not include e-mail notifications to employees of any significant claim adjustments or of the date that reimbursements will be made. FCAC requested that such e-mail notifications be added to the process and that e-mails be sent to the Manager, Administrative Services. This would result in the following additional process steps for travel claims:

15. An e-mail is sent to the FCAC Manager Administrative Services for any claim where an adjustment of \pm \$10 was made by the OSFI Finance staff.
16. E-mail is sent to the FCAC Manager Administrative Services to advise the date that the claim reimbursement will be direct deposited into the employee's bank account.