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Audit of NSERC and SSHRC Travel Practices and Expenditures

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Project No.: 310-2160

February 2005

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1. Executive Summary

Introduction

The Natural Sciences and Engineering Research Council (NSERC) and the Social Sciences and Humanities Research Council (SSHRC) are federal agencies that award grants to promote and support research in the natural sciences and engineering and social sciences and humanities respectively.

Travel expenditures at the Councils are incurred by both staff and non-staff. Both Councils rely heavily on an external Peer Review process for selection and funding of applications for grants through annual competitions. This process requires representation from universities and other sectors across Canada, resulting in travel costs for non-staff selection committee members.

Travel expenditures in 2003-2004 were approximately \$2.8 million for NSERC and \$1.0 million for SSHRC, representing 8% and 5% of their respective total operating budgets. Non-staff travel constituted 69.7% of NSERC's and 67.5% of SSHRC's total travel expenditures.

More than five years have passed since the last audit of travel practices and expenditures. At that time, travel expenditures were assessed as a sub-section of the audit of Finance and Administration Divisions and the audit's scope was limited to the processing of travel claims. In 2004, the two Councils requested that an audit of Travel Practices and Expenditures within the Councils be performed in order to:

1. Assess the effectiveness and efficiency of the management control framework for Travel Practices and Expenditures.
2. Assess the level of compliance of Travel Practices and Expenditures to Council Guidelines and central agency policies and procedures.

The processing of travel transactions is done within the Councils' Common Administrative Services Directorate (CASD), by the Meeting and Travel Planning Service (MTPS) section, Administration Division, and the Travel section, Accounting Services, Finance Division. The audit was conducted over the period November 2004 to February 2005. Audit testing was conducted with the sample of transactions selected from fiscal year 2003-2004. Audit testing covered Non-Staff and Staff travel expenditures at NSERC and SSHRC.

The focus was to determine if the Councils were in compliance with the Treasury Board (TB) Travel Directive and that authorization and payments of travel expenditures were made according to the *Financial Administration Act (FAA)* sections 32, 33 and 34 and Council procedures.

This audit was conducted in accordance with the Treasury Board (TB) Policy on Internal Audit.

The audit approach included the conduct of preliminary interviews and mapping of travel practices to determine the auditable entity profile; review of documentation and identification of internal controls; definition of the audit population, determination of criteria and selection of an appropriate sample; development of an engagement plan and the audit program; review of files, preparation of audit documentation and working papers; validation, confirmation, debrief on results, and preparation of the draft audit report and final report.

Our overall opinion is that there was a high level of compliance to TB requirements in regard to Travel Practices and Expenditures.

We concluded also that the practices put in place by Management are generally adequate to ensure that the Management Control Framework is operating effectively and efficiently and that the Councils are in compliance with TB Travel policy and Council procedures. However, we did identify a small number of instances during our testing where authorization and approval under Sections 32 and 34 of the FAA were absent as well as instances of non-compliance to Council procedures.

2. Introduction

2.1 Objectives

The Natural Sciences and Engineering Research Council (NSERC) and the Social Sciences and Humanities Research Council (SSHRC) requested that an audit of Travel Practices and Expenditures within the Councils be performed in order to:

1. Assess the effectiveness and efficiency of the management control framework for Travel Practices and Expenditures.
2. Assess the level of compliance of Travel Practices and Expenditures to Council Guidelines and central agency policies and procedures.

2.2 Scope

The audit scope covered the management control framework and level of compliance for the travel activities at NSERC and SSHRC. The audit was conducted over the period from November 2004 to February 2005. Audit testing was conducted with a sample of transactions from fiscal year 2003-2004. All audit testing covered Non-Staff and Staff travel expenditures at NSERC and SSHRC.

2.3 Approach and Methodology

The audit approach included the conduct of preliminary interviews and mapping of travel practices to determine the auditable entity profile; review of documentation and identification of internal controls; definition of the audit population, determination of criteria and selection of an appropriate sample; development of an engagement plan and the audit program; review of files, preparation of audit documentation and working papers; validation, confirmation, debrief on results, and preparation of the draft audit report and final report.

The audit was conducted in accordance with the Treasury Board (TB) Policy on Internal Audit.

3. Audit Findings

The audit findings are presented in this section in accordance with the audit objectives and criteria. They include assurance statements on all of the criteria regardless of whether or not the expectations have been met. Where an issue was observed, a description of the observation, impact and recommendation has been included. There is also a ranking from a risk perspective. Risk rankings can be defined as follows:

High Risk – should be dealt with in the short term, could result in significant exposure to risk

Medium Risk – should be dealt with, could result in exposure to risk

Low Risk – minimal risk or best practice consideration

(Reference should be made to Appendix A – Overview of the Testing Results, which provide the context to the audit findings detailed below)

Audit Criterion No 1.1

Business travel is determined to respond to the program or operational requirements.

Based on our review of the process and testing conducted, this standard is being partially met.

Issues noted included:

Risk	Observation	Impact	Recommendation
Medium	The Meeting Request Form (MRF) and Travel Authorization and Advance Form (TAAF) for 4 of 30 transactions were not completed for Non-staff prior to business travel (NSERC - 1, SSHRC - 3). For the MRF, there was no documentation indicating that a meeting was requested for a Standing Committee. For the TAAF, it was difficult to determine if travel was required for operational requirements by the Manager.	If the MRF and the TAAF are not completed, it is difficult to determine the rationale for the meetings, to monitor who will attend and to ensure expenditures comply with TB Travel policy.	We recommend that for all business travel for Non-staff the appropriate MRF and TAAF be completed prior to the travel.

Audit Criterion No 1.2

Business travel is authorized in advance and approved by proper authority.

Based on our review of the process and testing conducted, this standard is being partially met.

Issues noted included:

Risk	Observation	Impact	Recommendation
Medium	The MRF and TAAF for 6 of 30 (NSERC - 5, SSHRC - 1) cases tested were not signed for Non-staff by proper authority (no signature) prior to business travel as required under section 32 of the FAA. For staff travel there was 1 case NSERC and 1 case SSHRC of our sample of 27 where there was no signature.	If the MRF and the TAAF are not approved by the proper authority, there are limited or no controls over travel expenditures.	We recommend that for all business travel for Non-staff and Staff, the appropriate MRF and TAAF be authorized and signed under section 32 of the FAA by proper authority prior to travel.

Audit Criterion No 1.3

Overseas business travel is authorized by the President.

Based on our review of the process and testing conducted, this standard is being partially met.

Risk	Observation	Impact	Recommendation
Low	In 2 of 13 cases, for SSHRC Non-staff there was no document from the President to authorize the overseas travel.	Non-compliance to internal procedures.	We recommend that overseas travel always be properly authorized.

Controls found to be in place include:

- Official letters signed by the NSERC President authorizing business travel of non-staff travelling abroad

Audit Criterion No 1.4

TAAF or MRF are consistent with Treasury Board Directives on travel cost.

Based on our review of the process and testing conducted, this standard is being partially met.

Risk	Observation	Impact	Recommendation
Low	In 3 of 12 cases, for SSHRC staff there was no estimated cost on the TAAF. Therefore, we were unable to verify if TAAF estimated cost is consistent with Treasury Board Directives on travel cost.	Non-compliance to Treasury Board Directives.	We recommend that each section of the TAAF be completed.

Controls found to be in place include:

- Estimates are prepared by MTPS following TB Directives on travel

Audit Criterion No 1.5

TAAF or MRF are sent to Meeting and Travel Planning Service (MTPS).

Based on our review of the process and testing conducted, this standard is being met.

Controls found to be in place include:

- MTPS receives all MRF prior to business travel of non-staff
- TAAF are sent directly to Finance

Audit Criterion No 2.1

Travel directives are available to employee.

Based on our review of the process and testing conducted, this standard is being met.

Controls found to be in place include:

- Travel directives are posted on the Intranet and available to all employees

Audit Criterion No 2.2

Travel authorization number (TAN) is provided before making travel arrangements.

Based on our review of the process and testing conducted, this standard is being met.

Controls found to be in place include:

- A TAN is assigned electronically prior to all non-staff and staff business travel

Audit Criterion No 2.3

Travel arrangements comply with TB Directives.

Based on our review of the process and testing conducted, this standard is being partially met.

Risk	Observation	Impact	Recommendation
Low	In 3 of 12 cases, for SSHRC staff there was no estimated cost on the TAAF and 1 of 12 cases for SSHRC staff there was some estimated cost. Therefore, we were unable to verify if travel arrangements would comply with directives for travel for accommodation, meal allowances, transportation and incidentals.	Non-compliance to Treasury Board Directives.	We recommend that cost estimates be prepared to comply with Treasury Board Directives.

Audit Criterion No 3.1

Travel expenses claims (TEC) or Non Accountable Estimate (NAE) are completed.

Based on our review of the process and testing conducted, this standard is being partially met.

Risk	Observation	Impact	Recommendation
Medium/High	In 4 of 17 cases for NSERC Non-Staff and 1 of 15 for NSERC staff, the NAE and TEC do not follow section 34 of the FAA regarding appropriate signatures required prior to payment of travel expenditures. The signatures were missing.	If the travel expenditures are not approved under section 34 of the FAA, there could be travel expenditures claimed that are not related to the travel.	We recommend that for all business travel, NAE and TEC be approved under section 34 by the proper authority.

Audit Criterion No 3.2

TEC and NAE are submitted as soon as possible after the completion of travel with necessary supporting documentation.

Based on our review of the process and testing conducted, this standard is being partially met.

Risk	Observation	Impact	Recommendation
Low	In 1 of 17 cases, for NSERC Non-staff, the proper form was not completed. For 2 travellers within that TAN TEC forms were submitted instead of the NAE forms.	Non-compliance to Council procedures.	We recommend that the Council ensures that correct documents be submitted to comply with internal procedures.

Controls found to be in place include:

- TEC and NAE are submitted within a week or less after the completion of business travel

Audit Criterion No 3.3***TEC and NAE comply with TB travel directives***

Based on our review of the process and testing conducted, this standard is being partially met.

Risk	Observation	Impact	Recommendation
Low	In 1 of 17 cases, for NSERC Non-staff the NAE does not comply with travel directives for meal allowances. Breakfast and lunch allowances were paid to the travellers, although these meals were catered at the event.	Overpayment for meals.	Because one cannot always know in advance which meals will be provided, we recommend that the person signing section 34 ensure that NAE forms have been revised by the traveller when meals have been catered at the event.

Audit Criterion No 4.1***TEC and NAE are verified before reimbursement.***

Based on our review of the process and testing conducted, this standard is being partially met.

Risk	Observation	Impact	Recommendation
Low	In 4 of 17 cases, for NSERC Non-staff, 1 of 15 cases for NSERC staff and 1 of 12 cases for SSHRC staff, the proper verification was not done before reimbursement. Section 32 was not signed but still processed under sections 33 and 34.	Non-compliance to FAA.	We recommend that the FAA requirements are followed.

Audit Criterion No 4.2***Travel directive discrepancies are investigated and necessary adjustments are made to the TEC and NAE***

Based on our review of the process and testing conducted, this standard is being met.

Controls found to be in place include:

- Finance makes adjustments on NAE and TEC to correct discrepancies after verification

Audit Criterion No 4.3***TEC and NAE are reimbursed***

Controls found to be in place include:

- Reconciliation of Voucher to payment and authorization under section 33 of the FAA.

Audit Criterion No 4.4***Overpayments from traveller's reimbursement are recovered in accordance with the terms of the travel directives***

- Our sample did not include any instances of overpayments.

Controls found to be in place include:

- Review documentation by Finance clerk, supervisor and manager.

Audit Criterion No 5.1***Supplier statements are verified before reimbursement.***

Based on our review of the process and testing conducted, this standard is being met.

Controls found to be in place include:

- All statements are verified by the Finance Clerk prior to payment of suppliers

Audit Criterion 5.2***Supplier statements are paid.***

Based on our review of the process and testing conducted, this standard is being met.

Controls found to be in place include:

- Payment Report verified by Supervisor, Accounts Payable prior to approval under section 33 of the FAA by Manager, Account Services

4. Conclusion

We concluded that the travel practices and expenditures put in place by Management are generally adequate to ensure that the Management Control Framework is operating effectively and efficiently and that the Councils are in compliance with TB Travel policy and Council procedures. There were a small number of instances observed during our testing where authorization and approval under Sections 32 and 34 of the FAA were absent as well as instances of non-compliance to Council procedures.

In our professional judgement, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the conclusions reached and contained in this report. The conclusions were based on a comparison of the situations as they existed at the time against the audit criteria.

The internal audit was conducted in accordance with the Treasury Board Policy on Internal Audit and the Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing.

Reference should be made to Appendix B of this report, the Management Action Plan.

APPENDIX A

Overview of the Testing Results

Audit Population

In 2003-2004 1,040 Travel Authority Numbers (TAN) have been assigned to travel activity of staff and non-staff of NSERC and SSHRC as follows:

Organization	Group Meeting/Non-staff TAN	Individual Staff TAN	Non-staff Individual TAN	Total
NSERC	161	523	14	698
SSHRC	71	258	13	342
Total	232	781	27	1,040

Sample of TANs selected for audit testing is as follows:

Organization	Group Meeting Number	Individual Staff Number	Non-staff Individual Number	Total
NSERC	17	15	0	32
SSHRC	13	12	0	25
Total	30	27	0	57

The sample of TANs was selected to provide coverage of both staff and non-staff transactions within NSERC and SSHRC, considering materiality in terms of dollars and risk. TANs for non-staff were fewer in number than for staff; however, transactions with non-staff were considered higher risk, and therefore more non-staff TANs were selected for sampling. Also, TANs for non-staff usually cover several individuals as compared to staff TANs where there is only one TAN per staff individual. The sample selected was discussed with and agreed upon by the Senior Internal Auditor NSERC, prior to testing. As a result of the small occurrence of non-compliance in the sample selected for testing, it was agreed not to extend the sampling of TANs beyond the original sample.

Reference should be made to Section 3 for details of the audit findings.

APPENDIX B MANAGEMENT ACTION PLAN, October 2005

Summary of Observation/Impact/Recommendation sorted by Risk Ranking.

Risk	Observation	Impact	Recommendation
Medium	1.1 The MRF and TAAF for 4 of 30 transactions were not completed for Non-staff prior to business travel (NSERC - 1, SSHRC - 3). For the MRF, there was no documentation indicating that a meeting was requested for a Standing Committee. For the TAAF, it was difficult to determine if travel was required for operational requirements by the Manager.	If the MRF and the TAAF are not completed, it is difficult to determine the rationale for the meetings, to monitor who will attend and to ensure expenditures comply with TB Travel policy.	We recommend that for all business travel for Non-staff the appropriate MRF and TAAF are completed prior the travel.
<p>Management Action Plan:</p> <p>Our process as defined and applied requires that the necessary forms be completed and approved prior to the issuing of a TAN number and the travel taking place. Staff are required to complete a travel authorization and advance form (TAAF), and for non staff a meeting request form (MRF). All exceptions noted by the auditor above relate to non staff travel.</p> <p>Finance and Awards Administration and Administration - Meeting and Travel Planning Services will ensure that TANs are not provided unless proper forms (TAAF or MRF) have been duly completed and signed by the Manager under section 32 of the FAA.</p> <p>Expected Completion Date: February 1, 2006 Responsible Organization: Finance and Awards Administration, Administration - Meeting and Travel Planning Services</p>			
Medium	1.2 The MRF and TAAF for 6 of 30 (NSERC - 5, SSHRC - 1) cases tested were not signed for Non-staff by proper authority (no signature) prior to business travel as required under section 32 of the FAA. For staff travel there was 1 case NSERC and 1 case SSHRC of our sample of 27 where there was no signature.	If the MRF and the TAAF are not approved by proper authority, there are limited or no controls over travel expenditures.	We recommend that for all business travel for Non-Staff and staff, the appropriate MRF and TAAF be authorized and signed under section 32 of the FAA by proper authority prior travel.

Risk	Observation	Impact	Recommendation
<p>Management Action Plan:</p> <p>Please refer to management response in 1.1</p> <p>Expected Completion Date: February 1, 2006 Responsible Organization: Finance and Awards Administration, Administration - Meeting and Travel Planning Services</p>			
Low	1.3 In 2 of 13 cases, for SSHRC Non-staff there was no document from the President to authorize the overseas travel.	Non-compliance to internal procedures.	We recommend that overseas travel always be properly authorized.
<p>Management Action Plan:</p> <p>While a formal internal procedure is in place at NSERC, SSHRC does not have a similar internal procedure. The exceptions noted relate to SSHRC non staff travel.</p> <p>We will consult with SSHRC management committee and investigate the implementation of a similar internal procedure at SSHRC.</p> <p>Expected Completion Date: November 2005 Responsible Organization: Finance and Awards Administration</p>			
Low	1.4 In 3 of 12 cases, for SSHRC staff there was no estimated cost on the TAAF. Therefore, we were unable to verify if TAAF estimated cost is consistent with Treasury Board Directives on travel cost.	Non-compliance to Treasury Board Directives.	We recommend that each section of the TAAF be completed.
<p>Management Action Plan:</p> <p>Agreed. Responsible managers should not approve a TAAF (section 32) or MRF if the cost estimate portion has not been completed. In order to ensure that forms are duly completed, more frequent reminders will need to be sent to staff and managers to ensure that commitments are based on adequate information. TAAF and MRF will not be accepted and TAN issued unless the estimate portion of the document has filled out. Please refer to management response 1.1</p> <p>Expected Completion Date: February 1, 2006 Responsible Organization: Finance and Awards Administration, Administration - Meeting and Travel Planning Services</p>			
Low	2.3 In 3 of 12 cases, for SSHRC staff there was no estimated cost on the TAAF and 1 of 12 cases for SSHRC staff there was some estimated cost. Therefore, we	Non-compliance to Treasury Board Directives.	We recommend that cost estimates be prepared to comply with Treasury Board Directives.

Risk	Observation	Impact	Recommendation
	<p>were unable to verify if travel arrangements would comply with directives for travel for accommodation, meal allowances, transportation and incidentals.</p>		
<p>Management Action Plan:</p> <p>Please refer to management response 1.4</p> <p>Expected Completion Date: February 1, 2006</p> <p>Responsible Organization: Finance and Awards Administration, Administration - Meeting and Travel Planning Services,</p>			
<p>Medium/High</p>	<p>3.1 In 4 of 17 cases for NSERC Non-Staff and 1 of 15 for NSERC staff, the NAE and TEC do not follow section 34 of the FAA regarding appropriate signatures required prior to payment of travel expenditures. The signatures were missing.</p>	<p>If the travel expenditures are not approved under section 34 of the FAA, there could be travel expenditures claimed that are not related to travel.</p>	<p>We recommend that for all business travel, NAE and TEC be approved under section 34 by the proper authority.</p>
<p>Management Action Plan:</p> <p>In all exceptions noted above by the auditor, the original NAE and TEC had been approved under section 34 by the proper authority. The exceptions raised by the auditor relate to the modifications made subsequently to the forms as a result of the verification process. Our practice is that corrections less than \$100 are not resubmitted for approval, but payment is made from the corrected version. Should the amount of the correction be greater than \$100, the amended form is resubmitted for approval.</p> <p>We consider our practice to be efficient and therefore no changes are proposed to our existing process.</p> <p>Expected Completion Date: No further action required</p> <p>Responsible Organization:</p>			
<p>Low</p>	<p>3.2 In 1 of 17 cases, for NSERC Non-staff, the proper form was not completed. For 2 travellers within that TAN TEC forms were submitted instead of the NAE forms.</p>	<p>Non-compliance to Council procedures.</p>	<p>We recommend that the Council ensures that correct documents be submitted to comply with internal procedures.</p>
<p>Management Action Plan:</p> <p>We consider these cases to be isolated incidents. While the wrong internal forms have been completed, complete information and appropriate authorization have been received. No further action is required.</p> <p>Expected Completion Date:</p> <p>Responsible Organization:</p>			

Risk	Observation	Impact	Recommendation
Low	3.3 In 1 of 17 cases, for NSERC Non-staff the NAE does not comply with travel directives for meal allowances. Breakfast and lunch allowances were paid to the travellers, although these meals were catered at the event.	Overpayment for meals.	Because one cannot always know in advance which meals will be provided, we recommend that the person signing section 34 ensure that NAE forms have been revised by the traveler when meals have been catered at the event.
<p>Management Action Plan:</p> <p>We consider the incident to be an isolated case. No further action required.</p> <p>Expected Completion Date:</p> <p>Responsible Organization:</p>			
Low	4.1 In 4 of 17 cases, for NSERC Non-staff, 1 of 15 cases for NSERC staff and 1 of 12 cases for SSHRC staff, the proper verification was not done before reimbursement. Section 32 was not signed but still processed under sections 33 and 34.	Non-compliance to FAA.	We recommend that the FAA requirements are followed.
<p>Management Action Plan:</p> <p>Please refer to management response under 1.1.</p> <p>Expected Completion Date:</p> <p>Responsible Organization:</p>			