

Transportation Safety Board
of Canada



Bureau de la sécurité des transports
du Canada

**REPORT ON INTERNAL AUDIT OF
TRANSPORTATION SAFETY BOARD OF CANADA'S
HOSPITALITY EXPENSES**

**For the period of
April 1, 2005 to December 31, 2005**

**Prepared by
Consulting and Audit Canada**

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Canada

CAC
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1. EXECUTIVE SUMMARY

The Transportation Safety Board of Canada (TSB) has incurred approximately \$24,902 in hospitality expenses through 68 claims issued during the period of April 1, 2005 to December 31, 2005. The TSB engaged Consulting and Audit Canada (CAC) to carry out a compliance audit of these hospitality expenditures.

The objective of this audit was to determine the extent of the TSB's compliance with respect to the Treasury Board and TSB policies and delegations of authority on hospitality. TSB's Internal Audit Committee approved the conduct of this internal audit.

The audit was conducted by examining all of the 68 claims totalling \$24,902 for the period of April 1, 2005 to December 31, 2005.

In carrying out the audit, multiple sources of information were used to support the findings and conclusions. These included a thorough review of the relevant government and departmental policies, and interviews and consultations with relevant TSB employees in the Corporate Services Directorate, as well as a review of the supporting documentation.

1.1. STATEMENT OF ASSURANCE

Consulting and Audit Canada has completed an internal audit of hospitality expenses of the Transportation Safety Board. The objective of this audit was to determine the extent of the TSB's compliance with respect to the Treasury Board and TSB policies and delegations of authority on hospitality. TSB's Internal Audit Committee approved the conduct of this internal audit.

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

Our internal audit conclusions were based on the assessment of findings against pre-established criteria and agreed to by management and reflect the audit work carried out in March 2006.

In Consulting and Audit Canada's opinion, sufficient and appropriate audit work has been performed and evidence gathered to support the accuracy of the conclusions reached and contained in this audit report.

1.2. CONCLUSION

In our opinion, we can state with a high level of assurance that there was no misuse of hospitality at TSB.

Personnel at TSB are cognitive of the importance of handling Hospitality in the correct manner. Although there were issues identified by this audit, the audit did not reveal any evidence of abuse of hospitality or improper payments. The issues identified pertain to the need of improving internal

administrative practices. These issues were reviewed with management, which management accepts and agrees with.

1.3. KEY OBSERVATIONS

The TSB's policy on hospitality is generally consistent with that of the Treasury Board, with a few exceptions. In part, due to these differences, the TSB policy has several weaknesses: (i) Appendix A of the TSB policy does not have updated meal allowance rates or set out maximum annual per person limits; and, (ii) Appendix C (Form TSB 1521, as attached to the policy (the Type 1 form)) does not provide sections for per-person costs for meal-related functions and the respective maximum per-person cost limits, specified by the Treasury Board policy, in the Part A – Request section of the Hospitality Request and Claim Form. The Type 2 form does provide for these two sections.

The majority of variances to the Hospitality Policy were administrative in nature and are outlined in the report. The audit found that there was a definite need to strengthen policies and procedures. There was one instance where a total hospitality cost of over \$5,000 was incurred without a Ministerial pre-authorization to provide lunches and refreshments to crews (consisting of employees and non-employees) investigating a time-sensitive accident, known as the Air France Investigation. In addition, there was another instance where, at the time of request, the total cost was estimated to be under \$5,000; however, the actual cost turned out to exceed the threshold. In both cases, a Ministerial approval should have been obtained as soon as the costs exceeded the \$5,000 threshold; however, the Ministerial approval was not obtained, at that point.

It was also found that seven claims were processed based on a personal credit card receipt only, without the original invoice. Additionally, there were two instances noted where the invoice was not sufficiently detailed to identify the component(s) of hospitality (e.g. beverages, meals, etc.) and determine the reasonableness thereof.

1.4. KEY RECOMMENDATIONS

The TSB policy on hospitality corresponds for the most part to the Treasury Board's policy. The TSB Policy could be improved by clarifying the policy (or developing a guideline or flowchart) in the following areas:

- completing TSB 1521;
- sources of, or links to, information required;
- documentation required to support hospitality claims;
- pre-authorization and authorization requirements;
- routing, processing and verifying hospitality claims;

- hospitality while on travel status; and,
- outline specific cases requiring special approvals.

The TSB should make its policy on hospitality, including Form TSB 1521, readily available and accessible to staff at all levels. In addition, adequate training should be provided as required. TSB should also revise the existing Form TSB 1521, which has two versions with their own weaknesses, to develop a standardized request and claim form.

In addition, the policy, guidelines and forms should be clearly defined and communicated in order to minimize personal interpretation. The TSB is also responsible to provide an up-to-date version of the policy as soon as a change (including the Treasury Board meal allowances) comes into effect.

The hospitality request and claim form (TSB 1521) should be fully and accurately completed as intended and accompanied by a list of participants and the original invoice(s) at all times.

In addition, signing authority in regards to the limitations set in the policy should be respected and applied accordingly on a consistent basis. If the final cost exceeds the original approver's level of authority, a new approval, from an appropriate level of authority, should be obtained after the fact.

Finally, overall emphasis should be made on an ongoing basis to improve controls related to the processes. Monitoring established controls will assist in ensuring that related TSB policy continues to be understood and followed.

2. INTRODUCTION

2.1. BACKGROUND

The Transportation Safety Board of Canada (TSB) is an independent agency of the federal government, created by the Canadian Transportation Accident Investigation and Safety Board Act, which came into force on March 29, 1990. Its mandate is to advance safety in the marine, rail, pipeline and aviation modes of transportation by:

- Conducting independent investigations and, if necessary, public inquiries into transportation occurrences in order to make findings as to their causes and contributing factors;
- Reporting publicly on its investigations and on the related findings;
- Identifying safety deficiencies as evidenced by transportation occurrences; and,
- Making recommendations designed to eliminate or reduce any such safety deficiencies.

The TSB operates independently from other government departments and agencies and reports to Parliament through the President of the Privy Council. The TSB's Board consists of up to five members, including a Chairperson. It has approximately 230 employees, of which 125 work at Headquarters in Gatineau, Quebec. The remainder work at the Engineering Laboratory in Ottawa, Ontario and in the eight regional offices located across Canada.

The TSB has incurred approximately \$24,902 in hospitality expenses through 68 claims issued during the period of April 1, 2005 to December 31, 2005. TSB's Internal Audit Committee approved the conduct of this internal audit. Consulting and Audit Canada (CAC or "we" as referred to herein) has been engaged to carry out a compliance audit of these hospitality expenditures.

2.2. OBJECTIVES

The objective of this audit was to determine the extent of the TSB's compliance with respect to the Treasury Board and TSB policies and delegations of authority on hospitality.

2.3. SCOPE

The audit was conducted by examining all of the 68 claims issued to incur the \$24,902, and related supporting documentation. These transactions originated in Headquarters, the Engineering Branch and the regional offices, and were processed for payment in the departmental financial system during the period of April 1, 2005 to December 31, 2005. The current TSB policy on hospitality was issued on April 16, 2003.

The audit was carried out in March 2006.

2.4. AUDIT APPROACH

The audit methodology consisted primarily of documentation review and interviews with TSB's administrative officers and managers. CAC's audit program and process covered the following activities:

- Review of current hospitality policies (both Treasury Board and TSB) and delegations of authority;
- Review of current compliance levels against the approved policies and delegations;
- Document the rationale for non-compliance, where applicable;
- Identify areas for improvement;
- Validate findings with the management; and,
- Formulate recommendations.

The audit was conducted in accordance with the Treasury Board's Policy on Internal Audit (revised on April 1, 2001 and effective until March 31, 2006) and the Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing.

2.5. ACKNOWLEDGEMENT

The audit team would like to thank the managers and employees of the TSB's Corporate Services Directorate who were consulted. Their cooperation and relevant contribution were greatly appreciated.

3. AUDIT OBSERVATIONS

3.1. TSB'S POLICY ON HOSPITALITY

The TSB's policy on hospitality, issued on April 16, 2003, constitutes Section 4 of Chapter 6 in the TSB Financial Management Manual.

The TSB policy on hospitality was compared with the Treasury Board's Hospitality Policy in order to ensure consistency. While TSB's policy is consistent with the Treasury Board's in almost every aspect, the few exceptions include, but are not limited to, the following:

- **Subsection 7.13** – TSB's policy explicitly states that a manager cannot authorize his/her own hospitality expenses;
- **Appendix A** – Maximum per-person cost limits for hospitality functions are not set out; and,
- **Appendix C** – TSB's policy is accompanied by Form TSB 1521, entitled "Hospitality Request and Claim". Form TSB 1521 is also available, although in a slightly different format, on E-Forms, which is the electronic collection of TSB's forms and templates.

We found that the TSB policy has the following weaknesses:

- Subsection 7.5 of the TSB policy states that Appendix A sets out average and maximum annual per person limits, which must be used in planning all hospitality functions. However, Appendix A does not set out the maximum per-person cost limits.
- In addition, the Treasury Board meal allowance rates in Appendix A of the TSB policy, which are the basis of calculating the average annual per-person limits, appear to have not been updated since the policy was issued in April 2003.
- Appendix C (Form TSB 1521, as attached to the policy)¹ does not provide sections for per-person costs for meal-related functions and the respective maximum per-person cost limits set out by the Treasury Board policy in the Part A – Request section of the Hospitality Request and Claim Form. Both pieces of information are required to determine whether a meal-related per-person cost is to exceed the respective maximum limit, in which case a special pre-approval is required in accordance with Subsection 7.5.2 of the TSB policy. The Type 1 form omitted these sections; however, the Type 2 form has these sections.

3.2. COMPLETENESS AND ACCURACY OF CLAIMS

Hospitality Request and Claims forms (TSB 1521) were in many instances incomplete or inaccurate. Of the 68 claims processed during the audit period, 53 claims had at least one piece of missing or incomplete information. This number does not include any information to be filled in by the TSB's finance/accounting section, nor does it include the number of systemic errors (37 times) caused by using Form Type 1 (see Footnote 1 on page 6), which does not provide sections

¹ For the purpose of this report, this Form TSB 1521, as attached to the TSB policy, will be referred to as Form Type 1.

for per-person cost of function and the related maximum limits as discussed in subsection 3.1 of this report. As mentioned previously, the Part A – Request section of the Hospitality Request and Claim Form does not have this information.

In 17 instances where information on maximum per-person cost limit of meal-related function was required for E-Form TSB 1521 (hereinafter referred to as “Type 2”)², 13 claims did not provide that information at all and four claims provided inaccurate cost limits.

Although a list of function participants is not specifically required by either TSB policy or the Treasury Board’s, it is an effective control measure to keep track of the total actual number of meal-related hospitality recipients accurately. The total number of meal-related hospitality recipients must be accurately recorded to monitor and ensure that all meal-related hospitality expenses incurred over the fiscal year do not exceed the average per-person cost in accordance with Subsection 7.5.1 of the TSB policy. While three claims did not provide such a list at all, an additional 16 claims provided one that did not correspond to the number of participants reported on the claim itself.

3.3. CONSISTENCY OF CLAIMS INFORMATION

Information provided on the claims varied widely from one claim to another, especially in respect of type of occasion and location.

For example, we came across many instances where the “type of occasion” section on the form was used to indicate the purpose or type of function (e.g. training, meeting, etc.), rather than the form of hospitality (e.g. breakfast, lunch, dinner, etc.), which should have been provided in this section, in accordance with Section 7.12 of the TSB policy.

Also, the “location” section on many claims was used to simply indicate the city or the region in which the function has taken place, rather than whether the function took place in a government facility, commercial or other establishment. Due to the lack of this information, we could not determine, in four instances, the actual location of the function; consequently, we were unable to confirm whether Subsections 7.2 and 7.3 of the TSB policy have been reasonably satisfied for these instances.

It was also noted that, for a small number of claims where an applicable subsection of a hospitality policy was quoted to justify the circumstances of hospitality, the subsection quoted was that of the Treasury Board, despite the TSB policy in place. This observation indicates that the TSB policy might not have been effectively communicated to its managers and employees.

The above factors may increase the risk of inconsistent processing of claims, increased costs because of inefficiencies and reduced quality of reported information.

² As stated in *subsection 3.1.2* of this report, Form Type 1 (Appendix C of the TSB policy) does not provide a section for information on maximum per-person cost, which is considered a systemic error.

3.4. PRE-AUTHORIZATION

We found that 47 of the 68 claims examined were not pre-authorized in accordance with the provisions set out in the TSB policy, as summarized in Table 1.

Table 1: Observations re Pre-authorization

Description/Explanation of Observation	Number of Occurrences
1.1 No pre-approval signature	4
1.2 No pre-approval date	5
1.3 "Pre-approval" obtained after function has taken place	35
1.4 Goods/service ordered or purchased prior to pre-approval	5
1.5 Signed by person without signing authority as per Appendix B of TSB policy	1
1.6 Requester pre-approved own request	2
1.7 Ministerial pre-approval not obtained for cost in excess of \$5,000	1
1.8 Chairman's pre-approval not obtained for exceeding max cost, per Sec 7.5.2	2
1.9 Chairman's pre-approval not obtained for exceptional purpose, per Sec 7.10	2
1.10 Claim approved for previous function duplicated for subsequent one	1
Total number of occurrences	58
Total number of claims with one or more pre-authorization errors	47

Of particular note is an instance (included in both items #1.3 and #1.7 above) in which a total hospitality cost of approximately \$6,954 was incurred between August 5 and 10, 2005, without a Ministerial pre-authorization in order to provide lunches and refreshments to a number of TSB and other federal employees, as well as non-federal investigators, investigating what is commonly known as the Air France Flight 358 incident of August 2, 2005. This claim was subsequently approved by a manager in Headquarters on August 23, 2005.

Considering the degree of urgency and uncertainty concerning the investigation, we found that it would have been difficult, if not impossible, to foresee that the total hospitality cost would exceed the \$5,000 threshold to warrant a Ministerial pre-authorization. However, we are of the opinion that a Ministerial approval should have been obtained as soon as it was known to the TSB management that the cost would exceed the threshold. It may be questioned if the intent of the Hospitality Policy is for such incidents, like an investigation. TSB should clarify this matter and publish a clear procedure on how to handle such events.

For #1.3 – "Pre-approval" obtained after function has taken place, CAC was advised that in some areas the approval is provided by an individual who is not located in the Requestor's premises. As a result, the form ended up being signed after the event had occurred. CAC was advised that e-mail communication would have occurred, but CAC did not see evidence of such e-mail communication with the hospitality claim.

In addition, pursuant to Subsection 7.10 of the TSB policy, functions that are exceptions to the policy must have the prior approval of the Chairman. Item #1.9 had two instances where small

“token” prizes, e.g. pins, key chains, which were presented to individuals at Aboriginal Awareness Week and the National Public Service Week. These items should have been coded to another expenditure item as they do not fit the definition of hospitality.

Finally, we found one instance (Item #1.10) where a claim, which was approved for hospitality at a training session on one day, was duplicated for the same type of training on another day in the following month. This type of action is not acceptable as it directly circumvents the control.

3.5. SUPPORTING DOCUMENTATION

Seven claims were processed based on a personal credit card receipt only without the original invoice. Additionally two instances were found where the invoice was not sufficiently detailed to identify the components of hospitality (e.g. beverages, etc.) and determine their reasonableness. Although detailed receipts are currently not required by hospitality policies, requesting such receipts is considered a good practice that should be implemented as a means to verify and validate expenditures.

Due to the lack of the above information, it was at times impractical, if not impossible, to determine the actual cost per person and verify the precise amount to be posted to the hospitality line object (2025). In addition, there is a risk of reimbursing the cost of otherwise unallowable items without a special pre-approval, such as alcoholic beverages.

3.6. OTHER FINANCIAL CONTROLS AND PROCESSES

Although the matters discussed in this subsection do not directly pertain to the TSB policy on hospitality, these are considered to be “must-have” controls over all types of financial transactions, including hospitality.

Table 2: Observations re Financial Controls and Processes

Description/Explanation of Observation	Number of Occurrences
2.2 Section 34 of F.A.A. certified by function participant	16

Item #2.2 is required in Subsection 4(f), of the *Account Verification Policy*, states that: “No person shall exercise spending authority (section 34) with respect to a payment from which he or she personally can benefit, directly or indirectly.” At TSB, this is a technicality because TSB is a small organization. These claims consisted of a senior official approving a coffee break, or similar type of expenditure, for a Board meeting or another type of meeting, where all the senior officials would be attending. This is commented on as this is a deviation from existing policy, but given the size of TSB’s organization, this type of situation may be unavoidable. The TSB policy should therefore be modified to reflect the operational situation and clarify management’s view on this matter.

3.7. SUPPLEMENTARY INFORMATION

3.7.1 Possible Classification and Cut-off Errors

During the course of the audit, some errors were identified, which could change the recorded amount of hospitality expenses, as summarized in Appendix A. Depending on the materiality of the hospitality general ledger account, the TSB management may wish to further investigate one or more of the identified errors.

The identified possible error of \$236.30 (Item (e) of Appendix A), which was already concurred by a TSB finance and administration officer, would change the total cost of the related claim to over \$5,000. As stated in subsection 3.4, the TSB should consider obtaining a Ministerial approval after the fact.

3.7.2 Average Meal-Related Cost per Person

In accordance with Subsection 7.5.1 of the TSB policy, we have estimated the actual meal-related costs per person over the period audited and are reasonably assured that they did not exceed the average per-person costs set out in Appendix A of the Treasury Board's policy on hospitality.

It should be noted that, however, due to the numerous discrepancies in the number of function participants between the claim form itself and the list attached thereto, there is a risk that the actual cost per person during the period audited could, in fact, exceed the average per-person cost specified by the Treasury Board policy.

3.7.3 Hospitality While on Travel Status

At the request of the TSB management, we conducted a cursory review of travel expense reports of those employees who participated in the Air France Investigation (see subsection 3.4 for detail) and who received hospitality during the investigation. The purpose of this review was to determine whether any meal allowance has been claimed by and reimbursed to these employees.

We could not, however, determine which employees were provided with lunch on each day during the investigation since the list of participants related to the claim was not sufficiently detailed. Accordingly, we could not determine whether any meal allowance for lunch has been claimed by any employee who was in fact provided with lunch out of the hospitality account.

3.8. RECOMMENDATIONS

3.8.1 TSB Policy on Hospitality

R01 The TSB policy could be improved by revising and clarifying the policy in the following areas:

- Revise the existing Form TSB 1521 (both Type 1 and Type 2) to eliminate systematic errors associated therewith and provide a single standardized request and claim form;
 - Provide links to current information required (e.g. Treasury Board's meal rates and maximum per-person limits);
 - Documentation required to support hospitality claims (e.g. list of function participants, original invoice, etc.);
 - Use a flow chart to clearly illustrate processing and authorization steps;
 - Hospitality while on travel status;
 - Specific cases requiring special approvals (e.g. by illustrating examples);
 - TSB should make its policy on hospitality, including Form TSB 1521, readily available and accessible for staff at all levels. This could be accomplished using TSB's Intranet; and,
 - TSB should ensure that its policy, guidelines and form are clearly communicated in order to minimize personal interpretation, which could increase inconsistencies and quality of reporting on hospitality expenses.
- R02 Provided that it is cost-effective to do so, the TSB should consider, in association with R01 developing a Web-based (or spreadsheet-based) form where:
- Some calculations can be performed automatically (e.g. estimated or actual per-person cost) based on the information provided;
 - User is alerted with the appropriate level of authority based on the information provided; and,
 - User is required to choose from a drop-down menu for certain sections of the form where consistency is desired (e.g. applicable subsection(s) of TSB policy concerning the purpose or circumstances of hospitality, type of occasion, location, etc.).
- R03 Training courses open to staff at all levels should be provided. Training material should contain background information, which, when properly applied, would provide a better understanding of potential issues related to the expenditure of funds, promote compliance with the established policy and procedures and improve the accountability over hospitality expenditures.

3.8.2 Procedures and Controls

- R04 The hospitality request and claim form (TSB 1521) should be fully and accurately completed as intended.
- Form TSB 1521 should be accompanied by a sufficiently detailed list of participants. For functions where a large number of people are expected to attend, a sign-in sheet may be required. For hospitality extended over a number of functions, a separate list of participants should be prepared for each function to accurately keep track of actual costs

per person over the fiscal period (for the purpose of Subsection 7.5 of the TSB policy);
and,

- Forms TSB 1521 should be accompanied by sufficiently detailed original receipts at all time. Failing that, a declaration should be obtained from the originator or purchaser to certify that said original receipt was not available and gives the reasons why.
- R05 Signing authority in regards to the limitations set in the policy should be respected and applied accordingly on a consistent basis. Where the final costs exceed the original approver's level of authority, a new approval, from an appropriate level of authority, should be obtained after the fact.
- R06 The TSB should regularly monitor the actual costs per person for meal-related hospitality functions to ensure that it does not exceed the average per-person cost specified in Appendix A of the TSB policy (pursuant to Subsection 7.5.1 thereof).
- R07 Emphasis should be put on ongoing efforts to improve controls related to the processes. Overall controls should include ensuring that sufficient details regarding the purpose of the expense are provided with the claim, verifying the reasonableness of the claim and ensuring that the appropriate general ledger accounts are used, while at the same time ensuring compliance with the approved delegation of financial signing authorities
- R08 TSB should clearly define the policy and procedures for the provision of meals at major occurrence investigation sites and ensure that all appropriate staff and managers are aware of the proper handling required for such transactions.

4. MANAGEMENT RESPONSE

The findings of this audit have been discussed with management of TSB. Management accepts the findings and agrees that there is a need for reviewing and updating departmental policies, procedures and forms. Management also agrees with the need for training of managers and staff, who process hospitality requests and/or claims. A detailed management action plan will be developed in response to this audit report.

APPENDIX A: SUMMARY OF POSSIBLE ERRORS

Description	Amount	
	Hospitality	GST
Total dollar value of hospitality claim transactions – April 1, 2005 to December 31, 2005	\$24,901.73	
<u>Possible errors:</u>		
(a) Potential expenditure for gas, which apparently is not "local transportation to and from the function" based on the date of the receipt and the date of the function	(20.06)	\$ -
(b) The provincial portion of HST (8% of 15%) was recorded as GST	5.56	(5.56)
(c) The amount was incorrectly charged to GST (the purchased item was not subject to GST)	1.90	(1.90)
(d) A portion of the hospitality amount was charged incorrectly to GST	3.13	(3.13)
(e) Hospitality expense was incorrectly coded to line object No. 0802 (Job related employee travel in Canada)	236.30	-
Total dollar value of possible identified errors	\$ 226.83	\$ (10.59)
Percentage (%) of identified possible errors to total recorded hospitality expenses	0.91%	