

Privy Council Office

**Assurance Review of Management of
Travel and Hospitality**

Audit and Evaluation Division

Final Report

2011-03-04

Table of Contents

Executive Summary	i
Introduction	1
Background and Context.....	1
Review Objective	3
Review Scope	3
Review Criteria	4
Review Methodology	5
Key Findings	7
Conclusion	9
Recommendation	9
Management Response and Action Plan	10
Appendix: File Testing Checklist	12

Executive Summary

The objective of this assurance review was to assess the adequacy of controls in place for travel and hospitality expenditures, including disclosure.

The review focused on three areas:

- Effectiveness and efficiency:
 - Is the management framework governing the administration of travel and hospitality effectively structured and efficiently operated?
- Reporting:
 - Is travel and hospitality expense information disclosed on the PCO web site timely, relevant, reliable, and complete?
- Compliance:
 - Is travel and hospitality managed in compliance with applicable policies and directives?

Review Scope

The scope included travel and hospitality claims and reimbursements processed by PCO for the period from June 1, 2009 to June 30, 2010. During this time period, the department had approximately 3400 travel claims totalling \$3.2 million and 2100 hospitality claims valued at \$339,000.

Note: The scope period predates new requirements for travel and hospitality expenditures introduced by Treasury Board in the *Directive on the Management of Expenditures on Travel, Hospitality and Conferences*. The new directive, which became effective January 1, 2011, reinforces the importance of managing these activities in a way that demonstrates value for money and use of the most economical options to minimize costs whenever possible.

Conclusion

The documentation review, testing and discussions with Finance and Corporate Planning staff demonstrate that PCO has an adequate management framework in place. File testing indicated that, for the limited sample supporting the review level of assurance, controls were operating as intended except for pre-authorization of hospitality claims under section 32 of the *Financial Administration Act* (FAA). Steps have been taken by PCO to rectify this on-going issue and it will continue to require attention going forward.

Recommendation

This assurance review has one recommendation, which is addressed to the Assistant Deputy Minister, Corporate Services Branch. Effective implementation, however, will be reliant on participation of all PCO senior managers.

Recommendation: Amend existing controls to require that hospitality claims that have not been pre-authorized be sent to the appropriate manager as per the PCO Delegation of Financial Signing Authorities for approval and an explanation of why the pre-approval did not occur, and, where applicable, an outline of the corrective measures that have been taken to ensure situations of this nature do not reoccur.

Management Response

Management has developed an action plan in response to the recommendation. It is included in the body of the report.

Statement of Assurance

The review was designed to enable the Chief Audit and Evaluation Executive to provide a medium level of assurance. An audit level of assurance is not provided as this was not an internal audit; the review did not include the extensive data gathering and in-depth substantive testing that are required during an internal audit. The conclusion is based on a comparison of the conditions, as they existed at the time, against pre-established criteria that were agreed on with management. The conclusion is applicable only to the entity examined.

Original signed by the Chief Audit and Evaluation Executive

SIGNATURE OF CHIEF AUDIT AND EVALUATION EXECUTIVE
JIM HAMER

Introduction

Privy Council Office

Privy Council Office (PCO) is the hub of public service support to the Prime Minister and Cabinet and its decision-making structure. Its mission is to serve Canada and Canadians by providing the best non-partisan advice and support to the Prime Minister and Cabinet. Led by the Clerk of the Privy Council, PCO facilitates smooth and effective operation of Cabinet and the Government of Canada.

PCO's strategic outcome is to ensure the Government's agenda and decision making are supported and implemented and the institutions of government are supported and maintained. To achieve this, the PCO has four program activities (in addition to Internal Services) in its Program Activity Architecture:

- To the Prime Minister and Portfolio Ministers – provide professional, non-partisan policy advice and support;
- To the Cabinet and Cabinet committees – provide policy advice and secretariat support;
- To the Public Service – provide overall leadership and direction in support of the Government's agenda; and,
- To Commissions of Inquiry – provide administrative and financial support.

Background and Context

Policies

The principal authoritative reference governing public service employees' travel on government business is the *Travel Directive*. This directive is now hosted by the National Joint Council, where it was co-developed by participating bargaining agents and public service employers. Provision is made for the reimbursement of reasonable travel expenses, such as for transportation and accommodation, necessarily incurred while travelling on government business.

With respect to hospitality provided by PCO, applicable principles and requirements are provided in the Treasury Board (TB) *Hospitality Policy* and the *Hospitality Policy/Procedure for the Privy Council Office*. The TB Policy is intended to ensure that hospitality is extended in an appropriate, economical, and consistent manner to facilitate government business or when it is considered suitable as a matter of courtesy. The PCO Policy/Procedure document, dated September 2009, was developed to provide

information on the pre-authorization approvals required when extending hospitality; guidance and instructions on how to complete the Hospitality Pre-Authorization and Expense Claim; information on Section 34 of the *Financial Administration Act* (FAA); and information on how to account for hospitality-related costs.

Horizontal Audit of Travel and Hospitality in Small Departments and Agencies

In April 2009, the Treasury Board Secretariat (TBS), Office of the Comptroller General (OCG) completed a horizontal audit of Travel and Hospitality in Small Departments and Agencies (SDAs). PCO was not directly involved in the audit, though its findings are relevant to this department as the OCG auditors identified common areas where other government departments and agencies did not fully meet TB policy expectations.

The OCG audit observed that a significant percentage of travel and hospitality claims in SDAs lacked pre-authorization and, particularly in the case of hospitality, the support for claims was often not sufficient. The audit also observed lapses in compliance with legislated requirement for payment authorization as specified by the FAA.

PCO management reviewed the OCG audit results and issued the previously noted *Hospitality Policy/Procedure for the Privy Council Office* and a memorandum to PCO employees to communicate a summary of the results of the audit and to focus attention on the importance of strengthening internal controls over travel and hospitality.

Review Objective

The objective of this assurance review was to assess the adequacy of controls in place for travel and hospitality expenditures, including disclosure.

The review focused on three areas:

- Effectiveness and efficiency:
 - Is the management framework governing the administration of travel and hospitality effectively structured and efficiently operated?
- Reporting:
 - Is travel and hospitality expense information disclosed on the PCO web site timely, relevant, reliable, and complete?
- Compliance:
 - Is travel and hospitality managed in compliance with applicable policies and directives?

Review Scope

The scope included travel and hospitality claims and reimbursements processed by PCO for the period from June 1, 2009 to June 30, 2010. During this time period, the department had approximately 3400 travel claims totalling \$3.2 million and 2100 hospitality claims valued at \$339,000.

The review was designed to enable the Chief Audit and Evaluation Executive to provide a medium level of assurance. A high (audit) level of assurance, as is typical with an internal audit, was not planned as the review did not include the extensive data gathering and in-depth substantive testing that are required during an internal audit.

During the course of the review it was determined that the PCO Finance and Corporate Planning Division had implemented additional procedures to improve controls over pre-approval of hospitality expenditures (section 32 of the FAA (s32)) midway through the scope period. Accordingly, the review testing was performed in two tranches: A sample of items from the period noted above in order to test all items contained in the review program, and an additional random sample of hospitality expenditures posted from April 1, 2010 to June 30, 2010, testing s32 pre-approval.

Review Criteria

The review was performed using criteria developed from relevant policies and guidance related to travel and hospitality activities as follows:

Effectiveness and efficiency - The management framework governing the administration of travel and hospitality is effectively structured, and efficiently operated:

- The accountability framework is clearly and adequately defined;
- Awareness and training pertaining to the provision and reimbursement of travel and hospitality is consistent and sufficient to ensure that all parties involved are fully aware of their roles and responsibilities; and,
- An adequate monitoring/verification system is in place to identify and communicate operational problems and issues, and subsequent reporting to management is conducted in a clear, comprehensive, consistent and timely manner.

Reporting - Travel and hospitality expense information disclosed on the PCO web site is timely, relevant, reliable, and complete:

- Travel and hospitality expenses for selected departmental officials, including the deputy head and senior public servants are published on the departmental web site.

Compliance - Travel and hospitality is managed in compliance with applicable policies and directives:

- Travel and hospitality expenses are authorized in advance in accordance with the Travel Directive/Special Travel Authority and Hospitality Policy. In special circumstances, travel expenses are properly authorized for non-standard items and emergencies, and travel or hospitality is post-authorized by the employer;
- Travel and hospitality claims are properly authorized and have the requisite level of detail for certification of expenses by managers under the FAA Section 34 and by finance personnel for account verification under the FAA Section 33; and,
- Travel and hospitality events are planned in an economical and appropriate way when it facilitates government business, or when travel or hospitality is considered appropriate as a matter of courtesy.

Review Methodology

1. Documentation Review

The following key documents were examined as part of this assurance review:

- National Joint Council - Travel Directive;
- TB - Hospitality Policy;
- PCO - Hospitality Policy/Procedure;
- PCO - Delegation of Financial Signing Authorities Instrument;
- PCO - Memorandum for PCO Executive Committee: Pre-Approval for Travel and Hospitality;
- TBS - Special Travel Authorities;
- TBS - Policies and Guidelines for Ministers' Offices; and
- TBS - Guidance document: Proactive disclosure of travel and hospitality expenses.

2. Stakeholder Interviews

Meetings were held with key administrative officials involved with monitoring and control of travel and hospitality expenditures.

Individuals interviewed for the assurance review included the:

- Chief, Financial Policies, Systems and Internal Control, PCO; and
- Travel and Hospitality Advisor, Accounting Operations, PCO.

3. Compliance Tests

A limited number of travel and hospitality transactions posted to PCO's general ledger during the scope period were selected for review on a random or judgemental basis. The population included transactions originating in PCO, the Prime Minister's Office, and the offices of the portfolio ministers. Seven items from each category; travel and hospitality, were selected for review and tested to ensure that they comply with the applicable directives and all other relevant guidance. Although the dollar value of travel is 10 times that of hospitality, equal sample sizes were selected due to the increased risk posed by hospitality expenditures.

As a result of deviations found in the verification of s32 pre-approvals for hospitality claims in the initial sample, an additional random sample testing s32 compliance was drawn covering the period from April 1, 2010 to June 30, 2010.

The following chart summarizes the sample taken for this review. A judgmental sample indicates that the reviewer selected the sample to ensure that adequate representation was achieved, e.g. ensuring that at least one payment to a credit card company was part of the sample. A random sample indicates that each item in the population had an equal chance of selection, regardless of size. A combination of these two techniques was employed to meet the review objectives in the most efficient manner.

Sample Testing Summary

Transaction Type and Sample Selection Method		Number Reviewed
Random	Travel transactions, individuals as payee	5
Judgmental	Travel transactions, hotel as payee	1
Judgmental	Travel transactions, credit card company as payee	1
Random	Hospitality transactions, individual as payee	4
Judgmental	Hospitality transactions, vendor as payee	3
Random	Additional sample, hospitality transactions, individual as payee	12
Random	Additional sample, hospitality transactions, vendor as payee	8
	Total	34

Key Findings

The following findings are presented by audit criteria, relating to effectiveness and efficiency, reporting, and compliance.

Criteria: The management framework governing the administration of travel and hospitality is effectively structured, and efficiently operated.

In interviewing staff members, reviewing documentation and training material and reviewing files it was found that this criterion was met:

- The documentation in place at PCO to guide travel and hospitality procedures is sufficiently detailed and in alignment with government policy;
- The delegation of financial signing authority is clearly defined and documented, including limits assigned to operational authorities with regards to both travel and hospitality expenditures; and,
- Training concerning pre-authorizations is provided to managers and administrative assistants through a financial management course.

The review found that corrective actions, when required, are dealt with on a case-by-case basis by accounting operations staff.

Criteria: Travel and hospitality expense information disclosed on the PCO web site is timely, relevant, reliable, and complete.

Based upon our review of the process for proactive disclosure obtained through interviews as well as the testing performed, travel and hospitality claims for senior employees were found to be publicly disclosed in accordance with TBS Proactive Disclosure guidance. The reliability of the process is enhanced through a combination of electronic extractions from the financial system, manual review and reconciliation and strict reporting deadlines.

Criteria: Travel and hospitality is managed in compliance with applicable policies and directives.

File testing indicated that travel and hospitality expense claims are managed in compliance with applicable policies and directives, except as noted below.

As described in the scope section of this report, initial testing of hospitality indicated issues with s32 pre-approval. Three had no s32 approval and one was approved, but was dated after the event. Discussions with management indicated that the non-compliant items had occurred prior to March 31, 2010, and additional procedures had been implemented for the new fiscal year to ensure that s32 approvals were documented. Based upon this information, the review team selected an additional 20 hospitality items from the period of April 1st, 2010 to June 30th, 2010 for further s32 testing. Of the 20 additional files, 19 contained a s32 approval. However, of the 19 s32 approvals, 9 occurred after the date of the expenditure and were deemed non-compliant.

For the majority of hospitality expenditures Accounting Operations receives the pre-authorization form after the expenditure has been incurred. At this point they are able to identify missing s32 authorization and request that it be signed; however this does not address the underlying issue that it is incumbent on the originator of the expense to obtain approval in advance.

Conclusion

The documentation review, testing and discussions with Finance and Corporate Planning staff demonstrate that PCO has an adequate management framework in place. File testing indicated that, for the limited sample supporting the review level of assurance, controls were operating as intended, except for section 32, pre-authorization of hospitality claims. Steps have been taken by PCO to rectify this on-going issue and it will continue to require attention going forward.

Recommendation

This assurance review has one recommendation, which is targeted at the Assistant Deputy Minister, Corporate Services Branch. Effective implementation, however, will be reliant on participation of all PCO senior managers.

Recommendation: Amend existing controls to require that hospitality claims that have not been pre-authorized be sent to the appropriate manager as per the PCO Delegation of Financial Signing Authorities for approval and an explanation of why the pre-approval did not occur, and, where applicable, an outline of the corrective measures that have been taken to ensure situations of this nature do not reoccur.

Management Response and Action Plan

Assurance Review of the Management of Travel and Hospitality

The Assistant Deputy Minister, Corporate Services Branch has overall accountability for the Action Plan.

Recommendation	Response and Planned Actions	Responsibility	Due Date
<p>Amend existing controls to require that hospitality claims that have not been pre-authorized be sent to the appropriate manager as per the PCO Delegation of Financial Signing Authorities for approval and an explanation of why the pre-approval did not occur, and, where applicable, an outline of the corrective measures that have been taken to ensure situations of this nature do not reoccur.</p>	<p>As of January 2011, hospitality and travel claims that have not been pre-authorized or have been pre-authorized after the event are sent to the appropriate manager as per the PCO Delegation of Financial Signing for approval and an explanation of why the pre-approval did not occur or occurred after the fact, and, where applicable, an outline of the corrective measures that have been taken to ensure situations of this nature do not reoccur. A template has been developed to capture the information.</p>	<p>Executive Director, Finance and Corporate Planning Division</p>	<p>Completed</p>
	<p>In January 2011, a memo was sent to senior management on the new Treasury Board Directive on the Management of Expenditures on Travel, Hospitality and Conferences. The memo included a reminder on the importance of the pre-authorization and the introduction of our new process when the pre-authorization is not received prior to the event.</p>		<p>Completed</p>

Recommendation	Response and Planned Actions	Responsibility	Due Date
	<p>In February 2011, training sessions will be provided on the new Treasury Board Directive on the Management of Expenditures on Travel, Hospitality and Conferences. These courses will include a section on the importance of the pre-authorization and the introduction of our new process when the pre-authorization is not received prior to the event.</p>		<p>February 2011</p>

Appendix: File Testing Checklist

<i>Criteria</i>	<i>Sub-Criteria</i>	<i>Steps</i>
<p>Travel and hospitality expense information disclosed on the PCO web site is timely, relevant, reliable, and complete.</p>	<p>Travel and hospitality expenses for selected departmental officials, including the deputy head and senior public servants are published on the departmental web site consistent with TB guidance.</p>	<p>Verify that travel and hospitality claims for senior employees, i.e. Assistant Deputy Minister and above, are posted to the PCO web site and that information:</p>
		<ul style="list-style-type: none"> - Is posted within prescribed timelines;
		<ul style="list-style-type: none"> - Does not include extraneous information;
		<ul style="list-style-type: none"> - Is consistent with the source claim; - Includes full information per TBS.
<p>Travel and hospitality is managed in compliance with applicable policies and directives.</p>	<p>a) Travel and hospitality expenses are authorized in advance in accordance with the Travel Directive/Special Travel Authority and Hospitality Policy.</p> <p>(In special circumstances, travel expenses are properly authorized for non-standard items and emergencies, and travel or hospitality is post-authorized by the employer.)</p>	<p>Verify pre-authorization of expenditures and FAA Section 32:</p>
	<ul style="list-style-type: none"> - Obtain the delegation of signing authority and verify that delegation was appropriately exercised; 	
	<ul style="list-style-type: none"> - Confirm that authority to extend travel or hospitality is obtained in advance or verify the justification for any exception; 	
	<ul style="list-style-type: none"> - Verify that functions that are exceptions to the Hospitality Policy have prior approval of minister or deputy head. 	
	<p>b) Travel claims are properly authorized and have the requisite level of detail for certification of expenses by managers under FAA Section 34 and for funds release under FAA Section 33 by delegated officers.</p>	<p>Confirm that the travel expense claims include the following information:</p>
	<ul style="list-style-type: none"> - The actual cost vs. the directive; 	
	<ul style="list-style-type: none"> - Signature under FAA Sections 34 & 33 of the appropriate delegated official; 	
	<ul style="list-style-type: none"> - Appropriate supporting documentation; - Any exceptions are properly justified and authorized. 	

<i>Criteria</i>	<i>Sub-Criteria</i>	<i>Steps</i>
	<p>c) Hospitality claims are properly authorized and have the requisite level of detail for certification of expenses by managers under FAA Section 34 and for funds release under FAA Section 33 by delegated officers.</p>	<p>Confirm that hospitality expense claims include the following information:</p> <ul style="list-style-type: none"> - purpose of hospitality; - list of participants (by categories); - location; - the actual cost; - signature under FAA Section 34 of the appropriate delegated official; - limitation regarding employee, spouse (accompanying person) or other persons/event are respected.