Audit of Travel and Hospitality

Office of Audit and Ethics

Recommended by the Audit Committee on January 25, 2011 for approval by the President

Approved by the President on March 18, 2011

E-docs # 3609362

Office of Audit and Ethics
Audit of Travel and Hospitality
January 25, 2011

Table of Contents

Office of Audit and Ethics
Audit of Travel and Hospitality
January 25, 2011

1 Executive Summary

Introduction

The audit of the Canadian Nuclear Safety Commission's (CNSC) travel and hospitality expenditures was approved by the Audit Committee as part of the CNSC's Risk Based Audit Plan 2010-2011 to 2012-2013.

Several audits, assessments and follow-up audits of travel and hospitality expenditures have also been conducted since 2002. All but one resulting recommendation have been implemented; the recommendation to automate the travel booking process has not yet been addressed.

The CNSC introduced new policies covering hospitality (in 2008) and travel (in 2009). These policies address costs and financial limits, delegation of authority, approvals, roles and responsibilities, and monitoring and reporting requirements.

Objectives

The objectives of the audit were to provide CNSC's President and Senior Management with assurance that: 1) travel and hospitality expenses are being managed in accordance with legislative and policy/directive requirements and that 2) the travel authorization and claims process is adequate and controls are risk based.

Scope

The audit scope included
- CNSC's policies and authorities
- risk management procedures
- the control environment
- adequacy of operating processes
- the reporting framework for both travel and hospitality expenditures.

The audit included CNSC expenditures for travel and hospitality for the period of April 1, 2009 to June 30, 2010.

During our audit, we were informed by FAD that a project was underway to assess the cost efficiency and effectiveness of implementing an on-line travel booking system. To avoid duplication of effort with the FAD project, a decision was made to exclude a detailed examination of the issue of efficiency of claims processing and the on-line travel booking system from the audit scope.

Office of Audit and Ethics
Audit of Travel and Hospitality
January 25, 2011

Approach

The audit approach consisted of a review of pertinent legislation, policies, processes and controls, as well as interviews with managers and staff. It also included the detailed testing of key controls (e.g., authorizations, payment verification, etc.) based on a sample of travel and hospitality transactions.

Audit fieldwork was conducted between June and August 2010. Findings and conclusion are based on a comparison of the conditions that existed within FAD as of August 2010 against pre-established audit criteria.

The audit was conducted in accordance with internal auditing standards for the Government of Canada and the International Standards for the Professional Practice of Internal Auditing.[1]

Overall Conclusions

The audit concluded that travel and hospitality expenses are being managed in accordance with legislative and policy/directive requirements; the travel authorization and claims process is fully compliant with all aspects of CNSC policies and procedures, and controls are functioning as intended and are risk based.

Specifically, the audit found that:

- management had implemented policies, including delegation of authority and governance systems, to manage travel and hospitality expenditures effectively.

- risk identification, assessment and mitigation procedures support the proper administration of travel expenditures.

- administrative controls (including pre-approval, authorization, verification, source document and payment review) over travel and hospitality expenditures comply with all applicable policies and directives.

- management has sufficient information available for decision making on individual travel and hospitality transactions. CNSC's travel expenditures, particularly international travel, are currently being monitored by management to ensure the overall cost effectiveness of these expenditures.

As a result of the above conclusions, there are no recommendations for improvement.

---

[1] This audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. However, the Office of Audit and Ethics of the CNSC has not undergone an external assessment at least once in the past five years or been subject to ongoing monitoring or to periodic internal assessments of its internal audit activities that would confirm its compliance with the standards.

Office of Audit and Ethics
Audit of Travel and Hospitality
January 25, 2011

Introduction

1.1 Background

The audit of the Canadian Nuclear Safety Commission's (CNSC) travel and hospitality expenditures was approved by the Audit Committee as part of the CNSC's Risk-Based Audit Plan 2010-2011 to 2012-2013. As noted in the Plan, the rationale for selecting this area for audit is based on the fact that compliance with travel and hospitality policy requirements is of high importance to Canadians and the Government. Instances of non-compliance can lead to severe negative reaction and consequences for an organization's programs, management team, the Minister and the Government. Thus, the audit is intended to provide assurance to the President and Senior Management that these expenses are being processed and paid in accordance with legislative and policy requirements.

In 2002, CNSC's internal audit group conducted an assessment of CNSC's travel activities. The assessment resulted in a number of recommendations aimed at improving the travel system. A follow-up assessment in 2005 showed "satisfactory" progress in addressing "several" recommendations at that time.

In late 2005, the Corporate Services Branch was directed by senior management to continue to address the unresolved issues flowing from the recommendations in the 2002 assessment. The unresolved recommendations were related to:
- automating the travel authorization and claims processing
- a review of the CNSC's Travel Directive
- control over international travel with a focus on linking travel with operational and strategic objectives
- improving value for money
- information and training on roles and responsibility
- management practices and improvements to overall planning of travel for learning and development.

The current audit serves as a follow-up review of the actions taken to improve CNSC travel approval and claims processing since 2005.

An audit of Hospitality Expenses was previously conducted by the Office of Audit and Ethics (OAE) in 2007. The audit concluded that controls supporting the implementation of the 2004 Hospitality Directive were adequate to ensure that expenses are appropriate, properly authorized and accurately recorded. The audit recommended two opportunities for improvement to strengthen the controls in two specific areas. First, additional controls to monitor, manage and report on non-compliance with the directive; and second, the provision of additional information on approval of events (i.e., pre-authorization, cost limits and signing authority) be disseminated to staff on a recurring basis.

Office of Audit and Ethics
Audit of Travel and Hospitality
January 25, 2011

A follow-up to the 2007 Hospitality Expenses audit was conducted in 2009 and found the actions taken by management were satisfactory in all respects. The CNSC Hospitality Directive was updated and released in March 2008 and current budgetary restraints to control operating expenses have required further measures to manage hospitality expenditures.

Total travel expenditures in 2009-2010 and 2008-2009 were $4,471,503 and $4,715,060 respectively. Total hospitality expenditures in 2009-2010 and 2008-2009 were $111,740 and $166,692 respectively. For the 15-month period under review, the CNSCprocessed 4,296 claims for travel and 478 claims for hospitality.

1.2 Travel and Hospitality Directives

In 2009, the CNSC Management Committee adopted a revised Travel Directive, specific to the CNSC. The purpose of the directive is to ensure fair treatment of employees that are required to travel for CNSC business.

The CNSC Hospitality Directive was updated in 2008. It instructs CNSC employees how and when it is appropriate to spend public funds on food, beverages and other hospitality items when conducting government business.

The directives for both travel and hospitality detail roles and responsibilities and set specific parameters for eligibility of expenditures.

1.3 Objectives

The objectives of the audit were to provide the President and Senior Management with assurance that: 1) travel and hospitality expenses are being managed in accordance with legislative and policy/directive requirements and that 2) the travel authorization and claims process is adequate and controls are risk based.

1.4 Scope

The audit scope included
- CNSC's policies and authorities
- risk management procedures
- the control environment
- adequacy of operating processes
- the reporting framework for both travel and hospitality expenditures.

The audit included the expenditures for travel and hospitality for the period of April 1, 2009 to June 30, 2010.

Office of Audit and Ethics
Audit of Travel and Hospitality
January 25, 2011

During our audit, we were informed by the Finance and Administration Directorate (FAD) that a project was underway to assess the cost efficiency and effectiveness of implementing an on-line travel booking system. To avoid duplication of effort with the FAD project, a decision was made to exclude a detailed examination of the issue of efficiency of claims processing and the on-line travel booking system from the audit scope.

1.5 Approach and Methodology

The approach used for this audit focused on reviewing the CNSC's policies and procedures against Treasury Board policies, and on examining the management controls and processes for both travel and hospitality expenditures.
Specifically, the audit methodology included:

- interviews with managers and staff;
- reviews of relevant documents including legislation, regulation, policies and processes, procedures and documented controls.

This was supplemented with testing of a sample of travel and hospitality claims to assess the administrative controls over travel and hospitality expenses.

Audit fieldwork was conducted between June and August 2010. The findings and conclusion are based on a comparison of the conditions that existed within FAD as of August 2010 against pre-established audit criteria.

The audit was conducted in accordance with internal auditing standards for the Government of Canada and the International Standards for the Professional Practice of Internal Auditing (IIA).[2]

1.6 Audit Criteria

The audit criteria pertaining to the five areas examined for travel and hospitality are as follows:

1. Policies and Authorities
Management has implemented policies, delegation of authority and governance systems to manage travel and Hospitality effectively.

---

[2] This audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. However, the Office of Audit and Ethics of the CNSC has not undergone an external assessment at least once in the past five years or been subject to ongoing monitoring or to periodic internal assessments of its internal audit activities that would confirm its compliance with the standards.

Office of Audit and Ethics
Audit of Travel and Hospitality
January 25, 2011

2. Risk Management
Risk identification assessment and mitigation support the administration of travel and hospitality expenditures.

3. Control Environment
Administrative controls over travel and hospitality expenditures comply with applicable policies and directives.

4. Efficiency of the process
Transactions are processed on a cost efficient basis.

5. Reporting Framework
Management has sufficient information on travel and hospitality expenditures to effectively control these expenditures.

2 Observations and Recommendations

2.1 Policies and Authorities

A strong framework with documented policies, proper delegation of authority and clear governance systems, is essential to managing travel and hospitality expenses. To this end, the CNSC revised its Travel Directive in 2009 and Hospitality Directive in 2008.

The audit examined the CNSC's directives and compared them to the Treasury Board Secretariat's (TBS) Travel Directive and Hospitality Policy to ensure that the standards set out by TBS were incorporated into the CNSC's directives. The audit found the CNSC directives had incorporated these standards.

The audit also found that the CNSC Travel and Hospitality Directives clearly and adequately define the roles and responsibilities and relevant authorities for these types of expenditures, as does the Directive on the Financial Delegation Authorities. Training of CNSC managers and staff pertaining to the directives is provided on a regular basis and training schedules are posted on the CNSC intranet. Comprehensive in-house training documentation is also available to staff on the CNSC intranet. Changes and updates to the Travel and Hospitality Directives are provided to all staff via e-mail, with the updated information posted on the CNSC intranet for items such as quarterly changes to reimbursement rates.

Conclusion

The audit found that management has implemented policies, delegation of authority and governance systems to manage travel and hospitality expenses effectively. There are no recommendations for improvement.

Office of Audit and Ethics
Audit of Travel and Hospitality
January 25, 2011

2.2 Risk Management

Travel and hospitality risk is managed within the scope of a broader organizational financial risk management framework.

The audit examined the mechanisms for identifying operational and financial risks, and found there are processes and systems to manage risks associated with travel and hospitality expenditures. The audit also found that there is a monitoring process for identifying, correcting and reporting non-compliant claims to management. The Accounting, Systems and Controls Division (ASCD) tracks errors and non-compliant travel and hospitality transactions and compiles this information in an exception report for review by the Vice-President and Chief Financial Officer of the Corporate Services Branch, when necessary.

Conclusion

The audit found that there are effective mechanisms in place for risk management including risk identification assessment and mitigation. For example, prior approval is required before the process can start, proper authorization is required, guides on appropriateness of costs for travel and hospitality are made available and there are processes in place to help manage the risk. There are no recommendations for improvement.

2.3 Control Environment

The control environment is defined as a series of procedures and controls to ensure the achievement of its objectives. A control is any policy, procedure, practice or mechanism designed to provide reasonable assurance that the organization's objectives will be achieved. This includes controls designed to safeguard assets; ensure the timeliness, accuracy and reliability of financial and management reporting; and compliance with all applicable laws, regulations, policies and procedures.

Controls can generally be classified as preventive, detective, or steering. Preventive controls are designed to avoid errors or irregularities. Detective controls are designed to identify errors or irregularities after they have occurred so corrective action can be taken. Steering controls (i.e., policies) are designed to guide actions towards the desired objectives.

The audit examined and tested key controls that are used to mitigate risk by the management through interviews with management and staff, reviewing of key documentation, mapping of processes to identify controls and determine the reasonableness of the controls, a walkthrough to assess the application of the process and the verification of a sample of claims to determine if the key controls were functioning as intended. The sample tested the application of key preventive and detective controls such as pre-approval, proper authorization, advanced planning and

Office of Audit and Ethics
Audit of Travel and Hospitality
January 25, 2011

compliance with established rates and allowances for travel and hospitality. (See Appendix B - Key Controls). The audit also tested the steering controls (policies) as described in section 2.1 above.

Travel

The audit found that the key controls are functioning as intended (e.g., a delegation instrument for travel authority is in place, travel was pre-approved and authorized by the appropriate delegated authority). The audit also found travel was planned in advance and was compliant with the Travel Directive. Similarly, travel expenses for senior management (DM and ADM levels) were properly disclosed and posted on the CNSC website. Finally, the audit found that appropriate controls were in place to mitigate the risk of fraud and abuse of travel expenses as well as to ensure compliance to the applicable policies.

The audit team used a control testing methodology to determine if the key controls were functioning as intended. For example, Finance staff review all claims submitted for processing. If claims are found to be incorrect, Finance staff reported these issues to their supervisor for further investigation. In addition to the examination of key controls, the audit tested a sample of travel claims. Claims were verified for proper approvals, and amounts (e.g., that these transactions were pre-approved and properly authorized) and that a delegation of authority for travel existed and properly applied). As such, the audit tested 2 claims per month for the audit period to determine if key controls were functioning as intended. The audit test also examined, whether the claims were in accordance with the reimbursement rates set out in the Travel Directive.

Hospitality

The audit found that the events were planned in an appropriate way and complied with the Hospitality Directive. We found a delegation of authority for hospitality was in place and that hospitality transactions were pre-approved and authorized by the appropriate delegated authority. We found that appropriate controls were in place to mitigate the risk of fraud and abuse of hospitality expenses as well as to ensure compliance to the applicable policies.

The audit team used a control testing methodology to determine if the key controls were functioning as intended (e.g., that these transactions were pre-approved and properly authorized) and that a delegation of authority for hospitality existed. As such, the audit tested 1 claim per month for the audit period to determine if key controls were functioning as intended. The audit tests also examined that claims applied the prescribed rates for events as found in the hospitality directive.

The audit analyzed the total value of all the hospitality transactions for the audit period and determined the level of risk to be low; therefore, the audit did not test the proactive disclosure of the hospitality expenses for senior officials.

Office of Audit and Ethics
Audit of Travel and Hospitality
January 25, 2011

Conclusion

The audit concluded that the administrative controls over travel and hospitality expenditures comply with applicable policies and directives. There are no recommendations for improvement.

2.4 Efficiency of the Process

The approval and claims processing practices for travel and hospitality were reviewed and were found to be in compliance with the directives and policies. In terms of assessing efficiency, the audit team identified two other government entities which use the same accounting system as CNSC and who had reviewed the efficiency of their travel processing activities. Both had concluded that no change was warranted at this time as the cost of implementing an on-line automated process out weighed the benefits. During the discussions with these other government entities, it was determined that they were using practices and procedures comparable to those of the CNSC in terms of processing claims and tracking and reporting travel expenditures.

Also, during the course of the audit work, we were informed by FAD that a project was underway to assess the cost effectiveness of implementing an on-line automated travel booking system. This project included a review of the efficiency of claims processing.

In this context, a decision was made to exclude a detailed examination of the issue of efficiency of travel and hospitality claims processing from the audit scope.

Conclusion

The audit concluded that the CNSC's travel and hospitality claims processing system is comparable to other government entities surveyed. No other testing was undertaken on the efficiency of the process in order to avoid duplication with work already underway by FAD, to examine the feasibility of an on-line travel booking and claims processing system. There are no recommendations for improvement.

2.5 Reporting Framework

Management requires high quality information to make decisions and to perform its oversight role effectively. The CNSC Management Committee and the respective Vice-Presidents receive quarterly reports on financial information related to discretionary spending which includes travel and hospitality. Financial advisors provide managers with detailed information on commitments and expenditures related to all travel and hospitality transactions for their respective responsibility centres.

Management has also informed us that starting in Fall 2010, managers will receive improved reporting information through a series of on-line reports from the new

Office of Audit and Ethics
Audit of Travel and Hospitality
January 25, 2011

Corporate Planning and Management Reporting System. Management has also indicated that this improvement should further facilitate the monitoring of their responsibility centre's travel and hospitality spending.

The Accounting, Systems and Controls Division (ASCD) monitors and reports on errors associated with travel and hospitality expenses and ASCD takes corrective action to address all issues. ASCD subsequently reports this information directly to the Director General Finance and to the Administration and Deputy Chief Financial Officer.

The audit found that Senior Management had expressed a need for more detailed international travel information and that the Strategic Planning Directorate (SPD) has responded by initiating the development of a tool to track international travel for all CNSC branches. The intent for tracking international travel is the potential for cost savings opportunities that could be realized. It is expected that the tool will provide information such as cost, type of event and other information that will support managers and management in the decision-making process.

The audit team was informed by SPD officials that the new international tool will roll out later in fiscal year 2010-2011 as a pilot and that the Quarterly Corporate Performance report will contain an item on international and domestic travel.

Conclusion

The audit found that the monitoring and verification system in place used for identifying and communicating operational issues and for providing reporting information to management was consistent in all respects to the policy and procedures and presented to management in a consistent and timely manner. There are no recommendations for improvement.

3 Conclusion

The audit concluded that travel and hospitality expenses are being managed in accordance with legislative and policy/directive requirements. The travel authorization and claims process is fully compliant with all aspects of CNSC policies and procedures, and are functioning as intended. Controls are risk based.

Specifically, the audit found that:

- management had implemented policies, including delegation of authority and governance systems, to effectively manage travel and hospitality expenditures.

- risk identification, assessment and mitigation procedures support the proper administration of travel expenditures.

Office of Audit and Ethics
Audit of Travel and Hospitality
January 25, 2011

- administrative controls including pre-approval, authorization, verification, source document and payment review over travel and hospitality expenditures comply with all applicable policies and directives.

- management has sufficient information available for decision making on individual travel and hospitality transactions. CNSC's travel expenditures, particularly international travel, is currently being monitored by management to ensure the overall cost effectiveness of these expenditures.

As a result of the above conclusions, there are no recommendations for improvement.

4 Acknowledgement

The Office of Audit and Ethics would like to express our appreciation for the full cooperation received from the staff of the CNSC Finance and Administration Directorate (Accounting, Systems and Controls Division and the Financial Resources Management Division) and the Strategic Planning Directorate, during the conduct of the audit.

Office of Audit and Ethics
Audit of Travel and Hospitality
Appendix A

Appendix A - Detailed Audit Criteria

The following table presents the travel areas that were audited and the respective evaluation criteria:

Travel	
1.0 Policies and authorities Management has implemented policies, delegation of authority and governance systems to manage travel **effectively**.	**Criteria 1.1** **Policy and Authorities** The CNSC travel directive is clearly and adequately defined in accordance with relevant authorities and is implemented accordingly.
	Criteria 1.2 **Awareness/Training** Awareness and training pertaining to the travel reimbursement process, and the provision of travel, is consistent and sufficient to ensure that all parties involved are fully aware of their roles and responsibilities.
2.0 Risk management Risk identification assessment and mitigation support the administration of travel expenditures.	**Criteria 2.1** **Risk Identification** Effective mechanisms, including exception reporting, are in place to identify operational and financial risk related to the administration of travel.
3.0 Internal Control Administrative controls over travel expenditures comply with applicable policies and directives.	**Criteria 3.1** **Pre-authorization of Expenditures and FAA Section 32**. Expenses are authorized in advance in accordance with the provisions of the FAA. In special circumstances, travel expenses are properly authorized for non-standard items and emergencies, and travel is post-authorized by the employer.
	Criteria 3.2 **Authorization of Expenses/FAA 34 & 33** Expense claims are properly authorized and are supported by the requisite documentation and information for account verification (S. 34) and funds release (S.33), by delegated officers.

Office of Audit and Ethics
Audit of Travel and Hospitality
Appendix A

Travel	
3.0 Internal Control (continued)	**Criteria 3.3** **Travel Planning** Travel events are planned in an appropriate way when it facilitates government business, or when travel is considered appropriate as a matter of courtesy.
	Criteria 3.4 **Proactive Disclosure** All travel expenses for selected government officials, including deputy ministers and senior public servants, are posted on the Internet.
	Criteria 3.5 **Fraud** Systems and controls are in place to mitigate fraud and or abuse of travel expenditures.
4.0 Efficiency of the process Transactions are processed on a cost efficient basis.	**Criteria 4.1** **Efficiency** Travel requests and claims are processed in the most efficient and effective manner.
5.0 Reporting Management has sufficient information on travel and travel expenditures to effectively control these expenditures.	**Criteria 5.1** **Monitoring, Reporting** Quality of Information for Management Decision-Making. 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.

Office of Audit and Ethics
Audit of Travel and Hospitality
Appendix A

Hospitality

The following table presents the hospitality areas that were audited and the respective evaluation criteria:

Hospitality	
1.0 Policy and authorities Management has implemented policies, delegation of authority and governance systems to manage hospitality effectively.	**Criteria 1.1** **Policy and Authorities** The CNSC hospitality directive is clearly and adequately defined in accordance with relevant authorities, and is implemented accordingly.
	Criteria 1.2 **Awareness/Training** Awareness and training pertaining to the provision of hospitality, is consistent and sufficient to ensure that all parties involved are fully aware of their roles and responsibilities.
2.0 Risk management Risk identification assessment and mitigation support the administration of hospitality expenditures.	**Criteria 2.1** **Risk Identification** Effective mechanisms, including exception reporting, are in place to identify (e.g. operational and financial) risks related to the administration of hospitality.
3.0 Internal Control Administrative controls over hospitality expenditures comply with applicable policies and directives	**Criteria 3.1** **Pre-authorization of Expenditures and FAA Section 32** Expenses are authorized in advance in accordance with the provisions of TBS policies. In special circumstances, hospitality is post-authorized by the employer.
	Criteria 3.2 **Authorization of Expenses/FAA 34 & 33** Expense claims are properly authorized and are supported by the requisite documentation and information for account verification (S. 34) and funds release (S.33), by delegated officers.

Office of Audit and Ethics
Audit of Travel and Hospitality
Appendix A

Hospitality	
3.0 Internal Control (continued)	**Criteria 3.3** **Hospitality Planning** Hospitality events are planned in an appropriate way when it facilitates government business, or when hospitality is considered suitable as a matter of courtesy.
	Criteria 3.4 **Proactive Disclosure** All hospitality expenses for selected government officials, including deputy ministers and senior public servants, are posted on the Internet.
	Criteria 3.5 **Fraud** Systems and controls are in place to mitigate fraud and or abuse of hospitality expenditures.
4.0 Efficiency of the process Transactions are processed on a cost efficient basis.	**Criteria 4.1** **Efficiency** Hospitality requests and claims are processed in the most efficient and effective manner.
5.0 Reporting Management has sufficient information on hospitality expenditures to effectively control these expenditures.	**Criteria 5.1** **Monitoring, Reporting** Quality of Information for Management Decision-Making. 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.

Office of Audit and Ethics
Audit of Travel and Hospitality
Appendix B

Appendix B- Key Controls

Travel and Hospitality Processes-Key Controls

Initiation of process	- Pre-approval for travel/hospitality from manager with the delegated authority

Selection process	-Approved suppliers for travel, accommodations and car rentals

Application of rates	- Prescribed meal allowance rates, kilometres rates, dependant care allowance rates and incidentals rates - Prescribed meal and beverage rates per person for events

Completeness/ Authorization	- Completeness of travel and hospitality claims including necessary source documents - Authorization from a manager with the delegated authority

Verification/ Payment	- Verification of compliance with directives - Payments are made by the appropriate delegated person