



Office of the Superintendent of Financial Institutions

Internal Audit Report on Finance and Corporate Planning Division - Travel & Hospitality

February 2012



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1. Background

Introduction

Internal Audit conducts assurance work to determine whether the Office of the Superintendent of Financial Institutions Canada's (OSFI's) risk management, control processes, and governance, as designed and represented by management, are adequate to ensure risks are appropriately identified and managed.

The audit of Finance and Corporate Planning Division - Travel and Hospitality was approved by the OSFI Audit Committee and the Superintendent for inclusion in the OSFI 2011-2012 Internal Audit Plan. This report presents the results of that audit based on the audit work completed at the end of September 2011. The audit recommendations will support the Finance and Corporate Planning Division to continuously improve their control framework for Travel and Hospitality processing.

This report was presented to the OSFI Audit Committee and approved by the Superintendent in February 2012. The Assistant Superintendent, Corporate Services and the Managing Director, Finance and Corporate Planning, who have provided their management comments within this report, have also reviewed it.

Context –

OSFI's Finance and Corporate Planning (F&CP) Division is responsible for the administration of OSFI's Travel and Hospitality (T&H) policies. The Financial Operations team within the F&CP Division achieves this by:

Policy

Administration

- administering the designated forms related to these policies,
 - providing policy clarification, guidance and training to OSFI managers, employees and travelers on the provisions of OSFI's *Travel Policy*; the Treasury Board Secretariat's (TBS) *Hospitality Policy* (rescinded January 1, 2011); and the TBS' *Directive on the Management of Expenditures on Travel, Hospitality and Conferences* (effective January 1, 2011),
 - maintaining and retaining supporting documents of transactions, as required
 - processing approved T&H claims for payment, and
 - developing procedures and related mechanisms for making T&H related payments (i.e. employee reimbursements and vendor payments).
-

Context –

Overview of Framework

OSFI's Travel Policy, the National Joint Council's *Travel Directive* (allowances and kilometric rates only) and the TBS' *Directive on the Management of Expenditures on Travel, Hospitality and Conferences* allow for the reimbursement of reasonable expenses necessarily incurred while traveling on business and to ensure that employees are not out-of-pocket for expenses not covered by kilometric, meal, and incidental allowances. The TBS' *Directive* allows for hospitality to be provided to federal employees and to non-federal government persons in specific situations or during events where it is a matter of courtesy, diplomacy or protocol, or is necessary to facilitate the achievement of the government's business.

Continued on next page

1. Background, Continued

Context –

Overview of Framework (Continued)

- “Travel” expenses include:
 - transportation,
 - accommodations that are safe, comfortably equipped, conveniently located and of good quality,
 - meals and incidentals, and
 - travel associated with Professional Development and Training (PD&T).
- The cost of transportation between an employee’s principal residence and workplace is generally not reimbursed.
- “Hospitality” may be extended when it will facilitate the business of OSFI, or as a matter of courtesy and includes:
 - provision of a reception offering refreshments,
 - meals,
 - entertainment to guests of OSFI, and
 - conferences hosted by OSFI (except facilities’ rental and associated costs).

The following table is an outline of the federal statutes, policies, and directives that govern T&H at OSFI.

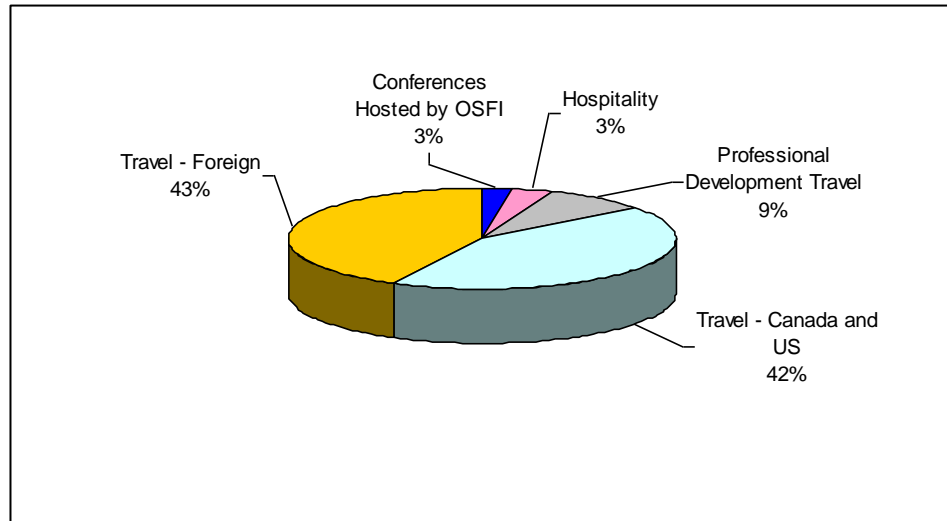
STATUTE / POLICY / DIRECTIVE	DESCRIPTION
<i>Financial Administration Act (FAA)</i>	<ul style="list-style-type: none"> ▪ Establishes expenditure controls.
The National Joint Council’s (NJC) <i>Travel Directive</i> (April 01, 2008) (allowances and kilometric rates only); the TBS’ <i>Hospitality Policy</i> (rescinded January 1, 2011); and the TBS’ <i>Directive on the Management of Expenditures on Travel, Hospitality and Conferences</i> (effective January 01, 2011)	<ul style="list-style-type: none"> ▪ Provides guidance to federal employees on fair, reasonable and modern travel and hospitality practices across the public sector. ▪ The TBS’ <i>Directive on the Management of Expenditures on Travel, Hospitality and Conferences</i> came into effect January 1, 2011 and replaced the TBS <i>Hospitality Policy</i> (1993), which was rescinded on that same date. ▪ According to Management, historically, OSFI has developed and followed its own Travel Policy, since it falls under the Human Resources (HR) portfolio. Although OSFI’s Travel Policy is based on the NJC’s <i>Travel Directive</i> (2008), there are some differences between the two policies.
TBS’ <i>Disclosure of Travel and Hospitality Expenses Policy</i>	<ul style="list-style-type: none"> ▪ Requires the disclosure of travel and hospitality expenses incurred by senior level employees at the Deputy Minister, Associate Deputy Minister, Assistant Deputy Minister and equivalent levels. ▪ For OSFI, this includes the Superintendent, the Deputy Superintendent, the Assistant Superintendents, and the Chief Actuary.
<i>Office of the Superintendent of Financial Institutions Act (R.S.C., 1985, c. 18 (3rd Supp.))</i>	<ul style="list-style-type: none"> ▪ According to Management, Section 13 of the Act establishes OSFI’s authority to develop its own HR policy, under which OSFI’s Travel Policy currently resides.

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1. Background, Continued

Context –
2010-2011
Expenditures

For the fiscal year ended March 31, 2011, OSFI had expensed \$3.2 million on travel, hospitality, and conferences, with the majority of the expenses incurred for international (43%) and Canada & United States travel (42%).



Context –

The following four key activities are associated with the T&H expenses process:

Key Activities

- Processing of T&H claims.
- Accruals for T&H expenses.
- Central billing reconciliation for prepaid air and rail travel expenses.
- Proactive disclosure for senior level employees (i.e. the OSFI Executive Committee members and the Chief Actuary) on OSFI's external website, in accordance with the TBS' *Disclosure of Travel and Hospitality Expenses Policy*.

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2. Audit Objective, Scope, and Approach

Audit Objective The objective of the audit was to provide reasonable assurance that the control framework (i.e. OSFI's systems of risk management, control processes and governance) for the Finance and Corporate Planning Division - Travel and Hospitality, as designed and represented by management:

- complies with the applicable laws, directives, regulations, and policies; and
- is managed with prudence in a manner that maximizes effectiveness in meeting OSFI's mandate and demonstrates value for money.

The audit focused on the following key activities:

	Activity	Audit Objectives
Processing of T&H Claims		
1	Expense claim form receipt and input	<ul style="list-style-type: none"> ▪ T&H expense claims are reviewed by Finance for compliance with the applicable policies. ▪ Expenses are completely and accurately input into the GL.
2	Review and posting	<ul style="list-style-type: none"> ▪ Claims are reviewed and approved by the designated reviewer, prior to posting.
3	Payment approval	<ul style="list-style-type: none"> ▪ Claims are approved for payment, in accordance with the applicable policies.
4	Oversight, monitoring and reporting	<ul style="list-style-type: none"> ▪ T&H oversight demonstrates value for money. ▪ T&H expense payments are monitored and significant variances are followed up on a timely basis.
T&H Accruals		
5	Processing T&H accruals	<ul style="list-style-type: none"> ▪ Monthly and quarterly T&H accruals are supported and are in compliance with established policies and procedures. ▪ Segregation of duties exists between the journal entry preparer and journal entry approver.
Prepaid Travel Central Billing		
6	Prepaid travel central billing reconciliation	<ul style="list-style-type: none"> ▪ Account reconciliations are supported and performed in accordance with established policies and procedures. ▪ Segregation of duties exists between the reconciliation preparer and reviewer.

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2. Audit Objective, Scope, and Approach, Continued

Audit Scope

The scope of the audit was for all travel and hospitality expenses incurred during the period of April 01, 2010 to March 31, 2011. It included a review of compliance to OSFI's Travel Policy, the TBS *Hospitality Policy* (to January 1, 2011), and the TBS' *Directive on the Management of Expenditures on Travel, Hospitality and Conferences* (effective January 1, 2011) for the end-to-end process from the initial expense claim to reporting in the general ledger to the ongoing monitoring of OSFI's spend.

The scope of the audit work excluded the following, since they were already covered by the recent Office of the Auditor General of Canada's (OAG) year-end audit:

- T&H expenses by the OSFI Executive team; and
 - Proactive Disclosure requirements for the OSFI Executive team.
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Audit Approach

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

The audit criteria (described in *Appendix A - Audit Evaluation Criteria*) sets out the elements and related components that was the basis for assessing the travel and hospitality expense control framework. These criteria are based on the internationally recognized Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework.

The approach to conducting the audit included:

- review of relevant documentation, such as the applicable TBS and internal policies and procedures;
 - walkthrough of the process;
 - inspection/examination of selected T&H claims files, records and documents; and
 - discussions/interviews with key personnel.
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3. Conclusion

Conclusion

Management has a control framework in place for Travel and Hospitality (T&H) expenses. Although OSFI is undergoing a period of transitioning from the old Treasury Board Secretariat's (TBS) *Hospitality Policy* to the new TBS' *Directive on the Management of Expenditures on Travel, Hospitality and Conferences* (effective January 01, 2011), T&H policy, guidance and practices are established and incorporate relevant legislative and Treasury Board requirements, where applicable. Process and control activities exist that provide for accurate and reliable financial records, and for an independent review and approval of expense claims, along with regular monitoring of spend against budgets.

Internal Audit has noted the control framework for Travel and Hospitality expenses can be further strengthened to ensure that:

- OSFI is demonstrating effective compliance with the applicable policies and
- the supporting expense claims include sufficient documentation to demonstrate that the best value-for-money was obtained.

Our observations and recommendations are detailed in Section 5 of this report.

We wish to recognize the cooperation and exchange of views with all involved in the audit.

Chief Audit Executive, IA

Date

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4. Management Response

Overview This report has been reviewed by the Managing Director, Finance and Corporate Planning and the Assistant Superintendent, Corporate Services, who acknowledge its observations and recommendations.

The recommendations will support the Finance and Corporate Planning Division to strengthen the control framework for Travel and Hospitality expenses.

Response Management thanks the audit team for their approach while conducting this audit. Representatives of the Finance & Corporate Planning Division reviewed the report, its findings, observations and recommendations. Recognizing the existence of linkages between some of the recommendations, management wishes to comment as follows:

Observation # 1: Demonstrating “Value-for-Money” in business travel expenditures

Management agrees that “demonstrating value-for-money” is a good practice to adhere to and should be considered when travelers or administrative coordinators make travel arrangements. To support, promote, and reinforce this principle on an ongoing basis, the following systems, processes or tools are available to travelers and managers and operating effectively:

- OSFI’s online travel reservation system is linked in real time to the Government Accommodation and Car Rental Directory and as such identifies as “preferred” any Government approved vendors and vendors with whom OSFI has discount agreements.
- OSFI’s corporate travel service provider always offers as a first option any Government approved vendors or vendors with whom OSFI has discount agreements when employees initiate travel reservations over the telephone.
- The web link to the Government Accommodation and Car Rental Directory is available on OSFI’s intranet site under the Finance-Travel section.

It should be noted, however, that OSFI’s Travel Policy stipulates that travel selections are to be based on several factors: cost, duration, convenience, safety and practicality.

Management will remind travelers and those making travel arrangements on their behalf to take advantage of discounted rates whenever possible and ask them to alert their manager to any incremental costs of travel once booked, but prior to the trip, to ensure that the benefits of the trip still warrant the incremental cost. OSFI travelers will also be asked to document on their claim form the reason for not staying at a hotel listed in the Government Accommodation and Car Rental Directory, if applicable.¹ The Finance Division will, as well, continue to monitor actual per night hotel expenditures identified on expense claims against typical average costs for the city travelled to. Significant variances will be sent back to the signing managers for explanation.

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¹ Accountability for this documentation rests with the traveler and the approving Responsibility Centre Manager. As agreed with Internal Audit, the Finance Division will not be expected to monitor the presence of such documentation, or its accuracy and/or completeness as part of its claims review process.

4. Management Response, Continued

Response
(Continued)

Management agrees that OSFI did not have a reliable process in place to track travel credits at the onset of the audit due to the travel reservation system's limitations. In March 2011, during the audit-scope period, new system functionality was added to the online travel reservation system to notify travelers of any outstanding credits. Additionally, effective October 2011 OSFI began receiving monthly reports from its corporate travel service provider that it can utilize to remind travelers of outstanding credits well before they expire. These two measures will avoid or reduce the number of instances where travel credits are not claimed. Although OSFI's process to track travel credits was not as robust during the audit field work as it is today, OSFI's track record indicates a high usage of credits by travelers and the credit loss is minimal overall. For fiscal year 2010-2011, approximately \$2,000 of expired credits were written off as a result of the Finance Division's regular reconciliation process, representing less than 0.2% of transportation costs for the entire office. Management believes that sufficient measures are now in place and operating effectively in order to mitigate this risk, which is considered low.

Observation # 2: Pre-Authorization of Travel and Hospitality expenditures

Management agrees that written pre-authorization for travel should be obtained before booking travel arrangements. However, when this is not possible post-authorization is required and permitted per section 1.1.4 of OSFI's Travel Policy. Management is of the view that the audit sample documents underlying this audit observation were in compliance with policy but will work with the unions to change the relevant sections of the Travel Policy to make it clear that such post-travel approvals should be the exception.

Management acknowledges that OSFI had not implemented the pre-authorization requirements of the TBS Directive on the Management of Expenditures on Travel, Hospitality and Conferences (effective January 1, 2011) for hospitality during the audit period covering January to March 2011. In the following fiscal quarter, OSFI's Executive Committee approved the necessary changes to OSFI's pre-authorization procedures and a communication announcing the new requirements was issued to all employees in August 2011, along with new templates and reference tools. Training to employees has been initiated and will continue to be offered regularly. The pre-authorization requirements are now embedded in ongoing operations and the Finance Division continues its long-standing practice of communicating with RC managers concerning any problem claims. As such, management is of the view that no further action is required under this observation.

Observation # 3: Lack of Segregation of Duties (SoD) and non-compliance with Policy for the approval of hospitality expenses

Recommendation A

In February 2011, during the audit-scope period, the Finance Division reviewed its practices for acquisition cards and identified the instance referred to in the audit report. The Finance Division took immediate action to rectify the process and implement new approval requirements for acquisition cards. During the audit field work, Internal Audit was informed of the new process. As this matter was fully addressed during the audit, no further action is required.

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4. Management Response, Continued

Response
(Continued)

Recommendation B

Management agrees that there was one instance where the hospitality expense was approved by the recipient of the hospitality event. This was an error that was not caught as part of the Finance Division's review of all transactions it processes (OSFI does not use sampling for claims verification).

The Executive Committee will review the existing authority of the office's four Executive Assistants (EA's) to approve low dollar value transactions for specified expense categories, including hospitality.

Observation # 4: Potential for duplicate Travel and/or Hospitality claims

The Finance Division provides mandatory training to RC Managers before they can exercise their financial delegations. The training includes a section to raise awareness to the risk of duplicate claims, and a checklist to assist managers in detecting potential duplicate claims. The checklist is available to all employees on OSFI's intranet site. Finance Division staff, as part of their expense review process, verify for indicators per the checklist. We will remind employees of this tool in the communication referenced in observation #1

Observation # 5: Food and beverage costs at hospitality events

Management agrees that the hospitality form used during 2010-2011 did not adequately support the claim and recognizes the importance of complete supporting documentation and that appropriate approvals are sought. This has been addressed through the implementation of a new form in August 2011.

The instance noted pertained to a claim that occurred prior to OSFI's implementation of the new Directive. As described under Observation #2 in this management response, the Directive's pre-authorization requirements are now well embedded in OSFI's ongoing operations and training on the Directive will continue to be provided regularly. Management firmly believes that no further action is required.

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5. Observations and Recommendations

Observation # 1 A. Booking Travel

Demonstrating “Value-for-Money” in business travel expenditures

While OSFI business travelers generally leveraged the use of government-approved hotels, IA noted a limited number of travel arrangements where the supporting expense claim did not include any documentation that the best value-for-money was obtained. [The Office of the Auditor General of Canada includes in its definition of Value-for-Money: “*where money has been expended without due regard to economy or efficiency*”].

For example, Internal Audit (IA) noted that some travel claims do not demonstrate the use of government-approved hotels and the preferential rates negotiated with the purchasing power of the Federal Government. When IA extrapolated the sample of accommodation claims that was tested, over the entire population of OSFI’s accommodation expense claims for 2010-2011, the potential cost-efficiencies for OSFI ranged from 6% - 14% (or \$39,375 - \$89,426) of the total accommodation expenditure.

Based on Internal Audit’s review of a representative sample of 27 travel claims, IA noted the following for which there were (1) no reasonable explanations on the supporting documentation from the business traveler to justify potentially unnecessary expenses and (2) no evidence of follow-ups from the Financial Operations team, prior to their processing the claim.

- i. 4 instances where alternate commercial accommodation were used with rates that were higher than the government-approved hotel rates, although government-approved hotels were within a reasonable distance to the travel destination, or near to the commercial accommodation that was used.
- ii. 1 instance where the employee stayed at a government-approved hotel, but was charged a higher rate than the government-negotiated rate.
- iii. 1 instance where the traveler booked a flight for a conference that included a weekend stay after the conference ended; the traveler then changed travel plans for personal reasons. The resulting additional airfare change fee was expensed to OSFI.

B. Travel Credits

Based on interviews and IA’s review of the prepaid central billing travel account, IA noted that OSFI did not have a reliable process for tracking travel credits when business travelers canceled or changed travel plans. As a result:

- i. when business travelers made subsequent travel arrangements, they may not have always used these travel credits. Since travel credits expire after 12 months, OSFI could miss some cost savings.
- ii. IA could not determine the amount of expired travel credits.

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5. Observations and Recommendations, Continued

Observation # 1 Recommendation

Demonstrating “Value-for- Money” in business travel expenditures (Continued)

Although the examples noted above are not requirements of the OSFI Travel Policy (the *Policy*) and the TBS’ *Directive on the Management of Expenditures on Travel, Hospitality and Conferences* (the *Directive*), in order for business travelers to consistently demonstrate that they have obtained cost-efficiencies, the following are recommended:

- A. Responsibility Center (RC) managers should reiterate to their staff the need to demonstrate that they have leveraged from the government-approved vendors and the prudence required when booking business travel and hospitality events, such that the “best” value-for-money is obtained.

RCs should be encouraged to use government-approved vendors, as appropriate and to verify that the government-negotiated rates are applied. Where there is a cost differential between the government-approved rate and incurred-rate, employees should include an explanation or justification on their supporting expense claims for the additional cost.

The Finance group should communicate to staff, the link to the government-approved accommodations and car rental website, so that travelers have easy access to the resource.

- B. Finance should coordinate with the RCs in developing a reliable process to track and to utilize travel credits on a timely basis. Roles and responsibilities between the RCs and Finance should be clarified and communicated either through the OSFI Travel Policy or internal guidelines.

Observation # 2 A. Travel Pre-Authorization

Pre- Authorization of Travel and Hospitality expenditures

According to section 1.1.2 of the OSFI Travel Policy (the *Policy*): “all travel must be authorized in advance in writing ...”. However, in subsequent sections of the *Policy*, the wording is ambiguous, resulting in potential interpretations that post-authorization of travel is sufficient. IA noted 3 instances where travel pre-authorization was not obtained in writing, prior to the business travel and the reason why pre-approval was either not possible or not documented, was not stated on the claim form. In these cases, travel authorization was obtained after the business travel.

B. Pre-Authorization of Hospitality events

According to Appendix A, Part 2.5 - Delegation of Authorities and Approvals, section 2.5.1 and Table 2 of the TBS’ *Directive on the Management of Expenditures on Travel, Hospitality and Conferences* (effective January 01, 2011): “Approvals for extending hospitality are to be obtained in advance and the associated approvals are exercised in accordance with Table 2 ...” Table 2 defines the level of authority required for the hospitality cost, upon initiation of the expenditure.

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5. Observations and Recommendations, Continued

Observation # 2 IA noted that for each hospitality event, the Responsibility Centers (RCs) generally do not always either:

Pre-

**Authorization
of Travel and
Hospitality
expenditures**

(Continued)

- i. obtain pre-authorization upon initiation of the expenditure, or
- ii. obtain pre-authorization from the appropriate level of authority, upon initiation of the expenditure, as defined in Table 2 of the TBS *Directive*.

Recommendation

- A. The Finance Division should clarify the *Policy* to require pre-authorization of all travel, in advance and in writing, with post-authorization being obtained for travel changes or in exceptional or emergency situations.
- B. RC managers should reiterate to travelers the *Policy* requirement to obtain travel pre-authorization before booking travel arrangements.
- C. The Finance Division should continue to reiterate to the RCs and their administrative coordinators the requirements of the TBS Directive for obtaining pre-authorization for each hospitality event, at the appropriate level of authority.
- D. The Finance Division should review and communicate any *Policy* non-compliance issues to the RC manager.

Observation # 3 Although the *Delegation of Financial Signing Authorities* was complied with for the hospitality expenses sampled, the Delegation is subject to government policy which specifically states that “an individual who is a participant at hospitality event may not approve the hospitality. In such circumstances, the approval of higher authority is to be obtained.” (Appendix A, Part 2.1, section 2.1.3 of the TBS’ *Directive on the Management of Expenditures on Travel, Hospitality and Conferences* effective January 01, 2011).

**Lack of
segregation of
duties and non-
compliance
with Policy for
the approval of
hospitality
expenses**

IA noted a small number of claims, although they were for legitimate business expenses, did not comply with the *Directive*, or resulted in a lack of segregation of duties. For example:

- i. approval (s. 34 certification) was provided by an employee who was a recipient of the hospitality event.
- ii. an Executive Assistant (EA) had approved the purchases on the EA’s own corporate card for the month.

Additionally, IA noted 3 instances where an employee/ RC manager was the recipient of the hospitality and the approval (s.34 certification) was provided by an employee at a lower staff level (i.e. the EA for the Assistant Superintendent of the Sector in which the RC manager worked), who has signing authority per OSFI’s “*Delegation of Financial Signing Authorities*” instrument dated September 2007.

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5. Observations and Recommendations, Continued

Observation # 3 Recommendation

Lack of segregation of duties and non-compliance with Policy for the approval of hospitality expenses
(Continued)

- A. Prior to processing purchases made by corporate cardholders, the Finance Division should ensure that the corporate cardholder's purchases have been independently approved.
- B. The Finance Division should ensure their expense review process includes ensuring that hospitality expenses are independently approved, and approved at the appropriate level in compliance with the Policy.
- C. The Executive Committee should review the appropriateness of the existing financial delegations to the Executive Assistants that are set out in OSFI's existing *Delegation of Financial Signing Authorities* instrument. For "best practices", this is encouraged to avoid any potential perceptions of undue influence on the Executive Assistant to provide the certification.

Observation # 4

Potential for duplicate travel and/or hospitality claims

According to Appendix A, Part 2.1, section 2.1.2 of the TBS' *Directive on the Management of Expenditures on Travel, Hospitality and Conferences* (effective January 01, 2011), when a federal employee is the recipient of an hospitality event, "he/she is responsible for ensuring that he or she does not seek reimbursement for meals or refreshments as a part of a travel claim or other expense claim where such meals or refreshments have been provided as hospitality."

The Finance Division and the RCs do not have strong controls to prevent or to detect duplicate Travel or Hospitality claims made by an employee. The main control that Finance relies on, when processing the claim, is the s. 34 certification made by the employee's manager.

IA noted an isolated case where an employee had obtained reimbursement for a meal, while receiving the meal as part of a hospitality event.

Recommendation

The Finance Division should communicate reminders to the RC managers to be vigilant in detecting duplicate expenses when providing their s.34 certifications.

Observation # 5

Food and beverage costs at hospitality events

The Treasury Board Secretariat's (TBS') *Hospitality Policy* (rescinded January 01, 2011) had set out certain financial limitations for food and beverage at a hospitality event. These requirements for the food and beverage costs per person were further defined in the new TBS' *Directive on the Management of Expenditures on Travel, Hospitality and Conferences* (effective January 01, 2011).

Under both the old *Hospitality Policy* and the new *Directive*, the cost per person includes the applicable taxes (such as the 13% HST applicable in Ontario). During the audit, IA noted that the "Hospitality Approval Form" supporting the hospitality claims was designed to calculate the cost per person to exclude the applicable taxes.

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5. Observations and Recommendations, Continued

Observation # 5 Additionally, IA noted:

Food and beverage costs at hospitality events

(Continued)

- i. 3 instances where the claim did not have adequate supporting documentation or justification to demonstrate compliance with the Policy or Directive that was existing at the time the expense was incurred (e.g. the calculations for the cost per person for food and beverage at the hospitality event was not always clear); and
- ii. 1 instance where the standard cost per person for food and beverage at a hospitality event had exceeded the allowances defined in Appendix A, Table 1 of the new TBS *Directive* and did not have the pre-approval at the appropriate level of authority.

In these cases, there was no evidence that the Financial Operations team had followed up with the Responsibility Center (RC) for further supporting documentation or justification to demonstrate compliance with the Policy or *Directive*, prior to processing the claim.

Further, based on interviews conducted during the audit, not all applicable staff has received formal training on the interpretation and application of the requirements for the new TBS' *Directive on the Management of Expenditures on Travel, Hospitality and Conferences* (effective January 01, 2011).

Recommendation

The Finance Division should continue to roll out training on the requirements of the new TBS *Directive* to the RCs and ensure they include the Administrative Coordinators for the RC.

Going forward, prior to processing claims, the Financial Operations team needs to increase its vigilance in detecting non-compliance to the new TBS *Directive* and to ensure the supporting documentation for the claims includes reasonable explanations and justifications for exceptions, including the necessary pre-authorizations, where appropriate. For example, where the cost per person for food and beverage at a hospitality event is expected to exceed the standard cost per person, but within the maximum cost per person, then, as per Appendix A of the TBS *Directive*, this is to be applied in exceptional circumstances. Further, the standard cost per person cannot be exceeded without the proper pre-approval at the appropriate level of authority that is required by the *Directive*.

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Appendix A – Audit Evaluation Criteria

The T&H control framework was developed on a collaborative basis with the Finance Division and accepted by the Managing Director, Finance and Corporate Planning, and the Assistant Superintendent, Corporate Services as the basis for assessing and reporting on the T&H control framework.

Travel and Hospitality Audit Evaluation Criteria	
Element	Components
1. Process and Control Activities	<ul style="list-style-type: none"> ▪ Process and Control Activities exist that: <ul style="list-style-type: none"> ○ provides operational policy, guidance and tools including specific guidance for management and reporting of exceptions to T&H processing and approval requirements; ○ provides for continuous review/ quality assurance including identification, assessment, reporting and remediation of non-compliance matters/ problems; and ○ provides for accurate and reliable recording and reporting of T&H expenses in the general ledger and management reporting systems.
2. Operating Environment	<ul style="list-style-type: none"> ▪ Roles and responsibilities of process participants are defined and communicated.
3. Objective Setting	<ul style="list-style-type: none"> ▪ Objectives and services for T&H expenditures are defined and aligned with OSFI corporate objectives and legislative mandate in a manner that maximizes effectiveness in meeting OSFI's mandate; ▪ T&H expenditure plans/ budgets are established in a manner that demonstrates value for money; ▪ performance expectations are set, monitored and cascaded down to Financial Operations team; and ▪ T&H policy, guidance and practices are established, incorporate the applicable legislation and TB policy requirements and are communicated to management and staff.
4. Risk Management	<ul style="list-style-type: none"> ▪ External and internal risk related to T&H expenses are identified, assessed, and mitigation/ controls are in place and incorporated into corporate risk management, consistent with ERM policy.

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Appendix A – Audit Evaluation Criteria

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Travel and Hospitality Audit Evaluation Criteria	
Element	Components
5. Information and Communication	<ul style="list-style-type: none"> ▪ Information and Financial systems appropriately support the T&H process through the provision of timely and accurate information; and ▪ supporting documentation is maintained in accordance with corporate record retention policies and is accessible as needed.
6. Monitoring and Management Reporting	<ul style="list-style-type: none"> ▪ Monitoring and management reporting processes, (including an escalation process) and supporting practices and tools exist at the Finance and senior management levels including: <ul style="list-style-type: none"> ○ regular monitoring of T&H spend vs. budget; ○ reports on year-to-date spending; and ○ analysis of T&H expenses, e.g. by vendor; by employee; by RC; average costs per employee or RC; etc.