

3.12–Travel and Other Related Expenditures

BACKGROUND

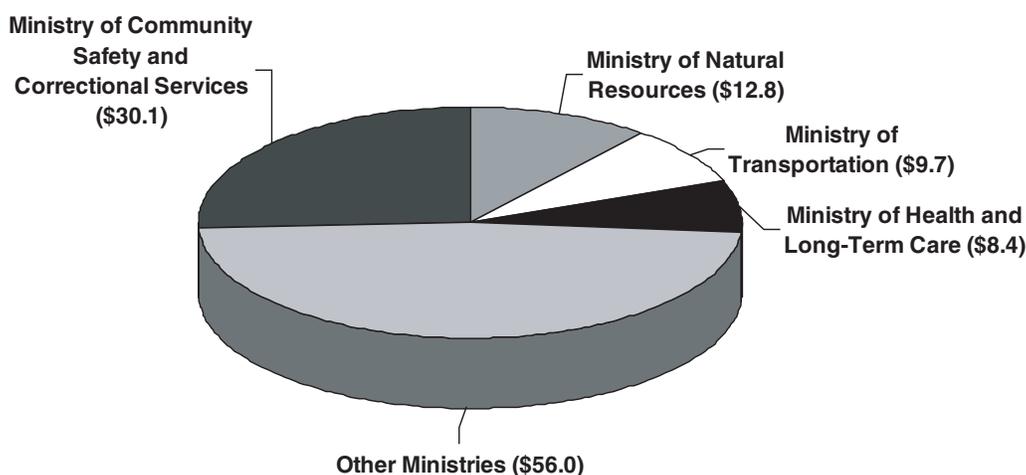
Management Board Secretariat (MBS) is responsible for developing corporate policies on travel and other related expenditures. Travel expenditures include, for example, air, accommodation, and meal costs incurred by employees travelling on government business; other related expenditures include, for example, the costs of conference facilities and attendance and meals for employees conducting business during normal meal times.

In 1997, MBS issued the Travel Management and General Expenses Directive (Directive). It applies to all employees in all ministries and governs overall government travel and other related activities, including the acquisition of travel services and the process employees must follow for claiming travel expenses. Travel and other related expenditures may be paid directly by an employee, who is subsequently reimbursed by their ministry, or they may be billed to and paid directly by a ministry.

MBS is responsible for negotiating and managing corporate contracts for travel agency and charge card services, as well as providing assistance to ministries in developing and administering employee expense procedures and practices.

Based on information provided by the ministries for the 2002/03 fiscal year, the government processed about 400,000 travel and other related claims and directly billed invoices; and it expended about \$117 million on travel and other related expenditures. The four ministries we audited accounted for over 50% of the total amount spent, as shown in the following pie chart.

Travel and Other Related Expenditures, 2002/03
(\$ million)



Source of data: various ministries

AUDIT OBJECTIVE AND SCOPE

The objective of our audit was to assess whether there were adequate processes in place to ensure that travel and other related expenditures were incurred only for government business, were acquired in an economical manner, and complied with established policies and procedures.

We conducted our audit work at Management Board Secretariat as well as at four ministries (ministries) with significant travel and other related expenditures: Community Safety and Correctional Services, Health and Long-Term Care, Natural Resources, and Transportation.

Our audit fieldwork, which was substantially completed in June 2004 and focused on expenditures incurred from April 2002 to November 2003, was conducted in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances. Prior to the commencement of our audit, we identified the audit criteria that would be used to address our audit objective. These criteria related to systems, policies, and procedures that should be in place and were discussed with and agreed to by senior ministry management at MBS and at the four ministries.

We did not rely on internal audit to reduce the extent of our audit work because they had not recently conducted any audit work on travel and other related expenditures that impacted on our planned audit procedures.

OVERALL AUDIT CONCLUSIONS

We found that the vast majority of travel and other related transactions were in accordance with established policies and procedures. However, we did note a number of exceptions in all the ministries we audited. We also noted numerous instances where claims submitted by employees were approved and paid even though these claims had either no support or inadequate support. Therefore, a significant risk remains that any transgressions in claims submitted by employees who are not complying with the Directive would likely not be detected.

As a result, we concluded that there is a need for more diligent and consistent processes for verifying and approving claims for travel and other related expenditures—a need that is heightened by the anticipated introduction of a centralized cross-ministry electronic claims processing system, under which paper documents may not be submitted to support the claim. We believe that many of the exceptions noted in our audit could have been prevented or appropriately addressed if there had been adequate review and approval of expense claims.

Some of the exceptions noted include the following:

- At two ministries, amounts billed directly to the ministry for travel, including air travel, were not reconciled to approved travel expenditures, thereby increasing the risk that air travel charges may be paid twice or that air travel charges for non-government-related purposes would not be detected.
- A number of examples of excessive expenditures were claimed and paid, often with little or no support. We found instances of extravagant meals and luxury car rentals and accommodations.
- There were instances where employees used the government corporate-travel charge card for expenses not related to government business travel and used their personal charge card for business expenses. As well, minimal action was taken to identify and address cardholders who used their travel card for personal expenses or who were seriously delinquent with their travel card payments.

We also noted that MBS did not obtain all information needed from travel service providers—such as the corporate-travel charge card provider and the corporate travel agency—to assist it in better managing travel and other related expenditures government-wide. In addition, the terms for earning rebates from the corporate-travel charge card provider were not realistically achievable.

DETAILED AUDIT OBSERVATIONS

The Travel Management and General Expenses Directive was developed by MBS to:

- establish the principles, mandatory requirements and guidelines for acquiring all travel services including all ticketed transportation, accommodation, and car rental requirements, and for reimbursing employees for travel, accommodation, meals and hospitality, and conference expenses incurred on behalf of the government;
- ensure fair, consistent treatment of all employees required to travel on behalf of the government; and
- delegate to deputy heads total authority in administering these expenses within the provisions of the Directive.

Furthermore, this Directive states that the following principles should form the basis for employee travel decisions:

- expenses associated with an employee's duties should minimize costs and maximize the benefits to the organization;
- employees should be reimbursed for legitimate work-related expenses authorized by management;
- reimbursable expenses should support program objectives of the ministry;
- employees must make the most practical and economical arrangements for travel, meals, and hospitality;
- in evaluating travel options employees should consider total costs, including the costs of transportation, hotels, meals, taxis, and time spent travelling; and
- employees should make maximum use of the government's teleconferencing and videoconferencing facilities to reduce the need for employee travel for business meetings.

Because government practices for travel and other related expenditures are very interrelated, we made one forward-looking recommendation to address those areas where we noted the need for improvement. This recommendation, which can be found at the end of this report, addresses the need to establish effective processes for ensuring compliance with the Directive and other policies as well as for better managing travel services and costs.

CLAIMS PROCESSING

Review and Approval of Individual Claims

To be reimbursed for expenses incurred for government travel or other related activities, employees submit a signed expense claim in accordance with ministry

procedures. Expense claims are then submitted to the appropriate senior person for approval and reimbursement.

To help ensure that amounts claimed by employees are appropriate and reasonable and for government-related business purposes, the Directive requires that employees retain original receipts to support expense claims in accordance with ministry procedures. As well, for unusual expenses or in cases where one employee is claiming an expense for another, the employee must provide an explanation or proof of having obtained prior approval.

In the ministries we visited, in many cases we questioned the adequacy of the approval process. We noted that travel and other related claims were generally approved, but in many instances original receipts were not attached nor was there any explanation for the missing receipts. Attached support was often limited to charge card slips or charge card statements (both of which only indicate the total amount paid with no detailed information on what was purchased). For example, we noted one employee who had claimed and been reimbursed for almost \$3,100 in personal expenses—expenses that included a personal flight and non-business-related meal and accommodation charges—which were supported by only a charge card statement. As a result of our audit, this amount was being repaid by the employee. We also noted the reimbursement of a number of duplicate claims, including an employee who claimed and was reimbursed twice for a \$352 claim, which was submitted once without any support and the second time with only a charge card statement. In addition, all the examples of excessive and otherwise unusual claims noted throughout this report had been approved prior to payment.

Without sufficient support, individuals approving claims cannot readily determine whether a claim is appropriate and reasonable and for legitimate government-related expenses.

Support for Centrally Billed Costs

To streamline business practices, the Directive requires that ministries establish central billing systems that allow certain transportation expenditures, such as air travel, to be charged directly to a ministry's account rather than having employees pay these amounts and claim for reimbursement. As well as reducing administrative costs, this process enables the government to benefit from its exemption from paying the Goods and Services Tax (GST) on certain goods and services purchased for government purposes such as air, rail, and bus transportation charges billed directly to the province: these expenses are GST-exempt under an agreement with the federal government.

We reviewed the processes in place at three ministries to ensure that amounts charged to the centrally billed accounts were adequately supported in that they were for legitimate business purposes. We found that one ministry had a policy requiring that all flight charges listed on the centrally billed statement be supported by employees' airline

tickets, which had been signed by their supervisor to indicate approval of the trip. Furthermore, the policy reminded employees not to claim centrally billed amounts on their individual expense claims. However, at the other two ministries, no process was in place to ensure the validity of centrally billed accounts. Without an adequate process in place, there is a risk that charges may be paid twice or that charges not related to government business may be paid and go undetected. For instance, we noted that one employee claimed and was paid \$1,240 for a flight that had already been paid through a centrally billed account.

New Electronic Processing

At the time of our audit, we noted that the processes in place for employees to file travel expense claims varied by ministry—some were completely paper-based, others fully automated. However, one ministry was piloting, and all ministries were expected to adopt by early in the 2005/06 fiscal year, a new electronic claims processing system called iExpenses. Under the new system, employees will complete and submit expense claims electronically, and the appropriate signing authority will electronically approve claims for payment. According to Ministry of Finance documents, the new system is expected to save time and paper, automatically check and calculate mileage, reduce the turnaround time for reimbursement, and provide better access to information.

We were informed that it would be up to each ministry to decide what supporting documentation, if any, the signing authority would review prior to approving the electronic claim for payment, as well as who would be responsible for keeping the supporting documentation. In addition, it would be up to each ministry to determine whether to implement any other verification processes, such as reviewing certain claims in detail. Although this is consistent with the Directive, which states “where ministries have electronic expense claim systems in place, approvals of travel and other business-related expenses shall follow ministry procedures,” the lack of a consistent process for reviewing and approving travel expense claims increases the risk that any inappropriate claims would not be detected.

We acknowledge that an electronic claims processing system can offer efficiencies. However, as the supporting paper receipts may often not be submitted under electronic systems when the claim is submitted for review and approval, there is an increased risk that inappropriate expenses would not be detected and therefore paid. One possible compensating strategy is to periodically conduct an organization-wide review of a sample of electronic claims to ensure that claims are properly supported with receipts and, where they are not, ensure the responsible employees are held accountable. This work could be included, for instance, in the Internal Audit Division’s annual work plan.

TRAVEL AND OTHER RELATED CLAIMS

The Directive requires that employees make the most practical and economical arrangements for travel and other related activities and states that expenses should minimize costs and maximize the benefits to the province. This includes flying economy class, minimizing vehicle rental costs by renting the smallest required vehicle for the business task, booking reasonably priced accommodation, and exercising judgment and restraint at all times when buying meals. While we found that travel and other related expenditures were generally incurred in accordance with the Directive, a number of exceptions were noted as outlined in the following sections.

Air Travel

According to the Directive, employees may travel by air when this is the most practical and economical way to travel. In addition, the Directive states that employees will normally be reimbursed for economy class airline tickets. Where costs exceed economy rates, employees must support their expense claim by providing an explanation or proof of prior approval from their immediate supervisor.

We noted that most individuals in our sample of claims reviewed were booking economy class tickets. However, at one ministry, we were informed that there was an informal policy allowing employees to travel executive class when a flight was over six hours in duration.

We believe this is an example of a ministry policy that can result in inconsistent treatment of employees from different ministries travelling under similar circumstances.

Vehicles and Mileage

The Directive states that the rental of luxury and sports cars of any size is not permitted and that full-size or other large vehicles may only be rented when several employees are travelling to the same place or for other specific business purposes, provided that there is prior approval from the employee's immediate supervisor. We noted that while vehicle rentals usually complied with the Directive, there were exceptions. For example, one employee rented a Lincoln Town Car for three days at a total cost of \$660. Other employees at the same ministry rented such vehicles as a Ford Explorer at up to \$83 per day, a Nissan Xterra at \$95 per day, and a Ford Mustang at \$70 per day. At another ministry, an employee was reimbursed \$425 for a one-day rental of a GM Envoy, which, we were informed, was needed to transport personal belongings due to a business relocation from North Bay to Sault Ste. Marie. Prior approval was not obtained, and reasonable documentation did not exist to support the need for these types of vehicles.

Under the Directive, employees are permitted to travel by taxi and be reimbursed when other means of transportation are not available, weather conditions so warrant, a

physical disability applies, or the transport of baggage or parcels is required. In our review of ministries' files, we noted that the use of taxis generally seemed appropriate. However, and as a result of our audit work on the government purchasing card (see Section 3.11), at one ministry, we noted numerous limousine expenses between November 2002 and January 2004 that cost from \$450 to \$500 per trip, totalling \$18,000, to take employees between North Bay and Toronto. We saw no documented explanation for these excessive charges, and while we were informed that more than one person was travelling, we only saw one instance of more than one person travelling on the billings from the limousine company. We were informed that the use of limousines to travel between North Bay and Toronto has since been discontinued.

The Directive states that individuals may use their personal vehicle for government business when a government vehicle is not available and use of the personal vehicle is more economical than a rental vehicle. The Directive strongly encourages employees to rent cars for business travel instead of using their own vehicle when the total distance to be driven in one day exceeds 250 kilometres. While we noted that most individuals adhered to this requirement, there were a number of cases in our sample where individuals charged mileage exceeding 250 kilometres a day for use of their personal vehicle, often without stating the purpose of the trip or where they went. For example, one employee claimed 484 kilometres (costing \$141) for one day's travel without any documentation on the claim of where the individual went or the specific purpose of the trip. Another individual, who did document the destination and purpose of the trip, claimed 2,250 kilometres (costing \$658) for six days' travel. A regional office at one ministry had adopted a policy for travel in the North Bay area that would reimburse individuals an equivalent-to-rental rate of \$49 a day plus 7 cents a kilometre whenever individuals chose to use their personal vehicle for trips over 250 kilometres a day. The adoption of maximum reimbursement amounts on a province-wide basis similar to that followed by this regional office would help eliminate excessive mileage claims.

We also noted individuals who chose to use their personal vehicles to combine personal trips with government business, which resulted in, for example, an \$810 mileage charge to Halifax and a \$1,153 transportation charge to attend a business-related conference in Orlando (we were informed the transportation charge was equivalent to the non-refundable airfare quoted by the corporate travel agency).

Accommodations

Employees are expected to book reasonably priced hotels and motels when travelling on government business. In addition, the Directive states that if family or friends share accommodations with an employee travelling for business-related purposes, the employee may claim for a single occupancy rate only. In exceptional circumstances, employees must obtain prior approval (where possible) from their immediate supervisor for alternative arrangements.

In our review of ministries' files, we noted that accommodation charges were generally reasonable, but we found some exceptions. For example, individuals travelling with their families claimed and were reimbursed accommodation charges, including \$3,528 for a four-night stay at a Muskoka resort and \$648 for a two-night stay in Toronto. In addition, individuals stayed in Toronto hotel suites that cost up to \$400 per night. We were informed these suites were used to host meetings after conferences, but there was no evidence that other meeting space was not available at a more reasonable rate. There was no documented prior approval to support these expensive accommodation charges, yet all employee expense claims were approved and paid.

Meals

The Directive states that decisions about business-related meal expenses must be based on the most practical, economical, and appropriate arrangements available. The Directive also states that employees shall be reimbursed for actual meal costs up to \$34 per day including gratuities and taxes but that costs incurred for alcoholic beverages will not be reimbursed. If the \$34 daily meal rate is exceeded, persons authorized to approve claims must ensure that expenses are supported by receipts and are reasonable for the locations where they were incurred. All claims for reimbursement of hospitality or business-related meals must be supported by: a brief description of the purpose of the activities and justification; a receipt for the amount paid detailing the amounts paid for food and beverages; and other items, including names, position titles, employers of the recipients of the meal and reason for their attendance.

We noted many meal claims that exceeded the \$34 daily maximum meal rate with no explanation for the increase over the approved meal rate and no indication that anyone else attended. For example, one individual claimed \$91 for meals for one day without any justification. In addition, three employees from one ministry claimed and were reimbursed for a \$270 dinner, which included \$57 in alcohol. We saw no explanation or documented prior approval for such excessive meal charges, yet the expense claims were approved and paid.

Other examples noted in our sample included a claim of \$980 for dinner that had only the charge card slip attached with no further explanation, as well as a claim of \$560 for dinner with no supporting documentation. We requested documentation supporting one of these claims and lists of people attending, but this information could not be provided. We noted a number of instances where the claims only stated the number of people attending, with no supporting documentation, and, when we investigated some of these claims, we found that fewer people actually attended than were purported to have attended. For example, one claim for a \$380 dinner stated that 11 people attended, when only six people actually attended.

Although the supporting documentation requirements are clear, we noted far too many examples where claims lacked the required support but were approved regardless.

Employee Recognition

According to the Directive, no public funds shall be spent for social events, including testimonial dinners and farewell functions. Nevertheless, the *Guide to Long-Service Employee Recognition in the Ontario Public Service, Best Practices and Minimum Standards for 20, 25, 30 and 35 Year Program*—an initiative supported by MBS—outlines certain recognition activities (for example, presenting a letter of congratulations) and suggests that ministries augment them with other common practices (for example, an annual lunch or dinner to honour long-service employees). Other than the recognition of long-service employees, no government-wide policies surrounding employee recognition have been developed, although we noted that some ministries had developed policies specific to their ministry.

We acknowledge that employee recognition activities are often a good human resources practice. However, we found that the extent and cost of employee recognition events beyond those for long-service employees varied among the ministries we visited. Based on our discussions with ministry management, more guidance would be helpful in this area.

Miscellaneous

The Directive states that employees are eligible for reimbursement of miscellaneous work-related expenses incurred while travelling on government business. Such expenses include: gratuities for taxis; reasonable costs for one personal call home each night away; and reasonable, occasional child and dependant care expenses incurred when required to travel on short notice where travel is not a regular requirement of the job. Non-reimbursable expenses include personal expenses for recreational purposes, for example, video rentals, and expenses incurred due to the presence of friends or family members.

While most miscellaneous charges in the sample of travel claims we examined were in accordance with the Directive, some individuals claimed and were reimbursed for items that were questionable. For example, at one ministry, two individuals were reimbursed for car cleaning costs that seemed excessive for government vehicles—one individual was reimbursed \$240 for two cleanings and another individual was reimbursed \$120 for one cleaning. At another ministry a total of \$557 in pet kennel costs during 2002 and 2003 was reimbursed to one employee who we were informed was single and had no one to look after the pets. We also noted a number of instances where individuals were reimbursed for movie rentals charged to their rooms while on travel status.

With respect to business-related calls, which are fully reimbursable, we questioned the reasonableness of some long-distance charges that were reimbursed. For example, one employee claimed \$500 for long-distance calls during a 13-day trip to Halifax, while another employee claimed \$165 for a two-day trip to Ottawa. We were informed that these costs were primarily incurred for computer dial-up charges to access work-related

e-mail. We believe that there are more economical ways to accomplish this, such as establishing an electronically assisted call-back mechanism on an employee's computer so that long-distance charges are primarily incurred at the relatively inexpensive government rate rather than at a hotel rate.

CONSISTENCY OF TRAVEL AND OTHER RELATED POLICIES AMONG MINISTRIES

All ministries are generally required to adhere to the Directive. However, each ministry is responsible for its administration of the Directive, and we noted that the ministries modify it to suit their particular needs. For example, one ministry had added a provision for a fourth meal under certain circumstances that is not provided for in the Directive; and, as discussed previously, another ministry had an informal policy of allowing employees to fly executive class for flights over six hours in length. Since each ministry may modify the travel requirements, there is a lack of assurance that all government employees who travel on government-related business are treated in a similar manner, as required under the Directive. In addition, developing unique rules in each ministry increases costs, as each ministry must create and maintain their own travel policies, and can hinder the ability to compare travel and other related costs between ministries.

CORPORATE-TRAVEL CHARGE CARD

Each corporate-travel charge card is issued in the name of an employee and the cardholder is responsible for the card, including paying for all charges and meeting all terms and conditions. Employees are reimbursed for business-related expenses they have charged to their card when they submit an expense claim for these expenses. Employees are required to use the corporate-travel charge card where possible for payment of all business-related travel and other related expenses, as well as for obtaining cash advances at automated bank machines for anticipated out-of-pocket expenses that cannot be charged on the travel card. Should a cardholder default on his or her payments to the corporate-travel charge card provider, the provider (not the cardholder's ministry) is generally responsible for the delinquencies.

In addition, ministries may also have centrally billed corporate travel accounts with the corporate-travel charge card provider and are responsible for paying all charges on these accounts. Air, rail, and bus tickets for ministry employees should automatically be charged to the centrally billed accounts. In 2003, \$58 million was spent through the corporate-travel charge card provider.

Monitoring of Card Use and Services

To effectively manage the use of the corporate-travel charge card and the contract with the card provider it is necessary to monitor spending on travel and other related expenditures. Such information helps in monitoring compliance with travel policies (for example, using approved travel suppliers for car rentals and accommodation) and in identifying areas for future improvement.

At the ministries we visited we found a lack of information and analysis on travel card spending at the ministry level. We also noted that consolidated information on travel costs across ministries was not readily available. For example, little information was available on total travel card spending by vendor (for instance, by hotel or by car rental company). This information could be used to obtain better prices from vendors or ensure that agreements (for instance, for volume discounts and rates) were being adhered to by the vendor. In addition, we found no analysis of: the extent of personal use (for example, non-travel-related expenditures) of the corporate-travel card; the correlation, if any, between personal use of the travel card and delinquency; and the extent to which personal charge cards were used instead of the travel card. We attempted to obtain information from the travel card provider related to these issues, but they were unable to provide the data within the time period required to complete our audit work. We believe that obtaining and analyzing this data would assist Management Board Secretariat and the ministries to better manage travel costs.

Rebate Terms

Rebates are cash incentives paid to a corporate “cardholder” (in this case, the government) by corporate card providers and are often based on the total dollar amount spent on the travel charge cards and/or particular types of purchases.

We reviewed the province’s agreement with the corporate-travel charge card provider and noted that the rebate terms were so restrictive that it would be extremely difficult for the government to earn any rebate. For example, to earn one of the two potential rebates, the average amount spent per travel card had to exceed \$4,500 annually, whereas prior years’ actual usage averaged under \$2,100 per card annually. To earn the other rebate, the province was required to spend at least \$20 million annually on air travel even though prior years’ actual air travel spending had never exceeded \$16 million annually. As a result, no rebates have been earned by the province since the current contract commenced in 1999. We inquired with MBS as to whether rebates had ever been paid since 1986 (we were informed that the same corporate-travel charge card provider has won all contracts since that time), but were advised that information relating to previous contracts was not available.

In addition, we noted that if any rebates were earned they would first have to be used to offset all losses related to card non-payment and any resulting delinquency fees. All accounts remaining unpaid for 180 days after the billing date are written off by the

travel card provider as a loss, which would be deducted from any rebates earned, even if the travel card provider subsequently receives payment on any of these accounts from the employees responsible.

Issuance and Cancellation of Cards

Generally, travel charge cards are only issued to employees who incur travel and/or travel-related expenses. Typically, it is up to the applicable managers to decide which employees should receive a travel card.

Restricting the distribution of corporate-travel charge cards to individuals who travel is one way to help reduce delinquencies, card loss, and inappropriate use. We found that 28% of all issued travel cards had no charges during 2003. At the two ministries where we inquired, no periodic review of outstanding travel cards was performed to determine which individuals still required travel cards. In addition, neither ministry had an up-to-date list of who had travel cards, which in some cases led to individuals having more than one travel card. While there is no direct cost to the ministries of maintaining unused travel cards, the risk of loss and inappropriate use of the travel cards exists.

The Directive requires that employees leaving a ministry—whether through termination, transfer, or retirement—return their travel cards and that the travel card provider be notified to cancel the cards. At the two ministries where we conducted audit work on this issue, we found that travel cards were generally cancelled in a timely manner, but some exceptions were noted. For example, one travel card was not cancelled until 11 months after the employee left the ministry. We also noted that the ministries did not always receive confirmation that travel cards had been cancelled.

Required Use of the Card

In rare circumstances, employees may use the corporate-travel charge card for personal expenditures. Similarly, a personal charge card may be used instead of the travel card in exceptional circumstances, for example, when the merchant does not accept the travel card. When employees use personal charge cards for business-related travel expenses or use their travel cards for personal expenses, it is difficult for MBS and ministries to track overall spending patterns. These patterns can help MBS better negotiate contracts with suppliers of travel services and may also assist in better budgeting of travel and other related expenditures.

We noted numerous cases of individuals using their personal charge cards. For example, one individual who had a travel charge card charged \$6,900 to a personal charge card without any documented explanation why the travel card was not used. In addition, a number of employees at one ministry incurred car insurance costs of up to \$32 per day because they used their personal charge card instead of their corporate-travel charge card, which includes insurance coverage. We also noted a number of

instances where travel expenditures were charged on the government purchasing card, which is not to be used for travel and other related expenses.

Given the number of exceptions noted, we believe that MBS and the ministries must do a better job educating travel cardholders about their responsibilities concerning the travel card. All cardholders received a cardholder agreement from the travel card provider when a travel card was issued, but there was variation in the information provided to employees on the appropriate use of the card. One ministry followed a good practice of providing cardholders with a copy of the applicable sections of the Directive, which clearly outline the employee's travel card responsibilities, in addition to the cardholder agreement issued by the travel card provider.

Where employees had inappropriately used their travel cards or were seriously delinquent on their travel card payments, we were advised that there were no specific policies outlining any actions to be taken. Furthermore, we were advised by management that no action was normally taken against employees who inappropriately used their travel card or defaulted on their travel card payments. Rather, employees experiencing difficulties resulting from unpaid accounts were to deal directly with the travel card provider—an approach that is in accordance with the Directive. In 2003, the travel card provider wrote off almost \$160,000 for non-payment of employee corporate-travel charge card accounts. Without effective policies for disciplinary action where serious or repeat problems arise, the risk of delinquency increases—for example, use of the card for personal expenses may lead to a higher balance on the card and to difficulty in paying off the balance. This may, in turn, reduce travel card rebates (a cash benefit earned based on spending and payment records) and distort information on travel spending patterns.

TRAVEL ARRANGEMENTS

MBS has established a contract with a travel agency to provide services to employees travelling on government business. According to MBS documents, the contract with the corporate travel agency is meant to ensure that the ministries' travel requirements are met economically and according to consistently high standards. The corporate travel agency is to provide the province with information on travel spending patterns and assist in promoting and monitoring adherence to the province's travel policy—for example, by only quoting fares for economy class travel.

Only when travel is booked through the corporate travel agency can the government benefit from discounted fares that it has negotiated with an airline. The use of the travel agency also facilitates the application of the province's GST-exempt status on transportation charges.

Provincial employees in 18 cities across Ontario are required to book business travel through the corporate travel agency. Employees outside of these 18 cities are not required to deal with the corporate travel agency. However, since travel bookings are

generally made by telephone, we question the decision to exempt anyone in the province from using the corporate travel agency and thereby lose the associated benefits.

According to the Directive, the travel agency is responsible for securing the lowest practical costs, but employees are expected to inform the travel agency if they are aware of lower rates that may be available. Notwithstanding a report for MBS that reviewed airfare booked between December 2001 and February 2002 and showed that the corporate travel agency was usually providing the lowest airfare, we were informed by several individuals at the ministries we visited that they had obtained lower airfares—for example, through the Internet—from providers other than the corporate travel agency. Our review of files confirmed that for various reasons, including price, the corporate travel agency was not always used. We also noted that other travel agencies used did not charge GST in many instances and often did not charge a service fee, which is applied when using the corporate travel agency. On discussing with senior officials why employees should use the corporate travel agency if a lower fare is available elsewhere, we were informed that there were many benefits, specifically: 1) one-stop location for booking travel, thereby increasing administrative efficiencies; 2) support for all reservations, ensuring employees are never stranded; and 3) cost controls, as employees are reminded of travel policy by the provider and as consolidated and detailed information is provided by the travel provider (including market share information, which can help the government obtain better prices).

Monitoring expenditures booked through the corporate travel agency can help MBS and ministries effectively manage travel expenditures and help identify areas for future improvement. For example, MBS has used information from reports on volume of business that were supplied by the corporate travel agency to negotiate a special pricing agreement with one airline. However, we found that the ministries we audited did not request or use travel agency reports to help them manage travel costs.

We also noted that ministries did not receive reports showing outstanding flight credits, which are earned when employees cancel their flights. The credits are generally non-transferrable to other employees. Nevertheless, if ministries obtained reports on unexpired credits, they could monitor that employees are using these credits if and when they next travel for government business and before credits expire. We were informed that this report was not requested and that the corporate travel agency is only made aware of credits if employees inform them. While employees are supposed to do so, we were informed that the data the travel agency has on unexpired credits is likely incomplete. In addition, no overall data was received on the number and dollar value of credits that expired unused. On reviewing work done by a legislative audit office in another jurisdiction, we noted that unused credits were a significant issue. We believe that maintaining and periodically reviewing this information would assist ministries in ensuring that credits were appropriately used for future travel.

ACQUISITION OF TRAVEL SERVICE PROVIDERS

The province acquires travel services by issuing a request for proposals (RFP). In accordance with the MBS directives on procurement, the RFP includes the deliverables required and the method used to select a new provider.

We reviewed the process followed for choosing the corporate travel agency being used at the time of our audit and found that a competitive process was held and that the travel agency was selected in accordance with the steps outlined in the applicable RFP.

With respect to the selection of the corporate-travel charge card provider, we were unable to review the selection process as we were advised that these records had been misplaced during a reorganization of MBS and were therefore no longer available. We noted that one company has provided corporate-travel charge card services since 1986. Other available MBS documents that we examined indicated that other major Canadian banking institutions were not in a position to match the same benefits as the selected travel card provider, as they had concerns about some of the requirements outlined in the RFP, namely: joint and several liability, which limits the province's liability if the employee does not pay or misuses their card; the option of cash advances; and the requirement that employee credit checks not be performed. We believe it may be worth re-examining these requirements to obtain benefits in other areas. For instance, while the previous RFP generally made the charge card provider responsible for delinquencies, in 2003 the delinquencies amounted to only \$160,000. Modifying certain requirements may result in more competitive and economical bids from alternative providers, especially with respect to rebate terms.

Overall Recommendation

To ensure that inappropriate expense claims, although relatively infrequent, are detected, Management Board Secretariat (MBS) should work with ministries to ensure expense claims—whether paper or electronically filed—have the required supporting documentation and an adequate level of review. This will be particularly important with the planned adoption of an electronic claims processing system in all ministries early in the 2005/06 fiscal year. To this end, MBS should establish, in conjunction with the ministries, a cost-effective process that provides assurance that ministries are complying with the *Travel Management and General Expenses Directive*. This process could include:

- **adopting a government-wide policy, perhaps based on a dollar limit or type of claim, where supporting documentation must be submitted to the individual approving any claims filed electronically;**
- **conducting an annual government-wide review, perhaps by the Internal Audit Division, of a sample of expense claims and centrally billed accounts paid during the year to ensure they are supported by receipts and other required documentation; and**

- communicating clearly to employees the consequences of not following established procedures and, where exceptions are found, holding the responsible employee accountable.

To better ensure that the costs of travel and other related expenditures are practical and economical and that processes are in place across all government ministries for the fair and consistent treatment of all government employees who are required to travel, MBS should:

- require that ministries obtain Management Board of Cabinet's approval for any significant departures from the Directive that ministries make;
- in consultation with the ministries, identify and establish common government-wide guidelines for: employee recognition functions; travel-related, long-distance, computer dial-up charges; the issuance and cancellation of employees' corporate-travel charge cards; and the education of corporate-travel charge cardholders on the appropriate use of the travel card;
- evaluate the benefits of establishing maximum reimbursement amounts for government employees who choose to use their personal vehicles on government business;
- identify the travel information that would help ministries better manage their travel functions and work with the corporate travel agency and corporate-travel charge card provider to obtain this information;
- in the next competitive process for a corporate card provider, obtain competitive rebates that are based on a reasonable level of travel card spending and reconsider current requirements for deliverables on the travel card and gather information on the cost and benefits of alternative criteria and deliverables; and
- better monitor that the corporate travel agency is meeting its commitment to provide the most economical travel arrangements.

Management Board Response

Management Board Secretariat (MBS) agrees with the recommendation and is committed to ensuring that cost-effective controls are in place to ensure effective oversight of travel and travel-related expenditures. In that context, MBS is working with the respective ministries on specific findings to ensure that action is taken to address all the exceptions to proper procedures identified by the Provincial Auditor, including full repayment and other disciplinary action as appropriate.

While the current corporate-travel charge card and corporate travel agency programs have achieved significant benefits for the province, MBS has a number of additional initiatives underway to strengthen controls over travel and travel-related expenditures.

A new Travel Management and General Expense Directive will be recommended to the Management Board of Cabinet; the directive will require

that any ministry seeking to create its own travel policies must receive approval from the Management Board of Cabinet before doing so.

The electronic expense management system currently being implemented strengthens the management of the travel claims process and includes enabling managers to identify centrally billed expenses in order to reduce the risk of duplicate payment of travel expenses.

MBS will undertake a comprehensive education and communication initiative around travel and expense management. This will focus on policies and procedures with respect to expense claim submissions and approvals, documentation requirements, managing exceptions and special circumstances, and the consequences of failing to follow established procedures. MBS will also work with ministries to facilitate regular oversight to enhance compliance with these requirements.

MBS will work with Cabinet Office to develop guidelines regarding the use of public funds for employee recognition and gifts for official visitors and speakers at ministry events. MBS will also establish government-wide procedures for travel-related long-distance computer dial-up charges.

MBS will also strengthen the process for issuance and cancellation of an employee's corporate-travel charge card and will undertake a comprehensive education and communication initiative on the use of the corporate-travel charge card. MBS will also review the appropriateness of establishing maximum reimbursements for employees using personal vehicles on government business.

As part of the procurement process to establish a new contract for a travel product, MBS has included criteria in the request for proposals to establish a rebate program with the successful travel card provider. In addition, the recently established travel agency contract includes enhanced reporting requirements and mandates that the vendor allow third-party audits to ensure that the corporate travel agency is meeting its obligations to provide the lowest fare at the time of booking. MBS will work with both the travel card and travel agency providers to ensure that information is available to help ministries strengthen their management of travel and travel-related expenditures.