

The Senate of Canada

Annual Report on Internal Audits 2009-2010

Report of the Standing Committee on
Internal Economy, Budgets and Administration

December 2010

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Introduction

Oversight and Audit

The day-to-day oversight of the Senate's resources and administrative practices rests with the Standing Senate Committee on Internal Economy, Budgets, and Administration and with the Clerk of the Senate, whose responsibilities are described in chapters 2:02 and 2:03 of the *Senate Administrative Rules* as follows:

Chapter 2:02

2. (1) Subject to the rules, direction and control of the Senate, the Committee is responsible for the good internal administration of the Senate.
- (2) For the purposes of subsection (1), good internal administration means a competent administration that is flexible, fair and transparent, with appropriate policies and programs, suitable service levels, adequate resources including high-quality staff, appropriate reporting mechanisms and regular audits and assessments.

Chapter 2:03

3. (4) the principal functions of the Clerk of the Senate as head of the Senate Administration are:
 - (a) to provide advice on corporate governance, including on strategic, administrative and financial planning and administration;
 - (b) to organize the internal administrative and financial structures;
 - (c) to direct the Senate Administration;
 - (d) to control and monitor the functions of the Senate Administration; and
 - (e) to report to the Senate through the Internal Economy Committee.

The internal audit function supports the Committee and the Clerk in meeting their responsibilities by providing independent, objective assurance services designed to add value and improve the stewardship of Senate operations and resources. This assists the Senate in accomplishing its internal management objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance practices.

The internal audit function reports functionally to the Audit Subcommittee and administratively to the Clerk of the Senate and is led by the Director, Internal Audit and Strategic Planning. The function's processes and practices are designed to meet the Institute of Internal Auditors' Professional Practices Framework.

An Audit Subcommittee, made up of three members of the Internal Economy Committee, has been established as the governance body charged with overseeing and directing the internal audit function. The Audit Subcommittee's primary responsibilities are to:

- Recommend for approval by the Internal Economy Committee a multiyear internal audit plan, reports and recommendations regarding the internal audit function, including audit reports that have been submitted, and other matters, as appropriate;
- Review management action plans and ensure (1) that they adequately address the recommendations and findings arising from internal audits, and (2) that the action plans have been effectively implemented;
- Submit an annual report with its observations and recommendations to the Internal Economy Committee; and
- Review the Internal Audit Charter and Internal Audit Policy and recommend changes as required to the Internal Economy Committee.

The Senate maintains a *Multiyear Audit Plan* that covers a three-year period and is updated annually using a risk-based audit planning methodology. The plan is reviewed by the Audit Subcommittee before being presented to the Internal Economy Committee for approval. Once approved, the Director, Internal Audit and Strategic Planning, is responsible for ensuring that the audits are carried out as planned. Audit work is typically carried out by outside audit firms engaged through a competitive process.

2009-2010 Audits

In May 2009, the Standing Senate Committee on Internal Economy, Budgets, and Administration adopted a three-year risk-based audit plan. The plan started with the 2009-2010 fiscal year during which the following audits were completed:

- Audit of Senators' Office Expenditures
- Services Contracts Audit
- Job Classification Function Audit

These three audits were carried out by the firm Ernst & Young and their audit reports are presented in sections 2, 3, and 4 of this report, along with the Senate's responses to the findings and follow-up action.

Recurring Issues

Each of the audits looked at a different aspect of the Senate's administrative practices and resulted in recommendations unique to that area. However, the audits did identify a couple of issues that were common across all three and, given the nature of these issues, it is reasonable to expect that they might exist in other administrative areas as well. Addressing the following recurring issues in response to these audits will provide the added benefit of improved administrative practices in areas that have not yet been audited:

1. The need for improved documentation of files

All three audits identified some weaknesses in file documentation such as transaction files with inadequate, missing, or incomplete supporting documentation. Measures were put in place immediately to correct the weakness and include solutions such as identifying and specifying what is considered to be appropriate documentation in different cases and the implementation of file checklists and sign-off procedures.

2. The need for policy updates and improved communication and understanding of policies

The audits found that some administrative policies were outdated, inadequate, or non-existent. They also found that, in certain instances, policies were poorly communicated and/or not well understood by users.

Policy review and development has been an area of sustained focus in the Senate Administration for some time and several policies have been revised and updated in the recent past. This will continue to be a priority along with improvements in the dissemination of policies and training for policy users.

What Happens After the Audits?

Once an audit has been completed, the results are submitted to the Clerk of the Senate who, along with his management team, considers and validates the observations, prepares management responses and develops a follow-up action plan for addressing the recommendations. The final audit report, along with management's responses and action plans, are presented to the Audit Subcommittee and subsequently to the Senate Committee on Internal Economy, Budgets, and Administration.

The follow-up process on audit recommendations begins as soon as a weakness has been identified and it is not unusual to have corrective measures implemented during the course of the audit, even before the final report is issued. Other recommendations require more extensive changes to policies, procedures, practices and systems and can take anywhere from a few months to two years to fully implement. These actions often form the basis of key initiatives in the Administration's annual work plans.

The Clerk, with the assistance of the Director, Internal Audit and Strategic Planning, monitors progress made on the implementation of audit recommendations. The Audit Subcommittee is kept apprised of any delays or situations that might require closer attention and receives progress reports on a quarterly basis until all audit recommendations have been addressed.

I. Audit of Senators' Office Expenditures

The following report was prepared by the firm Ernst & Young:¹

Executive Summary

In May 2009, the Internal Economy Committee adopted a policy on internal audit, an audit charter and an internal audit plan. The audit plan identified and assessed key risks that may impact the Senate in achieving its internal management goals and objectives.

Conduct of an audit of Senators' office expenditures was identified as one of the key areas to perform an internal audit.

During fiscal year 2008/2009, Senators' office expenditures amounted to \$19.5 million representing 24% of the Senate's total operating costs of \$81 million. Senators' office expenditures include travel, research and office budget, living expenses, hospitality/miscellaneous and start-up budget expenses for the Senators appointed in that period.

This audit was recommended by the Senate Audit Subcommittee and approved by the Standing Committee on Internal Economy, Budgets and Administration to provide the Senate with an independent audit of the management of Senators' office expenditures and to identify areas for improvement.

This audit report provides details regarding audit objectives, scope, approach, and key findings and observations made during our audit conducted between July and September 2009.

A summary of key recommendations follows:

1. Supporting Evidence, Policy and Procedures Compliance

The Senate should provide clearer guidance and criteria on which activities constitute a parliamentary function. This would help reduce the time in assessing the eligibility of expenses, and benefit not only Senators when preparing expense claims, but also Finance staff responsible for claims processing.

The Senate should develop timeframes for submitting expense claims for non-travel related expenses. This would provide for better financial management and help alleviate account reconciliation issues during financial close.

The Senate should continuously review and reissue its policy documents in a timely manner to reflect new decisions. In particular, the *Taxi Policy* does not reflect current business practices. Any policy revisions should be approved by the appropriate authority.

¹ Due to the confidential nature of the data included in Appendix B of the Ernst & Young report, it has not been reproduced in this annual report. While the data was useful during the audit examination and included in the original report produced by Ernst & Young for internal purposes, its omission in this compilation does not impede the reader's ability to fully understand the observations and recommendations.

2. Travel Expenses

The *Travel Policy* should provide clearer guidance on points deducted for travel where portions of a trip exceed the four-day duration in any single location, as well provide clearer guidance on spousal travel.

The Senate should ensure that original documentation is provided in support of expense claims to be in accordance with its Administrative Rules, policies and procedures. In instances when original documentation is not provided, claims should only be processed upon receipt of other appropriate supporting documentation and approval of the Director of Finance or delegate.

The Senate should ensure that new policy guidance on travel and credit cards is properly communicated to all relevant stakeholders in the Senate.

3. Living Expenses

The *Living Expenses Policy* should be revised to reflect requirements for Senators to provide supporting documentation for private accommodation expenses, similar to documentation requirements for commercial and rented or leased accommodation.

4. Research and Office Budget

The Senate's policies should be updated to provide clearer guidance and criteria for what constitutes a consulting service and a personnel service so as to ensure the correct process and contracting authority is used by Senators' offices.

The Senate should ensure written and approved letters of offer are consistently put in place for all term employees prior to commencing work within Senators' offices. Curriculum vitae/resumes should also be consistently maintained for review against role requirements.

5. Miscellaneous Expenditures

Each Senator's office should ensure complete hospitality records are maintained which document the details of each hospitality occasion, so as to be in accordance with the *Miscellaneous Expenditures Account Policy*. Furthermore, guidance should be given to Senator's offices on how to maintain such logs for ease of recording and consistency.

6. Review and Oversight

The Senate should give consideration for a second level approval for Senators' expense claims. Normal practices within private and public sector organizations now include second-level approvals of all expense reports, including those of the CEO.

Additional recommendations, as well as context and observations, can be found in the body of this report.

1.0 Introduction

1.1 Background

In 2007-2008, the Internal Economy Committee agreed to fund the creation of an internal audit function for the Senate, aligned with international standards and leading practices in effect in the public and private sectors. In May 2009, the Internal Economy Committee adopted a policy on internal audit, an audit charter and an internal audit plan. The audit plan identified and assessed the key risks that may impact the Senate in achieving its internal management goals and objectives, and set out a three-year internal audit plan to assist in mitigating these risks.

Conduct of an audit of the Senators' office expenditures was identified as one of the key areas to perform an internal audit.

The current direction in the Senate includes strengthening policies, procedures and controls over expenditure management, including costs incurred by Senators' offices. Our audit included all Senators' offices, including those of newly-appointed and retiring Senators during the fiscal year ending March 31, 2009.

During the fiscal year 2008/2009, Senators' office expenditures amounted to \$19.5 million, representing 24% of the Senate's total operating costs of \$81 million. Senators' office expenditures include travel, the research and office budget, living expenses, hospitality/miscellaneous and start-up budget expenses for newly-appointed Senators in 2009.

This audit was recommended by the Senate Audit Subcommittee and approved by the Standing Committee on Internal Economy, Budgets and Administration to provide the Senate with an independent audit of the management of Senators' office expenditures and to identify areas for improvement.

1.2 Audit Objective, Scope and Criteria

The objective of the audit was to assess financial and management controls over expenditures in Senators' offices. The scope of Senators' office expenditures included travel expenses, telecommunication expenses, living expenses, research and office expenses - salaries, expense reimbursements, professional services (research assistance, temporary help), hospitality and miscellaneous.

Our scope also included examination of the *Senate Administrative Rules*, policies and practices in place during 2008/09 and the 2009/10 up to the completion of the audit fieldwork in September. Expenses incurred during 2008/09 were tested.

Senators' remuneration and allowances for additional responsibilities were not included in the scope of expenditures in this audit. These amounted to \$16 million for 2008/09.

The criteria used for this audit were based on key elements of the expenditure management policies and directives of the Senate listed in Appendix A:

- *Evidence of approvals and documentation supporting expenses* – *Senate Administrative Rules*, policies and procedures are followed. Proper documentary evidence support expenses claimed.
- *Audit criteria related to specific expenses items:*
 - Travel Expenses – The *Senate Administrative Rules* and the *Senators' Travel Policy* are followed and prudent financial controls are in place over use of the AMEX card for travel, in compliance with the 64-point system, including accommodation, meal allowances, airfare, ground transportation, etc. There is evidence supporting expenditures for parliamentary functions.
 - Living expenses – The *Senate Administrative Rules* and the *Policy on Senators' Living Expenses in the National Capital Region (NCR)* are followed and prudent controls are in place over forms of accommodation chosen by Senators (hotel, personal residence, leases).
 - Research and office budget - The *Senate Administrative Rules* and the *Senators' Research and Office Expense Budget Summary of Guidelines* are followed and prudent financial controls are in place including: proper documentation, segregation of duties within Senators' offices and the Administration, proper approvals and delegation of authorities (e.g. salaries and wages, travel and taxis, telephone carrier service, wireless service, web services, communications consultants, research assistance, technical services, information technology consultants, other services).
 - Miscellaneous expenditures - \$5,000 limit (e.g. hospitality, gifts and promotional items) for the miscellaneous expenditures account. Guidelines are followed and prudent financial controls are in place, including evidence of receipts, and use of standard claim forms for hospitality.
- *Review and oversight* – Appropriate review and management oversight and monitoring are in place including approval of Senators' claims and requests to the Internal Economy Committee for sole source contracts, when warranted.

2.0 Approach & Methodology

Our approach in conducting the audit was comprised of the following three phases:

- Planning phase
- Execution and testing phase
- Reporting phase

Planning Phase

During the planning phase, a risk assessment was performed through interviews with key members of the Senate Administration to develop an understanding of the major risks and issues associated with Senator's office expenditures, as well as relevant policies and procedures in place to mitigate such risks.

Financial data for Senator's office expenditures for the year-ended March 31, 2009 were obtained and compared with information for two previous years, as well as against budget for significant variances. We also conducted process walkthroughs and documented processes and internal controls for key management processes related to Senator's office expenditures.

Customized audit criteria and an audit program were developed to address the significant risks identified. A corresponding test plan was developed and used in the execution and testing phase.

Appendix B provides a summary of the financial line objects used to review historical information and select our sample of expenditures for testing.

Risk Assessment

The purpose of the risk assessment was to identify potential areas of risk that could affect the efficiency and effectiveness of expenditure management processes of Senators' offices across the Senate. The risk assessment identified key risk areas which formed the starting point for the audit work undertaken and provided an assessment on the state of the control environment as it relates to Senators' office expenditures. The risk assessment also formed the basis of our audit criteria stated above. Some of the areas of focus include:

- *Expenditures for parliamentary functions.* Expenses incurred by Senators for parliamentary functions are reimbursed by the Senate as per the *Senate Administrative Rules (SARs)*, policies and guidelines. Given the broad definition of parliamentary functions within the SARs, there is a risk that allowable expenditures in support of parliamentary functions and those which are ineligible may not be clearly understood by Senators.
- *Consistent application of policies and procedures.* In addition to the *Senate Administrative Rules*, there are 12 policies and procedures/guidance documented for processing and administration of Senators' office expenditures. Several of the Senate's policies are being updated and revised to strengthen the control environment. There is a risk of inconsistent application of policies and understanding of the policies across Senators' offices.
- *Evidence of approvals and documentation supporting expenses.* Compliance with policies and procedures including proper documentary evidence supporting expenses claimed is a key principle to payment processing. There is a risk that certain expenses are not supported by receipts/evidence of expenses and prudent sign-off requirements may be lacking.
- *Formal Contracts.* Senators' office expenditures may not always have formal service contracts in place. There is a risk that terms and conditions are not well established and statements of services are not clearly defined.

Execution and Testing Phase

Based upon the planning results and the detailed testing plan, we executed the testing through a combination of interviews and reviews of controls and invoices. Senators' office expenditures testing included a two-phased approach of "vertical" and "horizontal" testing described below.

Under both testing approaches, we tested a sample of Senators' office expenditures incurred in 2008/2009 for compliance with the *Senate Administrative Rules* and Senate policies, as well as with prudent private and public sector business practices for expenditure management.

During the audit, the office expenditures of a total of 110 Senators were sampled, which accounts for departures, arrivals, and the number of Senators "on the books" in 2008-2009.

Vertical Testing Approach

The objective of the vertical test was to select 10 Senators' offices and perform testing of the most significant office expenditure items and higher risk items identified during the risk assessment. Further, the objective was to test a sample from line objects across all 10 Senators' offices such that all line objects, as noted in Appendix B, were tested against the audit criteria. A total of 91 transactions were selected and tested across 10 Senators' offices.

The 10 Senators' offices were selected from across all Senators' offices by using our random selection tool to ensure a "blind", unbiased, and random selection.

Horizontal Testing Approach

The objective of the horizontal test was to review for higher risk expenditure items and assess if controls and policies were consistently applied across all Senators' offices. The focus was on higher risk items identified during our risk assessment. Horizontal testing of key expenditure items (i.e. travel, hospitality and living expenses) was conducted and included an unbiased selection of ten Senators' offices from a total of the 100 Senators not included in vertical testing.

For each expenditure type, transactions were randomly selected from across all Senators' offices using our random selection tool. Senators' names were not disclosed to the audit team. A total of 30 transactions were selected and tested.

Lastly, although personnel services contracts were identified as a higher risk area in interviews, these contracts were tested as part of the Contracting Audit recently completed. Findings from this audit are reported in the Contracting Audit Report.

Reporting Phase

An interim report of preliminary findings was presented to the Audit Subcommittee as part of the reporting phase of the audit in September 2009.

3.0 Observations & Recommendations

3.1 Audit Criteria #1 – Evidence of Approvals and Documentation Supporting Expenses

The <i>Senate Administrative Rules</i> , policies and procedures are followed. Proper documentary evidence support expenses claimed.
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Background Information

The *Senate Administrative Rules* (SARs) provide the authority and framework for administration in the Senate. As per the SARs, Senators are entitled to receive financial resources and administrative services and to have discretion and control over the work performed on the Senators' behalf by the Senators' staff. Senators are responsible for the administration of their respective offices in compliance with the *Senate Administrative Rules* and applicable policies and practices.

The Senate's policies over Senators' office expenditures are based on a key principle that expenditures are incurred to support Senators in carrying out their parliamentary functions and personal expenses are not reimbursable expenses by the Senate.

The *Senate Administrative Rules* define "parliamentary functions" as the duties and activities related to the position of a Senator, wherever performed, and include public and official business and partisan matters, but do not include activities related to:

- (a) the election of a member of the House of Commons during an election under the *Canada Elections Act*; or
- (b) the private business interests of a Senator or a member of a Senator's family or household.

Staff in the Finance Directorate is responsible for processing claims. When they are uncertain about the nature of an expense, as identified on the Senator's claims, the protocol is for Finance staff to contact the Senator's office to obtain additional information and documentation as evidence. When the nature of the expense is still unclear, discussions with supervisors or a more senior member of the Finance Directorate take place. In the event that the matter cannot be resolved, it is brought to the attention of the Steering Subcommittee of the Internal Economy Committee.

The *Senator's Travel Policy Guidelines* state that Senators should forward signed travel expense claims to the Finance Directorate no later than 60 days after completion of their trip. Furthermore, travel claims submitted after 60 days will not be paid without the prior authority of the Steering Committee on Internal Economy.

The Senate's *Taxi Policy* was adopted in 1989. Policies and procedures outline the taxi services available to both Senators and Administration personnel and circumstances under which taxi services can be claimed.

Policy-Related Observations

- Although a definition of a parliamentary function exists within the SARs, there is a lack of clear guidelines and criteria clarifying what activities constitute a parliamentary function. For example, there is no clear guidance made between partisan activities relating to Senate business (allowable expenses) and partisan activities on behalf of political parties which may not be eligible. This issue affects Finance staff responsible for processing claims as well as the level of understanding of the rules by Senators' offices and can lead to inconsistent interpretation and processing of reimbursements.

- Unlike travel expense claims, there is currently no time limit for submission of non-travel related expense claims for reimbursement. This anomaly has resulted in lengthy delays and affects the year-end financial close processes and the ability to properly reconcile AMEX accounts.
- The Senate's *Taxi Policy* has not been updated for twenty years and does not reflect current practice. For example, the policy does not address the use of taxi vouchers by Senators residing outside the National Capital Region (NCR) to carryout parliamentary functions while in the NCR. As well, the current policy states that voucher transaction logs are to be maintained to record the issuance of all taxi vouchers and the trip details. Maintaining such logs is not reflective of the Senate's current practices regarding taxis.

Recommendations

- The Senate should provide clearer guidance and criteria on which activities constitute a parliamentary function. This would help reduce the time in assessing the eligibility of expenses, and benefit not only Senators when preparing expense claims, but also Finance staff responsible for claims processing.
- The Senate should develop timeframes for submitting expense claims for non-travel related expenses. This would provide for better financial management and help alleviate account reconciliation issues during financial close.
- The Senate should continuously review and reissue its policy documents in a timely manner to reflect new decisions. In particular, the *Taxi Policy* does not reflect current business practices. Any policy revisions should be approved by the appropriate authority.

3.2 Audit Criteria #2 – Travel Expenses

The *Senate Administrative Rules* and the *Senators' Travel Policy* are followed and prudent financial controls are in place over use of the AMEX card, in compliance with the 64-point system, for travel, including accommodation, meal allowances, airfare, ground transportation, etc. There is evidence supporting expenditures for parliamentary functions.

Background Information

Senators' travel is based on a point system as defined in the *Senate Administrative Rules* and the *Senators' Travel Policy* and *Senators' International Travel Guidelines*. Each Senator is allocated 64 points for travel each fiscal year. The *Senators' Travel Policy* provides some guidance as to the number of points that should be deducted for various travel agendas and durations. According to the policy and guidelines, for each four-day period spent in a particular destination, the number of travel points deducted is increased. Points are entered into the financial system when travel claims are submitted and processed by the Finance Directorate.

Travel points may be used by the Senator or allocated by the Senator to alternates. An "alternate", as defined in the SARs, is a person authorized by a Senator to make one or more trips who is:

- (a) a Senator's designated traveller;

- (b) a dependent child of the Senator;
- (c) an employee or contractor of the Senate or of the Senator; or
- (d) a person accompanying the Senator for medical reasons.

A designated traveller is identified by the Senator once a year.

The travel policy also requires that original airline ticket stubs, boarding passes and original receipts must be attached to travel expense claims.

The Senate has had an *Acquisition and Travel Card Policy* in place since 1994. When travel cards are issued, an *Acknowledgement of Responsibilities* form is completed and signed by the Senator which authorizes the usage of the card for travel fare and business travel expenses. In addition, monthly the Finance Directorate provides each Senator's office with their statement of account and memo indicating types of expenses that can be charged to the travel account. In instances when an ineligible expense is charged to the card, an additional letter advising what types of expenses are allowed is also forwarded to the Senator's office.

The Senate recently revised the *Senators' Travel and Senators' International Travel Guidelines* for international travel by Senators, subject to certain restrictions. In 2007, the policy was revised to include travel to Washington. In 2009, policy was revised to include travel to New York for United Nations-related matters.

Policy-Related Observations

- The *Senate Administrative Rules* and *Senators' Travel Policy* do not clearly address the requirements for calculating travel points under the 64-points system for travel to multiple destinations for more than four days. The policy guidance does not make a distinction whether an entire trip exceeding four days is subject to a higher deduction of points, or just portions of a trip which exceeds the four day duration. Interpretation of the policy may result in an inconsistent deduction of points against a Senators' travel point allocations.
- The *Senate Administrative Rules* and *Senators' Travel Policy* do not provide guidelines on the appropriate frequencies (e.g. number of trips accompanying a Senator) and purposes of trips for spouses to travel outside of the Senators' home region and the NCR. There is a risk from a public perspective that travel of spouses may not be for a parliamentary function.
- In October 2008, a travel protocol was communicated verbally to Senators, indicating the requirement to document the rationale or role their staff members would play for travel outside of the Senator's region. This protocol was not reflected in the Senator's travel policies in 2008-2009.

Testing-Related Observations

- We noted 6 instances out of a total 25 tests where travel cards were incorrectly used to pay for hospitality-related expenditures.
- In one instance, we noted that no boarding pass was provided in support of travel to Ottawa from the Senator's home region.

- In 1 out of 35 tests, our calculation of travel points differed from those applied, based on our interpretation of the guidelines.

Recommendations

- The *Travel Policy* should provide clearer guidance on points deducted for travel where portions of the trip exceed the four-day duration in any single location, as well as ensure that travel points are calculated and deducted consistently for all Senators' travel.
- The Senate should review acceptable frequency and purpose for travel by spouses outside the Senator's region excluding travel to the NCR.
- In November 2009, the Senate updated its *Travel Policy* such that prior approval by the Senator and the Steering Committee is required for travel by Senators' office staff outside of their home region. The Senate should ensure that this new policy guidance is properly communicated to all relevant stakeholders within Senate Administration and Senators' offices.
- In May 2009, the Senate implemented a new *Corporate Credit Card Policy* replacing the *Acquisition and Travel Card Policy* in effect since 1994. The policy states that hospitality expenses should not be charged to Senators' travel cards. The Senate should ensure there is formal communication to all Senators regarding eligible travel card expenses and policy requirements.
- The Senate should ensure that original documentation is provided in support of expense claims. In instances when original documentation is not provided, claims should be processed upon receipt of other appropriate supporting documentation and approval of the Director of Finance or delegate.

3.3 Audit Criteria #3 – Living Expenses

Senate Administrative Rules and the Policy on Senators' Living Expenses in the National Capital Region (NCR) are followed and prudent controls are in place over forms of accommodation chosen by Senators (hotel, personal residence, leases).

Background Information

According to the *Senate Administrative Rules* and the *Policy on Senators' Living Expenses in the National Capital Region (NCR)*, Senators with registered residences more than 100 kilometres outside of Ottawa are on travel status while in Ottawa and are entitled to reimbursement for living expenses. A Senator may be reimbursed for either commercial accommodation (hotel) accompanied by valid receipts; rented or leased accommodation, supported by a lease agreement and proof of payment; or private accommodation based on a daily rate.

Policy-Related Observation

- Unlike commercial accommodation and rented or leased accommodation, the *Senators' Living Expense Policy* does not require providing supporting evidence for private accommodation expenses when in the NCR, such as proof of ownership.

Testing-Related Observation

- We observed 1 out of 20 instances of a duplicate rental payment. This resulted from payments on a faxed expense claim and upon receipt of originals. The duplicate payment was identified by the Senator's administrative assistant during review of the direct deposit notices, of which there were two with the same claim number.

Recommendations

- The *Policy on Senators' Living Expenses in the National Capital Region (NCR)* should be revised to reflect requirements for Senators to provide supporting documentation for private accommodation expenses, similar to supporting documentation requirements for commercial and rented or leased accommodation.
- The Senate should ensure that proper original documentation is provided in support of expense claims to be in accordance with its policies and procedures, prior to being processed.

3.4 Audit Criteria #4 – Research and Office Budget

Senators' Research and Office Expense Budget Summary of Guidelines are followed and prudent financial controls are in place including, proper documentation, segregation of duties within Senators' offices and the Administration, proper approvals and delegation of authorities (e.g. salaries and wages, travel and taxis, telephone carrier service, wireless service, web services, communications consultants, research assistance, technical services, information technology consultants, other services).

Background Information

According to the Senate's *Delegation of Financial Authorities Policy*, the authority for contracting of personnel services resides within the Human Resources Directorate.

Term employee contracts are administered by the HR Directorate on behalf of Senators' offices, Senate Committees, Debates Areas, and Senate Administration. Letters of offer are prepared by the HR Directorate and signed by the employee in advance of beginning work.

The process for hiring within a Senator's office can be initiated directly by a Senator when a candidate has already been identified by the Senator. Senator's offices follow the hiring and compensation guidelines approved by Internal Economy in March 2008, subject to the limits of their research and office budgets. A Senator will generally hire candidates to meet immediate requirements on short notice. In the case of term employees, the Senator is responsible for assessing the candidate's qualifications and forwarding a resume to the HR Directorate to complete the employee file. It is the HR Directorate's role to review the candidate's resume and experience level against the Senate's approved work descriptions. The initial offer is done by letter, with subsequent renewal for continuing employment terms.

The Senate's *Delegation of Financial Authorities Policy* states that the authority for the contracting of consulting services resides within the Finance Directorate and applies to all consulting contracts requested by either the Senate Administration or Senators' offices.

Testing-Related Observations

- The Senate's policy documentation does not provide a clear definition or criteria for what constitutes a consulting service or a personnel service, resulting in improper contracting authorities being used. In 1 out of 15 instances, we observed that a consulting contract for a Senator was incorrectly processed as a personnel services contract resulting in the contract not being approved through the appropriate contracting authority.
- During our testing of consulting contract files, we observed an absence of key pieces of documentation (those noted above) from closed contract files.
- The Senate does not consistently have letters of offer in place for all term employees. Based upon the results of our testing, we noted no letter of offer was in place for 1 of 20 instances where a term employee was hired to work in a Senator's offices.
- Based on the results of our testing, we observed 14 of 20 files where letters of offer were signed after the start of the work term.
- We observed an absence of curriculum vitae (CVs)/resumes in 3 out of 20 term employee files. There is a risk that an individual's competencies do not align with the requirements of the position.

Recommendations

- The Senate should ensure written and approved letters of offer are consistently put in place for all term employees.
- The Senate should administer letters of offer to term employee on a timely basis to ensure that they are in place prior to the start of work by the hired individual.
- The HR Directorate should ensure that CVs/resumes are consistently maintained such that a review can be completed of a candidate's experience level against role requirements applicable to term employees.
- The Senate's policies should be updated to provide clearer guidance and criteria for what constitutes a consulting service and a personnel service so as to ensure the correct process and contracting authority is used in administering personnel contracts.
- The Senate should ensure all documentation is properly completed and maintained when administering contracts.

3.5 Audit Criteria #5 – Miscellaneous Expenditures

\$5,000 limit (e.g. hospitality, gifts and promotional items) for the miscellaneous expenditures account. Guidelines are followed and prudent financial controls are in place including evidence of receipts, and use of standard claim forms for hospitality.

Background Information

The Senate has a *Miscellaneous Expenditures Account Policy* with an annual spending limit of \$5,000 per Senator's office for hospitality, gifts and promotional expenses. Under this policy, Senators are required to maintain complete records of each hospitality occasion within their respective offices. When submitting claims, Senators must submit signed hospitality claims on a standard form which certifies that expenditures have been incurred in carrying out their parliamentary functions. Beginning July 2008, Senators were required to document the purpose of hospitality events and a memo from the Chair of the Internal Economy Committee was sent to Senators' offices to inform them of this requirement.

Each Senator must also identify the number of internal and external guests who attended the event on the standard claims form.

With respect to official gifts and promotional items, the *Miscellaneous Expenditures Policy* states that gifts and promotional items may be purchased up to a maximum value of \$100 per item. Items are to be representative of the Senate and the Parliament of Canada.

Policy-Related Observation

- With respect to gifts and promotional items, the current policy does not require Senators to disclose the recipient of gifts and when a gift was given. There is a risk from a public perspective that gifts may not be for parliamentary functions.

Testing-Related Observations

- We observed that 13 of 25 hospitality expenses tested had minimal documented descriptions regarding the purpose of the hospitality expense and the number of guests attending the hospitality event. Upon our follow-up of these 13 tests, we received 6 adequate responses regarding the details and number of guests who attended the hospitality event. We noted, however, that the support provided was maintained in an inconsistent and unstructured manner from office to office (e.g. electronic and manual calendar entries, emails, etc.). The absence of the list of guests on hospitality claims hampers Finance personnel when assessing the reasonableness of the expense against meal allowance limits. There is also a risk that ineligible expenses may be reimbursed.
- In 2 of 25 tests, we noted that a proper hospitality claim form was not provided in support of the expense claim. In both instances, a letter or memo was provided from the Senator's office for processing the reimbursement. In the absence of appropriate supporting forms, there is a risk that proper certifications regarding expenses have not been obtained.
- In 3 of 25 tests, we noted that original receipts were not provided in support of the expense claim.

- We noted 4 instances of 25 tests where miscellaneous expense claims were signed by a staff member in the Senator's office instead of by the Senator or someone with the appropriate delegated authority.

Recommendations

- Each Senator's office should ensure complete hospitality records are maintained which document the details of each hospitality occasion, so as to be in accordance with the *Miscellaneous Expenditures Account Policy*. Furthermore, guidance should be given to Senators' offices on how to maintain such logs for ease of recording and consistency.
- The gifts and promotional items section of the *Miscellaneous Expenditures Policy* should be updated to reflect disclosure requirements (i.e. recipient of gifts and when a gift was given) on expense claims for gifts/promotional items purchased by Senators.
- The Senate should ensure that proper original documentation is provided and signed under the Senator's authority in support of expense claims, prior to being processed.

3.6 Audit Criteria #6 – Review and Oversight

Review and oversight – Appropriate review and management oversight and monitoring are in place including approval of Senators' claims and requests to the Internal Economy Committee for sole source contracts, when warranted.

Background Information

Expenses incurred for parliamentary functions by Senators are reimbursed by the Senate as per the *Senate Administrative Rules (SARs)*.

When expenses are submitted for reimbursement, each Senator certifies that the expense was incurred for the conduct of parliamentary business or is in accordance with the SARs. At present, Senators are required to review, approve and submit all expense claims for travel, hospitality, and living expenditures.

Each month, a report is sent to each Senator's office from the Finance Directorate with the expenses incurred against the Senator's budget and the balance of 64 travel points. Senators are to inform the Finance Directorate of any discrepancies.

Observation

- There is no second-level approval process in place for Senator's expense claims.

Recommendations

- The Senate should give consideration for a second-level approval process for Senators' expense claims. Normal practices within private sector and public sector organizations include second level approvals of all expense reports, including those of the CEO.

- As well, our research indicates that another legislative body (Newfoundland) provides for public disclosure of elected officials expenditures. This practice is also consistent with protocols in place for all Ministers and senior officials of the federal government. The Senate should explore proactive disclosure of Senators' office expenses on the Senate's external internet site for increased financial transparency.

4.0 Conclusion

As a result of our audit procedures, a number of policy and procedures with respect to Senator's office expenditures in each of the areas of travel expenses, research and office expenses, miscellaneous expenses, and living expenses were identified for improvement.

Ernst & Young would like to express its appreciation for the full cooperation received from employees of the Senate during the conduct of the audit.

Senate response to the audit report and follow-up action

An action plan has been developed to address the recommendations and a number of initiatives have already been completed. A new public disclosure report has been designed and will be implemented as of January 2011. This report will make public the travel, office, and hospitality expenditures of individual senators and will be published on a quarterly basis. New rules for the timely submission of expense claims have been approved and implemented. The *Policy on Senators' Living Expenses in the National Capital Region* (NCR) has been revised and the changes implemented. New administrative processes have also been put in place to ensure that documentation requirements related to expense claims and contracts are met.

A number of other initiatives are underway and expected to be completed in the coming months. A new policy for the *Senators' 64-Point Travel System* is under development in response to several recommendations related to the current guidelines and practices. Other policies are under review and measures are being put in place to ensure the timely communication to all senators of new policy requirements and amendments.

It should be noted that the Committee disagrees with the recommendation that the Senate give consideration for a second-level approval process for Senators' expenses claims. It was felt that the Senate's rigorous expense claim review process was adequate and that there are effective mechanisms in place to mitigate the typical risks associated with expense claims.

The Internal Economy Committee is confident that, once all initiatives have been completed, the audit recommendations will have been adequately addressed.

Appendix A: Senators' Office Expenditures Relevant Policies

1. Senate Administrative Rules (SARs)2004, amended 2007, 2009
2. Senator's Travel Policy – Guidelines, June 26, 1990
3. Note: IEC decision, May 29, 2009
4. Senators' International Travel - 64 point system – Guidelines
5. Senators' Living Expenses in the NRC – Guidelines, Revised: April 1 st , 2007
6. Senators' Living Expenses in the NRC – Procedures, Revised: April 1 st , 2007
7. Senators' Research and Office Expense Budget Summary of Guidelines, Revised : May 22, 2008
8. Senators' Research and Office Expense Budget - Procedures Revised : May 22, 2008
9. Miscellaneous Expenditures Account – Guidelines, Revised: June 10, 2008 (includes Hospitality and Official Gifts and Promotional Items)
10. Miscellaneous Expenditures Account – Procedure, Revised: April 1 st , 2007
11. Policy on Books and Subscriptions, Amended: July 18, 2005, Revised: July 16, 2008
12. Senate Taxi Policy

Appendix B: Senator's Office Financial and Sampling Data

Due to the confidential nature of the data included in Appendix B of the Ernst & Young report, it has not been reproduced in this annual report. While the data was useful during the audit examination and included in the original report produced by Ernst & Young for internal purposes, its omission in this compilation does not impede the reader's ability to fully understand the observations and recommendations.

II. Services Contracts Audit

The following report was prepared by the firm Ernst & Young:

Executive Summary

In May 2009, the Internal Economy Committee adopted a policy on internal audit, an audit charter and an internal audit plan. The audit plan identified and assessed key risks that may impact the Senate in achieving its internal management goals and objectives.

The Senate's contracting process was identified as one of the key areas to perform an internal audit in 2009/2010.

The Senate's contracting processes are key management processes supporting its role and mandate. During the fiscal year ended 2008/2009, the Senate had expenditures for consulting, legal and human resources (HR) personnel services contracts of approximately \$3.8 million within the Senate Administration and \$10.5 million within Senators' offices (including term employees), representing 4.6% and 12.9%, respectively, of the Senate's total operating expenses of \$81 million for 2008/2009.

This audit was recommended by the Senate Audit Subcommittee and approved by the Standing Committee on Internal Economy, Budgets and Administration to provide the Senate with an independent audit of the contracting processes and to identify areas for improvement.

This audit report provides details regarding audit objectives, scope, approach, and key findings and observations made during our audit conducted between July and September 2009.

A summary of key recommendations follows:

1. Authorities, Roles and Responsibilities

- The Senate's policies should be updated to provide clearer guidance and criteria for consulting services and personnel services contracts to ensure proper processes are followed and the proper contracting authority is used.
- The Senate should strengthen its contracting practices ensuring all consulting, legal and personnel services contracts have a written contract in place and are approved by the proper contracting authorities.
- The financial authority approval thresholds for personnel services contracts should be decreased to align more closely with contracting thresholds for consulting and legal services, with consideration given to the risk and materiality associated with personnel services.
- The Senate should improve its segregation of duties for managing legal services contracts. Minimally, the group responsible for the contracting of legal services should not be responsible for the approval of the corresponding invoice.

2. Best value, Bidding and Selection

- The Senate should ensure there is strong communication, guidance and advice between Senator's Offices and the HR Directorate on staffing actions such that any risk of establishing employer/employee relationships is identified and acted upon. When a Senator has used discretion in staffing and the risk has not been mitigated, any employer/employee relationships should be reported on a timely basis to the Steering Committee on Internal Economy.
- The Senate should ensure that written contracts and purchase orders are in place for legal services, aligned with prudent procurement practices and similar to controls and practices in place for Senate consulting and personnel contracts.
- The Senate should establish supply arrangements with its key suppliers of legal services and legislative drafting. The supply arrangements should be approved by the Clerk of the Senate and/or the Steering Committee on Internal Economy, as the case may be, and should be drawn down as required.

3. Review Mechanism

- The Senate should implement a regular ongoing process for the review of contracts, consulting and personnel services, for amounts paid to suppliers/contractors to monitor against the perceived risk of contract splitting, as well as ensure existence of an appropriate level of transparency and management oversight.

4. Contract Administration

- The Senate should ensure all documentation is properly completed and maintained when administering consulting contracts, personnel services contracts and term employee contracts.
- The Senate should administer consulting contracts, personnel services contracts and term employee contracts on a timely basis to ensure that a contract is in place prior to the start of work by the hired individual.

5. Financial Controls

- The Senate should not approve and submit for payment any personnel services invoices prior to services being provided.

Additional recommendations, as well as context and observations, can be found in the body of this report. We are also aware that Senate management has begun efforts to address some of the observations made in this report.

As the Senate considers the recommendations provided in this report, additional consideration should be given to centralizing all contracting authorities currently residing within the Finance, Human Resources, and Legal Services areas into one contracting function. Such a model would be in line with best practices found in other federal level organizations and the private sector.

1.0 Introduction

1.1 Background

In 2007-2008, the Internal Economy Committee agreed to fund the creation of a permanent internal audit function for the Senate, aligned with international standards and leading practices in effect in public and private sectors. In May 2009, the Internal Economy Committee adopted a policy on internal audit, an audit charter and an internal audit plan. The audit plan identified and assessed the key risks that may impact the Senate in achieving its internal management goals and objectives and developed a three-year internal audit plan to assist in mitigating these risks.

The Senate's contracting process was identified as one of the key areas to perform an internal audit in 2009/2010.

The Senate's contracting processes are key management processes supporting its role and mandate. During the fiscal year ended 2008/2009, the Senate had expenditures for consulting, legal and personnel services contracts of approximately \$3.8 million within the Senate Administration and \$10.5 million within Senators' offices (including term employees), representing 4.6% and 12.9%, respectively, of the Senate's total operating expenses of \$81 million for 2008/2009.

This audit was requested by the Senate Steering Committee and approved by the Standing Committee on Internal Economy, Budgets and Administration to provide the Senate with an independent audit of contracting processes and to identify areas for improvement.

1.2 Audit Objective, Scope and Criteria

The objectives of this audit were to review financial and management controls over contracting processes at the Senate. The scope of procurement and contracting activities included personnel, legal and consulting services within Senators' Offices, Senate Administration, Senate Committees, and Caucuses.

The contracting process included the procurement to payment process, contract amendments and extensions, and authorities and responsibilities for contracting within Senate Administration and Senators' Offices. The audit also reviewed the risk of establishing employer/employee relationships for temporary help staff.

Contracts for procurement of goods were not included in the scope of this audit. Most goods procured for the Senate are information technology and communication and operational equipment, and are handled through centralized procurement processes administered by the Finance group within the Senate Administration.

The audit criteria used were based on key contracting elements of the contracting policies and directives of the Senate²:

² Senate General Material Management Policy

- *Authorities and roles and responsibilities* – Authority has been delegated and is carried out with prudence, in accordance with delegation instruments and with appropriate segregation of duties.
- *Best value, bidding and selection* – Prudent procurement practices are in place for competitive bids, for prevention of contract splitting and for adherence to delegation authorities for sole source contracts (e.g. competitive sourcing for consulting services above \$35,000 and for sole-sourcing contracts <\$100k are approved by the Clerk of the Senate and/or by the Committee on Internal Economy if >\$100k).
- *Review mechanism* – Appropriate review mechanisms for management oversight and monitoring are in place so that value for money is achieved in the utilization of resources from an overall management and decision-making perspective (e.g. completion of briefing notes to Internal Economy for sole source contracts).
- *Contract administration* – Contracts are in place, using consistent templates and supported with statements of work and requisition forms. Purchase orders are used and are processed on a timely basis. Policies and guidelines are in place supporting contract management.
- *Financial controls* – There are prudent financial controls in place including creation of requisition forms, approvals according to delegated authority, and accurate and timely entry into the financial system of purchase orders and approval of invoices for payment.

Our scope covered policies and practices that were in place during the 2008/2009 fiscal year and during the period when the fieldwork was conducted.

2.0 Approach & Methodology

Our approach in conducting the audit was comprised of the following three phases:

- Planning phase
- Execution and testing phase
- Reporting phase

Planning Phase

During the planning phase, a risk assessment was performed through interviews with key members of the Senate Administration to develop an understanding of the major risks and issues associated with the contracting process, as well as the processes in place to manage such risks/issues. The current suite of the Senate's policies and procedures documentation was reviewed in detail, and process walkthroughs were performed to identify key controls across the three contracting streams within the Finance Directorate, Human Resources (HR) Directorate, and Legal Services Directorate.

Risk Assessment

The purpose of conducting the risk assessment was to identify potential areas of focus that could affect the efficiency and effectiveness of contracting processes across the Senate. The risk assessment identified areas that formed the starting point for the audit work to be undertaken and provided

management with an assessment on the state of the control environment as it relates to contracting. Some of the key areas of focus that were identified include:

- *Contracting authority.* The Senate has delegated contracting authority to three groups within Administration as follows: Finance Directorate for consulting contracts, Office of the Law Clerk and Parliamentary Counsel for legal services and legislative services and Human Resources Directorate for personnel services contracts. There is a risk that prudent contracting practices have not been consistently developed and applied within each organizational unit and a risk that expertise for contracting may be lacking.
- *Employer/employee relationships.* The Senate Administration and Senators' offices retain the services of resources on a contract basis rather than as employees. Contractors who continue services for an extended period of time through contract extensions and renewals may be considered as employees and there is a risk that the Senate may be considered an employer and liable for related benefits.
- *Formal contracts.* The Senate Administration and Senators' offices may not always have formal service contracts in place. There is a risk that terms and conditions are not well established and statement of services are not clearly defined, which may weaken the Senate position in the case of dispute, exposing the Senate for damages with limited recourse.
- *Adherence to prudent procurement practices.* Different policies and procedures are in place for personnel contracts, legal and consulting contracts. Given these are administered by different groups, there is a risk that prudent procurement practices (e.g. competitive vs. non-competitive bids, best value, clearly documented statements of work) are not followed and clearly understood throughout the Senate.

Execution and Testing Phase

We obtained three years of historical financial data of the key financial accounts identified during the risk assessment for the years ending 2009, 2008 and 2007 to conduct an analytical review of actual vs. budget and trend analyses. We then utilized our sample selection software to select and test transactions. Samples were selected from each of the three organizational units (Finance, Legal and Human Resources) responsible for contracting. The extent of testing was determined based on materiality level and the associated level of risk indicated during the risk assessment discussions with management to ensure adequate coverage of all the areas.

Appendix A provides a summary of the financial accounts used to obtain our sample selection, as well as historical financial information over the three year period.

Based upon the planning results and the detailed testing plan, we executed the testing for the engagement through a combination of interviews and testing of contracting controls. We tested 65 payments for evidence of supporting controls in Senate Administration and Senators' offices. The three organizational units with contracting authority are as follows:

1. Finance Directorate – Consulting services (25 payments from Administration and Senators' offices)

2. Office of the Law Clerk and Parliamentary Counsel - Legal services and legislative services (Five payments from Administration and Senator's Offices)
3. Human Resources (HR) Directorate - Personnel services contracts and term employee contracts. (5 services contract payments from Administration; 10 services contract payments from Senator's Offices; and 20 term employee contract payments)

An interim report of preliminary findings was presented to the Steering Committee as part of the reporting phase of the audit in September 2009.

3.0 Observations and Recommendations

3.1 Audit Criteria #1 – Authorities, Roles and Responsibilities

<i>Authorities and Roles and Responsibilities</i> – Authority has been delegated and is carried out with prudence, in accordance with delegation instruments and with appropriate segregation of duties.
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1.1.1 General Observations

The authority for expenditures within Senators' offices is guided by the *Senate Administrative Rules* (SARs), whereas the contracting authorities reside within Senate Administration and are guided by the *Delegation of Financial Authorities Policy*.

3.1.2 Consulting Services Contracts

The Senate's *Delegation of Financial Authorities Policy* states that the authority for the contracting of consulting services resides within the Finance Directorate and applies to all consulting contracts requested by either the Senate Administration or Senators' offices.

According to the Senate's *General Materiel Management Policy*, the financial limit for the contracting of consulting services is \$35,000, after which a competitive sourcing process must be held or approval sought by the Clerk of the Senate for sole sourcing up to \$100,000.

Observations

- The Senate's policy documentation does not provide a clear definition or criteria for what constitutes a consulting service and a personnel service, which has resulted in improper contracting authorities being used.
- The Senate does not consistently have in place formal written contracts for all consulting services. Based upon the results of our testing, we noted no written contract was in place for 1 out of 10 consulting services contracts tested, resulting in an absence of a proper contracting authority by the Finance Directorate.

Recommendations

- The Senate's policies should be updated to provide clearer guidance and criteria for a consulting service and personnel services contracts to ensure the proper processes are followed and the proper contracting authority is used.
- The Senate should follow prudent contracting practices and ensure that each consulting service has a written contract in place that has been approved by the proper contracting authorities.

3.1.3. Human Resources Personnel Services Contracts

According to the Senate's *Delegation of Financial Authorities Policy*, the authority for contracting of personnel services resides within the Human Resources Directorate. The limit is set at \$100,000 and applies to all personnel services contracts requested by the Senate Administration, Committees, or Senators' offices. Personnel service contracts above \$100,000 are subject to the approval of the Committee on Internal Economy.

The financial limit for contracting of personnel services within Senators' offices is subject to availability of funds within Senators' budgets, up to the salary limits defined within the Senate Work Descriptions. Although the commitment authority resides with the Senator, the contracting authority still resides within the HR Directorate. As per the *Senate Administrative Rules (SARs)*, the "staff of a Senator are employed or retained and dismissed by the Senate Administration at the direction of the Senator in the Senator's sole discretion...".

Observations

- The Senate's policy documentation does not provide a clear definition or criteria for what constitutes a consulting service and a personnel service, resulting in improper contracting authorities being used. In 2 out of 25 instances we observed that a Senator's Office consulting contract was incorrectly processed as a personnel services contract resulting in the contract not being approved through the appropriate contracting authority.
- There is a higher financial authority threshold for administering personnel services contracts in comparison with financial authority thresholds for consulting contracts set at \$35,000, and legal services contracts set at \$35,000 and \$5,000 for legislative drafting services and legal services, respectively.

Recommendations

- The Senate's policies should be updated to provide clearer guidance and criteria for what constitutes a consulting service and a personnel service so as to ensure the correct process and contracting authority is used in administering personnel contracts.
- The financial authority approval thresholds for personnel services contracts should be decreased to align more closely with contracting thresholds for consulting and legal services, with consideration given to the risk and materiality associated with personnel services.

3.1.4. Legal services Contracts

The contracting authority for legal services contracts resides with the Office of the Law Clerk and Parliamentary Counsel (Legal Services group, hereafter) as per the Senate's *Delegation of Financial Authorities Policy*. Under this policy, the Law Clerk has the authority to contract for legislative drafting services up to \$35,000 and \$5,000 for professional services for legal services. The Deputy Law Clerk has the authority to contract professional services for legal services up to \$5,000.

The Law Clerk is responsible for contracting legislative drafting services, whereas the Deputy Law Clerk is responsible for contracting legal services in support of Senate Administration. The Law Clerk and Deputy Law Clerk both sign off on all legal services invoices submitted by suppliers for payment. For instance, when a contract has been administered by the Law Clerk, the Deputy Law Clerk's signoff is to acknowledge having viewed the invoice.

Observations

- There is a weak segregation of duties over the contracting of legal services, as service requests are initiated, invoices are received and approved all within the Legal Services group. This lack of segregation of duties weakens the control framework for the contracting of legal services.

Recommendation

- The Senate should improve its segregation of duties for managing legal services contracts. Minimally, the group responsible for the contracting of legal services should not be responsible for the approval of the corresponding invoice.

3.2. Audit Criteria #2 – Best Value, Bidding and Selection

Best value, bidding and selection – Prudent procurement practices are in place for competitive bids, for prevention of contract splitting and for adherence to delegation authorities for sole source contracts (e.g. competitive sourcing for consulting services above \$35,000 and for sole-sourcing contracts <\$100k are approved by the Clerk of the Senate and/or by the Committee on Internal Economy if >\$100k).

3.2.1 Human Resources Personnel Services Contracts

There are three possible categories of employment available to hire staff for personnel services and term employees administered by the HR Directorate for Senators' offices. These categories and their criteria are as follows:

Personnel services contracts for short periods of time (Category I):

- Individuals hired for short-term requirement
- No deductions at the source , no benefits or entitlement are granted
- Payments made by way of invoice

Term employees for less than six months (Category II):

- Individuals hired for a temporary period of time not exceeding six months
- Subject to certain deductions at the source (Canada Pension Plan, Employment Insurance, and Income Tax)
- No entitlement to benefits
- Payment or remuneration on a bi-weekly basis

Term employees for periods in excess of six months (Category III):

- Individuals retained for a continuous period of time exceeding six months up to one year
- Subject to certain deductions at the source (Canada Pension Plan, Employment Insurance, and Income Tax)
- Entitled to benefits
- Payment or remuneration on a bi-weekly basis

As noted previously, under chapter 4:04 of the SARs, staff within a Senator's office are retained at the sole discretion of the Senator. It should be further noted, that under chapter 2:05 of the SARs, "where a Senator appears to contravene a law, rule, policy or practice, the Senate Administration may refer the matter to the Steering Committee for an order and shall, pending the decision, decline to participate in or otherwise act in respect of the conduct in question". In May 2009, the Senate submitted a briefing note entitled "Services Contracts Controls", to the Steering Committee on Internal Economy which acknowledges the issue of employer/employee relationships as an area of concern for the Senate.

Observations

- Through our discussions with management, we understand there have been instances whereby Senate Administration has administered personnel services contracts on behalf of Senators' offices which have created employer/employee relationships and claims against the Senate for payment of benefits. The existence of employer/employee relationships stems partly from a lack of awareness of the risk within Senators' offices, as well as decisions made by Senators to contract personnel services or hire employees notwithstanding this risk. In the absence of strong communication, guidance, and advice between Senators' offices and the HR Directorate, there is a risk that misclassifications of contractors and employees may occur resulting in additional employer/employee relationships and future claims against the Senate for payment of benefits.
- Through discussions with management and from our review of personnel services contracts, there is a general absence of documentation demonstrating competitive resourcing strategies for personnel services contracts. As noted previously, sole discretion resides with the Senator.

Recommendations

- The Senate should ensure there is strong communication, guidance and advice between Senators' offices and the HR Directorate on staffing actions such that any risk of establishing employer/employee relationships is identified and acted upon. When a Senator has used discretion in staffing and the risk has not been mitigated, any potential for developing an employer/employee relationship should be reported on a timely basis to the Steering Committee on Internal Economy.
- As a prudent contracting practice, the Senate should ensure that competitive resourcing strategies for personnel services are utilized whenever possible.

3.2.2. Legal Services Contracts

Legal services are comprised of 1) general legal counsel/services such as legal opinions or litigation consulting, and 2) legislative drafting services for Senate bills. Service requirements may originate from within the Legal Services group, from a Senator or Senate Committee. Given the specific nature and requirements for legal services by the Senate, it is important to consider the limited availability of suppliers with the proper knowledge and experience in providing legal services.

The Legal Services group initiates requests for litigation support by telephone and email from providers with a proven track record. Written contracts are generally not put in place. We understand from interviews that this approach is taken so the nature of the services being provided remains confidential from a client-solicitor privilege perspective, as well as to protect the Senate from political and media sensitivities. The Senate also retains three to four suppliers for legislative drafting purposes.

Recently, the Legal Services group has developed an “Offer of Services” document stating the terms and conditions for frequently used suppliers. The Offer of Services forms part of the verbal agreement with suppliers and includes supplier rate information, agreement from the supplier to follow the Senate’s contracting policies, billing requirements and credentials of the supplier.

Observations

- There was an absence of written contracts and purchase orders in place for all legal services expenditures tested.
- Invoices tested complied with the financial authority limits of \$5,000 for legal services and \$35,000 for legislative services. However, multiple legal services and projects are provided by the same suppliers. There is a risk of contract splitting as a result of these procurement practices for legal services.

Recommendations

- The Senate should ensure that formal written contracts and purchase orders are in place for legal services rendered.
- To align Legal Services’ contracting practices with leading practices, the Senate should establish supply arrangements with key legal service providers, which outline the services to be provided by the supplier (e.g. legislative drafting), the manner in which services are to be provided and appropriate contractual arrangements. The supply arrangements should be approved by the Clerk of the Senate and the Steering Committee on Internal Economy and should be drawn down as required.

3.3. Audit Criteria #3 – Review Mechanism

Review mechanism – Appropriate review mechanisms for management oversight and monitoring are in place so that value for money is achieved in the utilization of resources from an overall management and decision-making perspective (e.g. completion of briefing notes to Internal Economy for sole source contracts).

3.3.1 General Observations

Observations

- We did not observe any presence of a management contract review process to report and formally monitor the amounts contracted by the Senate, by supplier, for contracts being administered through the Finance and HR Directorates.
 - The Finance Directorate reports quarterly to the Steering Committee on Internal Economy on all consulting contracts awarded with a value over \$10,000 and all competitive processes; however, there is no monitoring or reporting on the amounts being paid to each supplier.
 - There is no reporting in place to monitor amounts being paid to various contractors for personnel services contracts within the Administration or within Senators' offices.
- Legal Services group tracks all "projects" being supported by the work of external suppliers. As invoices for payment are received from suppliers, the Legal Services group provides Finance with a listing of all the amounts paid to the supplier. The listing summarizes all projects and amounts worked on by that supplier during the year.

Recommendation

- The Senate should implement an ongoing process for the review and reporting of consulting and personnel and legal contracts for amounts paid to suppliers/contractors to improve the level of transparency and management oversight.

3.3.2 Human Resources Personnel Services Contracts

Within the Human Resources Directorate, administration of personnel services contracts is shared between two groups. The Services to Senators and Programs group is responsible for processing personnel services requests on behalf of Senators and Caucuses. The Operational Services group is responsible for processing personnel services requests on behalf of Senate Committees, Debates Areas, and Senate Administration. Generally, the following process exists for personnel services contracts for Senator's offices:

- A request for services is received from a Senator with a description of the services to be provided and general terms of the contract.
- A confirmation is requested from Finance for availability of funds.
- Depending on the employment category, a services contract is prepared and signed by HR, and signed by the Senator making the request for services.
- A copy of the services contract is forwarded to the services contractor for signature and returned to the Senate for filing
- A copy of the signed services contract is forwarded to the Senator's office for their records, and to the Finance Directorate for processing.

Observations

- Human Resources Directorate and Finance have not provided sufficient training in procurement and contract management to staff responsible for processing personnel services contracts.
- Leading practice calls for the responsibility for administering such services contracts to reside within a centralized function. Within the Senate, this expertise resides within the Contracting and Procurement function in the Finance Directorate.

Recommendations

- If the Senate continues to process personnel services contracts through the Human Resources Directorate, there should be adequate training provided to allow for proper review and challenge of all contracts processed. Such a review should include risk monitoring of any employee/employer relationships that may result from personnel services contracts exceeding a one year maximum or being renewed for greater than one year without a break in service. Reporting on personnel services contracts should be completed by the HR Directorate to the Legal Services group and the Clerk of the Senate.
- We further recommend that the Senate give consideration to centralizing procurement and contract administration of personnel contracts through Procurement function within the Finance Directorate.

3.4 Audit Criteria #4 – Contract Administration

Contract Administration – Contracts are in place, using consistent templates and supported with statements of work and requisition forms. Purchase orders are used and are processed on a timely basis. Policies and guidelines are in place supporting contract management.

3.4.1 Consulting Services Contracts

Documentation is required in maintaining a completed consulting contract file. Our test procedures included verifying that these key pieces of documentation were completed and included in the contracting file. These include:

- Purchase orders requiring approval by the contracting authority
- Order receipt forms signifying that services have been received from the supplier against the purchase order
- Post contract evaluation forms signifying that services have been provided at a satisfactory level by the supplier

As contracts are completed, the Purchasing and Contracting group prepares a contracting file containing all documentation relevant to the contract. At completion, the contracting file is signed off as an indication that all documentation has been completed and included in the contracting file.

Observations

- During our testing of contracting files, we observed an absence of key pieces of documentation (those noted above) from closed contract files.
- Payments have been made for services without written contracts and purchase orders in place, resulting in a risk that payment could be made for unrequested/unperformed services or for the same service more than once.
- Where written contracts were in place, we observed 1 instance out of 10 tests where a contract was signed following completion of the contractor's work term. In this instance, the work was completed between April 2008 and May 2008, and the contract was signed in March 2009. In our discussions, we understand the contract was subsequently cancelled as the work term had been completed.
- During our testing of contracting files, we observed that the signoff control on contracting files was not effectively supported with contract documentation.

Recommendations

- The Senate should ensure all documentation is properly completed and maintained when administering contracts.
- The Senate should ensure written contracts and purchase orders are consistently prepared for all consulting services rendered.
- The Senate should administer contracts on a timely basis to ensure that a contract is in place prior to the start of work by the consultant.

3.4.2 Human Resources Personnel Services Contracts

Personnel services and term employee contracts are administered by the HR Directorate on behalf of Senators, Senate Committees, Debates Areas, and Senate Administration. Services contracts or letters of offer are prepared by the HR Directorate and signed by the contractor or employee in advance of beginning work.

The process for hiring within a Senator's Office can be initiated directly by a Senator when a candidate has already been identified by the Senator. Senators' offices follow the hiring and compensation guidelines approved by Internal Economy in March 2008, subject to the limits of their research and office budgets. A Senator will generally hire candidates to meet immediate requirements on short notice. In the case of term employees, the Senator is responsible for assessing the candidate's qualifications and forwarding a resume to the HR Directorate to complete the employee file. It is the HR Directorate's role to review the candidate's resume and experience level against the Senate's approved work descriptions.

When a Senator has no particular candidate to fill the requirements, the process is administered by the HR Directorate using the staffing policy which may require: preparing an employee notification or job posting, pre-selection of a candidate, candidate evaluation and examination if needed, followed by a candidate interview.

In May 2009 the Senate Administration prepared a briefing note to the Steering Committee on Internal Economy entitled “Service Contracts Controls” which acknowledged having contracts in place in advance of start dates as an area of concern.

Observations

- The Senate does not consistently have contracts in place for all personnel services.
 - Based upon the results of our testing, we noted no written contract was in place for 1 of 10 instances within Senators’ offices for personnel services.
 - Based upon the results of our testing, we noted no letter of offer was in place for 1 of 20 instances within Senator’s Offices for term employees.
- Based on the results of our testing, we observed 9 of 10 files where contracts were signed after the start of the work term for a Senator. The time between commencement of work and the contract sign-off ranged from six days to two months.
- Based on the results of our testing, we observed 14 of 20 files where letters of employment were signed after the start of the work term.
- We observed an absence of curriculum vitae (CVs)/resumes in 3 out of 20 term employee files. There is a risk that an individual’s competencies do not align with the requirements of the position.
- We observed an absence of CVs/resumes in 9 out of 10 personnel services contract files from Senators’ offices. There is a risk that an individual’s competencies do not align with the requirements of the position.

Recommendations

- The Senate should ensure written and approved contracts are consistently put in place for all personnel service contracts.
- The Senate should ensure written and approved letters of offer are consistently put in place for all term employee contracts.
- The Senate should administer personnel services and term employee contracts on a timely basis to ensure that a contract or letter of offer is in place prior to the start of work by the hired individual.
- The HR Directorate should ensure all documentation is properly obtained when administering employment files.
- The HR Directorate should ensure that CVs/resumes are consistently maintained such that a review can be completed of a candidate’s experience level against role requirements applicable to personnel services contracts and term employees.

3.5 Audit Criteria #5 – Financial Controls

Financial controls – There are prudent financial controls in place including creation of requisition forms, approvals according to delegated authority, and accurate and timely entry into the financial system as purchase order and approval of invoice for payment.

3.5.1 Consulting Services Contracts

Observations

- Based on the results of our testing, we observed 6 out of 25 instances where goods contracts have been miscoded against financial line items for consulting contracts.

Recommendations

- The Senate should ensure that financial coding for all contracts is properly reviewed to minimize any risk of miscoding.

3.5.2 Human Resources Personnel Services Contracts

The process for hiring under personnel services contracts or as term employees with Senators' offices requires verification of the availability funds from Finance. This confirmation may be obtained by email or verbally by phone.

Observations

- We did not observe consistent supporting documentation as evidence of confirmation of availability of funds within personnel services and term employee files.
- Personnel services' invoices for those with Senators' offices are being submitted and approved in advance of services rendered and do not provide sufficient details regarding invoice terms (e.g. number of days being invoiced over billing period) resulting in a risk of payment for services not provided. We understand the number of days is not significant; however, normal practice should require completion of services prior to invoicing.

Recommendations

- Each time a personnel services contract is prepared, written confirmation of availability of funds should be obtained.
- Administration and Senators' offices should not approve and submit for payment any personnel service invoices prior to the services having been provided.

3.5.3 Legal Services Contracts

The Legal Services group maintains a listing of all "projects" being supported by the work of external suppliers. The listing of projects is kept confidential within the Legal Services group and is used for referencing during the payment process.

When invoices are received, each is signed by the Law Clerk and the Deputy Law Clerk as either confirmation of services rendered, or an acknowledgement of having reviewed the invoice (sign-off varies according who has initiated the legal services request). Summary invoices are forwarded to the Finance Directorate for payment outlining details such as the name of the supplier, total time worked, project code, amount, and dates of days worked (i.e. from/to dates). Detailed invoices are retained by Legal Services group, which may include details including the name of a Senator for whom the service was provided or the name of the bill being drafted, depending on the nature of the service. The detailed description of the services provided is maintained within the Legal Service group for confidentiality and client-solicitor privilege purposes. It can be tied to the invoice forwarded to Finance using the project code reference number.

Observations

- As noted previously in the report, we observed no written contracts or purchase orders in place for Legal Services.
- The Senate's financial system is not capturing purchase activities, and verification of invoices requires manual controls. This is further compounded by a weak segregation of duties.

Recommendation

The Senate should ensure that contracts and purchase orders are in place for legal services and are systematically recorded in the Senate's financial system.

4.0 Conclusion

As a result of our audit procedures, we identified a number of areas for improvement with respect to the Senate's contracting processes in each of the contracting areas within Legal Services, Finance and Human Resources directorates. These areas and related recommendations are included in this report. All discrepancies identified from contracts tested have been reported to the Clerk of the Senate.

Ernst & Young would like to express its appreciation for the full cooperation received from employees of the Senate during the conduct of the audit.

Senate response to the audit report and follow-up action

An action plan has been developed which, once fully implemented, will address the recommendations in the report.

Measures have already been put in place to ensure that contract files are appropriately documented while at the same time ensuring that client/solicitor privilege is protected in relation to legal services contracts.

The Senate's contracting practices and policies have been reviewed and improved policy and guidance documents are under development. Once implemented, these new policies will address the issues raised with regard to personnel services contracts, contracting authorities and sole-source thresholds.

The Committee is considering at what limit the contracting threshold should be set as it applies to senators. It is recognized that, due to the unique political and policy work done in a senator's office, that

senators have unique contracting requirements for which a competitive bidding process may not be appropriate or feasible. The Committee has considered the risk and materiality associated with services contracts and a policy is under development which proposes a sole-source threshold which is better aligned with the authority that senators already have when requesting employment contracts.

The Committee is in agreement with the action plan put forth by the Administration and appreciates the improvements that have already been made. It looks forward to full implementation of the remaining action items proposed.

Appendix A: Contracts Relevant Policies

1. Senate Administrative Rules (SARs)
2. General Material Management Policy, July 18, 2005
3. Guidelines for Hiring and Compensation of Senator's Staff – Last Updated: July 21, 2009
4. Senators' offices Categories of Employment
5. Senate Work Descriptions and Competency Profiles (various)

Appendix B: Financial and Sampling Data

Due to the confidential nature of the data included in Appendix B of the Ernst & Young report, it has not been reproduced in this annual report. While the data was useful during the audit examination and included in the original report produced by Ernst & Young for internal purposes, its omission in this compilation does not impede the reader's ability to fully understand the observations and recommendations.

Job Classification Function Audit

The following report was prepared by the firm Ernst & Young:

Executive Summary

The Senate developed and approved a formal job classification policy in June 1986. This policy was updated and approved in February 2008. In 2004-2005, Senate Administration undertook a conversion exercise and adopted the Hay Classification system to develop and classify the majority of the jobs in the Senate Administration. The exceptions are positions that are Governor in Council appointments, Senators, Senator's staff and legal occupations.

Senate Administration has approximately 409 full-time equivalent positions for which 160 unique job descriptions exist. Approximately 20 classifications are performed annually.

The Senate's 2009-2012 Internal Audit Plan identified a number of risk areas relating to human resource management. The Senate regards its job classification function as "the cornerstone of effective human resource management". It impacts compensation, recruitment, retention, training and development, succession planning and performance evaluation. The Senate requested an audit of its classification system to ensure that the processes and tools are technically well founded, used consistently and produce reliable and valid results.

This audit report provides details regarding audit objectives, scope, approach, and key findings and observations made during our audit conducted during February and March 2010.

Our audit found that effective controls are in place to manage risks associated with the job classification function. We also found that the job classification function has many effective practices.

While conducting our audit we noted a limited number of opportunities for improvement as follows:

- 1. Information available to employees.** There is limited readily available information for employees regarding the job classification function process. Providing overviews of the function and tools and criteria used to reach classification decisions increases the transparency of the process.
- 2. Training and support for Managers.** Managers reported a level of discomfort in writing job descriptions and participating in the classification process due to the lack of training, support and their infrequency of dealing with classification requests.
- 3. Training and professional development for Classification Committee members.** Classification decisions are reached by a committee comprised of three Senate human resource professionals. While these individuals have adequate knowledge of the organization and classification process to fulfill the Committee mandate, we noted the need for ongoing professional development for committee members who are not specialists in this area.
- 4. Review Senate Policy on Administration Classification and Organizational Design (the Policy).** The policy lacked clarity in wording that may lead to confusion for those with job classification function roles. There are also opportunities to amend policy and procedure to increase efficiency of the

process. Additionally, the policy lacks reference to the Senate's expectations related to values and ethics, specifically conflict of interest situations.

- 5. Improve documentation.** Some inconsistencies in file documentation and minor deviations from the policy were noted. To effectively manage risk and transparency, it is important that decisions are documented in a clear and consistent manner. Documents should be signed and dated, where required.

Details of these opportunities and related recommendations are included in the accompanying report.

Finally, our audit suggests the Senate consider undertaking an analysis of alternative service delivery methods for the Senate classification function. Alternatives could include outsourcing classification to third party providers or joint delivery using strategic partners.

1.0 Introduction

1.1 Background

The Senate developed and approved a formal job classification policy in June 1986. This policy was updated and approved in February 2008. In 2004-2005 Senate Administration undertook a conversion exercise and adopted the Hay Classification system to develop and classify the majority of the jobs in the Senate Administration. The exceptions are positions that are Governor in Council appointments, Senator's staff and legal occupations. Legal occupations are classified by undertaking a comparative approach to similar job descriptions in the Public Service.

Senate Administration has approximately 409 full-time equivalent positions for which 160 unique job descriptions exist. Since the conversion exercise in 2004-2005, approximately 20 classification exercises occur annually. Senate policy requirements and internal staff capacity determine whether either internal or external resources perform these classifications.

The Senate's 2009-2012 Internal Audit Plan identified a number of risk areas relating to human resource management. The Senate regards its job classification function as "the cornerstone of effective human resource management." It impacts compensation, recruitment, retention, training and development, succession planning and performance evaluation. The Senate requested an audit of its classification system to ensure that the processes and tools are technically well founded, used consistently and produce reliable and valid results.

1.2 Audit Objective, Scope and Criteria

The objectives of this audit were to:

- Assess whether the job classification function is in compliance with the Senate Policy on Administration Classification and Organizational design (the Policy);
- Assess whether there are adequate controls in place to manage risks associated with the job classification function;

- Determine whether the classification system results in a fair and equitable internal classification structure and sound classification decisions; and,
- Determine whether there is an adequate process in place to assess salary relativity with the federal Public Service and the House of Commons.

The scope of the audit included classification decisions relating to both represented and non-represented employees of the Senate Administration. The scope of this audit did not include decisions relating to Senators, Senator's staff or Governor in Council appointments.

The audit reviewed the classification function in place from 1 January 2008 to 31 March 2009. During this period, 15 job classifications took place internally and external consultants undertook nine. This audit period was selected because the classification function was materially impacted by the updated Policy approved by the Senate on 21 February 2008. The audit itself was conducted between February and March 2010.

The criteria applied in this audit were:

- **Job descriptions** – Controls are in place to establish accurate and current job descriptions (e.g. cyclical review, job descriptions contain identifying information and sufficient detail to understand the content of the job, approved by the delegated manager and acknowledged by the employee, if applicable).
- **Internal relativity** – Controls are in place to measure the work to determine the value of one job relative to others within the organization (e.g. Classification Committee composition, Committee members reach independent ratings prior to attending committee meeting, Committee has sufficient knowledge of the organization and understanding of the job being classified).
- **Salary relativity** – Controls are in place to assess the external salary relativity and to support the Senate's compensation strategy (e.g. salary surveys using benchmark positions take place on a regular basis)
- **Legal compliance** – Controls are in place to manage legal requirements (e.g., individuals have access to classification documents in both official languages, policies and procedures are compliant with grievance requirements).
- **Transparency and equality** – Classification decisions are made in a transparent, equitable and consistent manner (e.g. information is provided to employees, training is in place, processes are transparent and documented, recourse mechanisms are functioning).
- **Management control framework** – The management control framework over the classification function is adhered to (e.g. roles and responsibilities of delegated authorities are respected) and adequately manages risk.

2.0 Approach & Methodology

Our approach in conducting the audit was comprised of the following three phases:

- Planning
- Execution and testing
- Reporting

Planning Phase

During the planning, an initial risk assessment was performed and interviews were conducted with key members of Senate Administration to develop an understanding of the major risks and issues associated with the job classification function. Relevant policies and procedures were reviewed to assess whether controls were in place to mitigate such risks.

Customized audit criteria and an audit program were developed to address the significant risks identified. A corresponding test plan was developed.

Appendix A provides a summary of the classification exercises used to select the sample of files for testing.

Risk assessment

The purpose of the risk assessment was to identify potential areas of risk that could affect the job classification function. The assessment identified key risk areas which formed the starting point for the audit work undertaken and provided an assessment on the state of the control environment as it relates to the Senate's job classification function. The risk assessment also formed the basis of our audit criteria stated above. Some of the areas of risk included:

- **Development of job descriptions.** A job description forms the basis of the classification exercise. If the description is not properly written to reflect job duties and responsibilities, there is a risk that the job will not be properly classified.
- **Classification officers and committee.** Classification decisions are made by a committee comprised of human resource professionals. Classification decisions are reached through consensus of the committee members. There is a risk that the Committee or its members may not be functioning as intended due to issues resulting from insufficient training, lack of organizational understanding, pressure from management, insufficient resources, personal biases or a group dynamic that does not allow for dissent.
- **Employee and management perceptions of the classification system as being fair and consistently applied.** There is a risk that employees and management do not view the system as fair and reliable. This may be due to a lack of understanding about the process and decision rationale. As well, there may be apprehensions about management, human resource staff or the recourse mechanisms. To reduce risks in this area, the classification function should be transparent and the decision repeatable.
- **Classification function control framework.** There is a risk that roles and responsibilities of the function as defined in policies and procedures are not adhered to. This may be due to a lack of

documented approvals or respecting delegated authorities as they relate to the function. Additionally, there is a risk that the control framework is not adequate to manage risks.

- **Legal requirements.** The classification function should produce results that are compliant with relevant legislation such as Official Languages Act, Parliamentary Employment and Staff Relations Act and collective bargaining agreements. Non-compliance with legal requirements is a high impact risk, even if the likelihood of occurrence is low.
- **Salary relativity.** There is a risk that the Senate's salary structure is not competitive. This may adversely impact the retention of employees. Given the Senate's low turnover rate (averaging 4.7% since 2002, with approximately half attributable to retirement), the risk associated with salary relativity is low.

Execution and Testing Phase

Based upon the planning results and the detailed workplan, we executed the testing through a combination of interviews, observation and review of classification files. Specifically, our testing plan included the following worksteps:

1. Reviewed collective bargaining agreements, *Official Languages Act*, the *Parliamentary Employment and Staff Relations Act* and policies and procedures related to the job classification function.
2. Gained an understanding of Committee member's independent preparation for Classification Committee meetings and observed a Classification Committee meeting.
3. Interviewed a union representative to gain an understanding of their position on strengths and weaknesses of the job classification function.
4. Tested six job classification files which represented 46% of the number of classification files for compliance with the Policy.
5. Obtained classification-related metrics from Human Resources for analysis and trending.
6. Interviewed Hay Group to gain an understanding of the process in place to classify management positions (SEG and MMG category) and the process in place to assess salary relativity with external entities, (e.g. the House of Commons and the federal Public Service).
7. Reviewed the process utilized to classify legal positions (SLA category).

Reporting Phase

A preliminary debrief with Human Resources management to discuss findings and seek clarification was undertaken prior to releasing a draft report for management's comment.

A draft report incorporating management's comments will be presented to the Audit Committee.

3.0 Observations & Recommendations

3.1 Audit Criteria #1 – Job Descriptions

Controls are in place to establish accurate and current job descriptions
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Background Information

An accurate job description is essential to the classification function. It is the primary input to the process and if it is not accurate or current, the classification result will be inappropriate. A job description should state what is actually required of the job. It should be current so that the job is evaluated as-is and not what it was nor what it might be.

Inaccurate job descriptions lead to inappropriate classification and compensation, which can result in:

- Employee dissatisfaction;
- Recruitment and retention difficulties;
- Employee grievances; or,
- Inefficient use of salary dollars.

Effective Practices

Our audit noted that controls were in place to establish accurate and current job descriptions. Specifically, we noted the following effective practices:

- Delegated Managers are responsible for drafting job descriptions;
- An external consultant is available to support Delegated Managers to assist in drafting job descriptions;
- Job descriptions contain identifying information; and,
- Job descriptions are signed by the Delegated Manager prior to the classification exercise.

Findings

- The Policy requires a systematic review be undertaken of classification decision on a periodic basis. A systematic review has not taken place since the 2004-2005 classification conversion.
- The Senate job descriptions examined contained too much information that may lead to confusion in understanding the true nature of work. It is our understanding that Managers may have the perception that lengthy job descriptions may result in higher classification. While this assumption is incorrect, it is an issue for many organizations.

Recommendations

- The Senate should design and implement a multi-year cyclical review to ensure job descriptions are current and accurate. The Senate should also look to design a cyclical review process that minimizes operational impact by leveraging existing human resource practices. One option may be to include job description reviews during the annual employee performance review process and/or conduct reviews when staffing actions are initiated.

- The Senate should consider implementing training or tools for Managers to enable the consistent creation of job descriptions which concisely and accurately describe the duties of a position.

3.2 Audit Criteria #2 – Internal Relativity

Controls are in place to measure the work to determine value of one job relative to others within the organization

Background Information

A job classification function strives to objectively determine the relative size of each job within an organization. Determining this relative value provides a basis for the compensation of its employees. The three main inputs to this determination are:

1. The job description – which allows the assessor to understand the job;
2. The organizational charts – which allows the assessor to understand the context in which the job operates; and,
3. The evaluation method – which provides the tools/methodology to make the actual comparison of the jobs.

The Senate utilizes the Hay Group method of job classification which is a well-known job evaluation methodology utilized by many organizations, including the federal Public Service and the House of Commons. It is based on assessing four factors: Know-How; Problem Solving; Accountability; and, Working Conditions.

There are four distinct sub-processes used at the Senate to classify jobs:

1. Most positions are classified by a Classification Committee composed of three human resource advisors;
2. Human resource positions are classified internally by the Classification Committee and then sent to the Hay Group for external validation of classification results;
3. MMG and SEG (middle and senior management) positions are classified externally by the Hay Group with the use of the Hay Group method of job classification; and,
4. SLA (legal) positions are classified by Human Resources using a comparison approach with job descriptions at the Department of Justice.

Effective Practices

Our audit noted that controls are in place to measure the work to determine the value of one job relative to another within the organization. Specifically, we noted the following effective practices:

- The Classification Committee is composed of individuals independent of the job being classified;

- Committee members are experienced in classification and have an average of 10 years of service at the Senate;
- Job descriptions are classified independently by each Committee member prior to the committee classification exercise;
- The Delegated Manager requesting the classification action, meets with the Classification Committee to discuss the job to be subsequently classified; and,
- Committee decision is by consensus to the sub-factor level.

Findings

- Although not a Policy requirement, an onsite review takes place occasionally by Committee members. This practice entails a Committee member interviewing, in detail, the incumbent of a position being reclassified.
- Each Classification Committee member undertakes an independent assessment of each position prior to the Committee meeting. However, we noted that not all members undertook an independent internal relativity comparison which is an important element of the classification exercise.
- We understand that discrepancies may occur during the course of the classification process. Discussions of these discrepancies take place informally but they are not documented on the classification files and/or the classification listing. Examples of discrepancies include: inaccurate job descriptions; classification increases for unwarranted reasons; and, inconsistent application of the standard. It is not unusual for such discrepancies to occur in a classification function, however, it is important that they are monitored and documented so that they do not become systematic or skew other classification decisions.
- As part of the internal relativity process, a listing of all unique jobs at the Senate is maintained and contains the detailed classification result data. Our audit noted that there were positions absent from the listing.
- We noted that the Committee members had an adequate level of knowledge to undertake their classification duties. However, there are varying knowledge levels of Committee members and there is a low volume of classifications that place each year.

Recommendations

- The Senate should require that on-site reviews take place with all incumbents of positions being reclassified. An onsite review is a good practice not only to enhance the level of understanding of Committee members but it may also increase buy-in to eventual classification decisions.
- The Senate should require that internal relativity comparisons are undertaken by all Classification Committee members.

- The Senate should ensure that the listing of all unique job descriptions and all classification results be maintained for accuracy and completeness.
- The Senate should formally monitor and document any discrepancies of classifications.
- The Senate should give consideration to regular 'refresher' classification training or professional development workshops for Committee members.

3.3 Audit Criteria #3 – External Salary Relativity

Controls are in place to assess the external salary relativity and support the Senate's compensation strategy

Background Information

A classification function that provides internal relativity of jobs should be combined with salary surveys to assess external salary relativity. Salary surveys should take place on a periodic basis and should be focused to extract data from the market to inform the organization of its competitive placement in the market place. To be most useful, the parameters of data analysis in a salary survey should be aligned with the organization's compensation strategy.

The use of benchmark jobs is a common tool when reviewing external salary relativity. Benchmark jobs are used as a guide in assessing the placement of an organization's compensation in the market place. A benchmark job can then be used as a reference point in setting compensation for other jobs within the organization. Generally, to be suitable for this purpose, a job should be well known within the industry, have a level of pay that is generally considered fair, have a classification result that is seen to be accurate and occupy a key point on the classification scale being used.

Findings

- Our audit noted that consideration is given to external salary relativity on an annual basis via consultations from an external consultant.
- There is a draft compensation policy outlining the Senate's compensation strategy is in progress to replace the current compensation policy (1964). Specifically the draft policy states the following concerning the Senate's compensation strategy:

"It is the policy of the Senate Administration to compensate its employees fairly, taking into consideration the following principles:

- 1. External Comparability:** *Compensation should be competitive with that of the House of Commons, the Library of Parliament and the federal Public Service;*
- 2. Internal Relativity:** *Compensation should reflect the relative value of the work performed within the organization;*
- 3. Performance:** *Compensation should reward performance, where appropriate and practicable, based on individual or group contributions to results; and,*

4. Affordability: *The cost of compensation must be affordable within the context of fiscal circumstances.”*

Recommendations

- The Senate should conduct a detailed external salary analysis on a periodic basis. The analysis should provide data to ensure that compensation practices are aligned with the Senate compensation policies.
- The Senate should give consideration to establishing benchmark positions to enable any external salary relativity analysis to be undertaken. While leading practice would have been to establish benchmark positions during the 2004-2005 conversion exercise, it is still possible to identify positions that could be used as benchmarks.

3.4 Audit Criteria #4 – Legal Compliance

Controls are in place to manage legal requirements
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Background Information

There are several pieces of legislation that impact the job classification function at the Senate including, *The Parliamentary Employment and Staff Relations Act*; *The Official Languages Act* and pay equity legislation. In addition, the Senate job classification function is impacted by agreements with two collective bargaining units and an employee association.

Our assessment found that the risk of legal non-compliance was low. However, it was also determined that legal non-compliance could be highly impactful from financial, legal and reputational perspectives.

Effective Practices

Our audit noted that several controls are in place to manage legal requirements.

Specifically, we noted the following effective practices:

- All official job descriptions are required to be in both official languages;
- The Policy outlines recourse mechanism aligned with requirements of *The Parliamentary Employment and Staff Relations Act*, the collective bargaining agreements and employee association; and,
- Classification system (Hay Group method) used by the Senate provides for the measure of the factors considered under pay equity legislation.

Findings

- While the Policy states that gender-neutral language is to be used in job descriptions, our review of files found that not all job descriptions were compliant with this requirement.

- We noted that Legal Services is conducting a review of statutory compliance requirements, which will provide Senate managers with criteria to ensure that policies and procedures are in order.

Recommendations

- The Senate should ensure that all job descriptions use gender-neutral language.
- The Senate should implement a formal approach to review policy and procedures for compliance with statutes and contractive arrangements, such as collective bargaining agreements.

3.5 Audit Criteria #5 – Transparency and Equality

Classification decisions are made in a transparent, equitable and consistent manner

Background Information

Repeatable processes that are adequately documented are important components of a transparent and consistent classification process.

The perception of whether the classification function is transparent and equitable is as important as whether, or not, it actually has those attributes. Employee dissatisfaction with the value placed on their work, and the corresponding compensation, can stem from a negative perception of the job classification function at the Senate. Similarly, management may perceive the classification system as a hindrance to meeting organizational objectives.

Effective Practices

Our audit noted that controls are in place to enable classification decisions to be transparent, equitable and consistent. Our discussions with an employee union representative did not indicate widespread or systematic employee dissatisfaction with the classification function at the Senate.

Specifically, we noted the following effective practices:

- The job classification function objectives and basic process is outlined in a policy that is available to employees;
- A file checklist used to maintain file documentation;
- Standard forms are used to document decisions and information; and,
- A formal recourse process is in place.

Findings

- While the Policy does provide some information to employees, we noted from interviews and file testing that management has an inconsistent level of understanding of the primary purpose of a classification function and methodologies used. Additionally, there is an uneven level of comfort within management in taking part in writing job descriptions and taking part in the classification exercise.
- While our file testing noted that files were generally in good order, we did note gaps in required documentation.

Recommendations

- The Senate should provide additional information to employees on the job classification function.
- The Senate should increase training and support available for Managers. Additional enablers such as training and tools will increase management's level of comfort with the process and help reinforce the purpose of classification, including that it is not for rewarding performance, dealing with workload or retaining employees.
- The Senate should ensure that classification files contain required documentation. The Senate may want to institute an internal quality assurance program. Such a program could involve each human resource advisor conducting quarterly file reviews to identify and remediate any documentation gaps.
- The Senate should maintain proof of the independent assessment of each job classification undertaken by the Committee members. This independent assessment is a leading practice and should be documented on file.

3.6 Audit Criteria #6 – Management Control Framework

The management control framework of the classification function is adhered to and adequately manages risk

Background Information

Key elements of a management control framework for a function include:

- Alignment with strategic and operational goals of the organization;
- Clearly defined roles, responsibilities and accountabilities;
- Supporting policies and procedures;
- Risk management;
- Financial stewardship;
- Values and ethics;
- Measuring results and performance; and,
- Monitoring of opportunities for continuous improvement.

Effective Practices

Our audit noted that the management control framework of the classification function is in place and adequately manages risks. Specifically, we noted that the Policy is effective and clearly defines the roles and responsibilities related to the classification function.

Findings

- Our examination of files and interviews noted examples of lengthy delays in resolving classification disputes between Managers and Human Resources. In some scenarios, the Manager assumed more of an employee representative role versus that of a management role.
- Our audit noted clauses of the Policy that lacked clarity in wording that may lead to confusion for those with job classification function roles and responsibilities. Additionally, we noted that the Policy lacks reference to the Senate's expectations related to values and ethics, specifically conflict of interest situations.

Recommendations

- The Senate should review the Policy to provide clarity in wording particularly in its purpose objectives and methodologies.
- The Senate should update the Policy to include provisions to provide guidance on expectations pertaining to conflict of interest. Given the Senate is a small organization and classification officers undertake various human resource duties, a situation that places an individual in a conflict of interest situation may arise. A leading practice is to clearly state the expectation of ethical behaviour in all organizational policies.
- The Senate should also increase the efficiency of the classification function by implementing timelines for the resolution of management disputes related to classification results. A clearly documented process with specific deadlines to move classification decisions forward should be implemented and supported by senior management.
- The Senate should establish a process to track metrics related to the job classification function. The establishment of both performance and transactional metrics will allow the Senate to monitor trends, benchmark against itself and other external organizations and identify opportunities for process improvement. Examples of how tracking of metrics can be useful:
 - A trend displaying an increase in reclassification requests throughout the Senate could be analyzed to determine whether they are a result of a changing organizational environment or the use of classification for purposes it was not intended (performance, retention). Identified trends could be used as a trigger to evaluate the need for management training and/or review of complementary human resource policies (compensation).
 - Monitoring the turnaround time of classification requests can provide insight into whether clients are being adequately served. A long turnaround time may indicate the need for additional internal or external resources. An extremely quick turnaround time

may allow for the evaluation of the opportunity to realign resources to other human resource areas of priority.

4.0 Business Process Consideration

At present, the Senate's Classification Committee is comprised of Human Resource Advisors who also undertake various other duties related to the human resource function. We were informed that workload is an issue in managing their portfolio of duties. We also noted that the responsibility of making classification decisions may be difficult for individuals in such a small organization.

While our audit indicated that the job classification function is functioning and adequately managing risks effectively, analysis of different options, such as outsourcing or strategic partnerships, should be considered with the lens of cost-saving, effectiveness and efficiency.

Outsourcing could take a variety of forms from sub-contracting the entire process to an external third party to forming joint Classification Committees with strategic partners.

There can be many benefits of an outsourcing arrangement including: cost savings; internal capacity management; scalability; and, improved quality due to use of expert knowledge. These benefits should be weighed against negative implications that may include: loss of internal functional capacity; quality and service risks associated with transferring functions to an external party; and, possible long-term financial implications due to dependencies on external service providers.

5.0 Conclusion

While opportunities for improvement exist, our audit found that the Senate has established effective controls to manage risks associated with the job classification function. The function is compliant with the Policy, with minor deviations noted above.

Ernst & Young would like to express its appreciation for the full cooperation received from employees of the Senate during the conduct of the audit.

Senate response to the audit report and follow-up action

The Internal Economy Committee has reviewed the report and agrees with the recommendations. Senate Management has taken immediate action on many of the initiatives identified in the follow-up action plan. For example, a cyclical job description review process has been put in place, all job reclassifications are now subject to an on-site review, and measures have been taken to ensure that all aspects of the classification process are properly documented.

Remaining initiatives which will lead to full implementation of the audit's recommendations include such things as amendments to the Senate Administration Policy on Classification and Organizational Design, the development of a toolkit for managers to assist them in their job classification responsibilities, and the establishment of effective performance indicators.

The Committee is appreciative of the audit's recognition that the Senate already has effective controls and practices in place to manage risks associated with the job classification function. The recommendations will serve to make an already effective function even better.

Appendix A- Job classification request for the years 2008-2009

Position title	Department	New/Existing position	Classification decision disputed by Management
Senior Advisor, Planning Performance and Quality	Strategic Planning	New	
Comptroller	Finance	New	
Debates Assistant	Debates Services	Existing	
Editor	Debates Services	Existing	
Scopist	Debates Services	Existing	
Fire Prevention and Training Coordinator	Protective Services	New	
HR Officer, Services to Senators and Programs	Human Resources	Existing	
Protective Services, Operations and Planning Advisor	Protective Services	New	
Administrative and Events	Usher of the Black Rod	Existing	Yes
Chief Planning and Public	Communications	New	
Coordinator, Maintenance Services	Building Services	Existing	Yes
Coordinator, Committee Room Support and Mail Services	Building Services	Existing	Yes
Coordinator, Installations and Transportation	Building Services	Existing	Yes
Administrative Assistant	LTAP	Existing	Yes

Classifications undertaken during 2008 for SLA, SEG and MMG positions

Law Clerk & Parliamentary Counsel

Deputy Law Clerk & Parliamentary Counsel

Principal Clerk, Chamber Operations & Procedure

Principal Clerk, Legislative Systems & Broadcasting

Director, Finance

Director, Information Services

Director, Communicators

Director, Executive Secretariat

Director General, Parliamentary Precinct

Director, Building Services