



Internal Audit Report

Travel and Duty Expenses Review, English Networks

August 2006

CONFIDENTIAL

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This report is intended to provide observations and/or recommendations to CBC/Radio-Canada's Management and Audit Committee regarding the process reviewed.

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Executive Summary

Project Description and Background

During the 2006-07 audit planning meeting held on January 27, 2006, the Executive Vice-President, English Television Networks requested that Internal Audit conduct a special review of the travel expenses within the English Television Networks (ETN). The purpose of this special review is to evaluate the adequacy of internal controls relating to travel expenses management and reporting and employee compliance with Travel Management Policy 2.3.23. The Executive Vice-President, English Television Networks, requested that the review focus on the 2005-06 fiscal year recently ended concentrating on the periods before, during and post-lockout. The EVP receives specific departmental reporting on these expenses in the monthly ETN dashboard and wanted to receive an independent review of the report as to accuracy and to ensure that controls are in place to identify and control "reputation" risks within the expense reimbursement process.

Objective and Scope

In accordance with the request of the Executive Vice-President, English Television Networks, and as agreed with the Executive Director, Finance & Administration, English Networks, Internal Audit's objective, scope and approach are as follows:

- The objective of this review was to determine that ETN internal controls over its travel and duty expenses reporting are adequately designed.
- Management and financial reporting - review the process of managing travel related expenses in order to verify that expenditures are controlled, monitored and reported correctly in the monthly dashboard.

The approach used during testing and evaluating internal controls included:

- Interviews and inquiry;
- Inspection and confirmation of documentation (including policies and procedures);
- Observation and re-performance of procedures to compile management reporting;
- Performance of limited control testing and analytical procedures (including financial impact analysis, interrelationships in data, etc.) on key transaction and activity codes for the past six months of calendar year 2005, utilizing a data warehouse download from SAP for computer assisted audit techniques.

Summary of Procedures Performed

The following procedures were performed by Internal Audit from March to May 2006:

- Interviewed key personnel and management to understand the travel and duty expenses process and reporting, key internal policies, procedures and controls;
- Obtained and reviewed data from SAP for key transaction and activity codes;
- Performed analytical procedures and controls design testing upon the obtained data;
- Summarized results of testing performed, identifying areas for potential further investigation by ETN Finance & Administration and/or areas of controls design enhancement.

Executive Summary (Cont'd)

Summary Results of Procedures Performed

As a result of applying the procedures specified above, the following results are obtained:

- Controls related to approval and review of travel and duty entertainment expenses are in place and properly designed.
- Analytical trends and comments:
 - Expenses related to *Travel Inside Canada* did not differ much between the period before the lockout and the period during the lockout. This may be reasonable as managers from outside of Toronto were brought into Toronto during the lockout to manage operations. The expected decline in *Travel Inside Canada* was offset by travel costs incurred to bring managers into Toronto to manage operations.
 - Expenses related to *Travel Outside Canada* did drop off during the lockout. This may be expected as foreign assignments were significantly curtailed during the lockout.
 - Expenses related to *Duty Entertainment and Representation* dropped off significantly during the lockout. However, there was one significant expenditure during the lockout that relates to the annual payment for the box at the Air Canada Centre.
 - Expenses related to *Meals & Beverages during working periods* did increase during the lockout period. This may be reasonable as there was a significant amount of overtime worked by the managers during the lockout.
 - Expenses related to *Travel Meal/Per Diem Inside Canada* did not differ much between the period before the lockout and the period during the lockout. Given there was no real change in the *Travel Inside Canada* expense type during the period, it is reasonable to expect little if any change in this expense type as well.
 - Expenses related to *Travel meal/Per Diem Outside Canada* dropped off significantly during the lockout period. This is consistent with the drop-off in expenses related to *Travel Outside Canada*.
 - Expenses related to *Local Transportation* decreased slightly during the lockout period. Expenses related to *Vehicle Rental Costs* dropped off during the lockout period. This is reasonable and is not inconsistent with the limited drop-off of local transportation expenses.
 - There were no significant expenditures related to *Receptions* during the lockout period. Expenses related to *Staff Functions* dropped off during the lockout period, however, there was one specific item that relates to a business development function i.e. NWI reception that occurred during the period.
- Travel related expenses are accurately reported in the ETN monthly dashboard prepared by Finance & Administration through the SAP and business warehouse interface.

Executive Summary (Cont'd)

Recommendations

In completing our analytical review, we identified certain trends or transactions that could be further investigated by Finance & Administration. We recommend that those items be reviewed with the Executive Director, Finance & Administration.

It is understood that a dedicated Travel and Expenses Management System ("TEMS") will be implemented in the next year. This will likely bring with it the ability to implement more streamlined controls and the ability to more effectively monitor the appropriateness of travel and expense claims being processed through the system. Despite the expectation that suitable preventative controls will be designed and implemented within TEMS, we recommend that management consider the use of a continuous monitoring tool to provide ongoing monitoring and detective controls over the appropriateness of expenses being processed. Such a tool would continuously evaluate the transactions flowing through the system and would promptly flag any unusual items, such as duplicates, to management allowing timely follow-up and resolution.

Summary of Management Comments

Finance & Administration conducted a full review and investigation of trends or transactions highlighted by the computer assisted audit techniques in conjunction with this review. Nothing came to our attention of any surprise or concern, as the trending reflected business activities during the period under review. The results of this investigation were reviewed with the Senior Director, Finance & Administration in July 2006. Please refer to the attachment in the Appendix for further details as to the results of the review of Finance & Administration.

TEMS is scheduled to be implemented across CBC/Radio-Canada during fiscal year 2006-07, as confirmed by Stéphane Rivest, Corporate Director, Financial Systems, Processes & Training (note: TEMS implementation is dependent on the upgrade to SAP). The evaluation criteria in selecting the TEMS included its ability to be used as a continuous monitoring tool to provide robust, on-demand reporting of travel related expenditures and allow for monitoring by the business units as mentioned above. As part of the implementation of the system and related change management, Finance & Administration are committed to implement streamlined controls and routine monitoring of travel related expenses.

Currently, management reviews travel and duty entertainment expenditures on a monthly basis as part of the preparation of the ETN and ERN dashboards. Any unusual variances year-to-year are scrutinized and explanations are required.

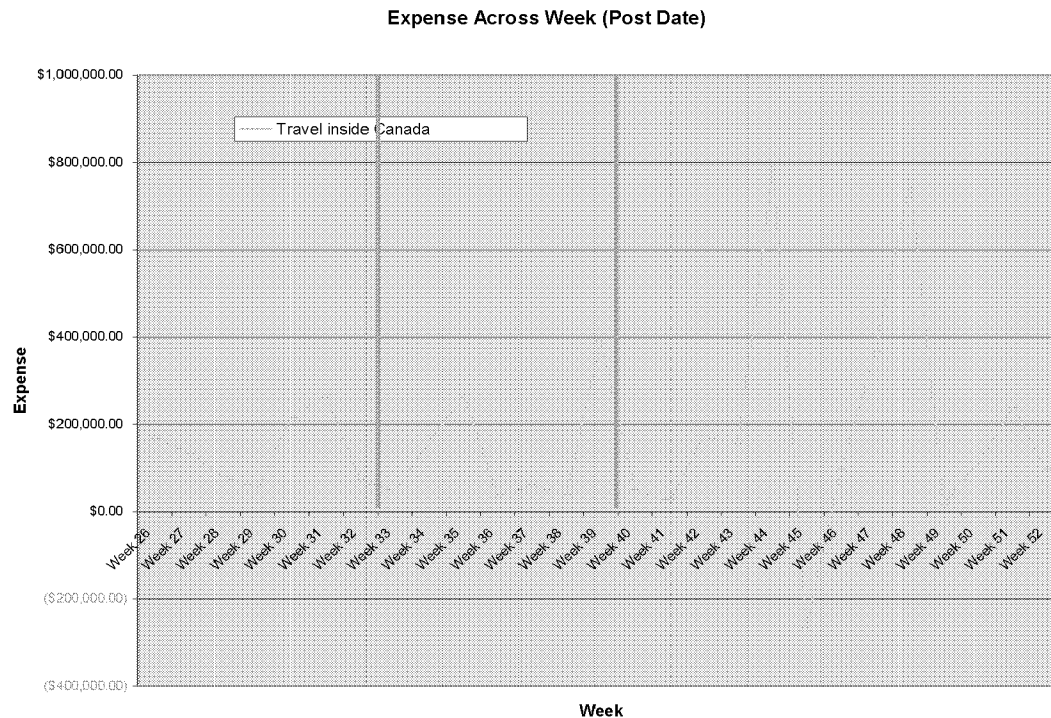
Appendix A

The lockout took place between August 14 and October 8, 2005. This corresponds to weeks 33 to 40 inclusive in the diagrams below. The data used for the analysis below was obtained from SAP.

1. Expense Type by Week

1.1 Travel Inside Canada

The lockout period does not appear to be very different from prior to the lockout. This may be reasonable because managers were brought into Toronto from across Canada to manage operations during this period. There is a peak in week 39 (\$389,918.45) and subsequent peaks in weeks 44 (\$796,009.05) and 48 (\$759,327.03). These are likely due to the cyclical nature of processing.



1. Expense Type by Week (Cont'd)

1.1 Travel Inside Canada (Cont'd)

Statistics

Week 39

Field	value_cocurr Number	Total	Average
Positive	566	753,686.56	1,331.60
Zeros	0		
Negative	55	-363,768.11	-6,613.97
Totals	621	389,918.45	627.89
Abs Value:		1,117,454.67	
Range		530,000.00	
Highest	265,000.00 56,930.64 52,332.17 15,000.00 10,593.00		
Lowest	-265,000.00 -56,930.64 -5,585.78 -2,917.00 -2,514.86		

[Note: The above table shows an analysis of the expense amounts for week 39 as posted to the general ledger. The first column shows the number of line items posted to the GL split by positive, negative and zero amounts. The second column shows the total dollar value of these line items and additionally shows the total net amount, the total absolute amount and the range between the highest dollar amount and the lowest. The third column shows the average dollar value of these line items. The two rows at the foot of the analysis show the highest five and lowest five amounts.]

The largest expense item in week 39 that was not reversed was for \$52,332.17, which appears to relate to the Renaissance Hotel in downtown Toronto. The two largest items relate to an accrual and a transfer of costs.

Week 44

Field	value_cocurr Number	Total	Average
Positive	670	1,049,044.38	1,565.74
Zeros	0		
Negative	49	-253,035.33	-5,163.99
Totals	719	796,009.05	1,107.11
Abs Value:		1,302,079.71	
Range		397,938.05	
Highest	200,000.00 197,938.05 122,000.00 33,149.03 23,866.74		
Lowest	-197,938.05 -15,000.00 -5,762.25 -2,344.39 -2,230.00		

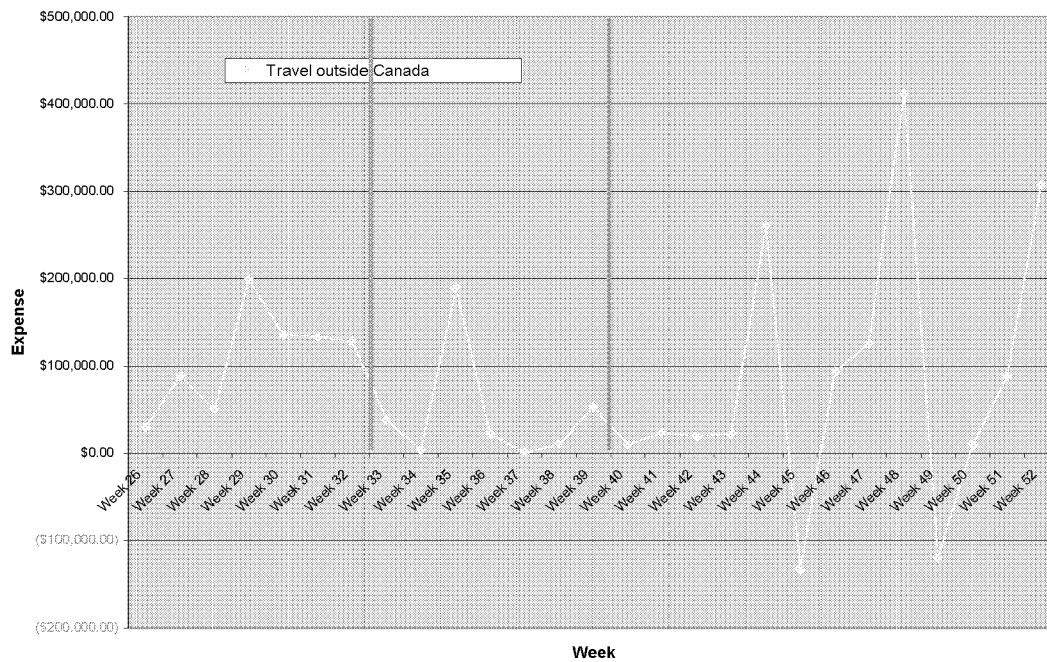
The three largest amounts for week 44 relate to accruals and a transfer of costs.

1. Expense Type by Week (Cont'd)

1.2 Travel Outside Canada

This expense type drops off during the lockout as would be expected although there is a spike in week 35 (\$189,312.41) which could be a catch up for pre-lockout expenses. After the lockout, there were significant peaks and negative adjustments in weeks 44 (\$260,212.10), 45 (\$132,544.74), 48 (\$412,452.23), 49 (\$119,529.56) and 52 (\$307,149.32).

Expense Across Week (Post Date)



1. Expense Type by Week (Cont'd)

1.2 Travel Outside Canada (Cont'd)

Statistics

Week 35

Field	Value_COCurr	Total	Average
	Number		
Positive	145	283,953.22	1,958.30
Zeros	0		
Negative	12	-94,640.81	-7,886.73
Totals	157	189,312.41	1,205.81
Abs Value:		378,594.03	
Range		56,167.05	
Highest	29,887.05 26,280.00 25,000.00 15,000.00 11,957.00		
Lowest	-26,280.00 -25,000.00 -15,000.00 -10,000.00 -10,000.00		

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Week 44

Field	Value_COCurr	Total	Average
	Number		
Positive	108	317,590.28	2,940.65
Zeros	0		
Negative	23	-57,378.18	-2,494.70
Totals	131	260,212.10	1,986.35
Abs Value:		374,968.46	
Range		119,833.10	
Highest	100,000.00 60,369.00 19,833.10 14,785.31 10,000.00		
Lowest	-19,833.10 -10,000.00 -2,913.99 -2,908.60 -2,376.69		

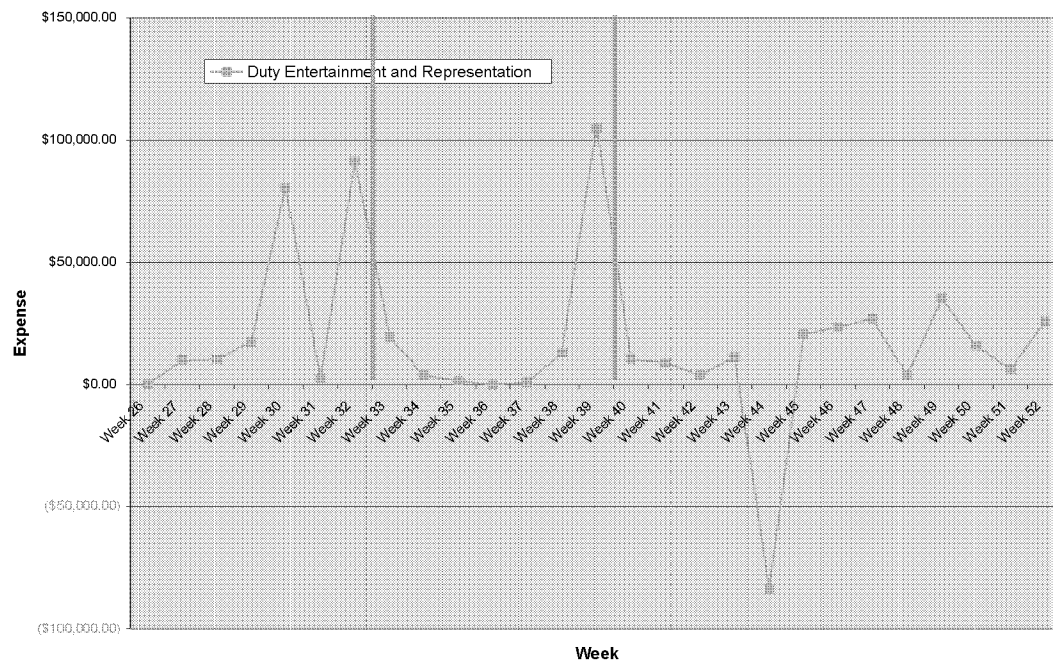
The two largest items relate to accruals.

1. Expense Type by Week (Cont'd)

1.3 Duty Entertainment and Representation

This expense type drops off during the lockout with the exception of a peak in week 39 (\$104,932.35). A significant adjustment occurs in week 44 (\$83,696.22). There are also two significant peaks prior to the lockout in weeks 30 (\$80,597.72) and 32 (\$91,370.88).

Expense Across Week (Post Date)



1. Expense Type by Week (Cont'd)

1.3 Duty Entertainment and Representation (Cont'd)

Statistics

Week 32

Field	value_COcurr	Number	Total	Average
Positive	:	49	91,370.88	1,864.71
Zeros	:	0		
Negative	:	0	0.00	0.00
Totals	:	49	91,370.88	1,864.71
Abs Value:			91,370.88	
Range	:		49,538.39	
Highest	:	49,553.00 7,400.00 7,243.07 6,048.00 4,785.00		s.68.1
Lowest	:	14.61 16.35 26.58 30.57 43.32		

Week 39

Field	value_COcurr	Number	Total	Average
Positive	:	21	104,932.35	4,996.78
Zeros	:	0		
Negative	:	0	0.00	0.00
Totals	:	21	104,932.35	4,996.78
Abs Value:			104,932.35	
Range	:		85,114.02	
Highest	:	85,157.64 8,100.00 5,801.06 2,162.11 1,668.84		
Lowest	:	43.62 48.20 57.49 59.20 60.54		

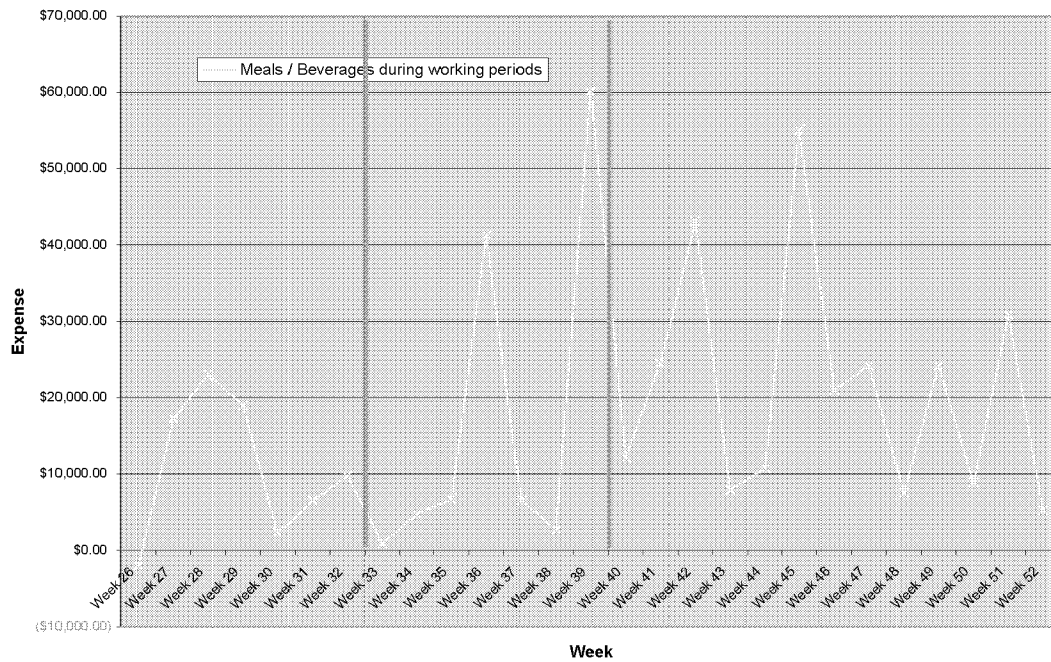
The largest item during this week appears to relate to the annual payment for the box at the Air Canada Centre.

1. Expense Type by Week (Cont'd)

1.4 Meals & Beverages during working periods

This expense type appears to be quite erratic across the six-month period. There are however, significant peaks during the lockout in weeks 36 (\$41,265.63) and 39 (\$60,112.93). Subsequent peaks follow in weeks 42 (\$43,151.01) and 45 (\$55,137.36). The expenses occurring during the lockout period may be reasonable as there was a significant amount of late working during the lockout and a higher than normal number of meetings which would have been catered.

Expense Across Week (Post Date)



1. Expense Type by Week (Cont'd)

1.4 Meals & Beverages during working periods (Cont'd)

Statistics

Week 39

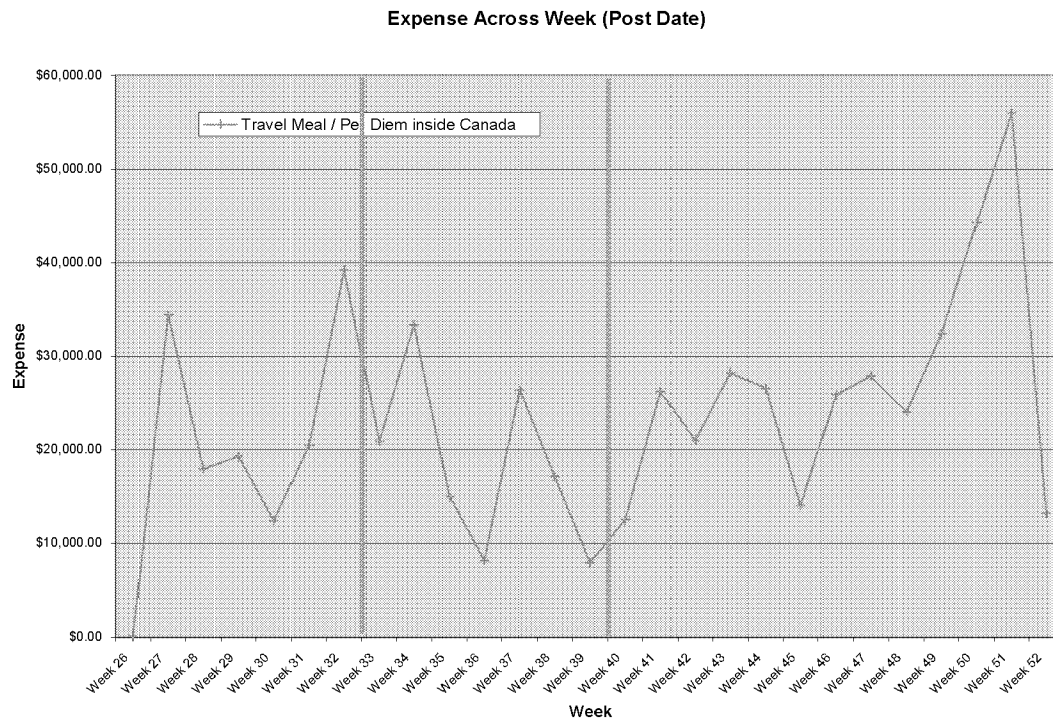
Field	Value_COcurr	Total	Average
	Number		
Positive	151	60,131.89	398.22
Zeros	0		
Negative	1	-18.96	-18.96
Totals	152	60,112.93	395.48
Abs Value:		60,150.85	
Range		8,785.89	
Highest	8,766.93 1,793.39 1,536.62 1,528.62 1,366.15		
Lowest	-18.96 3.64 5.23 10.40 10.40		

The largest item in this week relates to a payment to caterers.

1. Expense Type by Week (Cont'd)

1.5 Travel Meal/Per Diem Inside Canada

This expense type is relatively constant across the six-month period including the lockout period. There are two troughs in the lockout period in weeks 36 (\$8,185.06) and 39 (\$7,947.63). There are two peaks during the lockout period – weeks 34 (\$33,358) and 37 (\$26,396). This appears reasonable given that the expenses for *Travel Inside Canada* did not appear to be affected by the lockout and one would expect these two expense types to trend in line with each other.



1. Expense Type by Week (Cont'd)

1.5 Travel Meal/Per Diem Inside Canada (Cont'd)

Statistics

Week 34

Field	value_cocurr	Total	Average
	Number		
Positive	111	34,328.83	309.27
Zeros	0		
Negative	9	-970.79	-107.87
Totals	120	33,358.04	277.98
Abs Value:		35,299.62	
Range		9,379.36	
Highest	9,078.36 2,005.00 744.81 744.81 696.45		
Lowest	-301.00 -218.61 -164.45 -110.27 -69.64		

The largest item is a payment to Canadian Security Management, which may be reasonable given heightened security requirements during the lockout.

Week 37

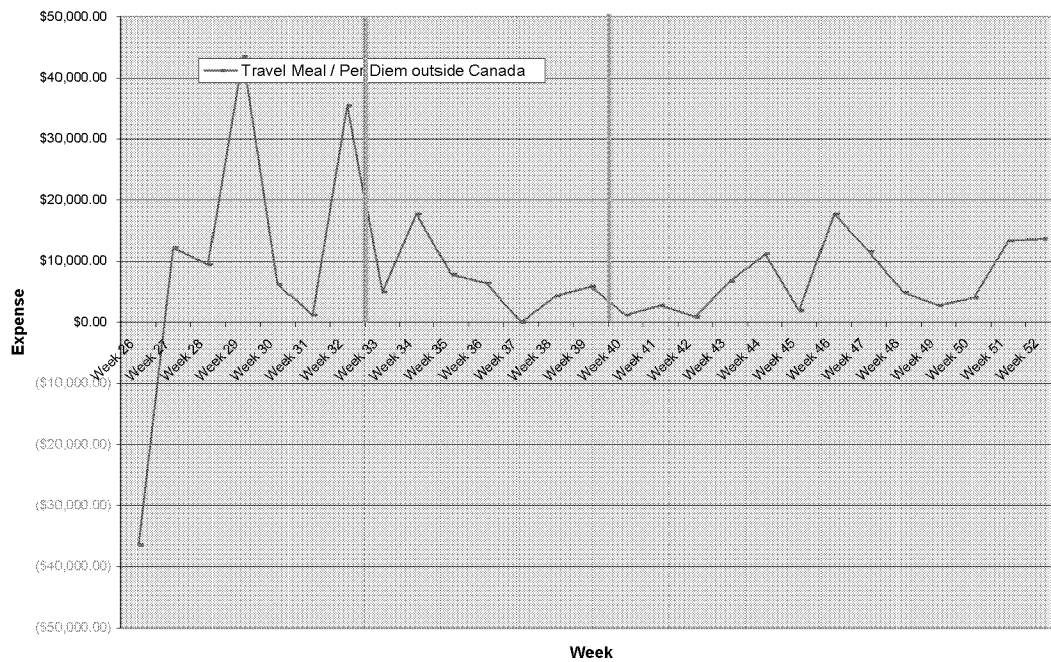
Field	value_cocurr	Total	Average
	Number		
Positive	114	26,396.21	231.55
Zeros	0		
Negative	0	0.00	0.00
Totals	114	26,396.21	231.55
Abs Value:		26,396.21	
Range		858.96	
Highest	870.56 686.78 669.36 647.00 562.96		
Lowest	11.60 11.60 11.61 27.08 58.04		

1. Expense Type by Week (Cont'd)

1.6 Travel Meal/Per Diem Outside Canada

This expense item drops off during weeks 35 (\$17,739.46) to 42 (\$871.61), which may be due to a two-week lag in processing as it corresponds to the lockout period plus two weeks. The drop-off in this expense type appears reasonable given the corresponding drop-off in *Travel Outside Canada*.

Expense Across Week (Post Date)



1. Expense Type by Week (Cont'd)

1.6 Travel Meal/Per Diem Outside Canada (Cont'd)

Statistics

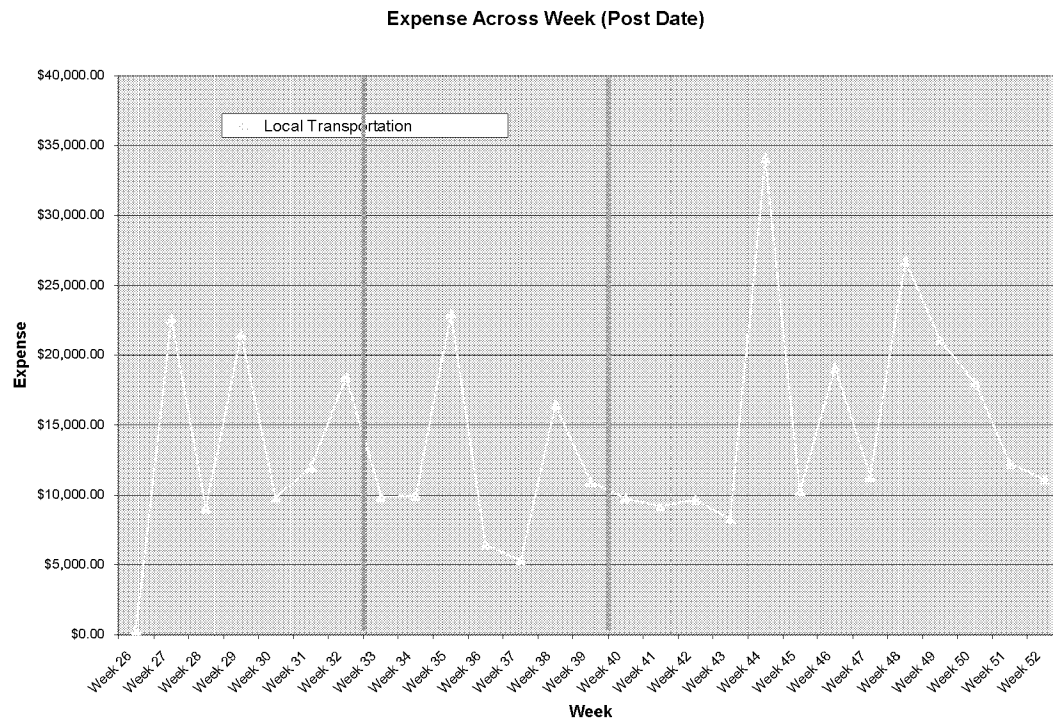
Week 32

Field	Value_COcurr	Total	Average
	Number		
Positive	52	35,474.91	682.21
Zeros	0		
Negative	0	0.00	0.00
Totals	52	35,474.91	682.21
Abs Value:		35,474.91	
Range		4,700.57	
Highest	4,703.72 3,573.21 3,155.53 2,991.14 2,374.29		
Lowest	3.15 5.09 25.21 48.36 60.94		

1. Expense Type by Week (Cont'd)

1.7 Local Transportation

There appears to be some drop-off during the lockout period although not significantly so. During the lockout period, it is understood that there was significant management overtime, which might explain the limited drop-off in this expense type as taxis were being used for late night travel home. There is also a significant peak in week 44 (\$34,102.41).



1. Expense Type by Week (Cont'd)

1.7 Local Transportation (Cont'd)

Statistics

Week 35

Field	Value_COCurr	Total	Average
	Number		
Positive	: 204	23,734.61	116.35
Zeros	: 0		
Negative	: 10	-767.95	-76.80
Totals	: 214	22,966.66	107.32
Abs Value:		24,502.56	
Range	:	3,033.66	
Highest	: 2,723.66 2,007.08 1,642.13 1,283.52 608.67		
Lowest	: -310.00 -139.12 -131.53 -80.00 -33.82		

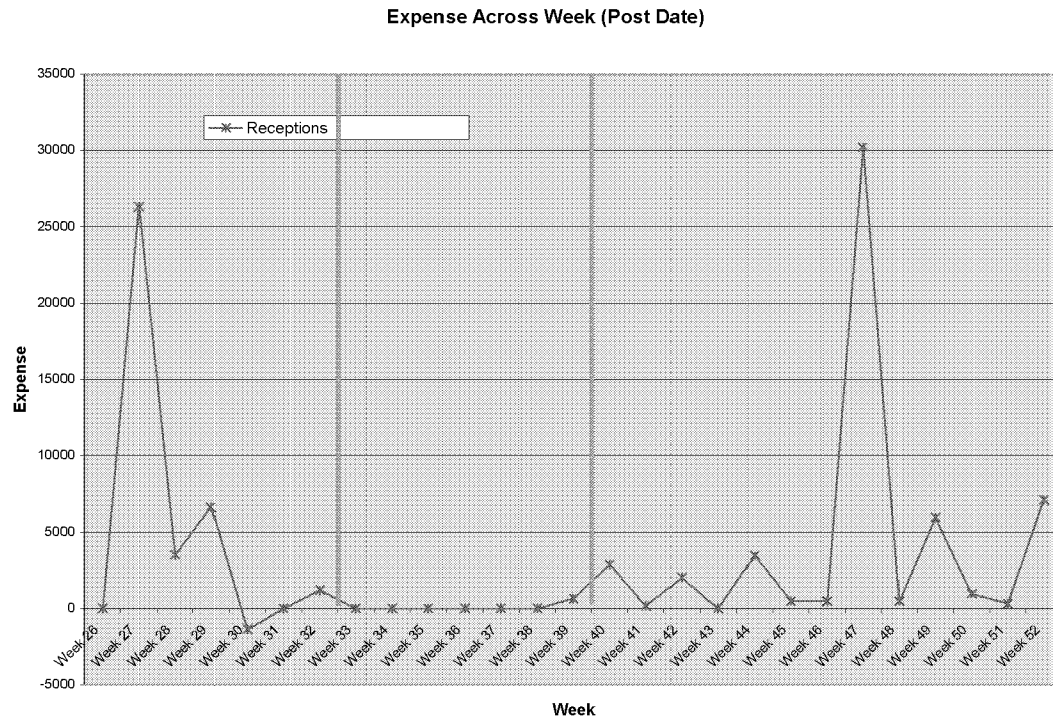
Week 44

Field	Value_COCurr	Total	Average
	Number		
Positive	: 334	35,941.45	107.61
Zeros	: 0		
Negative	: 19	-1,839.04	-96.79
Totals	: 353	34,102.41	96.61
Abs Value:		37,780.49	
Range	:	9,997.11	
Highest	: 9,462.61 1,875.00 1,349.66 1,195.65 1,174.44		
Lowest	: -534.50 -369.44 -159.22 -133.28 -93.30		

1. Expense Type by Week (Cont'd)

1.8 Receptions

Two major events took place during the six-month period in weeks 27 (\$26,290.50) and 47 (\$30,211.19) – neither of which fell during the lockout period.

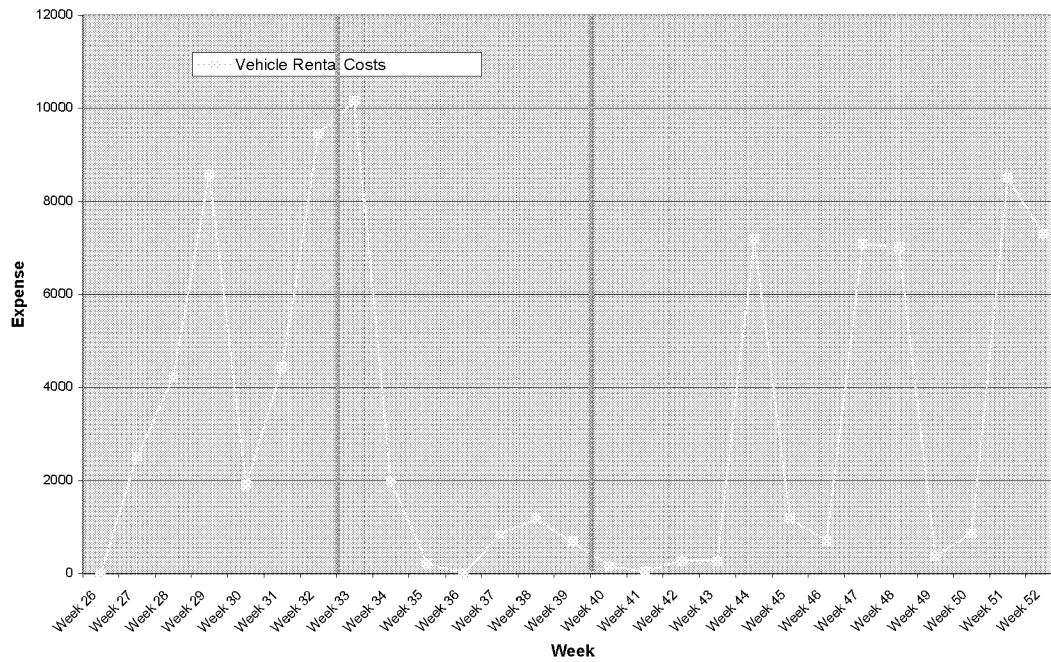


1. Expense Type by Week (Cont'd)

1.9 Vehicle Rental Costs

Dropped off during the lockout period. This is reasonable and is not inconsistent with the limited drop-off of local transportation expenses.

Expense Across Week (Post Date)



1. Expense Type by Week (Cont'd)

1.9 Vehicle Rental Costs (Cont'd)

Statistics

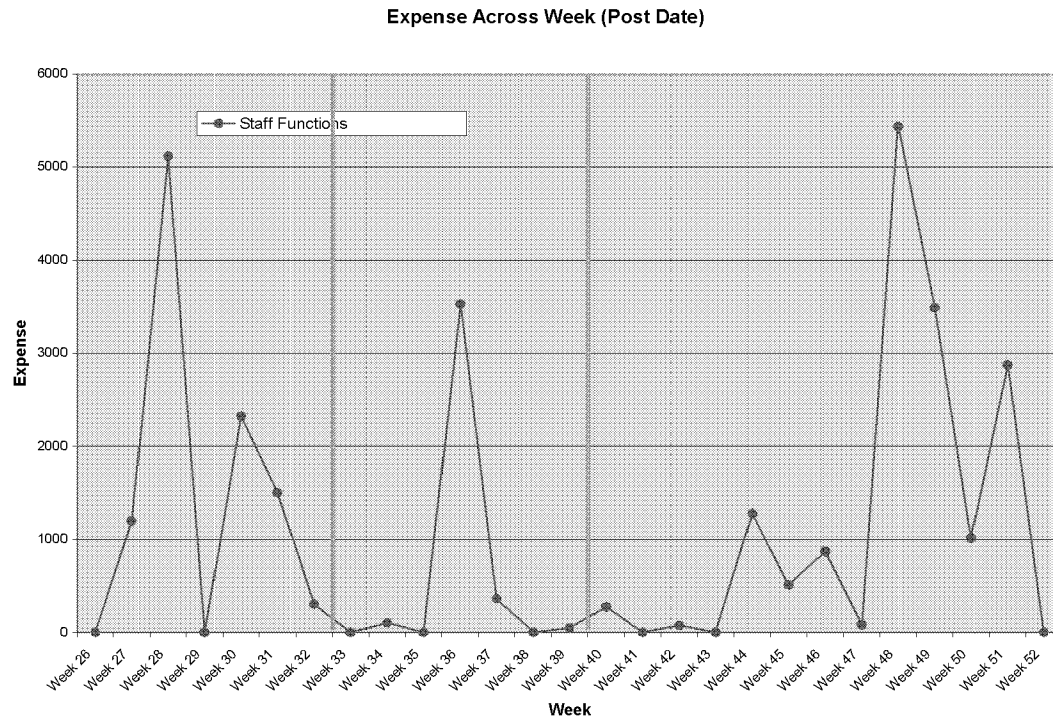
Week 33

Field	Value_COCurr	Total	Average
	Number		
Positive	: 45	10,434.78	231.88
Zeros	: 0		
Negative	: 2	-279.83	-139.92
Totals	: 47	10,154.95	216.06
Abs Value:		10,714.61	
Range	:	2,347.64	
Highest	: 2,123.08 906.78 737.99 664.42 429.25		
Lowest	: -224.56 -55.27 9.90 38.97 38.97		

1. Expense Type by Week (Cont'd)

1.10 Staff Functions

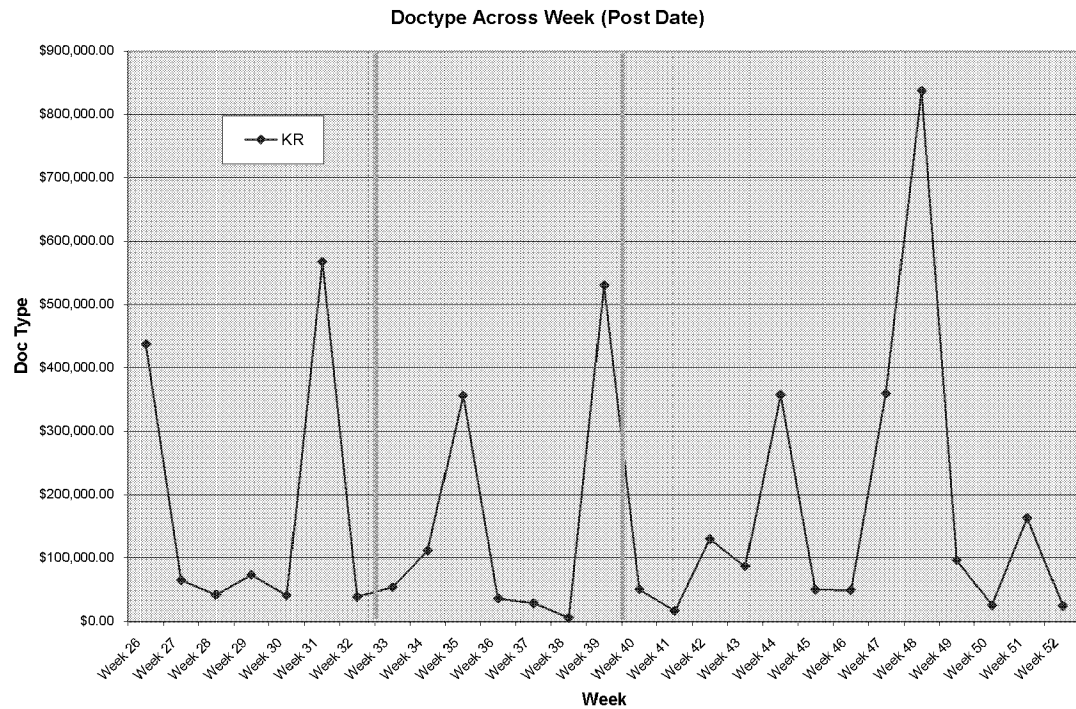
This expense type has dropped off during the lockout period as would be expected. However, there was a spike in week 36 (\$3,528.92). This primarily appears to relate to a business development restaurant expense. Other amounts are relatively small.



2. Document Type by Week

2.1 KR (Vendor Invoices), SA (G/L Accounting Document) and AB (Accounting Document)

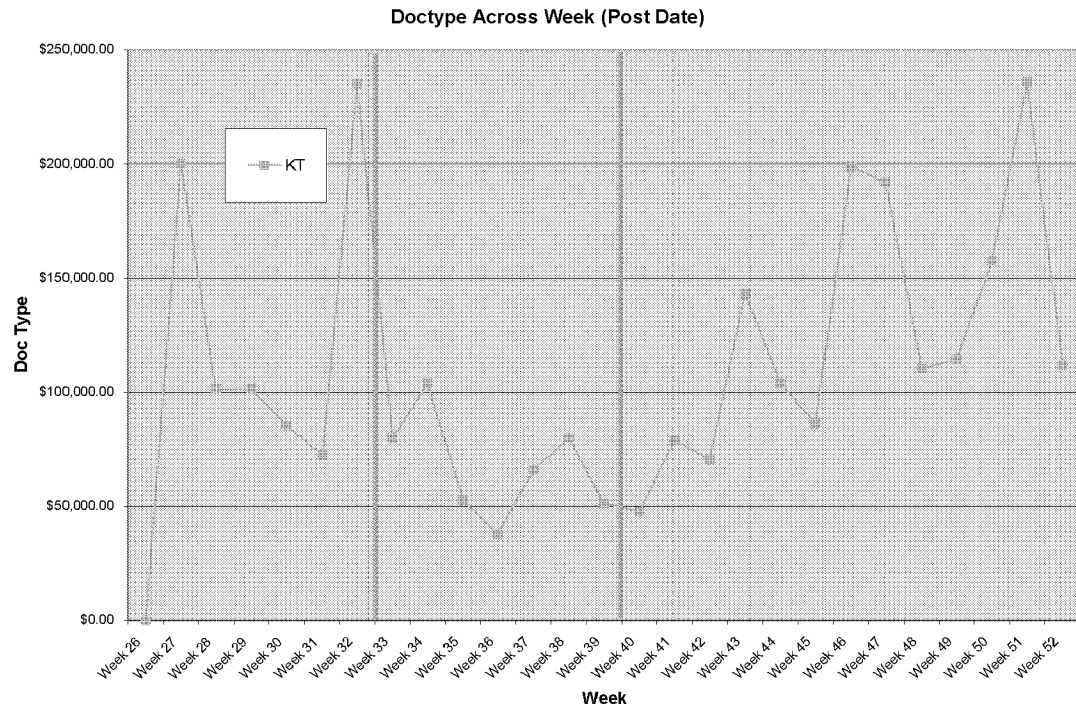
Document types KR (Vendor Invoices), SA (G/L Accounting Document) and AB (Accounting Document) are quite consistent across the six-month period with no particular change during the lockout. As an example, the diagram below shows the analysis for the KR document types.



2. Document Type by Week (Cont'd)

2.2 KT (Travel Pay & Recovery)

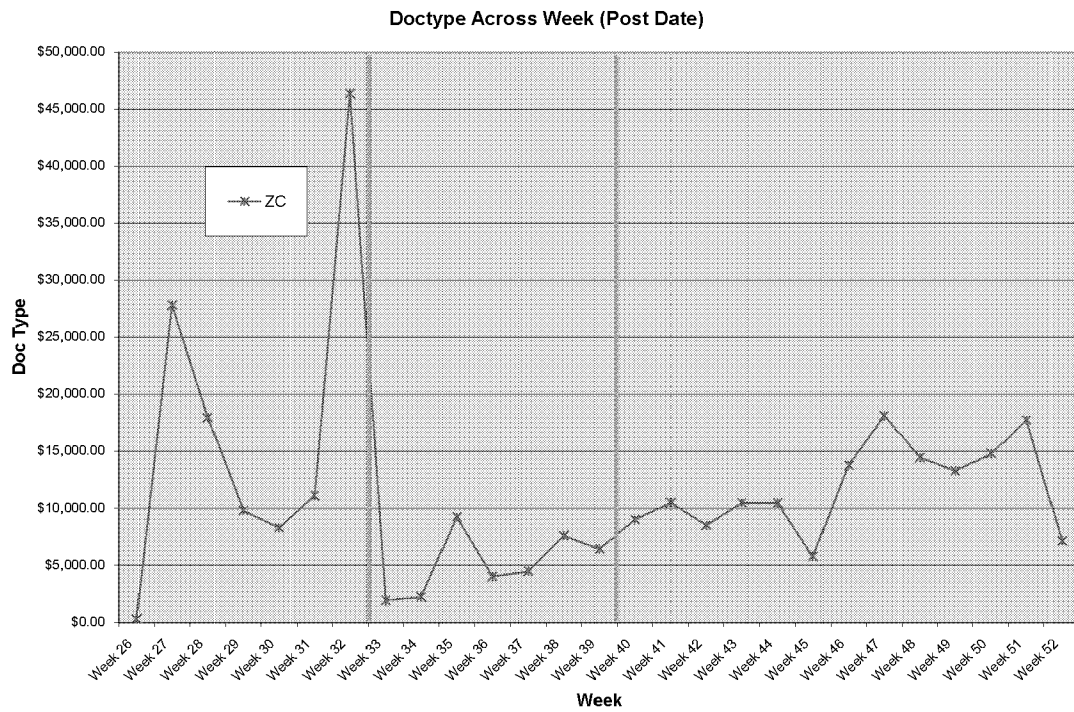
Document type KT (Travel Pay & Recovery) drops off during the lockout period. This is consistent with the drop in the amount of *Travel Outside Canada*.



2. Document Type by Week (Cont'd)

2.3 ZC (Petty Cash)

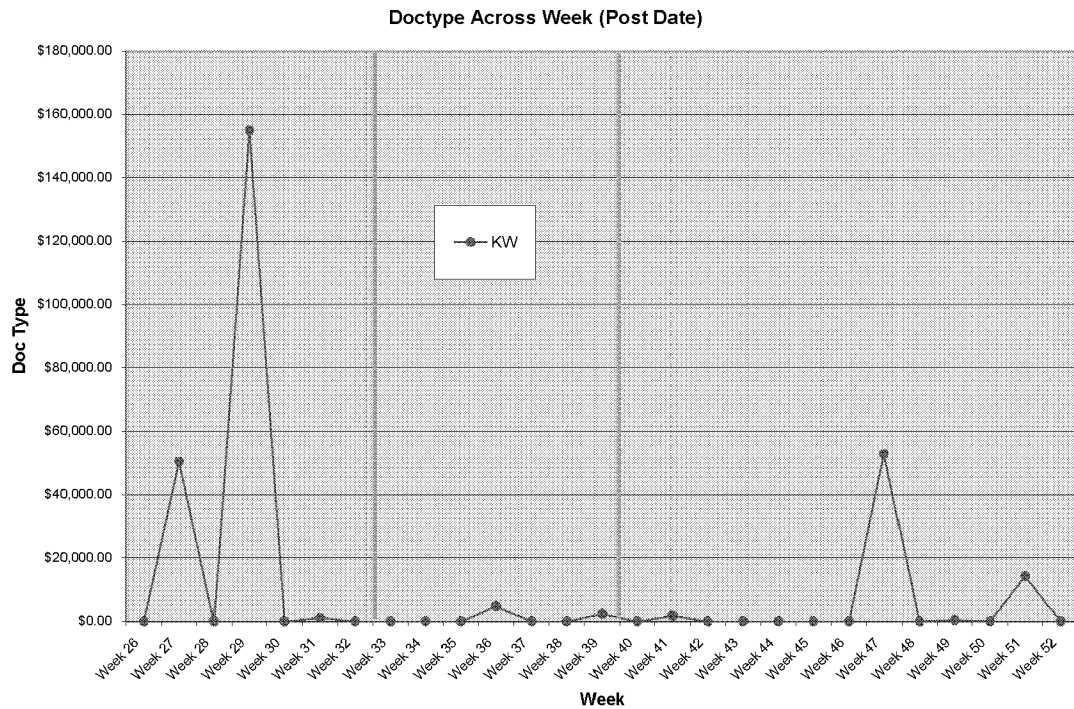
Document type ZC (Petty Cash) drops off during the lockout although this drop-off stays low even following the lockout. There is a significant peak in week 32 (\$46,370.49) immediately prior to the lockout.



2. Document Type by Week (Cont'd)

2.4 KW (International Vendor Payment)

Document type KW (International Vendor Payment) is inconsistent across the six-month period suggesting a couple of large payments for specific events in weeks 29 (\$154,963.19) and 47 (\$52,885.15). This does not appear unreasonable.



3. Further Analyses

Several further analyses were attempted however did not produce meaningful results. These analyses were as follows:

- Identification of items with a travel date during the lockout period;
- Identification of items with an expense date during the lockout period; and
- Identification of potential duplicate items.

Based on our high-level review of the first two items, there were many items during the lockout period. The volume was such that further detailed analysis would have been required to assess the validity of these items.

In terms of duplicate items, a large number of potential duplicates were identified, however, it is expected that due to the volume, the appearance of duplication is likely a function of the way the system processes rather than true duplicate items. Further detailed analysis of these items would be required to validate this expectation.

4. Management Comments

4.1 Summary of Travel and Duty Entertainment Analysis

The following analysis is based on the data sample provided to the Internal Auditors team for the Travel and Duty Entertainment audit. The sample includes all transactions posted between July 1, 2005 and December 31, 2005 in cost Element Group Travel-Transportation-Shipping as well as Cost Elements 57311 to 57314 (Duty Entertainment, Receptions, Staff Functions and Working Meals). The analysis is focused on trends during the lockout period (August 15 to October 11, 2005) providing explanations for the exceptions.

The results of this analysis were discussed with the internal auditors prior to their issuance of the draft audit report.

EXPLANATION ON EXCEPTIONS

Travel Inside Canada

- Weeks 26, 31, 35, 39, 44, 48: Peaks due to tickets postings. On week 26, the increase is offset by previous month accruals reversals in
- Week 44: NCAN travel accruals for October (approx. \$400K)
- Week 45: NCAN travel accruals for October reversed (approx. \$400K).
-

Travel Outside Canada

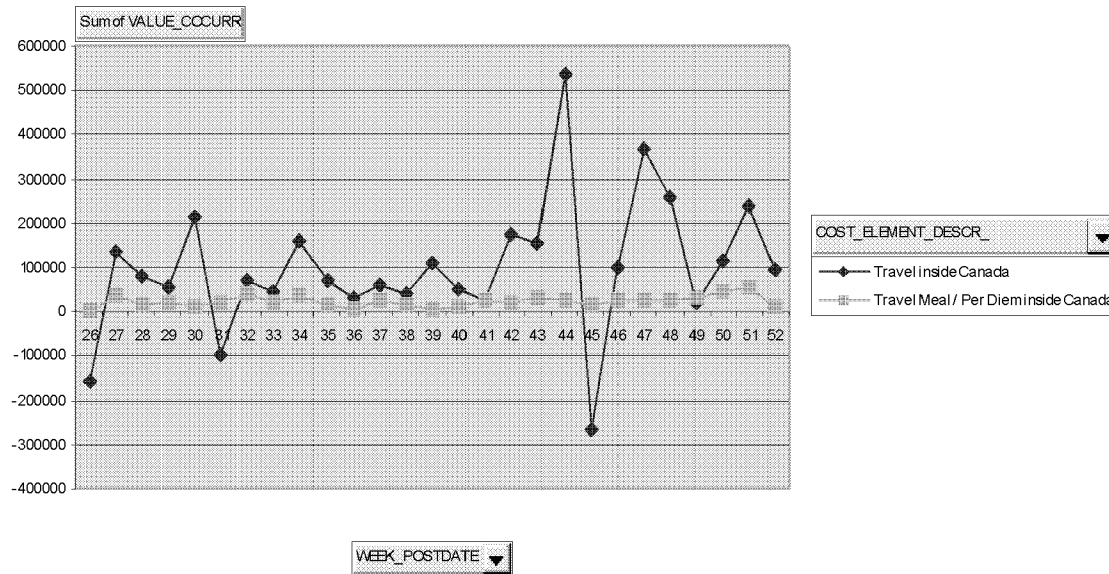
- Weeks 26, 31, 35, 39, 44, 48: Increases due to tickets postings. On week 26, the increase is offset by previous month accruals reversals in
- Week 29:
- Week 44: NCAN travel accruals for October (\$100K).
- Week 45: NCAN travel accruals for October reversed (\$100K).
- Week 48: NCAN travel accruals for November (approx. \$175K).
- Week 49: NCAN travel accruals for November reversed (approx. \$175K).
- Week 52: NCAN travel accruals for December (approx. \$250K).

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4. Management Comments (Cont'd)

4.1 Summary of Travel and Duty Entertainment Analysis (Cont'd)

The following chart shows data for *Travel Inside Canada* excluding ticket costs compared with *Travel Meals/Per Diem Inside Canada*.

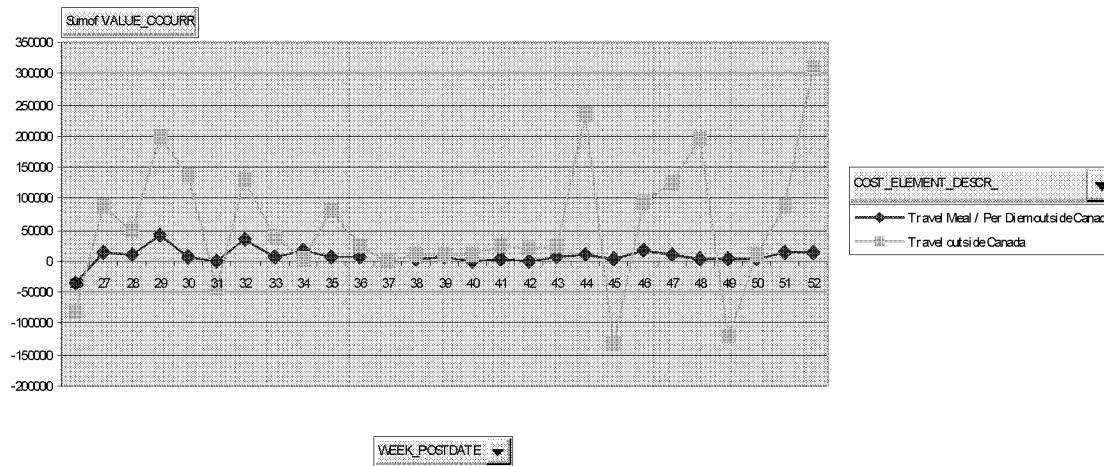


There is consistency between the two categories of expenditures.

4. Management Comments (Cont'd)

4.1 Summary of Travel and Duty Entertainment Analysis (Cont'd)

The following chart shows data for *Travel Outside Canada* excluding ticket costs compared with *Travel Meals/Per Diem Outside Canada*. There is consistency between the two categories, as before.



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Duty Entertainment and Representation

- Week 30:
- Week 32:
- Week 39:
- Week 44: Weeks 30 & 32 corrections.

Receptions

- Week 27: (\$2K), Marketing & Sales Influences dinner (\$15K), CBC/Radio-Canada Montréal Launch Site reception (\$9k).
- Week 47:

Local Transportation/Vehicle Expenses

Total expenditures during the lockout period were immaterial (average less below \$25K). No further analysis required.