**Executive Summary**

**Context**

In April 2004, the Public Service Commission (PSC) put into place various spending restrictions. This was followed by a Policy on Personal Computer (PC) and Peripherals, limiting the availability of loaner PCs. The PSC subsequently reissued the expenditure restrictions. Although the controls had initially been put in place to respond to the government-wide Expenditure Management Review, the PSC retained them in the interests of good management practice.

**Objective and Scope**

The objective of the audit was to assess the adequacy and effectiveness of the framework for managing expenditure restrictions, specifically to:

1. assess the controls and procedures put in place to monitor compliance to expenditure and asset restrictions;
2. determine the extent of compliance to the direction; and
3. assess whether instances of non-compliance were documented and reported to the proper levels of management for corrective action.

This was a limited scope audit, brought to a conclusion following a combination preliminary survey/examination phase. This decision was based on the generally positive preliminary findings, combined with the relatively large sample size used.

**Conclusion**

Overall, this audit noted strong compliance with the expenditure restrictions and PC and peripherals policies; however, instances of partial non-compliance were identified.

Based on the results of the preliminary survey, the audit identified key controls which were incorporated into the Operations and Maintenance (O&M) expenditure restriction policy and related processes. However, some control weaknesses were identified relating to both spending restrictions (records management, and compliance reporting and monitoring) and the Personal Computer and Peripherals Policy (business case documentation, and tracking and monitoring).

**Action Plan**

PSC management concurs with the recommendations and has developed suitable action plans to remedy the control weaknesses noted.

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**1.0 Introduction**

In 2005, the Public Service Commission (PSC) Internal Audit and Evaluation Committee approved the audit of Expenditure Management Control within the organization. This audit was included in the Internal Audit Plan for the fiscal year 2005/2006. Planning for this audit commenced in January 2006.

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**1.1 Public Service Commission of Canada**

The PSC is the independent agency mandated by Parliament to safeguard the integrity of the public service appointment system and the political impartiality of the federal workforce. The PSC supports the public interest by ensuring respect for the values of a professional public service: competence, non-partisanship and representativeness.

The PSC administers the *Public Service Employment Act* and carries out other responsibilities as provided for in the *Employment Equity Act*. The PSC:

1. is accountable to Parliament for the appointment of qualified persons to and within the public service;
2. develops policies and guidance for public service managers and requires that they take responsibility for their staffing decisions;
3. conducts independent audits and investigations to assess the effectiveness of the appointment system;
4. recruits qualified Canadians from across the country to the federal workforce; and
5. ensures that its recruitment and assessment services meet the needs of a modern and innovative public service.

The PSC comprises five branches: Audit; Investigations; Staffing and Assessment Services; Policy; and Corporate Management. The head office is located in the National Capital Region.

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**2.0 Background**

The PSC put into place various spending restrictions which became effective on April 1, 2004. These restrictions were focussed on Operations and Maintenance (O&M) expenditures. A detailed list determining the expenditures to be controlled and the measures to be applied prior to any expenditures being made was provided to budget holders. In a letter dated April 2, 2004, the President posted a letter on the Intracom which indicated that each budget holder was responsible for monitoring and controlling these expenditures so as to comply with the new controls and measures. This step was taken in light of the then current government-wide Expenditure Management Review. In keeping with the spending restrictions, on August 1, 2004, PSC also issued a policy on Personal Computer (PC) and Peripherals which limited the availability of loaner PCs. Expenditure restrictions were amended and re-issued by the Vice President, Corporate Management Branch, on April 1, 2005. This extension reflected the PSC's interest in maintaining good management practices.

At present, the PSC has an annual budget of approximately $95M. Of this, approximately $28M is allocated to O&M, with the remaining $67M allocated to salaries and capital projects. The scope of this audit covered the O&M portion of the annual budget.

In March 2006, the Internal Audit and Evaluation Directorate issued a Request for Proposal (RFP) whereby the Directorate sought the services of a contracted auditing firm to assist with this audit. PricewaterhouseCoopers (PwC) was the successful bidder.

The documentation review and file examinations for this audit took place in the summer of 2006.

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**3.0 Objective**

The objective of the audit was to assess the adequacy and effectiveness of the framework for managing expenditure restrictions, specifically to:

1. assess the controls and procedures put in place to monitor compliance to expenditure and asset restrictions;
2. determine the extent of compliance to the direction; and
3. assess whether instances of non-compliance were documented and reported to the proper levels of management for corrective action.

Detailed audit criteria are shown in Annex A.

During planning of the audit, the Internal Audit Directorate determined that the audit would be conducted in three phases: preliminary survey, examination and reporting. During the preliminary survey phase, Internal Audit, along with PwC, completed preliminary testing of a sample of O&M expenditures and transactions related to the Policy on Personal Computer and Peripherals. This sampling was expanded to then more fully assess the strength of controls.

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**4.0 Scope**

The audit addressed O&M expenditures and the Policy on Personal Computer and Peripherals for fiscal years 2004/2005 and 2005/2006. Transactions from all branches, including regional operations, were included in the review. O&M expenditures tested included Line Object Code (LOC) series from 20000 to 99999 as follows.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Fiscal Year** | **Total O&M** | **# of Trans.** | **LOC with Total Highest Value** | | **Highest Frequency LOC** | | |
| **Description** | **Value** | **Description** | **Value** | **Transactions** |
| **2004-2005** | $17.152M | 28,708 | Mgmt. Consulting Services | $1.585M | Office Supplies | $504K | 2,335 |
| **2005-2006** | $26.381M | 33,313 | Mgmt. Consulting Services | $7.012M | Ordinary Travel | $81.5K | 2,837 |

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**5.0 Statement of Assurance**

This internal audit was conducted in accordance with the TBS Policy on Internal Audit. We have examined sufficient relevant evidence and collected information necessary to provide assurance on the conclusion made. In some cases, the evidence sought was not available, resulting in an observation to this effect and related recommendation.

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**6.0 Methodology**

The preliminary survey/examination phase was conducted using interviews, documentation review, and detailed testing of a sample of transactions.

The sample selected for audit purposes was obtained from a copy of the financial transactions forwarded to the Office of the Auditor General (OAG) by the PSC. This data was sorted by branches and regions, and by LOC.

The audit team used a risk-based judgmental method for sampling, where the auditors' criteria for selecting the sample included the amount of the expenditure, a description of the expenditure, and the type (LOC) of transaction for each region and branch so as to provide balanced coverage. Annex A provides the description of the various expenditure codes with their associated restriction.

For non-MasterCard purchases, the audit team requested supporting documentation from the Records Section to verify that the restrictions had been complied with. For MasterCard transactions, the applicable financial clerk was contacted and supporting documentation requested.

The following items were selected for testing:

1. A judgmental sample of 57 O&M expenditures subject to controls was selected from a FreeBalance download of all in-scope transactions from all branches. Specific sample items were based on a visual review of all transactions whereby transactions which appeared to be potentially high risk (e.g. transaction amounts that appeared to exceed restrictions) were selected.
2. For assessing compliance with the Policy on Personal Computer and Peripherals, a "Loan Agreement" was selected for each custodian. The selection was based on a visual inspection of all loan agreements containing items of potential risk or unexpected terms (i.e. missing a date for return of the item).

The Internal Audit Directorate analyzed the test results and assessed the strength of existing controls. Based on the recommendations of PwC and the Directorate, the PSC's Internal Audit Committee approved the issuance of an internal audit report using these results.

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**7.0 Work plan**

This audit consisted of a combined preliminary survey/examination phase as detailed in Annex C.

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**8.0 Audit observations**

**A) O & M spending restrictions:**

*(i) Compliance assessment*

|  |  |  |
| --- | --- | --- |
| **#** | **Test Result** | **Comments (see Annex A for Restrictions)** |
| **44** | Full compliance | All criteria associated with spending restrictions met. |
| **2** | Partial compliance | Approved for purchase subsequent to the transaction.  Other criteria met. |
| **5** | Partial compliance | Approval confirmed with senior official, but insufficient documentation to support compliance with process. |
| **3** | Not tested | Account holders not available at time of audit testing: travel, vacation, etc. |
| **3** | Not tested | Older accounts at closed offices, could not identify holder. |

*(ii) Controls assessment*

Based on the procedures performed by the audit team, there appears to be a general awareness of and respect for the expenditure directive. The large majority of account holders interviewed were aware of the Policy on Personal Computer and Peripherals, although a small subset of these had not learned of the controls immediately upon their institution. Some control weakness was noted in the areas of *records management* and *compliance reporting/monitoring*. Neither of these issues represents a pervasive and/or systematic failure of controls or direct contravention of the expenditure restrictions; however, they represent areas of potential focus as PSC continues to formalize and strengthen controls around expenditures.

*Records Management*

As noted in the last two rows of the previous table, six purchase transactions selected for testing were not tested. Three transactions were associated with account holders that were unavailable due to vacation/travel; the other three were associated with PSC offices which had closed (older accounts). The Accounting Operations Division (AOD) maintains cancelled signature cards, but not a listing of account holders for prior fiscal years. We could not locate the account holders/documentation associated with these transactions. This situation suggests a weakness in controls for handling non-current records affected by reorganizations. Without a robust records management and retention process, which specifically identifies the treatment of records once an office is closed, there is the risk that records will be lost and evidence to support decisions will not be available.

*Compliance Reporting/Monitoring*

A control weakness was identified in the process to identify compliance breaches and to bring them to the attention of management. As noted in the previous table, the audit identified seven instances of partial compliance. Five of the partial compliance instances represented non-documented verbal approvals while the other two represented retroactively requested or validated approvals. In none of these cases did we note that the lack of compliance issue had been previously detected or reported to the proper levels of management. Without a robust process to document, report and monitor instances of non-compliance, there is the risk that non-conforming practices will continue.

**B) Policy on Personal Computer and Peripherals:**

*(i) Compliance Assessment*

Compliance with PSC's Policy on Personal Computer and Peripherals in relation to the loan agreements appears to be high as all eight loan agreements selected for testing were in compliance with stated policies (see restrictions in Annex A).

*(ii) Controls Assessment*

As with the O&M expenditure restrictions, the results of our testing procedures indicate a general awareness of and respect for the new restrictions surrounding the loan of PCs and peripherals to employees. However, we did identify a potential control weakness relative to the Policy on Personal Computer and Peripherals in terms of *business case documentation* and the *tracking and monitoring process*.

*Business Case Documentation*

The policy states that in cases where employees are not otherwise approved under a formal tele-working arrangement, equipment can still "…be provided for work-related duties at home in cases where the employee is expected to perform certain duties that require a computer on a regular basis…" The spirit of the policy appears to suggest that there must be a valid business case documenting the requirement to perform work-related duties at home. However, the key control used to manage the lending of equipment (Form PSC 802b 04-99) does not require that a business reason be recorded (see Annex B – Sample Loan Agreement). Loan rationale was found to be overly general in most cases, for example, "for working at home" or "travail". Others indicated short-term use for such reasons as presentations and weekend use. Without sufficient documentation detailing a business reason for loaning computers to employees, it is difficult for new custodians or managers to determine whether and when equipment should be returned. This raises the risk of inappropriate use of Crown property.

*Tracking and Monitoring Process*

The tracking and monitoring process used to manage the loaned computers does not provide the necessary information to ensure timely return and follow-up. The current process includes a paper-based binder that includes all loan agreements for outstanding computers. However, we learned that this binder is not maintained and updated on a timely basis as loan agreements are still in the binder for computers which were due to be returned. Upon further investigation, we learned that the actual equipment had been returned but the binder had not been updated. Without timely tracking of the outstanding loan agreements, there is an increased risk that computers may not be returned as required or cannot be accounted for accurately.

As a result of the observations, recommendations have been developed to improve overall controls within the spending and PC/peripherals lending processes.

**Recommendations**

* **The Vice-President of Corporate Management Branch should revise the current financial records management processes to ensure that accountabilities for maintaining purchase transaction records are clear, account holders can be identified, and related approvals are readily available. This includes a requirement that purchasers be responsible for obtaining, and ensuring the retention of, documentation supporting approval of any restricted transaction. As well, an individual should be identified to receive all reports of anomalies, such as purchases requiring retroactive approval.**

*Management Response*

The directive will be amended by June 30, 2007 to specify that the Responsibility Centre Manager initiating a restricted expenditure will be responsible for maintaining written evidence of approval, business plan or rationale, as required.  Anyone becoming aware of situations where these are lacking or compromised, such as for retroactive approval must report the situation directly to the Vice President of Corporate Management Branch.  For audit trail purposes, Financial and Administration Directorate (FAD) will ensure a list of Responsibility Center Managers and locations of records for a three-year period after year end are maintained.

* **The Vice-President of Corporate Management Branch should update the loan agreement (See Annex B) used for computers on loan to include sufficient space to show the business requirement for a loaned computer. Approval for lending computers should only be considered once the specific business reason has been provided and reviewed for appropriateness.**

*Management Response*

Custodians of the equipment loan form will be directed by June 30, 2007 to specify the exact nature of the work being done and when the equipment is due for return.  Equipment cannot be lent without this information being provided.

* **The Vice-President of Corporate Management Branch should revisit current accountabilities and processes to track and maintain computers on loan to employees such that records are current and all loaned equipment is accounted for accurately.**

*Management Response*

As part of the direction above, a reminder will be provided by June 30, 2007 that: Equipment custodians are responsible for ensuring records of equipment under their stewardship are precise, accurate and current, and managers are accountable for ensuring equipment is returned promptly when no longer needed for work.

* **The Vice-President of Corporate Management Branch should provide regular communications to employees to ensure they are aware of the current process and related expectations, in order to ensure continued compliance with the expenditure management process and the process to identify compliance breaches. This could be in the form of reminder e-mails or postings on the Intranet, particularly when organizational changes are taking place.**

*Management Response*

Managers and employees have been reminded of the expenditure and equipment directive during the 2007 -2008 budget allocation cycle, as part of the PSC annual budget exercise, or more often in cases of significant turnover of staff. There is also a finance section in the orientation seminar for new employees that refers to the expenditure controls at the PSC.

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**9.0 Conclusion**

Overall, the audit noted strong compliance with the O&M expenditure restriction and PC and peripherals policies; however, instances of partial non-compliance were identified. Further, testing could not be completed for specific transactions as the supporting documentation was not available.

The audit identified key controls which were designed into the O&M expenditure restriction policy and related processes. However, some control weakness was identified relating to the following areas:

* *Spending Restrictions* – (i) Records management and (ii) Compliance Reporting/monitoring
* *PC & Peripherals Policy* – (i) Business Case Documentation and (ii) Tracking & Monitoring Process

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**Annex A – Expenditure and PC Restrictions**

**1. Expenditure Restrictions**

1. **Travel** - supported by clear business rationale, pre-approval of international travel, restricted to economy class, an accommodation rate below $175.00, and applies to "all employees"
2. **Hospitality** - restricted to a minimum and supported by a clear business plan
3. **Temporary Help** - based on a review of alternatives and supported by a clear business plan
4. **Contracting for Services** - based on a review of alternatives and supported by a clear business plan
5. **Conference Attendance** - restricted to a minimum and supported by a clear business rationale well in advance
6. **Training** - must be in accordance with employee's training plan as referred to in the PSC learning policy
7. **Acquisition of Furniture / Office Equipment / Appliances** - must be approved by Director General, Finance and Administration Directorate (FAD) unless in accordance with the Policy on the Duty to Accommodate
8. **Acquisition of Computer Equipment / Screens / Printers / Software** – must be approved by Director General, Information Technology Services Directorate (ITSD) to ensure compliance with the PSC platform and evergreen plans
9. **Acquisition of Camera / Blackberry / Cellular Telephone** - a moratorium is placed on the purchase of such equipment until such time as a new policy is developed by FAD
10. **Accommodation / Office Retrofits** - office fit-up, changes to layout and non-essential upkeep must be approved by the Director General, FAD unless required in accordance with the Policy on the Duty to Accommodate
11. **Promotional material** - a moratorium is placed on the purchase of promotional goods (e.g. pens, pins, leaflets, etc.) until a new policy is developed
12. **Office Supplies / Printing / Equipment Repairs and other such items** – essential day-to-day operations can be approved by responsibility centre managers
13. **Other** - other purchases are restricted to essential business only
14. **Purchase via Credit Cards** - credit cards can be used solely for authorized expenditures and not to be used to pay any of the restricted expenditures described in these guidelines.

**2. Personal Computer and Peripheral Restrictions**

1. **Computers on loan to employees for use off premises** - Computers for home use should be allowed only for approved tele-working arrangements pursuant to Treasury Board Secretariat (TBS) policy. Any exceptions should be for operational requirements. For employees who do not have a formal tele-work agreement under this policy, equipment can still be provided for work-related duties at home in cases where the employee is expected to perform certain duties that require a computer on a regular basis and where assigning a laptop on a temporary basis is not an appropriate substitute. However, the equipment on loan is always Crown property. When it is no longer being used for work-related duties, employees and managers are responsible for its return.
2. **Laptops** - Laptops must not be assigned to any employee who already has a desktop computer. Laptops must be shared among employees in accordance with business requirements and must be assigned on a temporary basis from a central pool of laptops kept by the branch, region or district. This pool of laptops should be kept to a minimum, depending on business requirements of the area. Exceptions to this rule must be approved on a case-by-case basis (for example, an extended loan for work-related duties carried on outside the office; for someone requiring special software programs to accommodate disabilities; or for executives who have special programs needed to do business and confidential tasks).
3. **Printers** - Employees are expected to use network printers when they have access to a network printer in close proximity. It is PSC policy to encourage the purchase of network printers rather than stand-alone printers. The use of any personal desktop printers should be appropriately justified on a case-by-case basis, for example, printing of confidential material, or printing in large volume.
4. **Surplus equipment** - All equipment not intended for use by the PSC must be identified as surplus and offered to Industry Canada's Computers for Schools (CCS) Program, as required by Treasury Board policy on materiel management. If refused by CCS, equipment must be transferred to Crown Assets. In either case, all hard drives must be "wiped" using RCMP software.

**NUMBER 2**

* The budget justification is the first place reviewed to confirm the allowability, necessity, reasonableness and allocobility of an item charged to a sponsor, particularly if the justification if the purchase requisition is unclear.

For the purpose of this audit, expenditure management monitoring is represented by two broad groups of activities:

* Monitoring of expenditures against budget to allow for timely resource allocation decisions; and
* Monitoring of expenditure management, specifically, INAC's Quality Management Program (QMP) to ensure compliance to the *Financial Administration Act* (FAA), TB and INAC policies and directives.

Given the latitude many sponsors allow the University in managing awarded funds, adequate documentation to substantiate the necessity, reasonableness, allowability and allocobility of an expenditure is essential. This documentation starts with the budget narrative. BUDGET SERVES TO:

1. **Describes the need for or necessity of major categories of expense.**  
     
   All major categories of cost should be justified, starting with the largest expense categories and according to sponsor’s guidelines.  Key points to make include the elements below.  Sample budget justifications for NSF and NIH are available on the OSP website.  These documents should be modified to fit the application; special attention should be paid to including items that are typically unallowable.    
     
   REMINDER:  All costs typcially unallowable as direct costs e.g., administrative costs such as administrative/ clerical staff or office supplies, communication costs, or general purpose equipment or instrumentation such as computers, should be specifically identified and the essentiality as a direct charge clearly explained.  
     
   Categories and key points to include in the budget justification:  
     
   *PERSONNEL COSTS*

* For key personnel – Describe the individual’s
  + role (PI, co-PI, co-Inv, etc);
  + effort committed to the project  (Academic Year and/or Summer, or Calendar) in person months or percent as per sponsor’s guidelines; and
    - NOTE:  Faculty should present both AY and Summer effort separately.  Include a statement that SU faculty have 8.5 month appointments
  + responsibilities and activities to be performed in support of the project; and
* For non-key personnel – Describe the Individual’s
  + role;
  + effort
    - NOTE:  individual’s with less than 1.0 FTE appointments should disclose the nature of the appointment  e.g. Graduate students (0.5 FTE, 100% effort)
  + responsibilities and duties to be performed in support of the project.
* Fringe Benefits
  + State that costs are charged according to rates negotiated with DHHS (provide date of rate agreement; changes annually), as applicable to employee category.
  + Current rates are used for budgeting purposes; actual rates in place at time of expense will be charged.

*EQUIPMENT*

* Describe why the equipment is essential for project and why comparable equipment which may be available on campus or in the area is inadequate for project needs.
* Clearly describe allocobility of cost – item for exclusive use of the project (if item will not be for exclusive use of the project –the total cost of the item cannot be charged to the sponsor).
* Justify cost (e.g. quotes attached).
* Justify sole-source acquisition if applicable (i.e. specific brand from unique distributor).
* Include installation and space renovation costs to make equipment fully functional (e.g. air conditioning).
* Travel
  + Describe why essential (e.g. attend sponsor-mandated conferences, disseminate project results, etc.)
  + Justify cost:
    - Number of travelers.
    - Location (city, state, country) and duration.
    - Airfare or ground transportation costs per trip.
    - Lodging and sustenance.
    - Registration fees.

Remember, while SU travel policy does not use government per diem, however these rates can be consulted to assess the reasonableness of costs proposed.  
http://www.gsa.gov/Portal/gsa/ep/contentView.do?contentId=17943&contentType=GSA\_BASIC

*PUBLICATION COSTS*

* Describe page costs, copyright fees, etc.

*SUBCONTRACTORS (*also called subrecipients or consortium members)

* Describe who and what they will do.
* Budget detail and justification is typically required using sponsor’s forms.
  + REMINDER:  OSP requires permission of authorized institutional representative (OSP equivalent) to include subcontractor’s name in application.

*CONSULTANTS*

* Describe services to be provided.
* Provide rate per day, and number of days of service and whether travel will be included (where to present travel can vary with sponsor).
  + REMINDER:  OSP requires permission of individual named to include consultant’s name in application.

1. **Serves as documentation for a sponsor’s prior approval of a cost that ordinarily is not be allowable as a direct cost.**

NOTE:  if the item is not included in the awarded budget, OSP approval post award.

Sample justifications include:

*Supplies and consumables*

* Office supplies (binders, copy paper and copier toner) are essential for preparation of the 100 training manuals used in professional development activities.
* Office supplies (toner) is essential for printing color copies of maps developed during course of award; routine use is black-and-white only.

*Instrumentation*

* A pre-paid international cell phone is necessary to communicate with project informants and public officials while conducting research in India, Nepal and Sri Lanka.

*Communication costs*

* Cost of shipping samples from the field to SU or between SU and collaborators’ sites essential to perform analyses.
* Cost of mailing publication drafts among authors for review who do not posses specific software to view graphics electronically

1. **Facilitates OSA ‘pre-audit’ of high-risk expenditure categories following award**

* The budget justification is the first place reviewed to confirm the allowability, necessity, reasonableness and allocobility of an item charged to a sponsor, particularly if the justification if the purchase requisition is unclear.

Given the latitude many sponsors allow the University in managing awarded funds, adequate documentation to substantiate the necessity, reasonableness, allowability and allocobility of an expenditure is essential. This documentation starts with the budget narrative.

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