

Special Purpose Review

**Expenses of the Office of the President and
Chief Executive Officer-Royal Canadian Mint**

Prepared for the Audit Committee-Royal Canadian Mint

October 24, 2005

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APPENDIX A – Reimbursable and Recoverable Items

1 Introduction

1. At the request of the Audit Committee of the Royal Canadian Mint (the “Audit Committee”), PricewaterhouseCoopers LLP (“PwC”) was retained to perform a special purpose review of the expenses of the Office of the President and Chief Executive Officer (“the Office”) of the Royal Canadian Mint (“the Mint”), during the tenure of Mr. David Dingwall in this position. Mr. Dingwall served as President and Chief Executive Officer (“President”) of the Mint for the period March 24, 2003 to September 28, 2005 (the “review period”).
2. Our objective was to review the legitimacy of the expenses of the Office during the review period. For the purpose of this review, legitimate expenses include only those expenditures substantiated by appropriate documentation, in accordance with applicable Mint policies, and with a documented business purpose.
3. The Audit Committee has also asked us to provide our comments with respect to certain specific expenditures of the Office. These are addressed in Section 7 of this report.

2 Restrictions of Use

4. We do not accept responsibility for any losses occasioned to you or other parties arising from the unauthorized or improper use of this report.
5. We reserve the right at our discretion, to change our report should additional information be brought to our attention that has not otherwise been received.

3 Scope of Review

6. The scope of our mandate was to review all expenses incurred by the Office during the review period. We were provided unrestricted access both to documents and Mint personnel during the conduct of this review. We found the Mint personnel were cooperative and the expense records of the Office were neat and logically organized for our review.
7. The expenses of the Office encompass all expenses claimed by and paid to Mr. Dingwall, as well as all other expenses incurred by the Office. These include salaries and benefits of Mr. Dingwall and his staff, travel and hospitality, and miscellaneous items such as office supplies, training, telephone, courier and printing services.
8. Our review covered expenses of the Office that were recorded to that cost centre as of the commencement of our field work, October 7, 2005. We have not reviewed costs that have subsequently been recorded to the cost centre.
9. We reviewed and relied upon the following information and documentation:
 - (i) Mint policies related to reimbursement of travel costs and hospitality expenses;
 - (ii) employment contracts for Mr. Dingwall and his Staff;
 - (iii) all expenses claimed by, and paid to, Mr. Dingwall during the review period;
 - (iv) payroll records for the Office;
 - (v) general ledger details for all costs recorded to the Office as at the date of our field work;
 - (vi) payment vouchers, journal entry details, general ledger excerpts, cheque remittance advices and electronic funds transfer (EFT) reports relating to the Office;
 - (vii) the Mint's 2003 and 2004 audited financial statements;

- (viii) cash disbursement journal;
 - (ix) the budget for the Office for the relevant period; and
 - (x) various Board of Directors minutes.
10. In addition, we met with key financial staff to discuss various matters.

4 Travel and Hospitality Policies

11. In order to assess the legitimacy of travel and related expenses incurred by the Office, we reviewed copies of the Mint's policies related to corporate travel and hospitality.

Corporate Travel Policy ("Policy 51")

12. The Mint's Corporate Travel Policy (Policy 51), provides employees with guidance regarding expenses that may be incurred while travelling on Mint business. It provides criteria for determining reimbursable expenses and sets out a process that must be followed in order to receive reimbursement. Among the key features of the policy that were in effect throughout the review period are:
- (i) All travel plans must be pre-authorized;
 - (ii) All expense reports must be authorized prior to reimbursement; and
 - (iii) Managers must ensure that expense claims are substantiated, reasonable in terms of amount and business purpose, and within their respective budgets.
13. Based on documentation provided, we identified that the Mint commenced a review of its Corporate Governance Policies during October 2002. This ongoing review resulted in changes being made to the policies during the review period. During the review period, there were three successive versions of Policy 51. The tone set by the evolution of this policy is consistent with the Mint's publicized objective to improve its financial

performance.

14. Table 1 below summarizes the travel policy relating to reimbursements for meals and incidentals and identifies the key changes in this policy during the review period.

Table 1- Highlights of the Travel Policy:

Area	Apr. 3, 1995 To Dec. 31, 2003	Jan. 1 2004 to Dec. 31, 2004	Jan. 1, 2005 To Date
Meals	Actual receipts or Per Diem at \$47.50/day for 2003.	Actual receipts only.	Actual receipts only.
Incidentals	Actual receipts or per diem allowance at \$12.50/day for 2003.	Actual receipts only. Specified list of acceptable and unacceptable incidentals.	Actual receipts for items specified as acceptable. Per diem allowance at \$20/day for personal costs such as gratuities, beverages, snacks, toiletries, magazines, newspapers, etc.

Hospitality Policy (“Policy 53”)

15. Policy 53, in effect from January 1, 2004, provides Mint employees with guidance regarding various forms of hospitality. Prior to January 1, 2004 matters related to hospitality were addressed within the travel policy. Under the section titled “Definitions” this Policy defines hospitality as “the provision of a reception offering refreshments, meals and sometimes entertainment to guests of the Mint.” Further it provides the following with respect to forms of hospitality:

- (a) Hospitality normally consists of:
- breakfast
 - lunch
 - dinner
 - reception

refreshments, or

(b) Official hospitality may exceptionally consist of:

- tickets to theatre or sporting events
- tours of the NCR area or other places of interest
- local transportation to and from the function
- room rental
- incidentals such as flowers or a small token of appreciation (i.e. a gift)
- rental of formal wear where required

16. The hospitality policy establishes guidance for employees who provide hospitality to guests of the Mint. The tone set by the policy is such that hospitality expenditures must be related to a business purpose and reflect fiscal prudence. In the case of meals, specific expenditure guidelines are provided.
17. Our review of the travel and hospitality policies as well as other information such as Mr. Dingwall's employment contract, minutes of various Board of Directors meetings, and other financial information, provided us with useful information to help assess the legitimacy of the expenses of the Office.

5 Review Procedures

18. Our review of the expenses of the Office consisted of a 100% review of Mr. Dingwall's expense reports, as well as a review of all other expenses of the Office. We describe our procedures in the following paragraphs.

5.1 Mr Dingwall's Expense Reports

19. We obtained all of Mr. Dingwall's expense reports for the review period. For each expense report, we performed the following:

(a) matched claimed amounts to supporting receipts;

- (b) assessed each item claimed for compliance with travel/hospitality policies and/or employment contracts; and
- (c) reviewed for evidence of documented business purpose.

20. In addition, we reviewed disbursement journals to ensure that we have addressed all payments to Mr. Dingwall applicable to the review period.

5.2 Other Expenses of the Office

- 21. Other expenses of the Office include salaries and benefits of Mr. Dingwall and his staff, expense reports of Mr. Dingwall's staff, and miscellaneous items such as office supplies, training, telephone, courier and printing services.
- 22. We reviewed supporting documentation relating to all other costs charged to the Office such as payroll records, employment contracts, invoices, receipts and approvals. In addition, for 2004 expenses, we ensured the costs reviewed agreed with the Mint's audited financial statements.

5.3 Categorization of Expenses

- 23. We categorized each expense item as being supported, reimbursable or recoverable.
- 24. For purposes of our review of expense claims, we categorized an expense to be supported where the following conditions existed:
 - (i) The nature of the expense was reimbursable in accordance with the Mint's policies;
 - (ii) The business purpose for the expense was documented; and
 - (iii) The expense was supported by sufficient documentation such as original receipts.
- 25. For purposes of our review of other expenses of the Office, we considered an expense

to be supported where the following conditions existed:

- (i) The expense was typical in terms of nature and amount;
 - (ii) Expenses were supported with documentation such as invoices, receipts and approvals; and
 - (iii) For salaries and benefits, the expenses are reflective of employment contracts and benefit packages.
26. Amounts categorized as reimbursable are comprised of those expenses which are not supported by available documentation, and/or where the business purpose is not documented. Amounts included in this category are subject to review for additional documentation and/or explanation by the Mint. We reserve the right to reallocate the amounts.
27. Amounts categorized as recoverable are comprised of those expense where an error was made in payment to Mr. Dingwall or an amount was paid to him prior to September 28, 2005 that related to the period subsequent to that date, i.e. a prepaid amount at the end of Mr. Dingwall's tenure. Amounts included in this category are subject to review for additional documentation and/or explanation by the Mint. We reserve the right to reallocate the amounts.
28. We have not met with Mr. Dingwall to obtain clarification or explanation in respect of amounts identified as reimbursable or recoverable. We reserve the right to reallocate the amounts should additional information be provided.

6 Summary of Findings

29. Table 2 summarizes the total expenses of the Office during the review period.

Table 2- Summary of Expenses of the Office

	From:	24-Mar-03	1-Jan-04	1-Jan-05
	To:	31-Dec-03	31-Dec-04	28-Sep-05
SALARIES & BENEFITS		397,998	549,572	435,364
EXPENSES:				
TRAVEL, MEALS & HOSPITALITY		44,667	157,249	101,211
OTHER EXPENSES OF THE OFFICE		19,271	40,776	44,779
		63,938	198,025	145,990
TOTAL		\$ 461,936	\$ 747,597	\$ 581,354

30. Salaries and benefits of the Office include the salary and related benefit costs of four individuals; the President, a Director of Research, Executive Assistant and Administrative Assistant. In addition to normal benefit costs associated with employment, the salaries and benefits for the President also include his monthly automobile allowance and related vehicle operating costs (see also paragraph 47).
31. Travel, meals, and hospitality include those costs submitted by the above individuals under the Mint's Travel and Hospitality Policies and those paid directly to suppliers such as airlines or hotels.
32. Other expenses of the Office generally include the direct overhead and operating costs associated with the office for supplies, training, telephone, courier, and printing.
33. Table 2 shows that total expenses of the Office were \$461,936 for the period March 24, 2003 to December 2003, \$747,597 for the year ended December 31, 2004 and \$581,354 for the approximately 9 month period January 1, 2005 to September 28, 2005. The table shows that salaries and benefits comprise the majority of the total expenses of

the Office (86% for 2003, 74% for 2004 and 75% for 2005).

34. Included in the travel meals and hospitality expenses of the Office are the expenses related to Mr. Dingwall's expense reports. These expenses totalled \$39,922 in the period March 24, 2003 to December 31, 2003, \$107,162 for the fiscal year ended December 31, 2004 and \$91,618 for the period January 1, 2005 to September 28, 2005. Actual amounts reimbursed to Mr. Dingwall would include GST. Expenses claimed on Mr. Dingwall's expense reports represent 13% of the total expenses of the Office for the review period.
35. Table 3 below summarizes the results of our detailed review of all expenses of the Office, categorising them as being supported, reimbursable or recoverable as discussed above. Appendix A provides details of all amounts considered as reimbursable or recoverable.

Table 3- Summary of our Review of Expenses

	TOTAL	Supported	Reimbursable	Recoverable
SALARIES & BENEFITS	1,382,934	1,378,736	-	4,198
EXPENSES:				
TRAVEL, MEALS & HOSPITALITY	303,127	300,846	2,281	-
OTHER EXPENSES OF THE OFFICE	104,827	104,537	290	-
	407,954	405,383	2,571	-
TOTAL	\$ 1,790,888	\$ 1,784,119	\$ 2,571	\$ 4,198

36. During the course of our review we determined that a clerical error had been made by payroll in payment of Mr. Dingwall's monthly automobile allowance. The allowance was to be paid at \$1,000 per month (\$12,000 annually). Since payroll is paid bi-weekly, Mr. Dingwall was actually paid \$13,000 each year (26 pay periods at \$500 per pay period). As a result, we have determined that during the review period Mr. Dingwall

was overpaid by \$2,500 and accordingly, this amount has been categorized as recoverable. It is included in the \$4,198 appearing in Table 3 above.

37. During the course of our review we confirmed that Mr. Dingwall was reimbursed for the cost of his vehicle insurance, as provided under the terms of his employment, for the policy years 2004/05 and 2005/06. The annual insurance policy on Mr. Dingwall's private vehicle expires during the month of October. As such, \$56.35 of the 2004/05 premium relates to the period following September 28, 2005. The full amount of the 2005/06 premium, \$1,642.00, relates to the period following September 28, 2005. Accordingly these amounts, totalling \$1,698.35, have been categorized as recoverable. They are included in the \$4,198 appearing in Table 3 above.
38. During the course of our review of Mr. Dingwall's expense reports certain claim items were identified where, due to clerical error in claim preparation or processing, Mr. Dingwall was reimbursed an amount lower than otherwise should have been paid. The amounts specifically identified total \$237.50. Accordingly, this amount has been shown as due to Mr. Dingwall and has been netted against the reimbursable travel, meals and hospitality amounts in Table 3 above.
39. During the course of our review, in addition to those expenses considered as reimbursable, we identified a number of individual items included in Mr. Dingwall's expense reports which were the subject of further review and assessment. These included 34 items totalling \$5,189.29 where the expense item either lacked appropriate approval, was not submitted within 10 days of travel as per the travel policy, or where the documentation was not 100% complete. Our review determined that the items were legitimately incurred for business purposes and accordingly, no amount has been considered as reimbursable. These items have been reviewed with Mint personnel.

7 Other Matters

40. You have asked us to address certain specific matters relating to certain expenses of the Office. We address these matters below.

7.1 Comments Regarding a Specific Claim for Chewing Gum

41. You have asked us to comment on an expense claim allegedly made by Mr. Dingwall relating to a package of chewing gum.
42. We identified an expense claim in connection with Mr. Dingwall's January 23, 2005 visit to Winnipeg for the Annual Employee Meeting. Included in the expense claim package is a receipt from a "Relay" outlet in the Ottawa Airport. The receipt indicates the purchase of chewing gum and a bottle of water. While the receipt was included in the expense claim package, it was removed from the calculation of reimbursable expenses by the individual responsible for verifying expense claims. The reason for the removal was because Mr. Dingwall was authorized to claim an incidental allowance of \$20/day to cover such items. Accordingly, Mr. Dingwall was paid the incidental allowance for the day, but was not specifically reimbursed for the package of chewing gum. As noted earlier, the incidental per diem allowance was reinstated in January 2005.

7.2 Comments Regarding a Specific Dinner Expense incurred by the Office

43. You have asked us to comment on an expense incurred during June 2004 whereby the Office allegedly paid approximately \$5,800 for "a meal".
44. We identified an expense that was incurred by the office which appears to meet the above-referenced characteristics. During the period June 3 and June 4, 2004, the Mint held an executive retreat at the Brookstreet Hotel in Ottawa. The total value of services provided by Brookstreet was \$5,693.06 including all taxes. The invoice details that the services comprised food, beverages, room rental and audio/visual equipment rental. In

support of this business expense we reviewed the agenda for an executive retreat which identified the names of 24 Mint personnel to be in attendance.

7.3 Comments Regarding a Specific Claim for Foreign Travel

45. You have asked us to comment on an expense claim allegedly made by Mr. Dingwall in respect of approximately \$13,000 for foreign travel expenses which were accumulated in one day.
46. During our 100% review of Mr. Dingwall's travel expense claims, we found no evidence of expenses in the range of \$13,000 associated with one-day's travel. We did, however, identify two claims that were processed in July 2004 that relate to foreign travel and that, together, amount to \$13,693.83. Of these two claims, \$2,912.15 related to a conference attended by Mr. Dingwall in Phoenix, Arizona during 4 days in June 2004. The balance, \$10,781.68, related to a lengthy itinerary which included a Mint Board meeting in New Brunswick and attending Mint-related business meetings in the UK, Switzerland and Germany. This business trip occurred over a period of 11 days in late June and early July 2004. These expenses were properly supported and documented.

7.4 Comments Regarding Mr. Dingwall's Automobile Expenses

47. You have asked us to comment on the nature of automobile-related expenses incurred by the Office in connection with Mr. Dingwall's vehicle.
48. We identified documents supporting the Mint Board's approval of a \$1,000 per month vehicle allowance and operating expenses which were part of the remuneration and benefits package for the Mint's President and Chief Executive Officer. Operating

expenses include but are not limited to insurance, repairs, licenses, gas, oil, washing and parking. During our review of Office payroll records we identified that Mr. Dingwall received a \$1,000 per month allowance as a taxable benefit during his tenure. Furthermore, our review of Mr. Dingwall's expense claims revealed that he claimed various operating expenses associated with his private vehicle. These operating expenses fell within the definition approved by the Board.

APPENDIX A - REIMBURSABLE and RECOVERABLE ITEMS

Source	Date	Document Reference	Total	Travel, Meals & Hospitality	Other Expenses of the Office	Description
Reimbursable items:						
Other expenses	2003-11-05	496400928	6.70		6.70	Personal courier
Other expenses	2003-12-17	151241591	17.16		17.16	Personal courier
Other expenses	2004-06-30	185747095	19.99		19.99	Personal courier
Other expenses	2004-08-02	190597685	20.27		20.27	Personal courier
Other expenses	2004-10-15	7706-07483	20.46		20.46	Personal courier
Other expenses	2004-11-15	7706-48559	20.93		20.93	Personal courier
Other expenses	2004-12-31	7707-11260	49.97		49.97	Personal courier
Other expenses	2005-02-28	7707-88579	75.17		75.17	Personal courier
Other expenses	2005-02-28	7707-88579	56.16		56.16	Personal courier
DCD Expense Claim	2004-04-28	182466	5.75	5.75		Incidentals
DCD Expense Claim	2005-05-19	205651	3.07		3.07	Incidentals
DCD Expense Claim	2005-06-30	JUNE 27/05	112.84	112.84		Course credit (US\$100)
DCD Expense Claim	2003-09-29	203890	12.50	12.50		Incidentals
DCD Expense Claim	2005-02-23	205625	394.00	394.00		Estimated airfare considered personal
DCD Expense Claim	2005-04-14	APR 11/05	53.50	53.50		Airline charges related to personal travel
DCD Expense Claim	2004-12-22	205971	283.32	283.32		Unsupported cash advance
DCD Expense Claim	2003-09-29	203891	756.37	756.37		Estimated airfare considered personal
DCD Expense Claim	2003-05-19	204607	900.00	900.00		Estimated airfare considered personal
Total, before amounts due to Mr. Dingwall			2,808.16	2,518.28	289.88	
DCD Expense Claim	2003-06-03	GS07/02/03	(100.00)	(100.00)	-	See paragraph 38
DCD Expense Claim	2003-09-24	Exp092403	(137.50)	(137.50)	-	See paragraph 38
Amounts due to Mr. Dingwall			(237.50)	(237.50)	-	
Grand Total			\$2,570.66	\$ 2,280.78	\$ 289.88	
Recoverable items:						
Clerical error related to payroll			2,500.00			See paragraph 36
Automobile insurance related to post review period			1,698.35			See paragraph 37
			\$4,198.35			

PricewaterhouseCoopers has not met with Mr. Dingwall to obtain clarification or explanation in respect of amounts identified as reimbursable or recoverable. We reserve the right to reallocate the amounts should additional information be provided.