

**NRC-CNRC**

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to *Innovation...*

Science  
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Canada

National Research Council Canada

# *Audit of Hospitality - 2007-2008*

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Internal Audit, NRC

January 2009



National Research  
Council Canada

Conseil national  
de recherches Canada

Canada



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## 1.0 Executive Summary

### Background

This audit report represents the findings of the National Research Council (NRC) of Canada's annual compliance audit of hospitality expenditures for 2007-08. The decision to conduct this audit was approved by the President following the recommendation of the Audit and Evaluation and Risk Management Committee on June 27, 2007 as part of the NRC 2007-08 to 2009-10 Risk-Based Internal Audit Plan. Expenditures for hospitality in 2007-08 were \$1.5 million.

### Audit objective, scope and methodology

The single objective of this audit is to provide assurance that NRC is compliant with Government of Canada and NRC hospitality policies and directives. For the audit, a sample of five institutes, branches or programs (I/B/Ps) were selected. The individual I/B/Ps were selected for detailed testing based upon risk and control analyses performed during the planning stage of the audit as well as on the basis to ensure that no one IBP at NRC is audited more so than others or conversely that smaller entities are ignored entirely in NRC's five year audit cycle, and finally, to ensure coverage across NRC's different sectors. Ten hospitality transactions for each IBP, which included three related employee recognition transactions, were selected at random and tested for compliance at each IBP for a total sample of 50 hospitality expense transactions.

The audit was conducted using a series of detailed audit criteria that addressed the audit objective, against which we drew our observations, assessments and conclusions. These audit criteria (see Appendix A) were derived primarily from the Treasury Board *Policy on Hospitality*, *Policy on Delegation of Authorities*, and the *Financial Administration Act*. As well, the Treasury Board *Policy on Recognition* and the Treasury Board *Quality Services - Guide V on Recognition* were considered due to the fact that hospitality events sometimes coincide with recognition events.

## Audit opinion and statement of assurance

Within the limitations of the samples drawn and the audit procedures performed, we conclude that overall the application of Government of Canada and NRC policies and directives pertaining to hospitality is adequate in that most areas of practice / process are in compliance but there are some opportunities for improvement. These areas for improvement pertain primarily to *Financial Administration Act* Section 32 approvals and the design of hospitality approval and expense claim reports. While other observations are made with respect to *FAA* Section 34 certifications, these issues have been largely resolved. We observed considerable improvement made with respect to almost all areas of compliance over last year's audit of 2006-07 hospitality claims.

In my professional judgment as Chief Audit Executive, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the conclusions reached and contained in the report. The conclusions were based on a comparison of the situations as they existed at the time against the audit criteria. The evidence was gathered in accordance with Treasury Board Policy, directives and standards on Internal Audit, and the procedures used to meet the professional standards of the Institute of Internal Auditors.

## Conclusions and recommendations

Within the limitations of the samples drawn and the audit procedures performed, we conclude that overall the application of Government of Canada and NRC policies and directives pertaining to hospitality is adequate in that most areas of practice / process are in compliance but there are some opportunities for improvement<sup>1</sup>. These areas for improvement pertain primarily to *Financial Administration Act* Section 32 approvals and the design of hospitality approval and expense claim reports. While other observations are made with respect to *FAA* Section 34 certifications, these issues have been largely resolved. We observed considerable improvement made with respect to almost all areas of compliance over last year's audit of 2006-07 hospitality claims.

All of the hospitality expenditures examined were within the prescribed limits and any exceptions appropriately authorized. There are some outstanding issues with respect to preauthorizing some events that could have been known in advance and providing file justification for non-use of government facilities. The majority of hospitality and reward and recognition events were in accordance with both Treasury Board and NRC policies.

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<sup>1</sup> See Appendix B for the list of potential overall ratings.

Finally, we observed approximately one-third of NRC's \$1.5 million hospitality expenditures pertain to conferences organized on behalf of other scientific organizations that are later reimbursed through conference registration fees. While these expenses do not comprise what is normally considered as hospitality that is provided by the Government of Canada, central agencies have confirmed that they must be accounted for as hospitality given the nature of the costs.

## Recommendations

1. It is strongly recommended that Finance Branch develop standard hospitality approval and expense claims forms that include distinct *Financial Administration Act* Section 32 and 34 approval signature blocks and that all I/B/Ps should be required to use them and not other locally generated forms.

See Appendix C for the detailed management action plans that will address the recommendations.

Jayne Hinchliff-Milne, CMA, Chief Audit Executive

### **NRC Audit Team Member**<sup>2</sup>

Irina Nikolova, FCCA, CIA, CISA

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<sup>2</sup> The NRC Audit Team was supplemented by a team of experienced auditors that were contracted to assist in conducting the audit work.

## 2.0 Introduction

### 2.1 Background and context

The decision to conduct annual compliance audits of hospitality was approved by the President following the recommendation of the Audit, Evaluation and Risk Management committee on June 27, 2007 as part of the NRC 2007-08 to 2009-10 Risk-Based Internal Audit Plan.

The Treasury Board *Policy on Hospitality* makes provisions for hospitality to be extended “in an economical, consistent and appropriate way when it will facilitate government business or is considered desirable as a matter of courtesy”. As well, the Treasury Board *Policy on Recognition* and the Treasury Board *Quality Services - Guide V on Recognition* were considered due to the fact that hospitality events sometimes coincide with employee recognition events. Recognition can include “informal, free and low-cost activities as well as formal programs.” The guide details the program’s goals and principles regarding recognition of individuals and teams that help improve client satisfaction and the quality of services provided to Canadians.

Like other departments, NRC has in place hospitality and employee recognition policies and guidelines that NRC employees must follow. It is within the authority of each government department to establish its own policies and guidelines as long as they continue to comply with the government established policies and guidelines. In other words, departments can define policies that are more restrictive than government policies but not the reverse. There are no special hospitality provisions resulting from NRC’s status as a departmental corporation.

At the time of the audit, NRC had in place the Business Expense Allowance and Management Incentive Program that are not governed by Treasury Board policies. At its February 2008 meeting, NRC’s Senior Executive Committee made the decision to replace both programs with the newly revised NRC Internal Award Program to allow for the same level of expenditures as to those permitted by Treasury Board *Policy on Recognition*.

#### **NRC’s Management Control Framework for Hospitality**

NRC’s *Financial Management Manual* (FMM) Chapter 6 outlines NRC’s policy and procedures for the authorization, processing and payment of hospitality expenditures including employee recognition related expenses. The Memorandum on NRC Hospitality Policy (July 2007) presents further clarification on hospitality.

Hospitality is defined as the provision of a reception offering refreshments, meals and sometimes entertainment to guests of government departments or agencies. Normal hospitality consists of:

- Breakfast
- Lunch
- Dinner
- Reception
- Refreshments, or
- Serving beverages (with or without food).

Official Hospitality may exceptionally consist of:

- Tickets to theatre or sporting events
- Tours of the National Capital Region area or other places of interest
- Local transportation to and from the functions
- Room rental, or
- Incidentals such as flowers.

In fiscal year 2007-08 NRC incurred \$1.5 million in hospitality and employee recognition expenses. Exhibit 1 below presents a breakdown of the expenditures as recorded in NRC's General Ledger (GL) accounts.

**Exhibit 1**

**NRC Hospitality Expenditures for 2007-08\***

GL account	Description	Amount
50481	Lunch Food Service Work	\$299,457
50482	Lunch Food Service Hospitality	\$1,024,899
50484	Other Hospitality	\$32,943
50491	Business Expense Allowance	\$14,620
50495	Management Incentive Program	\$27,906
51243	NRC Awards Program	\$141,968
	<b>Total</b>	<b>\$1,541,793</b>

\* **\$475,489** pertains to conferences organized on behalf of other scientific organizations that are later reimbursed through conference registration fees. While these expenses do not comprise what is normally considered as hospitality that is provided by the Government of Canada, central agencies have confirmed that they must be accounted for as hospitality given the nature of the costs.

Under the former program, each NRC Director and Director General had annual discretionary authority for a business expense allowance up to \$600 and \$1,200, respectively. The Heads of I/B/Ps were responsible for ensuring these limits were not exceeded. NRC Directors General also had authority for expenses recorded under the Management Incentive Program. Their limits were dependent upon the size of the individual I/B/Ps as follows: \$2,000 per year for I/B/Ps with less than 100 employees; and \$3,000 per year for I/B/Ps with more than 100 employees. Further requirements limited the maximum amount allowable per 'recognition or award' to an individual (at one time) to \$150. The above specified annual limits could also be used for IBP gatherings to recognize outstanding work by the whole group. When either was used for hospitality, the management control framework for hospitality had to be used.

Exhibit 2 below provides a comparison of the awards, incentives and business allowance programs in effect at the time of the audit with the new NRC Awards Program as well as with the Treasury Board *Recognition Policy*.

**Exhibit 2**  
**Comparison of Previous and Current NRC Employee Recognition Programs**  
**with Treasury Board Policy**

Type	Previous NRC Employee Recognition Program (at the time of the audit)	New NRC Employee Recognition Program (as of 30 April 2008)	Treasury Board Recognition Policy
Informal, Special or Instant Awards	<ul style="list-style-type: none"> <li>❖ Non-monetary</li> <li>❖ Gift Certificates allowed:                             <ul style="list-style-type: none"> <li>▪ \$250 per individual</li> <li>▪ \$175 for a team of two</li> <li>▪ \$100 for a team of three or more</li> <li>▪ \$2,000 per 50 employees</li> </ul> </li> <li>❖ May also include a citation, plaque or medallion</li> </ul>	<ul style="list-style-type: none"> <li>❖ Non-monetary</li> <li>❖ Gift Certificates <u>not</u> allowed:                             <ul style="list-style-type: none"> <li>▪ \$500 per individual</li> <li>▪ \$1,000 for groups</li> <li>▪ Gifts selected from awards catalogue only</li> <li>▪ 8 levels ranging from \$25 to \$435 plus taxes at the DG's discretion</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>❖ Non-monetary</li> <li>❖ Gift Certificates allowed but fully taxable:                             <ul style="list-style-type: none"> <li>▪ \$500 per individual</li> <li>▪ \$1,000 for groups</li> </ul> </li> </ul>
Formal Recognition Awards	<ul style="list-style-type: none"> <li>❖ \$3,500 per individual</li> <li>❖ \$10,500 per group</li> </ul>	<ul style="list-style-type: none"> <li>❖ \$5,000 per individual</li> <li>❖ \$10,000 per group</li> </ul>	<ul style="list-style-type: none"> <li>❖ \$5,000 per individual</li> <li>❖ \$10,000 per group</li> </ul>
Management Incentive Program	<ul style="list-style-type: none"> <li>❖ Silent on whether they are monetary or non-monetary</li> <li>❖ Gift Certificates allowed:                             <ul style="list-style-type: none"> <li>▪ \$150 per employee</li> <li>▪ \$2,000 per year for</li> </ul> </li> </ul>	No longer in force	No related policy

Type	Previous NRC Employee Recognition Program (at the time of the audit)	New NRC Employee Recognition Program (as of 30 April 2008)	Treasury Board Recognition Policy
	I/B/Ps with up to 100 employees <ul style="list-style-type: none"> <li>▪ \$3,000 per year for I/B/Ps with more than 100 employees</li> </ul>		
Business Expense Allowance	<ul style="list-style-type: none"> <li>❖ \$1,200 per Director General</li> <li>❖ \$600 per Director</li> </ul>	No longer in force	No related policy

NRC has developed standardized forms for approval and authorization of hospitality expenses over \$1,500 and for events where alcohol is offered at NRC's expense. NRC's control procedures require those forms to be submitted to Finance Branch in advance of the event to ensure appropriate authorization. For hospitality expenditures less than \$1,500, the forms (either the standardized forms or other forms created by I/B/Ps) must be completed but retained on file for verification and audit purposes. In addition, blanket authorities for hospitality may be used. They allow managers to obtain in advance, for a determinate period or not, additional flexibility to exercise spending authorities for specific categories of expenses. Managers are therefore able to initiate transactions in instances where they are participating in the event, which can be viewed as a personal benefit and reduce the administrative effort for their supervisor who is no longer required to pre-approve individual transactions. A blanket authority may be granted by a manager's supervisor where there is a direct reporting relationship. Exhibit 3 below presents a breakdown of hospitality expenditures by different required approval authorities.

**Exhibit 3  
NRC Hospitality Expenditures for 2007-08 by Approval Authority**

Approval Authority	Number of Transactions	Total Expenditures
Less than \$1,000	4,170	\$518,347
Between \$1,001 - \$1,500	115	\$109,252
Between \$1,501 - \$5,000	128	\$250,924
More than \$5,000	33	\$663,270
<b>Total</b>	<b>4,446</b>	<b>\$1,541,793</b>

## 2.2 About the Audit

### Objective

The single objective of this audit is to provide assurance that NRC is compliant with Government of Canada and NRC hospitality policies and directives as well as make observations with respect to the extent to which NRC hospitality policies and directives correspond to Treasury Board requirements; and the adequacy of the management control framework for hospitality that has been established at NRC.

### Scope

Given the current availability of audit resources and the fact that these audits are undertaken on an annual basis, it was determined that sufficient coverage over a five-year period could be provided by an annual audit sample of 50 hospitality transactions in five I/B/Ps. It was determined that a sample size of 10 transactions for each selected IBP would be sufficiently robust to determine whether there are any systemic problems with respect to compliance that may exist at the IBP level as well as at the corporate level.

While employee recognition expenses were audited as part of last year's audit of 2006-07 transactions, sampling for this year's audit was specifically targeted to ensure a higher representation of these expenses. A total of three employee recognition transactions and any associated hospitality expenditures and seven other types of hospitality transactions were sampled for each IBP selected for audit. Based upon the detailed risk and planning analyses, sampling was also targeted to ensure the same opportunity for selecting low dollar value transactions to be selected as it was for high dollar value transactions. Because all hospitality claims exceeding \$1,500 are reviewed by Finance Branch prior to their approval, their risk for non-compliance is not considered as high it is to be for all lower value transactions which are not subjected to review procedures. As well, hospitality claims less than \$1,500 represent 96 percent of the total number of 2007-08 hospitality expenditures and 41 percent of the total dollar value. Based on this approach, a total of 8 percent of the total expenditures for hospitality and employee recognition in 2007-08 or \$117,556 were examined.

### Approach and Methodology

The individual I/B/Ps were selected for detailed testing based upon risk and control analyses performed during the planning stage of the audit as well as on the basis to ensure that no one IBP at NRC is audited more so than others or conversely that smaller entities are ignored entirely in NRC's five year audit cycle. Once five of the eight NRC sectors (i.e., Executive Offices including Council, Life Sciences, Physical

Sciences, Engineering, Technology and Industry Support, Corporate Services, Finance and Human Resources) had been randomly selected, individual I/B/Ps were then randomly selected – one within each sector – after eliminating those that had been subject to recent audit and evaluation activity.

Interviews were conducted with key personnel in order to examine program processes, procedures and practices. These include managers and staff in Finance Branch, the I/B/Ps selected for audit and Human Resource Branch. We reviewed relevant program documentation, which included, but was not limited to Treasury Board and NRC policies and guidelines and the transactions recorded in the paper files and SIGMA – NRC's integrated management information system (based on SAP) that is used to collect financial, human resources, payroll, assets and real property information.

The audit was conducted using a series of detailed audit criteria that addressed the audit objective, against which we drew our observations, assessments and conclusions. Prior to finalizing the audit criteria, walkthroughs of several transactions for both employee recognition expense claims and other types of hospitality expense claims were conducted to assess the areas of greatest risk. These audit criteria (see Appendix A) were derived primarily from the Treasury Board *Policy on Hospitality* and the *Financial Administration Act*.

## 3.0 Audit Findings

### 3.1 Audit Objective: To determine if NRC is compliant with Government of Canada and NRC hospitality policies.

#### Overall Conclusion

Within the limitations of the samples drawn and the audit procedures performed, we conclude that overall the application of Government of Canada and NRC policies and directives pertaining to hospitality is adequate in that most areas of practices / processes are in compliance but there are some opportunities for improvement<sup>3</sup>. These areas for improvement pertain primarily to *Financial Administration Act* Section 32 approvals and the design of hospitality approval and expense claim reports. While other observations are made with respect to *FAA* Section 34 certifications, these issues have been largely resolved. We observed considerable improvement made with respect to almost all areas of compliance over last year's audit of 2006-07 hospitality claims.

All of the hospitality expenditures examined were within the prescribed limits and any exceptions appropriately authorized. There are some outstanding issues with respect to preauthorizing some events that could have been known in advance and providing file justification for non-use of government facilities. The majority of hospitality events and reward and recognition events were in accordance with both Treasury Board and NRC policies.

Finally, we observed approximately one-third of NRC's \$1.5 million hospitality expenditures pertain to conferences organized on behalf of other scientific organizations that are later reimbursed through conference registration fees. While these expenses do not comprise what is normally considered as hospitality that is provided by the Government of Canada, central agencies have confirmed that they must be accounted for as hospitality given the nature of the costs.

#### Findings

The audit team noted a number of strengths with respect to compliance with Government of Canada and NRC hospitality policies and directives. We observed very high compliance rates for the following:

- Hospitality costs per person were within prescribed Treasury Board and NRC limits or appropriately approved (44 of 44 hospitality claims; 100 percent);

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<sup>3</sup> See Appendix B for the list of potential overall ratings.

- Alcoholic beverages were not offered or were appropriately approved (45 of 45 hospitality claims; 100 percent);
- Appropriate supporting invoices were found on file (49 of 49 hospitality claims; 100 percent).

### **Appropriate FAA Section 32 and 34 approvals**

Key government controls for authorizing, verifying and paying for hospitality transactions rest with FAA Section 32, 34 and 33 approvals. These three sections require the following:

- That funds be available and committed for hospitality events prior to their commencement (Section 32); and
- That verification of the services received and the price was as stated in the contract and that the person with delegated financial authority certifies (via signature) that the verification has been completed (Section 34); and
- That no payments are made unless they have been properly requisitioned and certified (Section 33).

In accordance with Treasury Board *Hospitality Policy's* approval and cost matrix, we expected to find that NRC has delegated spending authority for hospitality consistent with the limits specified.

Treasury Board *Policy on Commitment Control* requires approval from officers who have been “delegated the responsibility to control commitments” and that these approvals “must be in a form that allows for an adequate audit trail back to the originator”. NRC’s hospitality directives, which are based on the Treasury Board policy, provide a detailed matrix by the cost and type of an event. Cost limits range from under \$700 for a single event that can be authorized by Directors to single events over \$5,000 that must be approved by the Minister. The actual budget holder may or may not be the person authorizing the event and in fact, certification will often be provided by several management levels upwards. For example, a reception with alcoholic beverages and food costing over \$5,000 for national and international representatives would have to be approved by the Minister. However, the budget holder in this case would be the Director General for the institute who would normally provide the FAA Section 32 commitment authority but in this case has only made a recommendation for approval. In our opinion, the authorizing authority identified in the matrix can be taken as the appropriate FAA Section 32 certification as they ultimately have responsibility and authority for the lower level budgets.

However, as noted in last year's audit, we found that it would be advantageous to include a signature block for the actual budget holder to certify *FAA* Section 32 – 86 percent of transactions examined did not use a form that has a signature block for *FAA* Section 32. By doing so, many of the errors noted below can be avoided.

A new revised form for in-house cafeteria services was introduced in December 2007 and includes separate signature blocks for *FAA* Sections 32 and 34; however, except for the new Hospitality Blanket Form, none of the internal forms used by the I/B/Ps examined had a signature block for *FAA* Section 32. Subsequently, we found 29 of 50 hospitality forms (58 percent) examined where the *FAA* Section 32 was problematic – some with numerous errors as noted below:

- 15 of 50 claims (30 percent) where the person did not have appropriate delegation of authority; however, it should be noted that four of these events would have been compliant with the less strict Treasury Board policy for approving all-employee events as well as the newly revised NRC policy. At the time of the audit, the NRC policy required the President's approval for "all employee events" while Treasury Board policy allows this authority to be delegated to the Vice Presidents or most senior manager in the region. The current NRC hospitality directives, which came into effect on 1 June 2008, delegate the approval of "all employee events" to Vice-Presidents. Non-compliance was found in four of the five I/B/Ps examined;
- 9 of 50 events (18 percent) in three of five I/B/Ps examined where there was no signature for *FAA* Section 32;
- 6 of 50 events (12 percent) in all five of the I/B/Ps examined where the authorization was provided only after the event, where the event was known in advance (in our opinion, staff having to work through normal breaks and meals times without notice would be a practical exception even though both the Treasury Board and NRC policies state advance notice must be given at all times including these circumstances); and
- 3 of 50 (6 percent) events in two of five I/B/Ps examined were approved by a person attending the events and a personal benefit could be attributed.

While still problematic, we found improved compliance rates in the second half of the fiscal year following mandatory training provided by Finance Branch to all budget holders.

It was observed that five of 50 hospitality claims (10 percent) examined, that *FAA* Section 34 was problematic. These included:

- 1 of 50 (two percent) where the *FAA* Section 34 was not provided; and

- 4 of 50 (eight percent) where the *FAA Section 34* was provided in advance of the goods and services provided; this was observed in two of the five I/B/Ps examined.

For those instances where the *FAA Section 34* was provided in advance of the food and beverages having been provided, these were for in-house catered events prior to the implementation of the new in-house catering form in December 2007.

### **Recommendation 1:**

It is strongly recommended that Finance Branch develop standard hospitality approval and expense claim forms that include distinct *Financial Administration Act* Section 32 and 34 approval signature blocks and that all I/B/Ps should be required to use them and not other locally generated forms.

### ***NRC Management Response:***

*The NRC Hospitality policy was amended in June 2008 to simplify the pre-approval (FAA Section 32) procedure, while respecting the Treasury Board Policy on Hospitality. A considerable amount of training sessions and user education was completed since the previous year's internal audit, which has resulted in a notable improvement in understanding and compliance. Furthermore, continuous training is and will be provided to IBP's.*

*Standard forms are currently in place for obtaining the appropriate hospitality pre-approval.*

*All hospitality expense pre-approvals greater than \$1500 are currently verified by Finance Branch. Finance Branch will determine the appropriate level of monitoring efforts required to review the compliance of FAA Section 32 certification for hospitality transactions below \$1500.*

### **Allowable Expenses**

As noted earlier in this report, sampling was specifically targeted to ensure a higher representation of employee recognition expenses. Therefore, the Business Expense Allowance, as well as the previous NRC Awards Program, including transactions representing employee recognition under the Management Incentive Program were examined in greater detail than the last year's audit. We observed that both the Business Expense Allowance and Management Incentive Program were used to fund events that could have been charged to hospitality, such as meals, or awards (gift certificates) as well as for celebratory events that do not meet the NRC and Treasury

Board policies on hospitality and recognition. Both programs have since been replaced by the new NRC Awards Program to ensure a closer alignment with Treasury Board Policies.

During our examination of all hospitality and employee recognition expense claims, we found there was only one claim (two percent) where the expenditure was specifically disallowed. This took place in the first half of the fiscal year prior to the introduction of the revised NRC Hospitality Policy. We observed that all transactions examined subsequent to its introduction (25 of 25 events; 100 percent) were allowable.

We found that in all cases where permitted limits were exceeded, that they were approved by the appropriate authority.

The requirement that government owned facilities be used to host an event whenever possible, and if not then a justification must be included in the files was also found to be problematic. We found that 22 of 50 events (44 percent) were hosted in non-governmental facilities and that 11 of these 22 events (50 percent) did not have the required justifications on file. These findings were found in three of the five I/B/Ps examined.

All of these errors could have been detected and addressed by enhanced quality assurance review procedures that include sampling transactions that are below the current threshold of \$1,500. Presently there are only verification procedures in place for all hospitality and employee recognition claims of \$1,500 or greater, but none below this value. Finance Branch has informed us they will revisit this standard once they have fully established a new Monitoring Unit within the Branch which is expected to be fully functional by March 2009.

### **Reporting of hospitality expenditures**

Finally, in our examination of hospitality events coordinated by NRC's Conference Services Office (CSO), we found that most of their 'hospitality' transactions are actually those reimbursed to NRC by third parties. CSO provides services to coordinate conference services on behalf of NRC internal groups but also on behalf of scientific and research organizations. In our sample of 50 transactions, we selected two CSO "hospitality" events valued at \$102,000 that were later fully cost recovered; further analysis indicates a total of \$475,000, or 31 percent of the total NRC hospitality expenditures of \$1,541,793, was incurred in 2007-08 on behalf of third parties but were reported as hospitality expenses incurred by NRC. While these expenses do not comprise what is normally considered as hospitality that is provided by the Government of Canada, central agencies have confirmed that they must be accounted for as hospitality given the nature of these costs.

## 4.0 Conclusion

Within the limitations of the samples drawn and the audit procedures performed, we conclude that overall the application of Government of Canada and NRC policies and directives pertaining to hospitality is adequate in that most areas of practices / processes are in compliance but there are some opportunities for improvement. These areas for improvement pertain primarily to *Financial Administration Act* Section 32 approvals and the design of hospitality approval and expense claim reports. While other observations are made with respect to *FAA* Section 34 certifications, these issues have been largely resolved. We observed considerable improvement made with respect to almost all areas of compliance over last year's audit of 2006-07 hospitality claims.

All of the hospitality expenditures examined were within the prescribed limits and any exceptions appropriately authorized. There are some outstanding issues with respect to preauthorizing some events that could have been known in advance and providing file justification for the non-use of government facilities. The majority of the hospitality and reward and recognition events were in accordance with both Treasury Board and NRC policies.

Finally, we observed approximately one-third of NRC's \$1.5 million hospitality expenditures pertain to conferences organized on behalf of other scientific organizations that are later reimbursed through conference registration fees. While these expenses do not comprise what is normally considered as hospitality that is provided by the Government of Canada, central agencies have confirmed that they must be accounted for as hospitality given the nature of the costs.

### Recommendations

1. It is strongly recommended that Finance Branch develop standard hospitality approval and expense claim forms that include distinct *Financial Administration Act* Section 32 and 34 approval signature blocks and that all I/B/Ps should be required to use them and not other locally generated forms.

See Appendix C for the detailed management action plans that will address the recommendations.

## Appendix A: Audit Criteria and Detailed Findings

No.	Audit Criterion	Overall Compliance Rates	
		2006-07	2007-08
1.	Appropriate <i>FAA</i> Section 32 was provided – roll up of criteria 2, 3, and 4 without counting a single event more than once	54% (27 / 50)	42% (21 / 50)
2.	Appropriate delegated authority provided <i>FAA</i> Section 32 certification, i.e., the person signing had the appropriate <i>FAA</i> Section 32 or did not attend the event (personal benefits)	78% (39 / 50)	70% (35 / 50)
3.	<i>FAA</i> Section 32 certification was provided, i.e., a signature was present	94% (47 / 50)	82% (41 / 50)
4.	Pre-authorization of hospitality events that could have been know in advance were obtained and documented	76% (38 / 50)	88% (44 / 50)
5.	Hospitality provided was in accordance with allowable events identified in the Treasury Board Policy and directives.	94% (47 / 50)	98% (49 / 50)
6.	Hospitality costs per person were within the prescribed limits and/or appropriately approved	100% (50 / 50)	100% (44 / 44)

No.	Audit Criterion	Overall Compliance Rates	Overall Compliance Rates
		2006-07	2007-08
7.	Use of non-government facilities were justified and documented	52% (12 / 23)	50% (11 / 22)
8.	Alcoholic beverages were not offered to employees working through breaks and receiving hospitality or were appropriately approved	100% (40 / 40)	100% (45 / 45)
9.	Appropriate supporting invoices were found on file	96% (46 / 48)	100% (49 / 49)
10.	Appropriate <i>FAA</i> Section 34 certification was provided- roll up of criteria 12, 13 and 14 without counting a single claim more than once	72% (36 / 50)	90% (45 / 50)
11.	Appropriate delegated authority provided the <i>FAA</i> Section 34 verification and certification:	96% (48 / 50)	100% (50 / 50)
12.	<i>FAA</i> Section 34 authorization and certification was performed after the goods and services were provided.	78% (39 / 50)	92% (46 / 50)
13.	<i>FAA</i> Section 34 certification was provided, i.e. signature was present.	98% (49 / 50)	98% (49 / 50)

## Appendix B: Overall Potential Ratings

Management Attention Required – significant issues exist that require management’s attention.

Needs Improvement – some areas of practices / processes are in compliance with Government of Canada and NRC policies and directives pertaining to hospitality but many deficiencies exist.

**Adequate – most of the areas of practices / processes are in compliance with Government of Canada and NRC policies and directives pertaining to hospitality but there are opportunities for improvement.**

Strong – all areas of practices / processes are in compliance with Government of Canada and NRC policies and directives pertaining to hospitality. No areas for improvement were identified.

## Appendix C: Management Action Plans

Audit Recommendations	Corrective Management Action Plan	Expected Implementation	Responsible NRC Contact
<p>1. It is strongly recommended that Finance Branch develop standard hospitality approval and expense claim forms that include distinct <i>Financial Administration Act</i> Section 32 and 34 approval signatures blocks and that all I/B/Ps should be required to use them and not other locally generated forms.</p>	<p>The NRC Hospitality policy was amended in June 2008 to simplify the pre-approval (<i>FAA</i> Section 32) procedure, while respecting the Treasury Board Policy on Hospitality. A considerable amount of training sessions and user education was completed since the previous year's internal audit, which has resulted in a notable improvement in understanding and compliance. Furthermore, continuous training is and will be provided to IBP's.</p> <p>Standard forms are currently in place for obtaining the appropriate hospitality pre-approval.</p> <p><b>All hospitality expense pre-approvals greater than \$1500 or those which include alcohol are currently verified by Finance Branch. Finance Branch will determine the appropriate level of monitoring efforts required to review the compliance of <i>FAA</i> Section 32 certification for hospitality transactions below \$1500.</b></p>	<p>March 31, 2009</p>	<p><b>Chief Financial Officer</b></p>

## Appendix D: Glossary

### List of Abbreviations

**CIA** – Certified Internal Auditor

**CISA** – Certified Information Systems Auditor

**CMA** – Certified Management Accountant

**CSO** – Conference Services Office

**FAA** – Financial Administration Act

**FCCA** – Fellow Chartered and Certified Accountant

**FMM** – Financial Management Manual

**GL** - General Ledger

**IBP** – Institute, Branch or Program

**NRC** - National Research Council

