

**NRC-CNRC**

From *Discovery*  
to *Innovation...*

Science  
at work for  
Canada

National Research Council Canada

*Limited Annual Assurance  
Compliance Audit – Hospitality and  
Travel 2006-07*

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**Internal Audit, NRC**

**October 2007**



National Research  
Council Canada

Conseil national  
de recherches Canada

**Canada**

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## 1.0 Executive Summary

### Background

This audit report presents the findings of the National Research Council (NRC) of Canada's annual limited assurance compliance audits for hospitality and travel. The decision to conduct these audits was approved by the President following the recommendation of the Audit, Evaluation and Risk Management Committee on September 25, 2006 as part of the NRC 2006-07 to 2008-09 Risk-Based Internal Audit Plan. Expenditures in 2006-07 for hospitality were \$1.4 million and \$21.4 million for travel.

### Audit objectives, scope and methodology

The single objective of both audits was to provide limited assurance that NRC is compliant with Government of Canada and NRC hospitality and travel policies and directives. For each 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 each audit as well as on the basis to ensure that no one I/B/P was audited more so than others or conversely that smaller entities would be ignored entirely in NRC's five year audit cycle (2006-07 to 2010-11), and finally, to ensure coverage across NRC's different sectors.

Ten hospitality transactions were selected at random and tested for compliance at each I/B/P for a total sample of 50 hospitality claims. The same process was used for travel for a total sample of 50 travel claims in five I/B/Ps.

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 Appendices A and B) were derived primarily from the *Treasury Board Policy on Travel*, *Treasury Board Policy on Hospitality* and the *Financial Administration Act*.

## Audit Opinion and Statement of Assurance

Within the limitations of the samples drawn, we found that overall the National Research Council is compliant with Government of Canada and NRC policies and directives pertaining to hospitality and travel. However, for both areas we found improvements are necessary with respect to *Financial Administration Act* Sections 32, 34 and 33 approvals – primarily to ensure the appropriate segregation of duties.

In my professional judgement 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 this 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 the 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, we found that overall NRC is compliant with the Treasury Board and NRC policies and directives pertaining to hospitality and travel. However, improvements are necessary with respect to the key government controls for authorizing, verifying and paying for hospitality and travel transactions – *FAA* Sections 32, 34, and 33. While not exclusively, this is primarily in regard to the appropriate segregation of duties.

For hospitality, expenditures were for the most part within the prescribed limits and exceptions appropriately authorized. There are some issues with respect to preauthorizing some events that could have been known in advance as well as preauthorizing verification of goods and services received. While the majority of hospitality events were in accordance with both TB and NRC policies, there was a notable exception with respect to three of 50 hospitality transactions in support of employee recognition.

For travel, we noted that a conflict of interest situation arises when subordinates or colleagues provide *FAA* Section 34 certification of travel expenses even if they have been delegated section 34 approval. We also found there were some instances of minor overpayments and underpayments to travelers; however, they off-set one another for the most part.

In our opinion, given the level of error rates noted with respect to *FAA* Section 34 at 28 percent and 18 percent for hospitality and travel respectively, the system of controls employed by NRC aren't working as well as they should.

## Key recommendations

1. Finance Branch should communicate clearly the necessity for *FAA* Section 32 commitment authority is required for all hospitality events. Consideration should be given to amending the hospitality forms to include a signature block for the actual budget holder to certify *FAA* Section 32.
2. Senior management should communicate to all Vice-Presidents and Directors General for I/B/Ps that all non-staff travelers who travel on behalf of NRC must have a current letter of agreement for expense reimbursement that is on file for verification purposes; and that Requests for Authority must be obtained for all staff and non-staff travelers who travel to a conference or outside North America and retained on file for verification purposes.
3. Senior management should communicate to all Vice-Presidents and Directors General for I/B/Ps that *FAA* Section 34 verification and certification for hospitality is only given *after* the delivery of goods or services.
4. Senior management should communicate to all Vice-Presidents and Directors General for I/B/Ps that travel claims should only be approved by the traveler's superior and not by their subordinate or their colleagues even if these persons have been delegated *FAA* Section 34 approval. Consideration should be given to clearly stating this requirement in a formal NRC policy.
5. Finance Branch should document its risk assessment and strategy for implementing post-audit quality review processes for hospitality and travel expenditures. Consideration should be given to expanding its quality review procedures to including sampling transactions that are below the current expenditure thresholds of \$1,500 for hospitality and \$2,000 for travel.

Jayne Hinchliff-Milne, CMA, Chief Audit Executive

### **NRC Audit Team Members<sup>1</sup>:**

Irina Nikolova, CA, CIA, CISA

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<sup>1</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 audits for Limited Assurance Compliance Audit of Hospitality and Travel was approved by the President following the recommendation of the Audit, Evaluation and Risk Management Committee on September 25, 2006 as part of the NRC 2006-07 to 2008-09 Risk-Based Internal Audit Plan.

The *Treasury Board Hospitality Policy* 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”. Additionally, the *TB Policy on Recognition* and the *TB Quality Services - Guide V on Recognition* were considered due to the fact that hospitality events sometimes coincide with recognition events. Recognition can include “informal, free and low-cost activities as well as formal programs.” The guide details the goals and the program principles regarding recognition of individuals and teams that help improve client satisfaction and the quality of services provided to Canadians.

The *Treasury Board Travel Directive* provisions provide for the reimbursement of reasonable expenses necessarily incurred while traveling on government business and to ensure that employees are not out-of-pocket. Additional guidance on travel expenses is provided by *TB Special Travel Authorities*, and *TB Policies and Guidelines for Ministers’ Offices*. Together these documents provide the directives that NRC and other government departments must follow.

Like other departments, NRC also has in place hospitality and travel policies 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. While there are no special travel provisions for NRC resulting from its status as a departmental corporation, NRC does have a Business Expense Allowance and a Management Incentive Program that are not governed by Treasury Board policies.

## **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 including conference expenses recognition related expenses. The Memorandum on NRC Hospitality Policy (June 2004) presents further clarification on hospitality.

Hospitality is defined as the provision of a reception offering refreshments, meals and sometimes entertainment to guests and government departments and 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 function
- Room rental, or
- Incidentals such as flowers

In fiscal year 2006-07 NRC incurred \$1.4 million in hospitality expenses. The exhibit below presents a breakdown of these expenditures as recorded in NRC's General Ledger (GL) accounts.

**Exhibit 1**  
**NRC Hospitality Expenditures for 2006-07**

GL account	Description	Amount
50481	Lunch Food Service Work	\$278,577
50482	Lunch Food Service Hospitality	\$1,067,434
50491	Business Expense Allowance	\$24,715
50495	Management Incentive program	\$38,776
	<b>TOTAL</b>	<b>\$1,409,502</b>

NRC has developed standardized forms for approval and authorization of hospitality expenses over \$1,500. 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 must be completed but retained on file for verification and audit purposes. The exhibit below presents a breakdown of hospitality expenditures by the different required approval authorities.

**Exhibit 2**  
**NRC Hospitality Expenditures for 2006-2007 by Approval Authority**

Approval Authority	Number of Transactions	Total Expenditures
Less than \$1,000	2,695	\$299,713
Between \$1,001 - \$1,500	88	\$108,596
Between \$1,501 - \$5,000	124	\$342,603
More than \$5,000	34	\$658,590
<b>Total</b>		<b>\$1,409,502</b>

Each NRC Director and Director General have respectively discretionary authority for a business expense allowance up to \$600 and \$1,200 annually. The Heads of I/B/Ps are

responsible for ensuring these limits are not exceeded. NRC Directors General also have authority for expenses recorded under the Management Incentive Program. Their limits are 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 limit the maximum amount allowable per 'recognition or award' to an individual (at one time) to \$150. The above specified annual limits can also be used for I/B/Ps gatherings to recognize outstanding work by the whole group. When either is used for hospitality, the management control framework for hospitality must be used.

### **NRC's Management Control Framework for Travel**

Travel at NRC is governed by the NRC Travel Directive, which is based on the *TB Travel Directive*. NRC's directive applies to NRC employees and non-staff who travel on authorized NRC business, including training. Its provisions are an integral part of the collective agreements at NRC. The NRC Travel Directive and associated travel tools (dedicated on-site travel supplier, corporate travel card, accommodation and car rental directory) and the central co-ordination of passport services are designed to make business travel go smoothly, and at the lowest possible cost so that it is practical and economical.

In fiscal year 2006-07 NRC incurred \$21.4 million in travel expenses. Exhibit 3 below presents a breakdown of these expenditures as recorded in NRC's General Ledger accounts.

NRC travel policies require all travel be preauthorized by the appropriate delegated signing authority using the standard Travel Authority and Advance (TAA) form. Where travel is continuous in nature, the authorization may be provided through a Standing Travel Authority (STA). Travel Authority Numbers (TANs) are issued by authorized travel coordinators/ administrative assistants located at each I/B/P. A total of 7,457 TANs were issued during fiscal year 2006-2007. In addition, there were 2,385 Standing Travel Authorities issued to employees who travel frequently during fiscal year 2006-2007 where TAAs are not required for each trip.

**Exhibit 3**

**NRC Travel Expenditures for 2006-07**

<b>GL Account</b>	<b>Description</b>	<b>Total Expenditures</b>
50171	Staff travel	\$10,572,755
50172	Non-staff travel	\$1,921,045
50173	Conference and training staff travel	\$4,907,370
50174	Conference and training non-staff travel	\$397,429
50191	Relocation within Canada	\$1,060,308
50194	Relocation in/out of Canada	\$115,262
50198	Central removal services – PWGSC	\$20,664
50442	Other training including seminars	\$839,976
50467	Conference fees	\$1,580,691
50468	Banking services	\$16,967
	<b>TOTAL</b>	<b>\$ 21,432,467</b>

One of the provisions of the NRC Travel Directive requires employees on travel status to utilize NRC approved suppliers. NRC’s contracted supplier for air and rail tickets is American Express and more precisely, the dedicated AMEX on-site office in Ottawa. The NRC American Express card is provided free of charge to employees who travel at least once a year. The agreement with AMEX provides for a 45-day interest-free period from the date of the statement. This timing allows for the completion of employee travel, submission of expense claims and refund of travel expenses to pay the costs incurred on the AMEX card. The card also provides collision damage insurance and hotel burglary insurance. NRC does not assume any financial liability for an individual’s card transactions as stipulated in the separate contract signed by NRC with American Express.

The NRC Travel Directive requires the use of an AMEX card for the purposes of obtaining travel advances. NRC travel memoranda recommend non-AMEX card travel advances be kept to a minimum due to the high overhead costs and user fees. During 2006-07 NRC issued travel advances in the amount of approximately \$280,000.

NRC has developed a variety of electronic forms for the recording of travel transactions which include a number of built-in controls and checks. We also noted that two I/B/Ps in our sample are using manual forms that do not have these built-in system checks.

## 2.2 About the audit

### Objective

The single objective of these annual audits is to provide limited assurance that NRC is compliant with Government of Canada and NRC hospitality and travel policies and regulations as well as make observations with respect to the extent to which NRC hospitality and travel directives and policies correspond to TB requirements; and the adequacy of the management control framework for hospitality and travel that has been established at NRC.

### Scope

Given the current availability of audit resources and the fact that these audits will be 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 and 50 travel transactions – 10 transactions for each I/B/P selected. It was determined that a sample size of 10 transactions for each selected I/B/P would be sufficiently robust to determine whether there are any systemic problems with respect to compliance that may exist at the I/B/P level as well as at the corporate level. A total of five I/B/Ps were selected to examine hospitality and another five I/B/Ps were selected to examine travel transactions.

NRC transactions representing employee recognition under the *Management Incentive Program* and the Business Allowance as described above were also examined as part of hospitality. Based on this approach, a total of 24 percent of the total expenditures for hospitality in 2006-07 or \$339,000 were examined.

Transactions with NRC American Express corporate travel cards were not included in the scope of the audit as those transactions bear no identified liability to NRC as per the separate contract signed between American Express and NRC.

Due to their unique nature, relocation travel expenses (GL accounts 50191, 50194 and 50198) and seminar and conference fees related to training and travel (GL accounts 50442 and 50467) were not reviewed this year. These transactions will be examined on a cyclical basis as part of the five year internal audit plan, and will be included in the 2007-2008 travel transactions to be examined next year. Based on this approach, a total of 21 percent of the total expenditures for travel in 2006-07 or \$3.7 million were examined.

## Approach and Methodology

In order to control for audit burden being placed unfairly on any one sector or I/B/P, a random selection approach informed by judgment was used. For example, in 2006-07 the Industrial Research Assistance Program had been the subject of much audit and evaluation activity both internally by NRC and by the Office of the Auditor General. Therefore it was excluded this year from selection. For both hospitality and travel, once five of the eight 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.

In summary, the individual I/B/Ps were selected for detailed testing based upon risk and control analyses performed during the planning stage of each audit as well as on the basis to ensure that no one I/B/P was audited more so than others or conversely that smaller entities would be ignored entirely in NRC's five year audit cycle (2006-07 to 2010-11).

Interviews were conducted with key personnel in order to examine program processes, procedures, and practices. These included managers and staff in Finance Branch and the I/B/Ps selected for audit.

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, asset 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 hospitality and travel were conducted to assess the areas of greatest risk. These audit criteria (see Appendices A and B) were derived primarily from the *TB Policy on Travel*, *TB 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 and travel policies and regulations

#### Overall Conclusion

Within the limitations of the samples drawn, we found that NRC is compliant overall with Government of Canada and NRC hospitality and travel policies and regulations. However we found that for hospitality improvements are necessary for FAA Section 32, 34 and 33 approvals – primarily to ensure the appropriate segregation of duties.

The detailed findings for the entire sample of transactions by audit criterion can be found in Appendix A for hospitality and Appendix B for travel.

#### Findings

The audit team noted a number of strengths with respect to compliance with government and NRC policies and directives for hospitality and travel. For hospitality, we observed very high compliance rates for the following:

- Hospitality costs per person were within prescribed TB and NRC limits and appropriately approved (100 percent);
- No alcoholic beverages were provided to employees working through breaks who received hospitality (100 percent); and
- Appropriate supporting invoices were on file (96 percent); and
- Hospitality provided was allowable in accordance with TB policy and directives (94 percent).

For travel, we observed very high compliance rates for the following:

- Travel arrangements were made through the NRC Travel Office (100 percent);
- Car rental expenditures were in compliance with TB and NRC policies and directives (100 percent); and
- Meal expenditures were claimed in accordance with TBS rates (95 percent).

## Delegation of Authority

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

- That funds be available and committed for the hospitality event or travel prior to their commencement (section 32); and
- That verification of the services received and the price was as stated in the contract in the case of hospitality and that expenditures are appropriate in the case of travel 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 it has been properly requisitioned and certified (section 33).

In accordance with the *TB Hospitality Policy's* Approval Authority and Cost Matrix, we expected to find that NRC has delegated spending authority for hospitality consistent with the limits specified. For travel, we expected to find that NRC has delegated spending authority to responsibility centre managers in relation to their budgetary responsibilities (i.e., actual budget holders) in order to ensure they have adequate authority and full responsibility for their decisions. In our opinion, NRC's delegation document, "*Financial Signing Authorities*", is consistent with these policies.

### **FAA Section 32 Commitment**

#### **Hospitality**

*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 Policy*, which is based on the TB policy, provides 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. While not always the case, the budget holder may or may not be the person authorizing the event and in fact, certification will often be provided 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, it would be advantageous to include a signature block for the actual budget

holder to formally certify *FAA* Section 32. By doing so, this would have avoided the finding below under *FAA* Section 34 Verification and Certification, whereby budget holders did not have a signature block for section 32 on the standard form and therefore signed instead under section 34 in effect providing their verification of goods and services received by in-house cafeteria services before they were received.

We found in 23 of 50 events<sup>2</sup> (46 percent) examined, that the *FAA* Section 32 was problematic. These included:

- 11 of 50 (22 percent) where the person did not have the appropriate delegation of authority; however, it should be noted that five of these events would have complied with the less strict TB policy bringing down the non-compliance rate to 21 of 50 events (42 percent). The NRC policy requires the President's approval for "all employee events" while the TB policy allows this authority to be delegated to the Vice Presidents or most senior manager in the region. Non-compliance was found in all five I/B/Ps examined;
- 3 of 50 events (six percent) in two I/B/Ps examined where there was no signature; and
- 12 of 50 events (24 percent) in three 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 meal times without notice would be practical exceptions even though both the TB or NRC policies state advance notice must be given at all times including these circumstances).

### **Recommendation 1:**

Finance Branch should communicate clearly the necessity that *FAA* Section 32 commitment authority is required for all hospitality events. Consideration should be given to amending the hospitality forms to include a signature block for the actual budget holder to certify *FAA* Section 32.

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

We agree with the recommendation that Finance Branch should ensure that the necessity for *FAA* Section 32 commitment authority is performed in a practical manner that is communicated across NRC. Work has already commenced on revising the form for in-house cafeteria services in order to clearly identify a signature block for section 32 certification. This should be completed by December 31, 2007.

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<sup>2</sup> The total number of non-compliant events is less than the total of number of events recorded immediately below due to the fact that some events were non-compliant in more than one area tested.

## Travel

It is required that the traveler complete a Travel Authority and Advance (TAA) form and have it approved by the appropriate delegated authority, i.e., the FAA Section 32 budget holder. This is completed for two reasons: budgetary control and limiting NRC's potential risks for insurance liability. This form identifies the estimated costs of the trip upon which the employee's manager can base, in part, their decision to authorize the travel. In the event that an accident occurs during a trip where there is no prior authorization, the employee's expenses would have to be covered by NRC and not by its insurance carrier. If incurred, this will also present a potential corporate risk for increased insurance premiums.

The TAA is used by the NRC Travel Office in Finance Branch to generate a Travel Authorization Number (TAN). Employees requiring many trips can be given a Standing Authority for Travel within certain constraints that don't require a TAA for each trip. However, they do need to complete the TAN for each trip to ensure appropriate management and control by the budget holder. The government AMEX travel agent will make all air and rail travel bookings. The traveler can make his or her own accommodation arrangements as long as they use authorized providers listed in the government's accommodation directory. Exceptions can be accepted as long as the rationale is reasonable and documented on file; these can include no available authorized hotel rooms, proximity of another hotel to the conference or meeting site that off-set transportation costs, etc.

We found that in all cases the TAA was signed by the appropriate FAA Section 32 authority; however, in five of 44<sup>3</sup> cases (11 percent), the TAA was either not signed in advance of the travel (four cases) or they were not obtained for non-staff travelers (one case). Travel expenses that are incurred by non government employees may also be authorized by the appropriate delegated signing authorities. Non-staff are individuals who do not work for NRC and can include, among others, visiting scientists, lecturers or individuals who participate in discussions of mutual interest as well as NRC advisory committee members. Travel expenses can be reimbursed for non-staff when they conduct authorized services carried out for or on behalf of NRC and these are agreed to in writing by an exchange of letters which clearly identify eligible travel expenses including rates and allowances.

In our opinion, given the level of non-staff travel valued at \$2.3 million for 2006-07, management should ensure that the appropriate letters for each person are on file and current. It has come to our attention that some letters are older than 10 years.

We also observed for three of five I/B/Ps examined that there were four of 17 cases (24 percent) where travel to a conference or outside North America did not obtain the required "Request for Authority" approval.

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<sup>3</sup> Of 50 travel claims examined, six claims were for parking and other expenses that did not require a TAA.

## **Recommendation 2:**

Senior management should communicate to all Vice-Presidents and Directors General for I/B/Ps that all non-staff travelers who travel on behalf of NRC must have a current letter of agreement for expense reimbursement that is on file for verification purposes; and that Requests for Authority must be obtained for all staff and non-staff travelers who travel to a conference or outside North America and retained on file for verification purposes.

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

The President will send a communications to all NRC staff involved in travel informing them of the audit's results and remind them of the necessity to comply with all government and NRC policies and guidelines.

The Chief Financial Officer will provide in follow-up communications and training specific guidance on their application including letters of agreement pertaining to travel for non-staff and Requests for Authority by March 31, 2008.

Staff travel to conferences will also be addressed as part of the ongoing review of NRC's policy governing travel to conferences by March 31, 2008.

## ***FAA Section 34 Verification and Certification***

### **Hospitality**

It was observed in 14 of 50 hospitality claims (28 percent) examined, the *FAA* Section 34 was problematic. These included:

- 2 of 50 (4 percent) where we determined the person did not have the appropriate delegation of authority; this was observed in two of the five I/B/Ps examined;
- 11 of 50 (22 percent) where the *FAA* Section 34 was provided in advance of the goods and services provided; this was observed in three of the five I/B/Ps examined; and
- 1 of 50 (2 percent) where there was no signature.

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. In our opinion, the *FAA* Section 34 must always be after the receipt of the food and beverages as verification and certification that the items ordered were indeed delivered. There was one I/B/P of the five examined that did not have any non-compliance with *FAA* Section 34 verification and certification.

### **Recommendation 3:**

Senior management should communicate to all Vice-Presidents and Directors General for I/B/Ps that *FAA* Section 34 verification and certification for hospitality is only given *after* the delivery of goods or services.

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

The President will send a communications to all NRC staff involved in hospitality informing them of the audit's results and remind them of the necessity to comply with all government and NRC policies and guidelines. The importance of understanding and applying the principles of the *FAA* Sections 32, 34 and 33 approvals will be emphasized.

The Chief Financial Officer will provide in follow-up communications and training specific guidance on their application by March 31, 2008. This will also be clarified as part of the ongoing revision of the form for in-house cafeteria services in order to clearly identify a signature block for Section 32 certification. This should be completed by December 31, 2007.

## **Travel**

We found that nine of 50 travel claims (18% percent) did not have the appropriate delegated authority for *FAA* Section 34 to approve expenses. Eight of these claims occurred in one of the five I/B/Ps examined, whereby managers approved other managers' claims. For another institute we observed that a subordinate was approving the Director General's claims. For all nine claims we did not observe any irregularities in expenses claimed. We also observed during the planning phase of this audit, there are other institutes outside the sample of five I/B/Ps examined whereby a subordinate who has been delegated their manager's *FAA* Section 34 verification was providing approval for their superior's travel claims. In our opinion, while these certifications were consistent with NRC's "*Financial Signing Authorities*" document, a conflict of interest arises when subordinates or colleagues provide *FAA* Section 34 certification of travel expenses and as such they in all cases be approved by a superior. In order to clarify for NRC staff that potential conflicts of interest could arise from this practice, consideration should be given to drafting a formal NRC policy.

### **Recommendation 4:**

Senior management should communicate to all Vice-Presidents and Directors General for I/B/Ps that travel claims should only be approved by the traveler's superior and not by their subordinate or their colleagues even if these persons have been delegated *FAA* Section 34 approval. Consideration should be given to clearly stating this requirement in a formal NRC policy.

**NRC Management Response:**

The President will send a communications to all NRC staff involved in travel informing them of the audit's results and remind them of the necessity to comply with all government and NRC policies and guidelines. The importance of understanding and applying the principles of the FAA Sections 32, 34 and 33 approvals will be emphasized.

The Chief Financial Officer will provide in follow-up communications and training specific guidance on their application by March 31, 2008.

The requirement that travel claims must be approved by the traveler's superior and not by their subordinate or colleague even if these persons have been delegated FAA Section 34 approval will be stated clearly in a formal NRC policy which will also take into consideration a review of the current approval process, including a risk analysis and more specific directions on the certification for section 34 approval. This will be completed by March 31, 2008.

**FAA Section 33 Payment**

As per the *Treasury Board Policy for Account Verification*, "financial officers with payment authority pursuant to FAA Section 33, must provide assurance of the adequacy of the section 34 account verification and be in a position to state that the process is in place and is being properly and conscientiously followed." As well, "the account verification process must provide for auditable evidence of verification including identifying the various individuals who performed the verification." Departments when developing their specific policies and procedures for the verification of accounts pursuant to FAA Section 34 and for the quality assurance review of the adequacy of section 34 account verification should take into account risk factors such as the level of decentralization and the use of automated expenditure management systems. It's key that claims and supporting invoices for both hospitality and travel expenditures are reviewed for accuracy to ensure payment is not duplicated, discounts have been deducted and amounts correctly calculated.

We observed that NRC Finance Branch completes detailed verification procedures for all hospitality claims greater than \$1,500 and all travel claims greater than \$2,000 prior to releasing any payments. It does not perform post quality assurance for claims under these amounts. No documented assessment could be provided to the auditors outlining their assessment of risk in support of this decision.

In our opinion, given the level of error rates noted with respect to FAA Section 34 for both hospitality and travel claims at 28 percent and 18 percent respectively, the system of controls employed by NRC aren't working as well as they should. While it may be tempting to suggest that individually these expenditures represent low values and are therefore low risk, collectively, hospitality expenditures in 2006-07 accounted for \$1.4 million and for travel \$21.4 million. In our opinion, a quality assurance process or post-

payment review process should be able to isolate and correct those areas of control that aren't working as well as they should.

#### **Recommendation 5:**

Finance Branch should document its risk assessment and strategy for implementing post-audit quality review processes for hospitality and travel expenditures. Consideration should be given to expanding its quality review procedures to including sampling transactions that are below the current expenditure thresholds of \$1,500 for hospitality and \$2,000 for travel.

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

We agree with the recommendation. Finance Branch will document its risk assessment process and strategy for implementing post audit quality review processes for hospitality and travel expenditures by March 31, 2008. As part of this review, consideration will be given to include sampling transactions that are below the current expenditure thresholds for 100 percent review.

#### **Allowable Expenses**

For both hospitality and travel, allowable expenses were mostly adhered to – those that were not were not significant or were immaterial and resulted in underpayments more frequently than overpayments. However, there were three instances in which we noted exceptions to this conclusion – hospitality transactions in support of employee recognition.

#### **Hospitality**

During our examination of hospitality claims, we found there were three of 50 claims (six percent), where the expenditures are specifically disallowed by TB policy. These included a cash award of \$75 for one NRC employee and two group events where hospitality exceeded the \$1,000 limit for group recognition events established by TB – both of which were under \$1,500. We agree with the Office of the Auditor General's recommendation that NRC review its employee recognition policies to ensure they are in line with the TB policy and directives.

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

We found five of 30 hospitality events where NRC employees were present where the number of employees present was more than the number of guests. It should be noted, however, that the TB policy does not place this restriction other than "the number of employees present must not exceed the number to conduct government business".

NRC has since updated its hospitality policy as of July 2007 to be consistent with the TB policy but requires a justification be provided where employees exceed guests. In our opinion, this represents a good management practice.

Also of note is the requirement that government owned facilities be used to host an event wherever possible, and if not then a justification must be included in the files. We found that 23 of the 50 events (46 percent) were hosted in non-government facilities and that 11 of these 23 events (48 percent) did not have the required justifications on file. These findings were found in four of the five I/B/Ps examined.

### **Travel**

During our examination of travel claims, we found some instances where expenses were not accurately recorded – some where travelers were overpaid and even more instances where they were underpaid. These included: incorrect foreign exchange rates used to reimburse accommodations and meal expenses of which, except in one instance, all of the differences were less than \$1.00 and therefore immaterial; car rental insurance; instances where travelers did not obtain the government rate while staying in government listed hotels; incidentals which were not claimed by travelers; and minor instances of incorrectly claimed meal allowances both over and underpayments. In cases of overpayments, we noted recovery actions are underway.

## 4.0 Conclusion

Within the limitations of the samples drawn, we found that overall NRC is compliant with the Treasury Board and NRC policies and directives pertaining to hospitality and travel. However, improvements are necessary with respect to the key government controls for authorizing, verifying and paying for hospitality and travel transactions – *FAA* Sections 32, 34, and 33. While not exclusively, this is primarily in regard to the appropriate segregation of duties.

For hospitality, expenditures were for the most part within the prescribed limits and exceptions appropriately authorized. There are some issues with respect to preauthorizing some events that could have been known in advance as well as preauthorizing verification of goods and services received. While the majority of hospitality events were in accordance with both TB and NRC policies, there was a notable exception with respect to three of 50 hospitality transactions in support of employee recognition.

For travel, we noted that a conflict of interest situation arises when subordinates or colleagues provide *FAA* Section 34 certification of travel expenses even if they have been delegated the section 34 approval. We also found there were some instances of minor overpayments and underpayments to travelers; however, they off-set one another for the most part.

In our opinion, given the level of error rates noted with respect to *FAA* Section 34 at 28 percent and 18 percent for hospitality and travel respectively, the system of controls employed by NRC aren't working as well as they should.

### Key recommendations

1. Finance Branch should communicate clearly the necessity that *FAA* Section 32 commitment authority is required for all hospitality events. Consideration should be given to amending the hospitality forms to include a signature block for the actual budget holder to certify *FAA* Section 32.
2. Senior management should communicate to all Vice-Presidents and Directors General for I/B/Ps that all non-staff travelers who travel on behalf of NRC there must have a current letter of agreement for expense reimbursement that is on file for verification purposes; and that Requests for Authority must be obtained for all staff and non-staff travelers who travel to a conference or outside North America and retained on file for verification purposes.
3. Senior management should communicate to all Vice-Presidents and Directors General for I/B/Ps that *FAA* Section 34 verification and certification for hospitality is only given *after* the delivery of goods or services.

4. Senior management should communicate to all Vice-Presidents and Directors General for I/B/Ps that travel claims should only be approved by the traveler's superior and not by their subordinate or their colleagues even if these persons have been delegated *FAA* Section 34 approval. Consideration should be given to clearly stating this requirement in a formal NRC policy.
5. Finance Branch should document its risk assessment and strategy for implementing post-audit quality review processes for hospitality and travel expenditures. Consideration should be given to expanding its quality review procedures to including sampling transactions that are below the current expenditure thresholds of \$1,500 for hospitality and \$2,000 for travel.

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

## Appendix A: Audit Criteria – Hospitality

No.	Audit Criterion	Overall Compliance Rates
1.	Appropriate <i>FAA</i> Section 32 certification was provided – roll up of criteria 2, 3 and 4 without counting a single event more than once	54% (27 / 50)
2.	Appropriate delegated authority provided <i>FAA</i> Section 32 certification	78% (39 / 50)
3.	<i>FAA</i> Section 32 certification was provided, i.e., signature was present	94% (47 / 50)
4.	Pre-authorization of hospitality events that could have been known in advance were obtained and documented	76% (38 / 50)
5.	Hospitality provided was in accordance with allowable events identified in the TB policy and directives	94% (47 / 50)
6.	Hospitality costs per person were within prescribed limits and / or appropriately approved	100% (50 / 50)
7.	Use of non-government facilities were justified and documented.	52% (12 / 23)

No.	Audit Criterion	Overall Compliance Rates
8.	Alcoholic beverages were not offered to employees working through breaks and receiving hospitality	100% (40 / 40)
9.	The number of employees was equal or less than the number of guests as per the NRC hospitality policy and directives	83% (25 / 30)
10.	Appropriate supporting invoices were found on file	96% (46 / 48)
11.	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)
12.	Appropriate delegated authority provided the <i>FAA</i> Section 34 verification and certification	96% (48 / 50)
13.	<i>FAA</i> Section 34 authorization and certification was performed <u>after</u> the goods and services were provided	78% (39 / 50)
14.	<i>FAA</i> Section 34 certification was provided, i.e., signature was present	98% (49 / 50)

## Appendix B: Audit Criteria – Travel

No.	Audit Criterion	Overall Compliance Rates
1.	Appropriate FAA Section 32 certification was provided, i.e., TAA or STA for NRC travelers and letter of agreement for non-staff travelers	89% (39 / 44)
2.	Foreign and/or conference travel authorizations were supported by the required Request for Authority	76% (13 / 17)
3.	Travel arrangements were made through the NRC Travel Office	100% (26 / 26)
4.	Accommodations were provided by government listed hotels and prescribed rates or at the conference venue	89% (24 / 27)
5.	Foreign currency for meals and incidentals were claimed using the correct exchange rates <b>(Note: all over claimed amounts approximated \$1 and are therefore immaterial.)</b>	39% (7 / 18)
6.	Foreign currency for accommodations was claimed using the correct exchange rates <b>(Note: except for one claim, all over claimed amounts approximated \$1 and are therefore immaterial.)</b>	57% (8 / 14)
7.	Car rental expenditures were in compliance with TBS and NRC policies	100% (7 / 7)

No.	Audit Criterion	Overall Compliance Rates
8.	Optional car insurance was waived for car rentals paid through NRC travel cards	75% (3 / 4)
9.	Meals expenditures were claimed in accordance with TBS rates (Note: under claims by the traveler are considered compliant.)	95% (39 / 41)
10.	Incidentals were claimed in accordance with TBS rates (Note: under claims by the traveler are considered compliant.)	100% ( 36 / 36)
11.	Appropriate delegated authority provided the FAA Section 34 verification and certification including being signed by a superior and not by a subordinate or colleague	82% (41 / 50)

## Appendix C: Management Action Plans

Audit Recommendations	Corrective Management Action Plan	Expected Implementation	Responsible NRC Contact
<p>1. Finance Branch should communicate clearly the necessity that <i>FAA</i> Section 32 commitment authority is required for all hospitality events. Consideration should be given to amending the hospitality forms to include a signature block for the actual budget holder to certify <i>FAA</i> Section 32.</p>	<p>We agree with the recommendation that Finance Branch should ensure that the necessity for <i>FAA</i> Section 32 commitment authority is performed in a practical manner that is communicated across NRC. Work has already commenced on revising the form for in-house cafeteria services in order to clearly identify a signature block for section 32 certification. This should be completed by December 31, 2007.</p>	<p>December 31, 2007</p>	<p>Chief Financial Officer</p>
<p>2. Senior management should communicate to all Vice-Presidents and Directors General for I/B/Ps that all non-staff travelers who travel on behalf of NRC must have a current letter of agreement for expense reimbursement that is on file for verification purposes; and that Requests for Authority must be obtained for all staff and non-staff travelers who travel to a conference or outside North America and retained on file for verification purposes.</p>	<p>The President will send a communications to all NRC staff involved in travel informing them of the audit's results and remind them of the necessity to comply with all government and NRC policies and guidelines.</p> <p>The Chief Financial Officer will provide in follow-up communications and training specific guidance on their application including letters of agreement pertaining to travel for non-staff and Requests for Authority by March 31, 2008.</p> <p>Staff travel to conferences will also be addressed as part of the ongoing review of NRC's policy governing travel to conferences by March 31, 2008.</p>	<p>October 31, 2007</p> <p>March 31, 2008</p> <p>March 31, 2008</p>	<p>President</p> <p>Chief Financial Officer</p> <p>Chief Financial Officer</p>



Audit Recommendations	Corrective Management Action Plan	Expected Implementation	Responsible NRC Contact
<p>requirement in a formal NRC policy.</p>	<p>The Chief Financial Officer will provide in follow-up communications and training specific guidance on their application by March 31, 2008.</p> <p>The requirement that travel claims must be approved by the traveler’s superior and not by their subordinate or colleague even if these persons have been delegated FAA Section 34 approval will be stated clearly in a formal NRC policy which will also take into consideration a review of the current approval process, including a risk analysis and more specific directions on the certification for section 34 approval. This will be completed by March 31, 2008.</p>	<p>March 31, 2008</p> <p>March 31, 2008</p>	<p>Chief Financial Officer</p> <p>Chief Financial Officer</p>
<p>5. Finance Branch should document its risk assessment and strategy for implementing post-audit quality review processes for hospitality and travel expenditures; consideration should be given to expanding its quality review procedures to include sampling of transactions that are below the current expenditure thresholds of \$1,500 for hospitality and \$2,000 for travel.</p>	<p>We agree with the recommendation. Finance Branch will document its risk assessment process and strategy for implementing post audit quality review processes for hospitality and travel expenditures by March 31, 2008. As part of this review, consideration will be given to include sampling transactions that are below the current expenditure thresholds for 100 percent review.</p>	<p>March 31, 2008</p>	<p>Chief Financial Officer</p>

## Appendix D: Glossary

### List of Abbreviations

**AMEX** – American Express

**CA** – Chartered Accountant

**CISA** – Certified Systems Auditor

**CIA** – Certified Internal Auditor

**CMA** – Certified Management Accountant

**FAA** – Financial Administration Act

**I/B/P** – Institute, Program or Branch

**GL** – General Ledger

**TAA** – Travel Authority and Advance

**TAN** – Travel Authorization Number

**TB** – Treasury Board

**STA** – Standing Travel Authority