

Audit of Hospitality Expenses and Compliance with the Disclosure Policy

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Acronyms used in the report

ADM	Assistant Deputy Minister
A&E	Audit and Evaluation
DAEC	Departmental Audit and Evaluation Committee
EC	Environment Canada
FAA	<i>Financial Administration Act</i>
FY	Fiscal Year
NCR	National Capital Region
RAH	Request for Approval of Hospitality
RDG	Regional Director General
TBS	Treasury Board Secretariat

Prepared by Audit and Evaluation

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EXECUTIVE SUMMARY

Environment Canada (EC) must ensure that economy, consistency and transparency are maintained when offering hospitality, and that the Department is complying with central agency requirements. As identified in the commitments for 2006-07 approved by the Departmental Audit and Evaluation Committee (set out in the Audit and Evaluation Plan 2006/07 to 2008/09), an internal audit of EC's hospitality expenses and proactive disclosure was conducted.

The Finance and Corporate Branch of Environment Canada is responsible for financial policies and procedures and for monitoring them, and the Branch is also responsible for the coordination of the proactive disclosure of hospitality expenses. Managers with delegated signing authority are responsible for ensuring they are familiar with Treasury Board policies and EC directives and procedures when authorizing an expenditure initiation and when certifying that services have been rendered or goods received (Section 34), as stipulated in the *Financial Administration Act* (FAA). The accounting offices within Finance and Corporate Branch are responsible for the final processing of the requisitions for payment under Section 33 of the FAA.

The overall objective of the audit was to assess how Environment Canada's management of hospitality expenses complies with the *Financial Administration Act* and with the relevant policies, directives, guidelines and procedures issued by both the Treasury Board Secretariat (TBS) and Environment Canada.

The specific objectives of the audit were to:

- 1) assess the adequacy of the management framework for hospitality expenses;
- 2) review the compliance of hospitality expenses and proactive disclosure of senior management's expenses; and
- 3) perform a global analysis of hospitality expenses.

The audit focused on a review of hospitality expenses incurred by the Department for a nine-month period covering April 1, 2006, to December 31, 2006.

The methodology included a thorough review of relevant TBS and EC policies, directives, guidelines, procedures and practices, as well as interviews and consultations with Finance staff. A random sample of 175 hospitality transactions totalling \$56,763.27 was tested against specific criteria (Annex 1). The sample is representative of the population with a margin of error of 7%, 95% of the time. Additional analyses were conducted to ensure that hospitality transactions were properly coded and to identify potential expense splitting to circumvent the appropriate level of approval.

All hospitality expenses were assessed as being business related. No cases were found where expenses seemed out of proportion for the type of hospitality offered. The overall compliance rates relating to key controls for expenditure initiation, certification that services were rendered or goods received and the payment process, were not fully satisfactory and require improvements. The non-compliance was mostly due to managers approving without the proper authority. Details of the findings are provided under section 2.2 of this report.

The Department faced significant organizational and governance changes during the period under review these changes appear to have created uncertainties amongst managers with regards to delegated authority. The hospitality plan, an important control, was suspended due to the issues associated with the implementation of the new delegation of authorities under EC's new results structure. This may have affected the compliance rates for key controls such as expenditure initiation (FAA Section 34 and Section 33). In addition, the suspension of the hospitality plan resulted in gaps in the interim procedures that were developed. The audit noted that procedures need to be revised in order to provide a complete set of properly approved guidelines. The revised procedures should increase the Department's compliance with the FAA and with TBS requirements.

The audit also revealed that Finance and Corporate Branch should amend the notes pertaining to the approval for alcoholic beverages to limit the approval to the Deputy Minister and/or Minister in the departmental Delegation of Financial Signing Authorities and Designation Order Instrument, in order to comply with the TBS Hospitality Policy.

As part of the government's commitment to enhance transparency and accountability, hospitality expenses of senior levels must be published on institutional websites. During the nine-month period audited, the Department disclosed 87% of the transactions coded under hospitality for the individuals subject to disclosure. Some items were not disclosed due to an administrative error and this is being corrected. A recommendation is made to correct the historical data. The audit has also found hospitality transactions that were not coded under hospitality. The transactions were mainly for coffee and beverages purchased regularly in bulk, and used for in-house executive meetings. This practice was a result of a misinterpretation of the hospitality policy. A recommendation is made to appropriately code these types of transactions and to correct the data since the beginning of disclosure for its inclusion on the departmental website.

The tests indicated that the information posted on the website is 97% accurate, and that it is presented in a format which complies with the TBS Guidance Document: Proactive Disclosure of Travel and Hospitality Expenses.

Recommendations

The Finance and Corporate Branch should:

Recommendation 1

- **Strengthen controls to avoid room for interpretation and to ensure consistent practices by revising the departmental hospitality procedures and provide a complete set of guidelines and forms; and**
- **Ensure that information on the Finance website (intranet) is updated on a regular basis and is communicated to employees.**

Management Response

Finance and Corporate Branch agrees with both recommendations as they apply to those hospitality requests that are valued at under \$1,500, i.e., for those hospitality requests that

require the approval of assistant deputy ministers, directors general or directors only and fall outside the scrutiny of Corporate Finance.

In the case of hospitality requests that are valued at over \$1,500, i.e., those requiring approval of either the Deputy Minister or the Minister, the Finance Directorate did issue a memorandum to all managers in Financial Services in May 2006 that outlined the set of procedures that needed to be followed for all hospitality requests requiring the approval of either the Minister or the Deputy Minister.. These procedures remain in force pending the reinstatement of the departmental hospitality plan, which is scheduled to occur in October 2007. These procedures further support having each individual request reviewed by the Acting Manager, Financial Policy, the Director, Financial Policy and Operations, the Director General, Finance Directorate and the ADM, Finance and Corporate Management before being sent for approval by either the Minister or Deputy Minister. If a hospitality request file contains errors, omissions or is non-compliant with the established procedures, it is returned to the Manager, Financial Services for corrective action.

The Financial Policy and Operations Division is in the process of updating these existing hospitality procedures to include specific control mechanisms to avoid room for interpretation and inconsistencies. These revised procedures will include a complete set of guidelines and new forms and will address the issue of settling hospitality expenses through the use of acquisition cards. Our plan is to make these revised procedures available on the Finance website by late September 2007. The Financial Policy and Operations Division also plans to enhance its financial systems to make it mandatory to financially commit all hospitality requests. This enhancement will ensure that the value of the approved hospitality request matches the actual expenditures incurred. The Financial Policy and Operations Division has prepared a revised financial transaction monitoring and Quality Assurance framework that it plans to roll out in early September 2007. This new framework will ensure greater gating and sampling of hospitality transactions and improved monitoring of hospitality requests that fall outside the scrutiny of the Finance Directorate.

Recommendation 2

- **Amend EC's Delegation of Financial Signing Authorities notes on exceptions, to limit the approval of alcoholic beverages to the Minister or Deputy Minister only.**

Management Response

Finance and Corporate Branch agrees with the recommendation. Section 1.10 – Hospitality of Part “C” – Specific Delegation Notes will be updated before the end of July 2007 to add to the current wording, that Section 6 of the Treasury Board Hospitality Policy requires that exceptions that warrant the extension of alcohol on behalf of the Department as a means of hospitality require prior approval of the Minister or the Deputy Minister and that this authority cannot be delegated. Please note that our policies clearly state that we are to follow Treasury Board policies and directives in all cases. This change will make clearer the exception for approval process in our more detailed policy.

Recommendation 3

- **Ensure that Specimen Signature Records are in place for each individual with delegated signing authority.**

Management Response

The Finance and Corporate Branch agrees with the recommendation.

The Financial Policy and Operations Division has recently implemented a new central application where all Specimen Signature Records (SSRs) are validated, recorded, and made available for viewing online.

Our revised delegation directive requires that the staff from our various accounting offices consult the SSR On-line application to ensure that the Specimen Signature Record of those persons authorized to exercise financial authorities is authenticated before or after a transaction is processed. The SSR On-line is monitored on a daily basis to ensure that our accounting offices use this mandatory reference tool as part of their pre-audit and Section 33 approval processes.

The SSR On-line application is the only recognized source of information when it comes to ensuring an individual has a valid SSR. If an individual does not have a valid SSR stored in the SSR On-line application, the transaction is immediately rejected by the accounting office and returned to the originator.

The SSR On-line application is operated and controlled exclusively by the Corporate Accounting Group, Financial Policy and Operations Division.

Recommendation 4

- **Ensure that signatures under FAA Section 33 are wet signatures. The Finance and Corporate Branch should also implement the Section 33 Quality Assurance Checklist or a similar checklist as a means to provide assurance and consistency in the signature under Section 33.**

Management Response

Finance and Corporate Branch agrees with the recommendation as it applies to payment of expenditures related to hospitality requests. The Finance Directorate has already implemented a similar business process for travel expenditures and will look into doing the same for hospitality expenses before the end of September 2007. In addition, the monitoring and Quality Assurance framework will be adjusted to ensure all our accounting offices are in compliance with this business process. Finance and Corporate Branch will also look into ensuring that the business process for the payment of hospitality expenditures is well documented and that this document is posted on the Finance website before the end of September 2007.

Recommendation 5

- **Ensure that transactions that were not posted on the website since the beginning of disclosure because of the incomplete report be published on the website in order for the disclosure information to be complete.**

Management Response

Finance and Corporate Branch agrees with the recommendation. The Finance Directorate will take the necessary steps to work with the clients affected to ensure that transactions that are not disclosed on the departmental website are posted by the next reporting period, i.e., October 1, 2007.

Recommendation 6

- **Ensure the coffee and beverages purchased for hospitality at in-house meetings are coded appropriately and disclosed according to the Guidance Document: Proactive Disclosure, including historical data; and**
- **Ensure all hospitality expenses are coded under hospitality.**

Management Response

Finance and Corporate Branch agrees with both recommendations. The Finance Directorate will be issuing a memorandum to all parties concerned informing them that coffee and beverages purchased for hospitality at in-house meetings must be coded as hospitality expenses and disclosed according to the Guidance Document: Proactive Disclosure. Finance and Corporate Branch will also issue a separate memorandum to the Accounting Office staff requesting that they ensure these hospitality expenses are included in the hospitality reports that are targeted for disclosure and to take immediate corrective measures if these are omitted. In the future, the Financial Policy and Operations Division will also ensure historical hospitality expenditures for both coffee and other beverages are disclosed on the departmental website by the next posting period, i.e., October 1, 2007.

1 INTRODUCTION

1.1 Background

The offering of hospitality by Environment Canada (EC) is managed in accordance with the Treasury Board Secretariat (TBS) Hospitality Policy. Hospitality is defined in the policy as “the provision of a reception offering refreshments, meals and sometimes entertainment to guests of government departments or agencies.”

According to the TBS policy, hospitality normally consists of breakfast, lunch, dinner, receptions, refreshments, or serving beverages. However, official hospitality may exceptionally consist of tickets to theatre or sporting events, tours, local transportation, room rental, and incidentals such as flowers.

The TBS policy states that all hospitality requests over \$1,500 and under \$5,000 require the Deputy Minister’s authorization and that all requests over \$5,000 require the Minister’s authorization. Hospitality requests under \$1,500 must be approved by the designated person identified in the departmental Delegation of Financial Signing Authorities and Designation Order Instrument. The delegation instrument must nonetheless be in accordance with the Approval Authority and Cost Matrix of the TBS Hospitality Policy, which specifies the level of approval required for hospitality functions offered under special circumstances, such as non-government conferences or events where attendees are all government employees.

As part of the government’s commitment to enhance transparency and accountability, hospitality expenses of ministers, ministers of state, ministers’ offices and parliamentary secretaries must be published on institutional websites, as per the TBS Guidance Document: Proactive Disclosure of Travel and Hospitality Expenses, effective December 12, 2003. This requirement also applies to deputy ministers, associate deputy ministers, assistant deputy ministers and equivalent levels, and individuals who act in these positions and incur hospitality expenses in that context.

To control the management of hospitality expenses and to facilitate the administration of TBS requirements, as well as the disclosure initiative, internal procedures were developed by EC’s Finance and Corporate Branch. Initially, employees were required to submit, on a quarterly basis, a plan for hospitality expenses requiring the Deputy Minister’s or Minister’s approval. This requirement was suspended for fiscal year 2006-07 and the new procedures named Procedures for Obtaining Approval from the Minister and/or Deputy Minister for Hospitality Functions were put in place as interim procedures (although never approved). The plan was suspended due to the issues associated with the implementation of the new delegation of authorities under EC’s new results structure.

1.2 Objectives

The overall objective of the audit was to assess Environment Canada’s management of hospitality expenses to ensure compliance with the *Financial Administration Act* and the

following policies, directives, guidelines and procedures issued by both the Treasury Board Secretariat and Environment Canada:

- TBS: Hospitality Policy; Guidelines for Minister's Offices; and Guidance Document: Proactive Disclosure of Travel and Hospitality Expenses; and
- EC: Guidelines for Proactive Disclosure of Travel and Hospitality Expenses; and Procedures for Obtaining Approval from the Minister and/or Deputy Minister for Hospitality Functions (June 28, 2006).

The specific objectives of the audit were to:

- 1) assess the adequacy of the management framework for hospitality expenses;
- 2) review the compliance of hospitality expenses and proactive disclosure of senior management's expenses; and
- 3) perform a global analysis of hospitality expenses.

1.3 Scope

The audit focused on a review of hospitality expenses incurred by the Department for a nine-month period covering April 1, 2006, to December 31, 2006.

1.4 Methodology

The audit included a thorough review of TBS and EC policies, directives, guidelines and procedures. Interviews were conducted with relevant Finance and Corporate Branch employees along with the regional accounting offices. Hospitality and proactive disclosure processes were flowcharted to determine if the controls and practices in place were comprehensive, stringent and in compliance with EC procedures and TBS policies.

A hospitality expense database was created for the period under review, using the departmental financial reporting system, Discoverer. The database sorted all payment transactions recorded as hospitality. It is important to know that a hospitality *event* may consist of many different *transactions*; the database was made up of payment transactions and not events. Using the database, a random sample of 175 transactions, totalling \$56,763.27, was selected and tested against specific criteria (see Annex 1) to assess its compliance with TBS policy and departmental procedures. The sample was representative of the population with a margin of error of 7%, 95% of the time. Using the same database, a judgmental sample of 10 transactions considered more at risk was also selected to assess the compliance of these transactions.

The audit also included a review of all hospitality transactions for the audit period, to identify the possibility of expense splitting to circumvent the ceiling for the delegation of financial signing authorities. An analysis was conducted of all EC's transactions that were not coded as hospitality. The objective was to identify hospitality expenses that might not have been coded as hospitality to avoid appropriate approval.

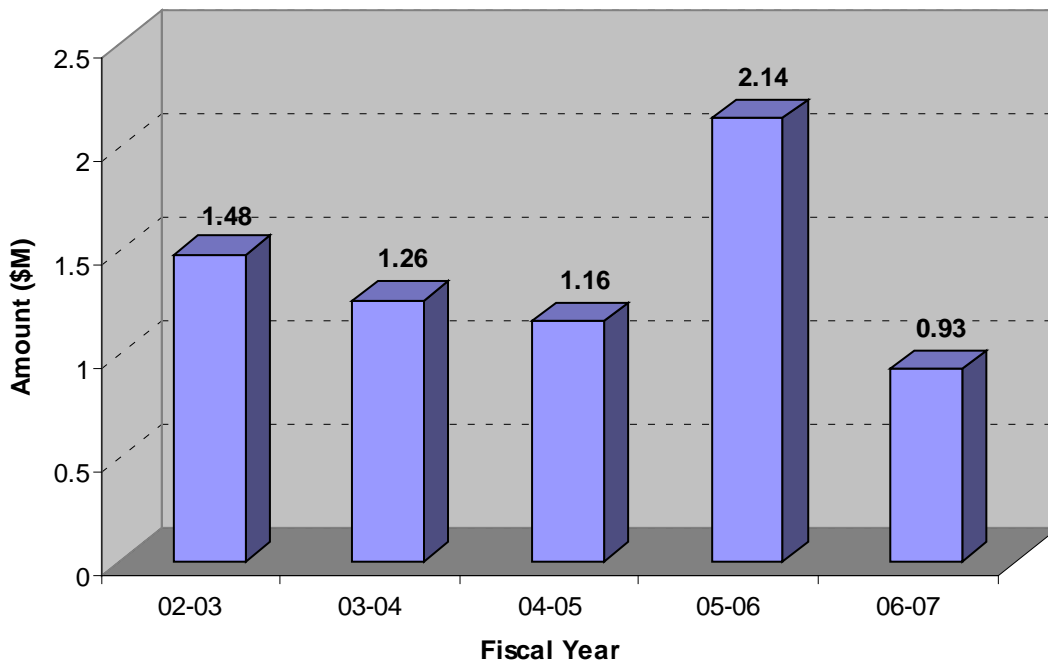
Section 2 of the TB Guidance Document: Proactive Disclosure of Travel and Hospitality Expenses states that all hospitality expenditures charged to the budget of an official must be disclosed, whether or not he or she was in attendance. The hospitality expenses for positions

subject to the proactive disclosure policy were retrieved from the financial system based on the cost centres assigned to the individuals subject to disclosure; there were a total of 94 such transactions for the review period, representing \$27,364.28. Compliance with the proactive disclosure provisions was reviewed by comparing these transactions and their associated paperwork with the information disclosed on the departmental website.

2 FINDINGS AND RECOMMENDATIONS

Environment Canada offers hospitality when it facilitates government business. EC spent close to 1 million dollars in hospitality expenses for fiscal year 2006-07. For the nine-month period under review, a total of \$548,084.04 was spent, for approximately 1,600 transactions. The vast majority of hospitality transactions were under \$1,500.

EC hospitality expenditures for the past five years



There has been a decrease in hospitality expenses in the last five years, with the exception of 2005-06. The increase was mostly due to EC's hosting of the international Eleventh Conference of the Parties to the Climate Change Convention (COP 11) in that fiscal year.

2.1 General Management Framework

2.1.1 Departmental hospitality procedures

In order to assist staff in issuing, approving, routing and processing hospitality claims, EC developed internal procedures. After the requirement for approval in the hospitality plan was suspended, the accounting offices were advised that all hospitality requests requiring the approval of the Minister or Deputy Minister would have to be submitted on an individual basis

to Finance. In order to assist staff during the transition, EC developed interim procedures entitled Procedures for Obtaining Approval from the Minister and/or Deputy Minister for Hospitality Functions (hereinafter referred to as the interim procedures). The interim procedures were never approved by senior management but were the ones used during the period covered by the audit. Those procedures were communicated to regional offices May 12, 2006. It should be noted that the only procedures available on the intranet during the audit period were the procedures for the departmental hospitality plan that were no longer in effect at the time of the audit.

Issues have been identified with regards to the interim procedures. First of all, those procedures only apply to the approval process and do not cover the payment process. Furthermore, the procedures only apply to requests requiring approval from the Deputy Minister or the Minister; therefore, there is no formal procedure for other types of hospitality, which, as mentioned previously, represent the majority of EC's hospitality expenditures.

The interim procedures define the information required for approval of hospitality; however, some administrative details, as outlined below, were omitted:

- The previous departmental hospitality procedures made it permissible for actual costs to exceed the estimate by up to 10% without further action. If an expense claim was over the amount pre-authorized by more than 10%, it had to be re-approved. The 10% provision was not included in the interim procedures. Consequently, the requirement for re-approval was applied inconsistently throughout the Department.
- The previous procedures provided examples of adequate and inadequate descriptions of a hospitality event. However, at the time of the audit, the interim procedures did not provide a clear explanation as to what was required as an acceptable explanation for a hospitality request. As a result, it was observed that the quality of the explanations provided varied from one person to another.

Departmental Hospitality Forms

The TBS policy requires that departments ensure hospitality expenses are recorded and that departmental records contain sufficient information for each function, such as the circumstance, the form of hospitality (meals/refreshment), the cost, the location, the number of attendees listed by category and the approvals by the appropriate delegated officials.

The Department uses two forms to capture such information. The Request for Approval of Hospitality is used to obtain pre-authorization and the Hospitality Expense Claim form is used to confirm that the event has occurred, to validate the expenses and to request payment by Finance. As discussed later in the report, these forms are not used consistently.

Recommendation 1

The Finance and Corporate Branch should:

- **strengthen controls to avoid room for interpretation and to ensure consistent practices by revising the departmental hospitality procedures and provide a complete set of guidelines and forms; and**

- **ensure that information on the Finance website (intranet) is updated on a regular basis and is communicated to employees.**

Management Response

Finance and Corporate Branch agrees with both recommendations as they apply to those hospitality requests that are valued at under \$1,500, i.e., for those hospitality requests that require the approval of assistant deputy ministers, directors general or directors only and fall outside the scrutiny of Corporate Finance.

In the case of hospitality requests that are valued at over \$1,500, i.e., those requiring approval of either the Deputy Minister or the Minister, the Finance Directorate did issue a memorandum to all managers in Financial Services in May 2006 that outlined the set of procedures that needed to be followed for all hospitality requests requiring the approval of either the Minister or the Deputy Minister.. These procedures remain in force pending the reinstatement of the departmental hospitality plan, which is scheduled to occur in October 2007. These procedures further support having each individual request reviewed by the Acting Manager, Financial Policy, the Director, Financial Policy and Operations, the Director General, Finance Directorate and the ADM, Finance and Corporate Management before being sent for approval by either the Minister or Deputy Minister. If a hospitality request file contains errors, omissions or is non-compliant with the established procedures, it is returned to the Manager, Financial Services for corrective action.

The Financial Policy and Operations Division is in the process of updating these existing hospitality procedures to include specific control mechanisms to avoid room for interpretation and inconsistencies. These revised procedures will include a complete set of guidelines and new forms and will address the issue of settling hospitality expenses through the use of acquisition cards. Our plan is to make these revised procedures available on the Finance website by late September 2007. The Financial Policy and Operations Division also plans to enhance its financial systems to make it mandatory to financially commit all hospitality requests. This enhancement will ensure that the value of the approved hospitality request matches the actual expenditures incurred. The Financial Policy and Operations Division has prepared a revised financial transaction monitoring and Quality Assurance framework that it plans to roll out in early September 2007. This new framework will ensure greater gating and sampling of hospitality transactions and improved monitoring of hospitality requests that fall outside the scrutiny of the Finance Directorate.

2.1.2 Departmental Delegation of Financial Signing Authorities

The TBS Hospitality Policy is silent with regard to the use of alcohol as a form of hospitality. The use of the word “beverage” in Appendix A – Definition, Forms of Hospitality is not interpreted to include alcoholic beverages. This interpretation is substantiated within the policy, where alcoholic beverages are excluded from the definition of hospitality, forms of hospitality, and within the Approval Authority and Cost Matrix in Appendix C, which references non-alcoholic beverages only.

Based on this interpretation, alcoholic beverages are considered an exception to the policy. Section 6 of the policy indicates that exceptions must have the prior approval of the Minister or Deputy Minister. Within the confines of this policy, this authority cannot be delegated.

The departmental Delegation of Financial Signing Authorities and Designation Order Instrument has a section specific to hospitality (1.10) that includes the following:

- what hospitality means as per TBS policy;
- approval authority levels required for each hospitality function type; and
- notes regarding the exceptions.

The second note to the exceptions states “where refreshments include alcoholic beverages, the prior authority of the ADM/RDG is required”. As stated above, this note to the exception is not in conformity with TBS policy.

It must be noted that in the transactions sampled, the four cases where alcoholic beverages had been served received the approval of the Deputy Minister or the Minister. The approval was required for reasons other than alcoholic beverages. These transactions therefore complied with the TBS Hospitality Policy.

Recommendation 2

The Finance and Corporate Branch should:

- **amend EC’s Delegation of Financial Signing Authorities notes on exceptions to limit the approval of alcoholic beverages to the Minister or Deputy Minister only.**

Management Response

Finance and Corporate Branch agrees with the recommendation. Section 1.10 – Hospitality of Part “C” – Specific Delegation Notes will be updated before the end of July 2007 to add to the current wording, that Section 6 of the Treasury Board Hospitality Policy requires that exceptions that warrant the extension of alcohol on behalf of the Department as a means of hospitality require prior approval of the Minister or the Deputy Minister and that this authority cannot be delegated. Please note that our policies clearly state that we are to follow Treasury Board policies and directives in all cases. This change will make clearer the exception for approval process in our more detailed policy.

2.2 Compliance with TBS Policy

A compliance review was conducted using a random sample of 175 hospitality transactions that were tested against the criteria listed in Annex 1. Compliance rates were assessed on key controls that are required by the *Financial Administration Act* and TBS policy: authorization of expenditure initiation, certification that services were rendered or goods received (FAA Section 34) and payment process (FAA Section 33). The results of the compliance review are described below.

2.2.1 Expenditure initiation process

As per the departmental Delegation of Financial Signing Authorities and Designation Order Instrument, each hospitality function must be approved by an employee with delegated expenditure initiation. The Request for Approval of Hospitality is used to initiate the hospitality expenditure.

The analysis of the criteria in Annex 1 revealed that the Request for Approval of Hospitality form was on file 98% of the time. The audit found that the forms used were often outdated; however, this had no impact on the compliance with TBS policy.

The requests were approved by an employee with proper expenditure initiation authority 82% of the time. The instances where errors were found related to the following:

- in 1% of the transactions, no pre-authorization was on file;
- in 1% of the transactions, the expenditure initiator had a Specimen Signature Record but it did not contain expenditure initiation authority for hospitality;
- in 7% of the transactions, a meal was served to all government employees in attendance without approval from an ADM or RDG, as required by the TBS policy;
- in 3% of the transactions, the auditors were unable to find a Specimen Signature Record for the expenditure initiator;
- in 2% of the transactions, the expenditure initiator had no authority for the cost centre indicated on the form, but had authority for other cost centres;
- in 2% of the transactions, the signature was not dated; therefore, it was impossible to know if the person acting in a position had the delegated authority to sign at that time; and
- in 2% of the transactions, there was no signature on file but a reference was made indicating that it had been approved on the hospitality plan, even though the plan was suspended.

In the above instances where the expenditure initiation was signed by the incorrect person, it was signed by senior management.

Employees are to avoid requesting approval after an event has been held. The analysis revealed that 9% of the requests were approved after the fact. Furthermore, in 27% of the cases, the approvals on the requests were not dated; therefore, it was impossible to determine if these requests had been authorized prior to the event.

2.2.2 Section 34 of the FAA - Certification that services were rendered or goods received

According to the FAA, a signature under Section 34 attests that the hospitality has occurred and that the expenses recorded reflect the hospitality expenditure. The Department's Delegation of Financial Signing Authorities and Designation Order Instrument provides the approval authority level required for each hospitality function type.

The Hospitality Expense Claim form is used to describe the hospitality event and to certify that services have been rendered or goods received (Section 34), as required by the FAA. The form was on file 54% of the time. EC's interim procedures do not refer to the Hospitality Expense Claim form; this may be the cause of the low usage of the form. The audit found that outdated forms were often used; however, this had no impact on the compliance with TBS Policy.

The analysis of the criteria revealed that 88% of the hospitality expenditures were appropriately signed for under Section 34. The remaining 12% of errors were related to the following:

- in 2% of the transactions, there was no signature on file;
- in 6% of the transactions, the person who signed under Section 34 did not have the authority for that specific cost centre, but had authority for other cost centres;
- in 3% of the transactions, the auditors were unable to find a Specimen Signature Record for the person who signed under Section 34; and
- in 1% of the transactions, the signature was not dated; therefore, it was impossible to know if the person acting in a position had the delegated authority to sign at that time.

In the above instances where Section 34 had been signed by the incorrect person, it was signed by senior management.

TBS Account Verification Policy states “no person shall exercise spending authority (Section 34) with respect to a payment from which he or she personally can benefit, directly or indirectly”. The analysis revealed that the person who signed under Section 34 was a participant in the event in 16% of the cases. In 33% of the transactions reviewed, it was impossible to verify if the person was a participant because there was no list of participants on file. EC’s interim procedures require that the list of expected participants be submitted along with the Request for Approval of Hospitality. However, there is no requirement to submit the list of people who actually attended the event. EC’s procedures should be revised to ensure that they also include the requirement to submit, with the claim, the actual list of participants.

Recommendation 3

The Finance and Corporate Branch should:

- **ensure that Specimen Signature Records are in place for each individual with delegated signing authority.**

Management Response

The Finance and Corporate Branch agrees with the recommendation.

The Financial Policy and Operations Division has recently implemented a new central application where all Specimen Signature Records (SSRs) are validated, recorded, and made available for viewing online.

Our revised delegation directive requires that the staff from our various accounting offices consult the SSR On-line application to ensure that the Specimen Signature Record of those persons authorized to exercise financial authorities is authenticated before or after a transaction is processed. The SSR On-line is monitored on a daily basis to ensure that our accounting offices use this mandatory reference tool as part of their pre-audit and Section 33 approval processes.

The SSR On-line application is the only recognized source of information when it comes to ensuring an individual has a valid SSR. If an individual does not have a valid SSR stored in the SSR On-line application, the transaction is immediately rejected by the accounting office and returned to the originator.

The SSR On-line application is operated and controlled exclusively by the Corporate Accounting Group, Financial Policy and Operations Division.

2.2.3 Section 33 – Payment process

Section 33 of the FAA requires that payment agents ensure payments are made for the correct amount, to the right supplier and are charged to the right budget. The incumbent of Section 33 must also ensure that Section 34 certification was conducted in accordance with the FAA. A financial officer who has appropriate authority under the Department's Delegation of Financial Signing Authorities and Designation Order Instrument must authorize each invoice payment.

The departmental Statistical Payment Sampling Policy has identified hospitality claims as high-risk transactions and the payment officer's responsibility is to verify 100% of those transactions and to identify and correct any errors. During the regional interviews, Finance staff was consulted to determine what controls were in place relating to Section 33. All regions, except for one, use a checklist to perform Section 33 verification. Some checklists are very specific to hospitality while others are more general. One region in particular has a Quality Assurance checklist for Section 33; although it is not specific to hospitality, it contains elements to be verified by the financial specialist and a section to note observations. The checklist is then signed and dated; this ensures that the Section 33 verification has been carried out in accordance with the requirements of the FAA.

It was noted during the audit that one region was using electronic signatures for Section 33. At the time of the audit, the Department did not comply with the requirements for valid electronic signatures, as per the TBS Policy on Electronic Authorization and Authentication. Since those signatures cannot be considered valid, the compliance rate for Section 33 was 88%. Of the 12% non-compliance rate, only 6% (seven cases) were due to the complete absence of a signature.

Government acquisition card

Acquisition cards provide an efficient and streamlined approach to procurement and payment processes. However, it was noted during the audit that in cases of hospitality expenses paid with an acquisition card or a credit card, the supporting documentation was not always adequate. In three cases, there was no invoice on file, only a card statement. Without the actual invoices, the audit was unable to confirm whether the nature and quantity of the items purchased were made in accordance with the TBS Hospitality Policy. Proper documentation should be part of the checklist used for approving payment under Section 33 of the FAA.

Recommendation 4

The Finance and Corporate Branch should:

- **ensure that signatures under FAA Section 33 are wet signatures. The Branch should also implement the Section 33 Quality Assurance Checklist or a similar checklist as a means to provide assurance and consistency in the signature under Section 33.**

Management Response

Finance and Corporate Branch agrees with the recommendation as it applies to payment of expenditures related to hospitality requests. The Finance Directorate has already implemented a similar business process for travel expenditures and will look into doing the same for hospitality expenses before the end of September 2007. In addition, the monitoring and Quality Assurance framework will be adjusted to ensure all our accounting offices are in compliance with this business process. Finance and Corporate Branch will also look into ensuring that the business process for the payment of hospitality expenditures is well documented and that this document is posted on the Finance website before the end of September 2007.

2.3 Proactive Disclosure of Hospitality Expenses

2.3.1 General findings

According to Treasury Board's Guidance Document: Proactive Disclosure of Travel and Hospitality Expenses, as of March 31, 2004, EC must publish all hospitality expenses of the Minister, the Minister's Office and senior executives on its website.

During the nine-month period audited, the Department has only disclosed 80 transactions out of the 92 transactions coded under hospitality. All transactions not disclosed were omitted due to an administrative error. This will be discussed in more detail below.

The audit has also found hospitality transactions that were coded under "miscellaneous supplies" rather than the code for hospitality. The transactions were for coffee and beverages purchased regularly in bulk for in-house meetings. This practice is a result of a misinterpretation of the TBS Hospitality Policy.

Tests indicated that the information posted on the website is 97% accurate. Based on the Guidance Document: Proactive Disclosure, seven criteria were used in the compliance testing. The transactions that did not meet the criteria were due to clerical errors.

2.3.2 Completeness of the information on the website

2.3.2.1 Transactions Coded under Hospitality

The audit of the disclosure of hospitalities revealed that 87% of the expenditures coded under hospitality were disclosed, representing a dollar amount of \$22,700 out of \$27,200, including GST (see Table 1).

Table 1: All hospitality transactions for cost centres requiring disclosure between April and December 2006

	# of transactions	% of transactions	Value in 1000s of dollars	% of Total dollar value
Should have been disclosed	92	100%	27.2	100%

Disclosed	80	87%	22.7	84%
Non-disclosed				
• Incomplete Report	12	13%	4.5	16%

Incomplete report

The process for disclosure begins with the coordinator in Finance retrieving from the financial system the transactions for the individuals subject to disclosure. Once the payments to be disclosed have been identified, further data surrounding the transaction such as the purpose of the meeting, the location, caterer, dates, number of government employees and guests are obtained by gathering invoices and Requests for Approval of Hospitality. The information is entered manually into the system. A second report is then generated containing all the information and is sent to the executive administration offices for their validation. If everything is correct, the official signs a Statement of Disclosure and the information is submitted to Finance and Corporate Branch for publication on the website.

The audit found 12 transactions which had not been disclosed. The reason the transactions had been omitted was that Finance in the National Capital Region (NCR) had not been using the correct report from the financial system for identifying transactions requiring disclosure. The report which was being used by Finance did not include transactions paid by acquisition card. Finance realized this during the course of the audit and is using the correct report as of the quarter ending March 1, 2007.

The audit ran a test using the correct report for the period since disclosure (December 12, 2003) until the beginning of the audit period and found approximately 60 transactions which should have been reported. This is an indication that the process in the NCR for the validation of the information by the executive administrative officers or contacts should be strengthened. The memo that goes out quarterly to the contacts should include a reminder that they must not only verify the information but also ensure that all hospitality transactions are listed in the report. The practice in the Downsview office is to send detailed procedures at each quarter. It may be useful for the two offices to share best practices.

Recommendation 5

The Finance and Corporate Branch should:

- **ensure that transactions that were not posted on the website since the beginning of disclosure because of the incomplete report be published on the website in order for the disclosure information to be complete.**

Management Response

Finance and Corporate Branch agrees with the recommendation. The Finance Directorate will take the necessary steps to work with the clients affected to ensure that transactions that are not disclosed on the departmental website are posted by the next reporting period, i.e., October 1, 2007.

2.3.2.2 Other Transactions

Miscoded transactions

Through a global analysis of the database in the financial system, the audit identified hospitality transactions that were coded incorrectly. Consequently, these items were not posted on the website. The total dollar value of these transactions was \$8,850 for the audit period. Conversations with the office managers in the two offices which account for the majority of the miscoded transactions have revealed that the individuals ordering the goods were unaware that the code for hospitality should have been used rather than the code for miscellaneous supplies.

It has been the practice in the above-mentioned offices to purchase coffee and beverage items in bulk for replenishment approximately every two weeks. Purchasing and making the coffee was found to be a more cost-effective way of offering hospitality than having it catered. The office managers indicated that the items were coded as such because “they have always done it that way”; one office had been using this mechanism for purchasing its coffee and beverages for 2 years, and the other, for at least 10 years. They considered these items purchased by the box, tin or case and stored in their kitchens as miscellaneous supplies and not hospitality, for which a Request for Approval of Hospitality form would be required. However, the Hospitality Policy is the only document which allows for the purchase and consumption of such items; therefore, they should be coded under the line object for hospitality and should be disclosed on the website.

In a third executive office, although the purchases were not as frequent, small items such as cookies, creamers and coffee had been purchased and recorded under the code for miscellaneous items. It should be noted that the audit reviewed the transactions identified in the judgmental sample test but did not systematically review all the transactions paid against the code for miscellaneous supplies.

Recommendation 6

The Finance and Corporate Branch should:

- **ensure the coffee and beverages purchased for hospitality at in-house meetings are coded appropriately and disclosed according to the Guidance Document: Proactive Disclosure, including historical data; and**
- **ensure all hospitality expenses are coded under hospitality.**

Management Response

Finance and Corporate Branch agrees with both recommendations. The Finance Directorate will be issuing a memorandum to all parties concerned informing them that coffee and beverages purchased for hospitality at in-house meetings must be coded as hospitality expenses and disclosed according to the Guidance Document: Proactive Disclosure. Finance and Corporate Branch will also issue a separate memorandum to the Accounting Office staff requesting that they ensure these hospitality expenses are included in the hospitality reports that are targeted for disclosure and to take immediate corrective measures if these are omitted. In the future, the Financial Policy and Operations Division will also ensure historical

hospitality expenditures for both coffee and other beverages are disclosed on the departmental website by the next posting period, i.e., October 1, 2007.

2.3.3 Accuracy of the information on the website

To verify compliance with the TB Guidance Document, the audit verified whether the Department posted all the information that was required, in the appropriate format, and whether the information was accurate based on source documents.

The information tested was the purpose of the event, dates, total amount, location, number of attendees and guests, caterer or commercial establishment, and the form of hospitality.

Except for a minority of transactions, the audit found that the Department was in compliance with the Guidance Document as to the completeness and accuracy of the transactions disclosed on the Web. The rate of compliance was found to be 97%.

The transactions that did not meet the criteria were mostly accidental omissions or administrative errors. However, in the Ontario Region, the audit found a systematic problem related to the transferring of information on the number of attendees and guests. The end result was that the number of attendees posted was overstated by the equivalent number of guests, which was one person in most cases.

The Ontario Region has been advised of this and the information will be correct in the future.

2.4 Other findings

2.4.1 Compliance with TBS average and maximum

The TBS Hospitality Policy sets out annual average and maximum per person costs for meals. These must be used in all hospitality functions. Section (ii) states “the maximum per person cost limit for any form of hospitality may only be exceeded in unusual and non-recurring circumstances and must have the prior approval of the deputy or assistant deputy head”. Only 49% of the transactions contained sufficient information to assess the cost breakdown by person. Many of those transactions were for refreshments only, for which TBS does not establish a maximum cost. Although no cases were found in the sample where the maximum had been exceeded, the audit cannot offer a reliable conclusion because of the small number of transactions.

Regarding the annual per person average, Section (i) of the policy states “all meal related hospitality expenses incurred over the fiscal year must average out to the average per person cost”. Again, because only a low percentage of the transactions contained sufficient information, the audit cannot offer a reliable result on the annual per person cost average for the Department. A calculation was still performed based on the transactions that had sufficient information and the results indicate that the average per person was met in these cases.

Although it is not a requirement in EC’s procedures, one region maintains a log with all the information compiled on the Hospitality Expense Claim. These logs allow the region to determine if, as a region, it has met the TBS annual per person cost average. Because EC as a whole does not have such a log, there is a risk of exceeding the TBS annual average cost

per person. In order to verify the compliance of EC's hospitality expenses annual average with TBS requirements, and in order to be consistent throughout the Department, management should assess the cost of putting in place procedures to monitor the departmental annual average, versus the risk of non-compliance to the policy.

As mentioned earlier, the policy does not provide a maximum rate for refreshments. The policy indicates that the cost of refreshments shall not exceed the usual local prices per serving. As there are no departmental guidelines, one region (Pacific and Yukon) has suggested a standard cost for refreshments equivalent to a coffee and a muffin per person.

2.4.2 Expense splitting analysis

An analysis of all hospitality transactions for the audit period was conducted to identify possible cases of expense splitting. Expense splitting can be defined as unnecessarily dividing an expense into a number of smaller expenses, to circumvent the ceiling of authority required for hospitality. The analysis did not identify any cases of expense splitting.

2.4.3 Miscoded hospitality analysis

An analysis was conducted of all EC's transactions that were not coded as hospitality. The objective was to identify hospitality expenses that might not have been coded under hospitality to avoid appropriate approval. The findings of that analysis have been discussed previously in the Proactive Disclosure of Hospitality Expenses section of this report. However, there was a case of miscoded hospitality that was not covered by the disclosure provision. In this particular case, a ceremony was organized on December 12, 2006, in recognition of the work done by employees. The expenses incurred for the event were coded as "Departmental Awards", but given the nature of the event and the type of expenses, they should have been coded as hospitality and approved by an ADM.

2.4.4 Use of personal credit card

During the analysis of the samples, a case was found where a personal credit card had been used to pay hospitality expenses as well as room rental for an event organized by EC, for a total of \$2,209.44. That type of expense should be paid by Environment Canada directly, not through the use of a personal credit card. This case will be followed up by a management letter to remind the manager responsible for those expenses of the proper procedures.

3 CONCLUSION

The main objective of this audit was to assess Environment Canada's management of hospitality expenses to ensure compliance with the *Financial Administration Act*, the TBS Hospitality Policy and EC's procedures

All hospitality expenses were assessed as being business related. No cases were found where expenses seemed out of proportion for the type of hospitality offered. However, the audit revealed that departmental controls on hospitality expenses require improvements. Procedures need to be revised in order to provide a complete set of properly approved guidelines.

The Department faced important organizational changes during the period under review and the reorganization somehow led to confusion as to who was responsible for what. The hospitality plan was suspended due to the issues associated with the implementation of the new delegation of authorities under EC's new results structure. This may have affected the compliance rates obtained. It must be noted that the non-compliance rates were related to key controls (expenditure initiation, FAA Section 34 and Section 33). In addition, the suspension of the hospitality plan resulted in gaps in the interim procedures that were developed. A complete set of detailed procedures should increase the Department's compliance with the FAA and TBS requirements.

The audit also revealed that Finance and Corporate Branch should amend the notes pertaining to the approval for alcoholic beverages to limit the approval to the Deputy Minister and/or Minister in the departmental Delegation of Financial Signing Authorities and Designation Order Instrument, in order to comply with the TBS Hospitality Policy.

As part of the government's commitment to enhance transparency and accountability, hospitality expenses of senior officials must be published on institutional websites. During the nine-month period audited, the Department did not disclose all the hospitality transactions for the individuals subject to disclosure. Items were omitted due to administrative errors, and recommendations are made to correct the situation. However, the information disclosed on the website is accurate and complete, and it is presented in a format which complies with the TBS Guidance Document: Proactive Disclosure.

In our professional judgement, 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 of the audit, against the audit criteria.

Annex 1- Audit criteria

Reference	Criteria
	The transaction is properly coded.
KEY CONTROL Plan Criterion #5 - TBS S. 4 & EC Procedures and Signing Authorities point 1, p. 2/4 RAH form	The Request for Approval of Hospitality form is on file.
TBS S. 4	The date of the functions is indicated.
TBS S. 2	The correct RAH form was used (April 1, 2006 or October 1, 2006).
RAH form	The name of the Service, Region, Directorate or Branch is indicated.
RAH form	The event title is indicated.
TBS S. 4	The number of attendees is indicated.
TBS S. 4 & TBS S. 5.1(e)	The number of federal government employees is indicated.
TBS S. 4 & RAH form	The explanation of the need for hospitality is clearly indicated.
KEY CONTROL Plan Criterion #4 - TBS S. 3(a)	The cost breakdown on the RAH is completed.
TBS S. 3(a)(ii) & EC Proc. S. A. point 4 p. 2/4)	If estimate exceeds the maximum per person cost, a valid justification is on file.
TBS S. 2	The cost of the hospitality offered has been minimized.
KEY CONTROL Plan Criterion #1 - S. 32 FAA & EC Delegation- Appendix A	An authorized officer certifies that the funds are available (S. 32 of the FAA) (Name and date).
EC Financial Directives Manual Appendix A	The expenditure initiation is approved by the manager with the appropriate authority for the amount.
EC Procedures last point p. 3/4	The request was approved prior to the event.
EC Procedures last point p.3/4	If after the fact, a memo to the Minister or Deputy Minister is on file.
EC Procedures last point p.3/4	The memo provides a thorough justification for the request being submitted after the fact.
Extended hospitality: request over \$1,500 or special circumstances	
KEY CONTROL Plan Criterion #2 - TBS Policy S. 5 & 6 - Appendix C EC Delegated Authority	If hospitality is extended under special circumstances, the request is approved by the correct authority.
EC Procedures & S. A, point 2	The authorized CFO signed off.
Included in Finance Corp package	The Attestation Form on Financial Accountabilities was signed by the ADM, Finance & Corporate Branch.
EC Procedure	If cost is over \$1,500, approved by ADM/RDG.
EC Proc. & Sample of DM/M Memo	A memo to the Deputy Minister or Minister is on file.
EC Proc. & Sample of DM/M Memo	The background information is provided.
EC Procedures Para. D) Other info. P. 3/4; & General Inf. Point 2 & Finance Checklist	Draft agenda is on file.
EC Procedures Para. D) Other info. P. 3/4; & General Inf. Point 2 & Finance Checklist	List of participants is on file.
Finance's checklist	Two bids are on file.
Hospitality Expense Claim	
KEY CONTROL EC Hospitality Expense Claim	The Hospitality Expense Claim form is on file.
	All fields are accurately completed.
	There is sufficient information to complete the table below (cost breakdown by meal, by person).

Audit of Hospitality Expenses and Compliance with Disclosure Policy

TBS Policy S. 2 & 3	Per person meal cost is below the TB maximum.
TBS S. 3 (ii) & EC Procedures	If the per person meal cost is above the TB maximum, it is approved by the ADM.
Payment	
KEY CONTROL - Plan Criterion #6 - S. 34 FAA/Acc. V. Policy	The execution and cost of the hospitality are confirmed by the appropriate authority (Section 34 of the FAA).
Acc. V. S. 4 (f)	The individual who approved the payment was not a participant.
KEY CONTROL - Plan Criterion #7 - S. 33 FAA & Acc. V. Policy	The payment request is signed by a payment agent with the appropriate delegated authority (Section 33 of the FAA).
	The amount paid matches the invoice amount.
	The amount coded as hospitality only includes hospitality expenses.
	The payment is under or equal to the amount of the RAH.
	If amount claimed is above approved amount, re-approved at the correct level.
KEY CONTROL - Plan Criterion #8 - TBS Acc. V. S. 4(e) & EC Delegation	Sections 33 and 34 are not signed by the same person.