



**AUDIT OF  
THE OFFICE OF PROTOCOL  
OFFICIAL EVENTS  
AND  
OFFICIAL VISITS DIVISIONS**

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**Foreign Affairs Canada  
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## **EXECUTIVE SUMMARY**

An audit of the Office of Protocol Official Events (XDS) and Official Visits (XDV) Divisions was conducted during the period from 2002 to 2004. The objectives were to assess the effectiveness of the organization's system of internal control and operational processes and the level of compliance with regulations and policies.

We conclude that the services provided by XDS and XDV are well managed. Clients confirmed receiving high-quality service at all times. We also noted that the Office of Protocol has little or no control over the volume of activities, which are fully driven by clients. Demand for services has steadily increased in recent years, and shortages of funds and staff persist.

This report raises concerns with some administrative activities, the decision-making process and staff management. Operational requirements can often be met only by putting aside important administrative responsibilities. We are recommending making greater use of the expertise of the Management Services Division (XDM) so that administrative responsibilities and operational requirements are better balanced. Software programs supporting activities such as hospitality management, wine and gift inventories need to be updated and made compatible with the departmental platform. XDS would thereby benefit from an improved inventory control system to record movements in the stock of wine, spirits and gifts. Contracting processes and overtime management also need to be reviewed and improvements implemented.

Services must meet high standards within very tight deadlines. This environment can make it difficult to find the time to develop detailed costing analysis essential to ensuring a balance between effective service delivery and economy in the spending of public funds. Nevertheless, the Office of Protocol must improve its cost analysis capacity as part of its decision-making process. The rationalization for chosen service levels must also be better documented.

The Office of Protocol needs to adopt the principles of Modernization Comptrollership in the area of human resources: to measure performance, to manage for excellence, to receive and use meaningful and reliable performance information, and to be accountable for results.

This report contains 23 recommendations. Management has reported to each recommendation indicating the action already taken or decision made, including the steps to be undertaken in the future. Given the responses received, 19 recommendations have been fully implemented and the others are in the process of being actioned with a specific time frame for their implementation.

## **INTRODUCTION**

### **1.1 Background**

1.1.1 The Departmental Audit and Evaluation Committee approved an audit of the Official Visits Division (XDV) and the Official Events Division (XDS) of the Office of Protocol in the 2002/2003 Audit Plan. The last audit conducted in the Office of Protocol was in 1995 with a follow-up audit in 1997.

1.1.2 The mandate of XDV is to plan, organize and implement high-level visits into and out of Canada. XDV is also responsible for the management of the Canadian Reception Centres at the Ottawa International Airport. XDS is responsible for the management of the Hospitality Centre and for the administration and implementation of hospitality functions at home and abroad.

1.1.3 There are two allotments to administer these activities. The International Conference Allotment of \$5.7 million annually provides funding for outgoing visits by the Governor General and the Prime Minister, as well as attendance by the Ministers of FAC and ITCan and their official delegations to major international conferences. The Government Hospitality Allotment of \$2.7 million annually provides funding for official government hospitality extended by the Prime Minister, the Governor General, the Ministers of FAC and ITCan and the secretaries of state to foreign guests in Canada and abroad. In 1998, Treasury Board undertook a detailed review of departmental resources to ensure program integrity. A Treasury Board decision of June 15, 2000 approved a \$16.3 million annual frozen allotment to be released, as necessary, to cover costs associated to Prime Minister and Governor General travel and hospitality expenses which exceed outdated allotment ceilings for these activities. However, the FAC and ITCan portfolio ministerial reference level of \$2.4 million has not changed in many years and is regularly supplemented by the departmental reserve.

### **1.2 Audit Objectives and Scope**

1.2.1 The audit objectives are to assess the effectiveness of the organization's system of internal control and operational processes and determine the level of compliance with regulations and policies. The scope of the audit included an examination of XDV and XDS activities with a focus on overtime, workload management, staffing and financial management.

### **1.3 Audit Approach**

1.3.1 The audit approach consisted of conducting interviews, documenting processes, reviewing file documentation and analysing work flow. Interviews were held with XDS and XDV managers and some staff. Managers and staff in the Management Services Division (XDM) were also interviewed. Documents were reviewed, including

the business plan, organization charts, financial reports, contracts, expenditures, internal correspondence, and events documentation files. Clients were also contacted to assess the quality of service.

## **FINDINGS**

### **2.1 Hospitality Program**

#### **Hospitality Management System**

2.1.1 In the late 90s, the DOS based automated hospitality system (Goldkey), used to manage guest lists, prepare invitations, menus and place settings was replaced by the Windows based Hospitality System (HS). This new system did not provide the same level of functionality and flexibility as the Goldkey system. Simple changes to templates could only be done by a programmer, thus making it difficult for XDS staff to use the system effectively. Often, word processing software was used to undertake and complete tasks that should have been easily accomplished by the HS. Also, because of technical limitations, the HS could not be used to help organize and manage hospitality events taking place outside of Ottawa and internationally. SXED was hired to upgrade the system and some improvements were implemented. The HS still does not meet the full requirements and needs of the Protocol Office. To address this issue, XDM is exploring the possibility of making the HS a corporate application. It has received support from some 30 missions interested in using HS to help organize and manage their large hospitality events.

#### **Recommendation for XDS**

**2.1.2 XDS should make a business decision on how to proceed with the next phase of the project, in order to develop a fully functional product in line with current technology.**

#### **XDS Action and Time Frame**

**2.1.2 Further upgrades and adjustments were made by SXED to the HS, which resulted in a functional, but limited system. A business case has been prepared for the development of a new system to meet new technology requirements of Signet 3 platform. Funding of \$170,000 to develop this new system is yet to be identified.**

#### **Verification of Hospitality Centre Expenditures**

2.1.3 XDS is responsible for providing hospitality services on the 9th floor Hospitality Centre which it outsources to a contractor. The monthly invoice of the contractor (approximately \$70,000) requires more in-depth verifications prior to payment.

2.1.4 The monthly invoice needs to be reconciled to the individual hospitality expense summaries outlining direct costs for food, wine, flowers, overtime and extra

help for each event held at the centre. These summaries are also used to recover the costs of events for non-Government Hospitality Allotment (GHA) events and include costs that need to be recovered but not paid to the contractor. An example of such items is the cost of wine which is bought and paid for by XDS out of their budget. The reconciliation process is tedious and time-consuming because the links between Hospitality Expenses Summaries and the monthly invoices are not always obvious, and because of the large number of events held. The completion of the reconciliation process is often overtaken by other priorities and generates unreconciled differences (adjustments) needing further analysis in order to resolve them. Adjustments can remain outstanding for months and delay the payment process.

### **Recommendation for XDS**

**2.1.5 XDS with the help of XDM should redesign the hospitality expense summary form to capture expenditures by groups which would facilitate the reconciliation process.**

### **XDS Action and Time Frame**

**2.1.5 Hospitality expense summary form has been redesigned to facilitate reconciliation process. Monthly invoices are meticulously revised by XDS.**

### **Management of the Hospitality Centre**

2.1.6 In 2001/2002, 32 out of the 461 events held at the Hospitality Centre were paid by the Government Hospitality Allotment (GHA). The GHA also absorbs the \$400,000 salary costs of permanent staff employed on the 9<sup>th</sup> floor. As for the remaining 429 hospitality events, only direct costs are recovered from the clients. The per capita cost of these latter events should be within the limits set by T.B. for hospitality events held in Canada. The formula currently used to calculate per capita costs does not account for the cost of permanent staff. Consequently, the per capita costs calculated on the Hospitality expense summary forms are underestimated. The amount by which per capita costs are underestimated could not be determined because XDS could not provide the number of invitees attending these events.

### **Recommendation for XDS**

**2.1.7 XDS should calculate a more realistic per capita cost of events hosted on the 9<sup>th</sup> floor Reception Centre to ensure costs are within the Official Hospitality Guidelines.**

## **XDS Action and Time Frame**

**2.1.7 XDS will examine various options and will make a recommendation by the end of September 2005 in order to develop a more realistic per capita costs.**

**Options to be considered are:**

- **that we seek an exemption from Treasury Board on hospitality guidelines in order to apply the same calculations used by missions abroad for hospitality functions at Official Residences;**
- **that the department accepts to fund the overhead costs from the departmental reserve and that they be excluded from per capita cost calculations;**
- **that the overhead costs be pro-rated and full costs recovered from various users (i.e. geographic division, OGD, NGO).**

## **Table Settings - 9<sup>th</sup> Floor**

2.1.8 The table settings provided to the contractor are not properly controlled. The contract for food and housekeeping services mentions the inventory value of the settings provided to the 9th floor Hospitality Centre; however, it does not provide an itemized list, nor could one be located. The inventory value was established at \$170,000 for china, \$165,000 for silverware and \$72,000 for crystal. It is uncertain how these values were arrived at and if they are realistic. Furthermore, XDS has not conducted a physical count of these items since awarding the contract. Consequently, it does not monitor breakage allowances included in the contract nor does it monitor the loss of silverware.

## **Recommendation for XDS**

**2.1.9 Conduct a detailed physical count of table settings immediately and establish a realistic cost per item. This inventory should be attached to the current contract and monitored annually to ensure that loss in excess of breakage allowances is recovered as per the contract. The stock silverware should counted annually and losses reported; and controls implemented as required.**



## **XDS Action and Time Frame**

- 2.1.9 Physical count of equipment was conducted and a list of equipment supplied was provided to the contractor. Copies are filed with the contract.**

## **2.2 Wine and Spirits Inventory Management**

**2.2.1 XDS maintains a wine and spirits stock to accommodate hospitality needs. There is no appropriate control system safeguarding these products and insufficient record of their movements and usage. This concern applies to stock kept by XDS as well as to stock on consignment to the contractor managing the Hospitality Centre. There is no current listing of the quantities and of their value in stock at each location. Also, the wine inventory is not kept in a climate-controlled environment and there are insufficient shelves to store the wine and spirits properly.**

## **Recommendations for XDS**

- 2.2.2 Develop a wine and spirits inventory system. Purchases, usage and transfers between locations should be accounted for. This system should provide ongoing balances (quantities and price) of stock at each location and be used to justify the replenishments of stock and for cost-recovery purposes.**
- 2.2.3 Conduct a physical inventory of wine and spirits on a regular basis at all locations. Physical counts should be performed, by someone independent from the inventory custodian, and discrepancies between the actual count and inventory investigated.**
- 2.2.4 Ensure the wine inventory is stored in facilities where the temperature and humidity are appropriate. Shelves to effectively store the wine and spirits should be installed.**

## **XDS Actions and Time Frames**

- 2.2.2 An inventory system was put in place as recommended. Purchases, usage and transfers between locations are now accounted for. The system provides up-to-date balances for quantities and value of stock at each location.**
- 2.2.3 Physical inventories are being conducted on the 9<sup>th</sup> floor on a weekly basis and on a quarterly basis for the wine cellar. It is difficult to designate an independent person on a permanent basis because of the high volume of travel; however, each time the inventory is**

**updated, the inventory custodian is accompanied by another staff member.**

**2.2.4 Temperature and humidity controlled wine cellars were purchased leaving extra shelves to store spirits.**

## **2.3 Gift Bank Management**

### **Inventory Control**

2.3.1 The gift bank is administered by the Office of Protocol, which is responsible for purchasing and safekeeping of these gifts. The gifts are totally Canadian products and range from soap stone carvings to small items such as pens and pins. They are for presentation in Canada and abroad to official guests. Gift purchases are limited to \$350,000 annually based on cost-recovery budget.

2.3.2 Since the summer of 2002, there have been no inventory counts in the gift bank. The system to record the costs of inventory on hand and to track movements was no longer functional. A new system was in the process of being developed (see next observation). Consequently, the loss of assets could remain undetected until the new system is fully operational. Inventory items are not individually numbered for identification. The gift bank is located in the publically accessible Conference Section on the main floor in the L.B. Pearson Building. It consists of two rooms; the main room containing the gifts and the back room used as office space and storage area. The custodian's workstation is located at the far end of the back room. Its location does not permit the custodian to see and hear persons entering the main room.

### **Recommendations for XDS**

**2.3.3 Conduct a physical count of all items in the gift bank.**

**2.3.4 Update the last inventory listing produced taking into account all receipts and withdrawals.**

**2.3.5 Reconcile the physical count with the inventory listing and investigate discrepancies.**

**2.3.6 Identify each item in inventory with a unique inventory number to facilitate the identification of each item acquired, disposed or returned.**

**2.3.7 Consult Security to improve the physical security of the gift bank location.**

## **XDS Actions and Time Frames**

- 2.3.3 A physical count of all items was conducted July 2003 and 2004.**
- 2.3.4 A reconciliation of last inventory taking into account all receipts and withdrawals was performed.**
- 2.3.5 A reconciliation has been performed and discrepancies investigated.**
- 2.3.6 The new inventory system provides a unique inventory number for each item. All transactions can be tracked using that number.**
- 2.3.7 The security has been improved. The custodian's office was rearranged to ensure visibility of the main room. The main room's door is always locked whenever custodian is away. Other security improvements are being considered, such as the installation of a "half-door", with the bottom part always locked, and of security cameras.**

## **Development of the Gift Bank Inventory Control System**

**2.3.8** In 2002, XDS awarded a contract valued at \$16,450 to develop an inventory control system that would provide the means for XDS to monitor all gifts-related transactions and to generate reports. The statement of work contained in the contract did not fully describe the work to be carried out and the objectives of the contract. The statement of work referred to user requirements that were not included in the contract and were no longer available for audit review.

## **Recommendation for XDS**

- 2.3.9 Ensure this project is completed in a timely fashion and delivers an effective inventory control system.**

## **XDS Action and Time Frame**

- 2.3.9 An effective Inventory Control System is now in place.**

## **2.4 International Conferences**

**2.4.1** The number of visits to major international conferences has significantly increased in the last two years: 41 and 43 visits took place in 2001 and 2002, respectively. In previous years, there were 20 to 26 visits a year. The International Conference Allotment (ICA) criteria were published in 2000, generating renewed interest in attendance at conferences. The \$1.2 million ICA fund, excluded from the

frozen allotment, is insufficient to accommodate the increased demand for which FAC and ITCan are responsible.

2.4.2 Historically, funds are always available for international conferences. In the last few years, however, the departmental reserve was used to replenish the ICA shortages generated by FAC's and ITCan's participation in international conferences which could not be recovered from the frozen allotment. There is doubt that the reserve will continue to be available, and the Office of Protocol had not identified a way to resolve this situation. Currently, ICA funds are allocated on a "first come, first serve" basis.

2.4.3 XDV plans on preparing a summary of all international conferences for which FAC and ITCan are responsible, along with costing estimates. This summary and a request to permanently increase the reference level are to be presented to the FAC and ITCan Executive Committees.

### **Recommendation for XDV**

**2.4.4 XDV should prepare a business case to permanently increase the ICA's reference level excluded from the frozen allotment.**

### **XDV Action and Time Frame**

**2.4.4 XDM, in consultation with XDV, made a business case to permanently increase the ICA's reference level and submitted it to the Management Committee. The decision is still pending.**

**XDM is now included in XDX/XDV's yearly consultations with ADMs to identify proposed high level visits for the coming year and to identify proposed international conferences to be funded from ICA. This process makes it possible to improve the forecasting of cost pressures on the ICA.**

### **2.5 Canadian Reception Centre**

2.5.1 XDV is responsible for managing the facilities at the Canadian Reception Centre (CRC) located at the Ottawa MacDonal-Cartier International Airport. The CRC is composed of two venues: the Airport Lounge which opened in the fall of 2001 because of the increasing need to properly receive foreign dignitaries, invited by the Governor General, Prime Minister, Chief Justice and Cabinet Ministers arriving at the Main Terminal of the Ottawa Airport by commercial flights, and Hangar 11 which is used to receive dignitaries arriving on dedicated flights. Hangar 11 has been in operation since 1994. In 1996 the management of Hangar 11 was transferred to DFAIT (now FAC and ITCan) from DND. The same contractor managed the CRC until December

2002. The Office of Protocol had limited control over the activities at the CRC, and the contractor was often tasked without XDV's knowledge. This made it difficult for the Office of Protocol to monitor and manage activities at the reception centre and to verify invoices prior to payment. In December 2002, two new contractors took over the management of the CRC, one for each venue.

### **Recommendation for XDV**

**2.5.2 XDV should develop a monitoring process over the activities of the contractors.**

### **XDV Action and Time Frame**

**2.5.2 XDV is now the sole authority determining usage of the facilities. Authorized activities (e.g. arrivals/departures) are kept on activities logs by contractors which are provided on a daily basis to XDV. Summaries of activities are provided on a monthly basis with invoices or when requested by XDV. Invoices are verified by XDV before being processed by XDM for payment.**

### **Canadian Reception Centre - Operating Costs**

2.5.3 The rationale for the Canada Reception Centre in Ottawa is well documented. Various options for interdepartmental discussion resulted in a \$425,000 increase to DFAIT's (now FAC and ITCan) operating vote for 2001-02 for the renovations and upgrades to the Canada Reception Centre (Main Terminal Lounge in the Ottawa Airport). In 2000, management, operation and hospitality costs were estimated to be in the order of \$100,000 annually. Since December 2002, the Airport Lounge of the CRC has been permanently staffed with two full-time employees from 08:00 to 20:00 from Monday to Friday. Previously it was staffed only when required. The value of this new contract, along with the one issued for Hangar 11, is approximately \$500,000 a year. While there appears to be an ongoing need for this new level of service, the rationale to support the increase level of service to two full time employees is not well documented.

### **Recommendation for XDV/XDX**

**2.5.4 XDV/XDX should evaluate the level of service required and conduct a cost/benefit analysis before renewing the contract.**

### **XDV Action and Time Frame**

**2.5.4 The level of service has been reviewed and expanded over the past two years to incrementally grow into the type of service envisaged**

when the CRCs were approved. Given this and the need to adapt services to changing airport security requirements, a decision was taken to only conduct a complete cost benefit analysis once we had at least 2.5 years practical experience to evaluate and measure. An evaluation of service levels and a cost-benefit analysis will be completed in conjunction with the preparation of a bid process in 2005 for the awarding of a new contract for the CRCs.

## **Contracting Process**

2.5.5 Public Works and Government Services Canada (PWGSC) provided the required documentation to demonstrate that prudence and probity were exercised when its services were used to award large contracts. Normally, a file containing most of this documentation should have been readily available in Protocol.

## **Recommendations for XDV**

2.5.6 When the services of PWGSC are used, the file in Protocol should contain copies of a purchase order signed under Section 32 of the FAA, a request for proposal, the awarded contract and the correspondence with PWGSC.

2.5.7 Contracting information should be kept centrally with XDM.

## **XDV Actions and Time Frames**

2.5.6 XDV files now contain requests for proposal, contracts and relevant correspondence with PWGSC.

2.5.7 XDM keeps contracting information centrally.

## **2.6 Competitive Process**

2.6.1 XDS often forgoes the competitive process for contracts of services because of urgent operational needs and last minutes requests. To improve conformity with regulations XDS should consider using standing offer agreements when possible. This would provide a more competitive process for obtaining some of the services needed and provide a greater assurance of value for money.

## **Recommendation for XDS**

2.6.2 Consider using standing offer agreements when feasible.

## **XDS Action and Time Frame**

**2.6.2 XDS is working on awarding standing offer agreements by the end of March 2005.**

**XDV and XDM have started a process of using standing offer agreements. For example, XDV has worked with PWGSC for over a year to attempt to put one in place for ground transportation services in Ottawa.**

## **2.7 Overtime Management**

2.7.1 XDS and XDV need to better manage overtime to be able to demonstrate that it is kept to a minimum and it is justified. For the fiscal year 2002, the overtime costs for XDS and XDV totalled \$764,835, with XDV consuming 75% of this amount. Often the number of hours worked by employees exceeds 48 hours which is the maximum number of hours allowed per week by Treasury Board Policy unless exceptional conditions prevail that would hinder a department's ability to serve the public or operate efficiently. Exceptional conditions appear to be the norm rather than the exception in XDS and XDV. Our review also found that it is difficult for managers to effectively pre-approve overtime of employees while on travel status. XDS does not prepare overtime monitoring reports similar to those produced by XDV. However, these latter reports are not used to analyse trends and to develop strategies to better manage overtime when possible.

2.7.2 There is also a need to clarify the interpretation and application of the overtime policy when on travel status. Some XDV employees claim overtime on days of rest, while others do not. Some claim overtime if they are asked to attend a working dinner or reception. The Office of Protocol (XDX) has tried to get clear guidance from the Personnel Branch on whether these claims are allowed or not, but without success.

### **Recommendation for XDS and XDV**

**2.7.3 XDS should follow the example of XDV and maintain records on overtime paid. These records should be used by XDS and XDV to develop strategies to better manage overtime when possible.**

## **XDS and XDV Action and Time Frame**

**2.7.3 XDS overtime records are being maintained as recommended. In XDV extensive overtime is chronic and strategies to manage it more effectively are difficult to implement given the fact workload is client driven and unpredictable. Efforts are being made to monitor individual overtime to limit possible imbalances. A new assignment**

**method has been tried to limit overtime (e.g. doubling staff on complex projects to lessen workload, rotate work assignments more frequently so as to spread out overtime linked to certain assignments). Process and standards were reviewed to identify ways of lessening workload or to work more efficiently so as to lessen overtime.**

## **Recommendation for the XDD**

- 2.7.4 XDD should meet with HMR & SMSH to obtain clear guidance on the application and interpretation of the overtime policy when employees are on travel status.**

## **XDD Action and Time Frame**

- 2.7.4 XDD management team met with Staff Relations and Pay Section to standardize interpretation of collective agreement clauses dealing with overtime. The discussions are ongoing.**

## **2.8 Performance Evaluation**

2.8.1 XDV and XDS do not benefit from performance measurement methodologies. Nor do XDV and XDS conduct performance appraisals for their employees. Opportunities are therefore lost to discuss performance and to create training plans to develop staff. Employees are therefore losing an opportunity to have an important discussion with their immediate supervisor on topics such as workload imbalance, capability to use technology, autonomy at work, and the quality of staff assigned to visits. XDS and XDV should consult the document entitled *Modernization of Comptrollership in the Government of Canada*. Of particular relevance to the topic of measuring human resources, it calls for managerial excellence in managing, receiving and using meaningful and reliable performance information, and in reporting, explaining and being accountable for results.

## **Recommendations for XDS and XDV**

- 2.8.2 XDS and XDV should introduce performance measurement based on both quantitative measures and qualitative data.**
- 2.8.3 XDS and XDV should prepare yearly performance appraisals, including training plans, for all staff.**



## **XDS and XDV Actions and Time Frames**

**2.8.2/2.8.3** Both FAC and ITCan will formally launch a new performance management program (PMP) on April 1, 2005 and the XDD management team will ensure that this tool is utilized to assess employees.