

Internal Audit Department
NeighborWorks® America

Audit Review of Hotel Contract Concession Letters

Project Number: TRG.HOTEL.2012

Audit Review of Hotel Contract Concession Letters
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August 31, 2012

To: NeighborWorks America Audit Committee

Subject: Audit Review of Hotel Contract Concession Letters

Please find enclosed the final audit report of Hotel Contract Concession Letters Review. Please contact me with any questions you might have.
Thank you.

Frederick Udochi
Director of Internal Audit

Attachment

cc: E. Fitzgerald
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Function Responsibility and Internal Control Assessment
Audit Review of Hotel Contract Concession Letters

| Business Function Responsibility | Report Date | Period Covered |
|---|--|------------------------------------|
| Training Division | August 31, 2012 | January 17, 2012 – August 17, 2012 |
| Assessment of Internal Control Structure | | |
| Effectiveness and Efficiency of Operations | Generally Effective¹ | |
| Reliability of Financial Reporting | Not Applicable | |
| Compliance with Applicable Laws and Regulations | Not Applicable | |

This report was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

¹ **Legend for Assessment of Internal Control Structure:** **1. Generally Effective:** The level and quality of the process is satisfactory. Some areas still need improvement. **2. Inadequate:** Level and quality of the process is insufficient for the processes or functions examined, and require improvement in several areas. **3. Significant Weakness:** Level and quality of internal controls for the processes and functions reviewed are very low. Significant internal control improvements need to be made.

Executive Summary of Observations, Recommendations, and Management Responses

| Summarized Observation; Risk Rating | Management Agreement with Observation (Yes/ No) | Internal Audit Recommendation Summary | Accept IA Recommendation (Yes/ No) | Management's Response to IA Recommendation | Estimated Date of Implementation (Month/Year) | Internal Audit Comments on Management Response |
|--|---|---|---|---|---|---|
| <p>Observation No. 1</p> <p>Documentation of Business Need for Hotel Suites</p> <p>The Concession Policy allows Division Directors to make a request for a hotel suite to use for in-suite meetings. Our review of documentation supporting a suite request included a request to host meetings with NeighborWorks Funders as a business need. However after reviewing the request, Internal Audit determined the request did not include sufficient details regarding the time required to host the meetings to justify occupancy for</p> | <p style="text-align: center;">Yes</p> | <p>Concession Policy Revision</p> <p>Internal Audit recommends the Training Division revise the Concession Policy, to require documentation of an expressed business need for the additional space that a suite would offer rather than a specific request for an in-suite meeting. Upon receipt of the request, the Training Division (Meeting Services) should evaluate the request and take into consideration the business nature of the request, the length of time needed to fulfill the request, and exercise discretion to identify the appropriate space to support the request. For example, if a request is received for space to host meetings with external stakeholders, the Training Division should consider identifying business space to accommodate the request (i.e., unused classroom before/after hours, meeting</p> | <p>Yes, Management Accepts the recommendation</p> | <p>Management will modify its Concession Policy, to reflect the Concession Policy revision outlined by IA's recommendation.</p> | <p>December 2012</p> | <p>Internal Audit accepts Management's Response</p> |

| | | | | | | |
|---|--|--|--|--|--|--|
| <p>the entire length of their stay (e.g., 5 days).</p> <p>Risk Rating: ■</p> | | <p>room, etc.) before defaulting to assigning a hotel suite for the entire length of stay.</p> | | | | |
|---|--|--|--|--|--|--|

Risk Rating Legend:

Risk Rating: HIGH

A serious weakness which significantly impacts the Corporation from achieving its corporate objectives, financial results, statutory obligations or that may otherwise impair the Corporation’s reputation.

Risk Rating: Moderate

A control weakness which could potentially undermine the effectiveness of the existing system of internal controls and/or operational efficiency, integrity of reporting and should therefore be addressed.

Risk Rating: Low

A weakness identified which does not seriously detract from the system of internal control and or operational effectiveness/efficiency, integrity of reporting but which should nonetheless be addressed by management.

| Management Response to Audit Review of Hotel Contract Concession Letters | | |
|---|---|-------------------------|
| # Of Responses | Response | Recommendation # |
| 1 | Agreement with the recommendation(s) | 1 |
| N/A | Disagreement with the recommendation(s) | N/A |

Background

NeighborWorks America sponsors several training events throughout the year including: NeighborWorks Training Institute (NTI), Community Leadership Institute (CLI), Placed Based Training (PBT), Executive Director Symposium (EDS), and other industry specialized trainings. These training events attract professionals in the community development, home ownership, foreclosure mitigation, and general non-profit industries. The number of registered participants attending training events averages between 20 – 2,100 and is dependent on the type of training event, courses offered, and/or location. NeighborWorks' Training Division is responsible for the logistics associated with these training events including:

- Selecting and contracting with hotels and convention centers
- Establishing the course schedule and space assignments
- Creating and distributing marketing material for each training event
- Managing all facets of the registration process

The NTI is one of the largest training events hosted by NeighborWorks followed by the CLIs. NeighborWorks hosts four NTI events per year and the related hotels contracts are typically negotiated and signed two years in advance. The Meeting Services representatives negotiate special concessions to be included in hotel contract. Special concessions may include:

- Complimentary/Discounted hotel rooms/suites
- Parking Passes
- Waive Departure/Cancellation Fees
- Complimentary Internet Access
- Complimentary banner hanging
- Complimentary keys for office, storage, and computer labs
- Rebate on the total master billed account
- Complimentary/Discounted meeting space
- Discounted Food & Beverage

Concessions offered by hotels are a standard industry practice. This review is specifically targeted to complimentary/discounted hotel rooms/suites concessions. In response to a review conducted by ██████ the Training Division developed a written Concession Policy (the Policy) in January 2012². The Policy outlines the procedures to be used by the meeting planning personnel when allocating/distributing hotel suites and upgraded rooms made available as concessions during training events (i.e., NTI, CLI, EDS, PBT, etc.).

The ██████ review recommended the following:

- Develop a written policy for managing and awarding concessions received by NeighborWorks;

² See the revised Concession Policy at Appendix A

- Elevate the awarding of concessions to the Training Department (i.e., Division) Director;
- Require that the concession letter received from the hotel is included with the hotel invoice submitted for payment and review of the concession letter by the Training Division Director and CFO; and
- Update ethics policy, administrative procedures, and disclosure forms to include details about what concessions may be accepted while at training sessions.

The Policy established a hierarchical approach to distributing suites with priority given to Officers, Board Members, Training Division Directors, and other Division Director's who expressed a functional need for in-suite meetings. In addition, the Policy requires meeting planners to document that attempts were made to negotiate lower rates or other concessions that could serve a more advantageous business purpose in lieu of hotel suites. The Policy also requires the Training Division Director to approve the allocation of concessions prior to the final submission to the hotel as well as a final review of the invoice and concession letter by the Training Division Director and the Chief Financial Officer.

Objective

The objective of this review was to review and evaluate the revised Concession Policy to ensure the Policy addressed the recommendations provided to NeighborWorks from [REDACTED] and to test compliance with key components of the Policy.

Scope

The scope of this review included all training conferences held after the revised Concession Policy was approved (January 17, 2012), with emphasis on the conferences with a larger attendance (e.g., NTIs, and CLIs). In addition to training conferences, Requests for Proposals (RFPs) distributed to hotels and convention bureaus, and hotel contracts signed/executed for future training events were in scope.

Methodology

Internal Audit held an introductory meeting with the Training Division Director and the Training Operations Director and discussed the following:

- The Concession Policy;
- Concession Negotiations and Request for Proposal (RFP) processes;
- Approval of Hotels Contracts (including special concessions); and
- Allocation/approval of hotels suites/upgraded rooms included as a hotel concession.

Based on our understanding of the process, our testing approach/procedures included:

- A review of the revised Concession Policy to ensure the recommendations from [REDACTED] had been included;
- A review of the RFP process to confirm hotel suites were not specifically included as a concession request;

- A review of future training event hotels contracts executed since January 2012 for proper approval and documentation supporting the concession negotiation process;
- A review of the allocation of hotels suites/upgraded rooms included as special concessions for the Los Angeles, New Orleans, and Cincinnati NTI for compliance with the Concession Policy; and
- A review of Training Conference hotel invoices for evidence of review by the Director of Training and the CFO. (Internal Audit tested this procedure during the FY 2012 AP/ACH review)

Observations and Recommendations

Observation No. 1: Documentation of Business Need for Hotel Suites

Per review of the Concession Policy, hotel suites offered as a concession may be made available to other Division Directors based on availability and expressed need for in-suite meetings. Division Directors may submit requests using the Special Functions request form or by directly contacting the Training Department. While performing an analysis of the concession letters for the Los Angeles, New Orleans, and Cincinnati NTIs, Internal Audit noted that the availability of suites/upgraded rooms was limited for the Cincinnati NTI; therefore, the Cincinnati NTI was selected for additional review. Internal Audit requested documentation to support an expressed need for suites/upgraded rooms. Per review of the documentation received, Internal Audit noted a request for a hotel suite to host meetings with potential NeighborWorks Funders as a business need. However after reviewing the request, Internal Audit determined that the request did not include sufficient details regarding the time required to host the meetings to justify occupancy for the entire length of their stay (e.g., 5 days). This is of importance because depending on the number of participants and time allocated for such meetings alternative meeting/classroom arrangements could be made (if available) in order to fully maximize concession spaces provided. The consequence of this may result in arbitrarily assigning concession spaces without obtaining sufficient details of the business need in order to fully optimize use of the concession space.

Recommendation No. 1: Concession Policy Revision

Internal Audit recommends the Training Division revise the Concession Policy, to require documentation of an expressed business need for the additional space that a suite would offer rather than a specific request for an in-suite meeting. Upon receipt of the request, the Training Division (Meeting Services) should evaluate the request and take into consideration the business nature of the request, the length of time needed to fulfill the request, and exercise discretion to identify the appropriate space to support the request. For example, if a request is received for space to host meetings with external stakeholders, the Training Division should consider identifying business space to accommodate the request (i.e., unused classroom before/after hours, meeting room, etc.) before defaulting to assigning a hotel suite for the entire length of stay.

Conclusion

Internal Audit concludes, based on the testing performed, that the Training Division has established a Concession Policy that adequately addresses the recommendations raised from [REDACTED]. By revising the Policy to take into consideration the aforementioned recommendation, management will further enhance the policy and continue the distribution of hotel suites in a transparent and equitable manner that is based on sufficient details surrounding the business need; and at the same time maximizing the use of hotel concessions provided to the company.

Appendix A – Concession Policy

(NTIs and other Training Events)

(Revised January 17, 2012)

This document will serve to formalize the procedures and guide meeting planning personnel as they distribute suites that are made available as concessions at training events (NTI, CLI, EDS, PBT, etc).

1. Provision of Free Suites to NeighborWorks by Hotels

In the past, hotels have typically included in their proposals and contract the provision of a number of free suites to NeighborWorks America as a concession for the large number of sleeping rooms we use at our training events (particularly our large NTIs). Going forward to ensure no appearance of conflict of interest of any kind, we are memorializing the following: 1) As has been standard practice, the provision of suites will not be solicited in NeighborWorks RFPs to hotels and CVBs. 2) If proposals provide concessions that include suites, the NeighborWorks meeting planners will attempt to negotiate with the hotel(s) about getting other cost-saving concessions rather than the additional suites offered (e.g., discount on food and beverage charges, more complimentary standard rooms, etc.). If hotels cannot provide other concessions, meeting planning staff will share with the training division director and director of operations a brief memo about other concessions that were sought but not achieved and suite allocations will proceed in accordance with 1-9 below. 3) The suite allocation list(s) will be signed by the Training Division Director before being provided to the host hotels.

Assignment of Complimentary Suites:

The training division's meeting services unit assigns whatever complementary suites we may have to those persons who have expressed a functional meeting need for a suite or to those persons most likely to use a suite for meetings or representational purposes. This results in savings on meeting rooms needed for classes and facilitates NeighborWorks business. The number of suites available for distribution to staff varies from one event to the next and depends on several factors including the number of rooms provided by the hotels and the final contract that is negotiated and approved by the Office of General Counsel for each event. The number of suites at a given hotel may vary from two to as many as 20 (a rarity). The duration of an individual's stay is also a consideration when assigning available suites. Suites are generally available when the training staff and vendors arrive early on-site for set-up, approximately four to five days prior to the start day of the NTI. When choosing among staff from similar groups, consideration is given to those onsite for the most days. Note also that there may be more than one hotel from which to distribute suites.

Beginning with the criteria that staff's functional need for a suite will always be given top priority, the Meeting Services will hereafter assign whatever suites remain in the following priority order.

1. Officers or Board Members attending the training event (normally in the main hotel)

2. Training Division Director and other Division Directors (normally in the main hotel; if available, suites are provided in order of expressed need for in-suite meetings)
3. The District Director from host district is provided with a suite (normally in the main hotel).
4. One NTI Faculty member who “won” a suite through a random raffle at the prior NTI faculty reception is assigned a suite at an upcoming NTI in the hotel where the faculty member is conducting classes. We have used this as a way to recognize our NTI faculty members.
5. Deputy Directors, other District Directors and Senior Program Directors may be assigned suites, normally in the hotel where they are overseeing activities, *if* requested for anticipated meetings. Preference is given to a director overseeing an activity (as opposed to simply attending the event).
6. Training division unit managers (onsite typically for 9-11 days)
7. Meeting Planners (onsite typically for 10-11 days)
8. On occasions when additional suites are available, other training division staff may be assigned suites on a rotating basis.
9. On occasions when additional suites are available, a suite may be offered to the lead AVPG-contractor manager, as an expression of appreciation for above-and-beyond efforts at previous trainings, long days, and length of stay (9-10 days).

2. Documentation of whether more advantageous rates could be obtained in lieu of concessions or whether other concessions that could serve a more advantageous business purpose could be obtained in lieu of concessions offered (i.e., free or discounted meeting space versus numerous suites.)

The following memo will be used to document that the issuance of suites did not take precedent over other advantageous concessions for NeighborWorks® America:

*Sample Memo:

To: Training Division Director and Training Operations Director
 From: Meetings Services Manager
 Date:

While not solicited in our RFP, Hotel A offered NeighborWorks X complimentary suites and X suites at the conference rate.

We subsequently asked the hotel if, instead of the complementary suites, they would consider providing any additional cost-saving conference-related concessions on food and beverage; internet costs related to classrooms, registration and the institute and faculty offices; complementary standard rooms; etc.

The hotel’s response was that they would provide the following:

- A. XXXXXXXXXXXX
- B. XXXXXXXXXXXX
- C. XXXXXXXXXXXX

Or,

The hotel responded that they could offer the suites as proposed in their submission but not other concessions.

3. Requirement that employees disclose concessions at the close of the meeting.

At the conclusion of each meeting, *all* NeighborWorks America training staff working the event will send an email to their Division or Office Director specifying any concessions exceeding a value of \$20.00 from the hotel they received during a training event related to NeighborWorks America. This should include items such as amenities, complimentary meals, etc.

4. Elevate the awarding of concessions to the Training Division Director.

Prior to issuing any concessions, the Training Division Director will review and approve the “Concessions Letter” before it is submitted to the hotel.

5. Require that the concession letter received from the hotel is included with the hotel invoice submitted for payment and review of the concession letter by the Training Division Director and CFO.

As part of the reconciliation process, the meeting planning specialists will include the “Concession Letter” along with the invoice package that is submitted to the Training Division Director and CFO for final approval for payment.

6 . Update ethics policy, admin procedures and disclosure forms to include details about what concessions may be accepted while at training sessions.

The Training Division Director will ensure that all training staff is made aware of all provisions of this policy by including it in an all divisional meeting as well as ensuring the divisional documents related to ethics include this policy.