

Information Report



Service Area	Office of the Chief Administrative Officer
Date	Friday, July 10, 2020
Subject	Employee Expense Process Audit Report

Executive Summary

Purpose of Report

To provide Committee of the Whole with the results of the Employee Expense Process audit performed to assess the adequacy of the internal controls and compliance to policies, procedures, by-laws and legislation.

Key Findings

- The employee and direct supervisor consistently approved legitimate employee expenses, although there is a need to improve the overall administration of policy formulation and stakeholders understanding of existing policies;
- Finance updated the Employee Expense Reimbursement policy in late 2018. A number of significant improvements were made at the time and additional enhancements such as, clarifying policy language and stakeholder documentation have been recommended;
- It is recommended that employees and their direct supervisors review relevant policies and procedures and receive additional training to ensure compliance. In addition, the Finance department training program be enhanced in order to educate staff on the requirements related to employee expenses;
- Management has agreed to all recommendations with 26% of the recommendations completed by the end of January 2020.

Financial Implications

No direct financial implications as a result of the audit.

Report

Details

The employee expense process audit was included as part of the 2019 Internal Audit Work Plan approved by Council in February 2019.

A review was performed to assess the effectiveness and efficiency of employee expense processes. For this audit, employee expenses include travel, training, business and staff meals, mileage and other miscellaneous items.

The audit focused on employee expenses submitted through Accounts Payable for reimbursement and those charged to a corporate credit card (Pcard). Areas of focus

included a review and assessment of compliance to relevant policies and procedures, governance over the employee expense process, and assessing adequacy of supporting documentation.

Effective October 2018, Finance, a department of the Corporate Services service area updated the Employee Expense Reimbursement policy. The policy and procedures requires all City staff to comply. The Policy does not govern expenses incurred by the members of Council and the Mayor or related boards.

Relevant City Policies

Policies and procedures that guide city staff regarding employee expenses are:

- Employee Expense Reimbursement policy and procedure;
- Automotive Expenses Reimbursement policy and procedure;
- Fleet Policy;
- Purchasing Card policy and procedure;
- Expense Authorization policy and procedure.

The Employee Expense Reimbursement policy and procedure governs employees when attending to business related to the City. This includes but not limited to attending conferences, seminars, training, etc. The policy helps ensure transactions are processed timely, in a consistent manner, accurately and in compliance with relevant policies and procedures.

Primary responsibility to ensure accuracy and compliance to all policies and procedures related to employee expenses rests with the employee and their supervisor (approver). The Finance department's oversight responsibilities include maintaining and updating relevant financial policies as well as overseeing the accuracy and compliance of employee expenses primarily through a periodic audit of expense reports completed.

The process followed for employee expenses reimbursed to the employee via accounts payable requires the employee to complete the 'Employee Expense Reimbursement Form' and attaching all relevant supporting documentation. This form is then submitted to their supervisor for approval. Once completed the Employee Expense Reimbursement form is sent to Accounts Payable for processing and payment is made through an EFT transfer. With respect to employee expenses charged to a Pcard, the employee is required to attach all relevant supporting documentation to the monthly statement. The statement is then approved by their supervisor and sent to Purchasing for processing.

Audit Objectives and Scope

The objective of the review is to assess the effectiveness and efficiency of management control procedures concerning; employee expenses for travel, training, business and staff meals, mileage and other miscellaneous items to ensure activities are in compliance with the City's policies and procedures. The audit focused on employee expenses processed through Accounts Payable and the corporate credit card (Pcard) performed by the Purchasing Department.

The scope of the review includes:

- Review of relevant policies and procedures;
- Review a sample of employee expenses to assess compliance with applicable policies, procedures;
- Assess adequacy of supporting documentation; and
- Provide management with recommendations.

The scope of the review excludes:

- Employee expenses processed through petty cash, cheque requisition and direct vendor invoice;
- Exclude local boards, Council members and Mayor;
- Corporate Purchasing card administrative processes;
- Although the audit included fraud tests, the audit was not designed to detect fraud;
- Corporate Purchasing Card (Pcard) policy evaluation review.

The audit coverage period includes activity between October 2018 and October 2019.

Executive Summary

Internal Audit conducted a review of employee expenses to assess the effectiveness and efficiency of its controls and processes.

Effective October 2018, the Employee Expense Reimbursement policy was updated and rolled out to staff. The policy applies to City staff only.

The employee and their direct supervisor are responsible to ensure all employee expenses are accurate and comply with the City's relevant policies and procedures.

Finance, a department of Corporate Services service area, is responsible for the maintenance of the policy and procedure referenced above and oversight over employee expenses charged to the City.

The audit identified opportunities for improvement to strengthen the employee expense process.

Key issues and opportunities for enhancement are summarized below.

Governance

Management Oversight

Management oversight helps ensure compliance with related policies and procedures and minimizes the risk of errors and misappropriation. The City requires the employee's direct supervisor to review all employee expenses of its employees to ensure the accuracy and compliance with relevant City policies and procedures.

Finance then reviews expenses as part of their oversight responsibilities for compliance and accuracy.

Internal Audit noted that the employee and their supervisor consistently approved legitimate city expenses incurred; however, the review identified a number of administrative errors in our sample selection. Non-compliant errors consisted of; amount submitted exceeded meal allowance limits, prior year mileage rates used, lack of adequate documentation to support some expenses (i.e. airfare, hotel) and general ledger coding errors. The dollar impact of these errors was not material.

Accounts Payable and Purchasing, who perform their own audits that are distributed to the Executive Team and the Corporate Management Team, reported 40% non-compliance for employee expenses reimbursed and 18% non-compliance for employee expenses charged to a Pcard for the second quarter of 2019. As noted above, these errors have not resulted in any material loss or identified any fraud-related matters.

Internal Audit noted that in some cases employees have not reimbursed the City for disallowed expenses (i.e. meal expenses in excess of the maximum allowance). The interpretation of allowable meal-related expenses by stakeholders is not consistently understood and is likely contributing to some of these errors. It is recommended that management ensures any disallowed expenses are reimbursed to the City as soon as feasible and that the policy language, specifically concerning meals, be clarified by Finance.

It is Internal Audit's recommendation that Accounts Payable quarterly audit review be increased to a monthly basis, consistent with the review methodology applied by Purchasing when reviewing Pcard statements.

Policies and Procedures

A policy identifies the guiding principles of the City and the procedures outline functional roles and responsibilities, identify steps required for a specific process to ensure tasks are completed in a consistent manner throughout the City in order to help achieve strategic goals and objectives. Formal policies and procedures help reduce the risk of error or misappropriation and also help ensure the City's values are achieved.

A formal effective training program helps employees to understand procedural requirements and achieve compliance to policies and procedures.

Finance updated the Employee Expense Reimbursement policy in late 2018. A number of significant improvements were made at the time; however, additional enhancements have been identified. Internal Audit recommends modification of the policy language to require rail or airfare costs to be reimbursed at the economy rate, unless the rate is not available at the time of booking; to record the start and end date on the mileage claim form to assess compliance with the Automotive Employee Expense policy. In addition, in order to enhance transparency and reduce

the risk of duplicate payments and non-compliance, it is recommended that staff complete a travel form per trip that identifies all expenses per trip and includes all documentation to support the employee expenses.

Accountability

Employee Expense Approval

Employee expenses reviewed as part of this audit included; travel, conferences, training, meals and miscellaneous items. The employee is responsible to ensure expenses claimed are accurate and in compliance with relevant policies and procedures. The employee's supervisor is required to approve the expenses to ensure accuracy and compliance with policies and procedures.

Based on the results of the second quarter audits performed by Accounts Payable and Purchasing and the Internal Audit review, it is recommended that the employee and their direct supervisor review relevant policies and procedures and receive additional training to ensure compliance. In addition, the Finance department enhance their training program in order to educate staff on the requirements related to employee expenses.

Supporting Documentation

Supporting documentation is documentation that supports compliance to the related employee expense policies and procedures. Each policy outlines the required documentation for that policy.

Internal Audit assessed the adequacy of the documentation submitted with the employee expense claims and noted that in many cases, adequate documentation was not attached to indicate that the economy airfare rate was expensed or that the standard rate was charged for hotels. In addition, information required to be submitted for mileage claims is not adequate to assess compliance with the Automotive Expense Reimbursement policy. It is recommended that through ongoing training from Finance, remind the departments of the required documentation needed and update the mileage log to include the necessary information to assess compliance to policies.

Financial Implications

There are no direct financial implications as a result of the audit.

Consultations

Tara Baker, General Manager Finance/City Treasurer

Strategic Plan Alignment

This report supports the Strategic Plan – Working Together for our Future Priority. The recommendations identified are designed to improve the effectiveness and/or efficiencies of the employee expense processes concerning governance, risk management and internal controls.

Attachments

Attachment-1: Summary of Recommendations

Departmental Approval

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Summary of Recommendations

Rec #	Recommendation	Management Action Plan	Implementation Due Date
1.1	Ensure Purchasing and Accounts Payable are using consistent criteria in auditing employee expenses.	Agree – Staff will review and update policies and procedures, to ensure that Purchasing and Accounts Payable use consistent criteria for auditing employee expenses.	Q2-2020
1.2	Ensure all key requirements related to employee expenses are audited and if not, note the exceptions in the Quarterly Treasurer package to enhance transparency.	Agree – Treasurer’s Quarterly Report from Q1-2020 onwards will specify if any of the key requirements (as listed out in audit SOP) that are applicable to audit samples were not audited by Finance.	Q1-2020

Rec #	Recommendation	Management Action Plan	Implementation Due Date
1.3	Accounts Payable review claims prior to processing payment and where non compliant issues are identified, return the request to the employee/supervisor for correction in order to reduce the frequency of non compliant instances occurring. However, if resources are not available to perform the review at time of processing, it is recommended Accounts Payable increase the number of requests audited subsequent to processing payment and require the employee/supervisor to make all necessary revisions to be compliant.	<p>Agree – Accounts Payable have changed their process to review claims prior to being processed for payment. It is the responsibility of employee and supervisor to ensure supporting documentation is attached to the expense reimbursement form. Staff will send the claim back to the employee and supervisor for missing documentation to be addressed before processing.</p> <p>Finance is concerned with the increased staff time required with reviewing an average of 1,700 employee expense claims a year, and will be investigating the use of an expense management module that would prevent errors at the source rather than staff intervention later in the process. This investigation will take place in 2020.</p>	Q1-2020
1.4	Accounts Payable increase the audit frequency performed to monthly rather than quarterly.	<p>Agree – Staff will increase frequency of the audit from quarterly to monthly starting January 2020. The Expenditure Reimbursement Policy will be updated to reflect this change.</p> <p>Once Finance has implemented an employee expense system module, the frequency of the audits will go back to quarterly.</p>	Q1-2020

Rec #	Recommendation	Management Action Plan	Implementation Due Date
1.5	Service area staff fully comply with all relevant employee expense policies and procedures and where a non-compliant occurrence has been identified ensure all necessary corrections are processed timely in order to comply with the policies and procedures.	Agree – Summary of the Non-compliances identified during the audit are being communicated to DCAOs through the Quarterly Treasurer’s Package. Further, all non-compliance is communicated to the employee and their direct supervisor with a recommendation to refresh their understanding with the online training.	Completed
2.1	Enhance training options available to staff to help ensure employee expenses are recorded accurately and comply with related policies and procedures.	Agree – There is already training material posted on infonet in October 2018, however it will need to be updated with the changes to the policy as an outcome of this audit. Staff will also revisit the training resources available online and update where required with a Frequently Found Issue Log based on non-compliance trends observed in the monthly audits.	Q4-2020
3.1	Develop, review and/or update policies and procedures where necessary as identified above.	Agree – Staff will review and update the policy to reflect the recommendations.	Q2-2020

Rec #	Recommendation	Management Action Plan	Implementation Due Date
3.2	<p>Finance to modify the language within the Employee Expense Reimbursement policy related to rail and airfare costs to read; that only the economy rate will be reimbursed, unless this rate is not available at the time of booking.</p> <p>The employee and their supervisor are responsible to ensure travel documentation is available for review, should it be requested.</p>	<p>Agree – Finance will update the Employee Expense Reimbursement Policy and audit procedures accordingly.</p>	Q2-2020
3.3	<p>Develop a travel form itemizing all travel related expenses for an employee per trip with adequate documentation to support accuracy and compliance to related policies and procedures. This will reduce the risk of duplicate payments and/or disallowed or fraudulent expenses. Also, this form will enhance transparency by identifying all costs related to a trip by an employee.</p>	<p>Agree – Staff will update the reimbursement claim form to contain a comment requiring employees to put all out-of-pocket expenses relating to the trip in one claim form wherever possible and provide trip details as required by the policy. The updated form contains a reminder requiring employee's and supervisor's confirmation that expenses paid through City's P-Card were not being claimed as reimbursement. The form also requires original receipts to be attached supporting the claim.</p> <p>The City is investigating an automated Expense Management module that will assist with mitigating this risk in the future as well.</p>	Q1-2020

Rec #	Recommendation	Management Action Plan	Implementation Due Date
4.1	Ensure staff are made aware through enhanced communication and training that the employee and direct supervisor are responsible to ensure employee expenses are accurate, adequate documentation is provided and all expenses comply with relevant policies and procedures.	Agree - A new internal webpage has been created to better communicate the policy, frequent non-compliant issues and online training.	Completed
4.2	Return the Employee Expense Reimbursement forms to the employee/supervisor for correction in the event Finance identifies errors or non-compliance with policies and procedures prior to reimbursing the employee.	Agree - if Staff identifies any errors or non-compliances while processing a claim, they are returning the claim form back to the employee. Going forward Staff will include supervisor in the communication.	Completed
5.1	Ensure the employee and/or supervisor submits to Finance all missing support documentation, corrected journal entries, etc. as identified through the Finance review process.	Agree – Finance is following up with employees and supervisors for any non-compliances noted during the audits.	Completed

Rec #	Recommendation	Management Action Plan	Implementation Due Date
5.2	Update the km log to require the start and end location address.	<p>Agree – The recommendation is valid for standalone trips. Finance will update procedures and forms to let employees include start and end location for each trip.</p> <p>For employees with high mileage, there is an opportunity for process efficiency by allowing them to receive a fixed monthly allowance and letting them settle at the end of the year based on total actual kilometers logged as approved by their supervisor.</p> <p>Finance will consult internal departments regarding this process efficiency opportunity and advise departments as to when this alternative method of claiming mileage would be beneficial. There may be a need to revise automotive expense reimbursement policy to allow monthly allowance.</p>	Q2-2020
5.3	Ensure disallowed expenses are reimbursed to the City in a timely manner and update the Employee Expense Reimbursement policy to clearly state any disallowed expenses must be reimbursed to the City by the employee.	<p>Agree – Any non-compliant or disallowed expenses will be sought back from employees as soon as they are identified. Further, the policy will be updated to make this requirement clear.</p>	Q2-2020

Rec #	Recommendation	Management Action Plan	Implementation Due Date
5.4	Update the general ledger training category account descriptions to clearly identify the type of costs to be charged to each object code. Also, identify where business and staff meetings are to be charged.	Agree – Staff will review the account codes relating to training and travel and streamline them wherever possible. This recommendation will lead to a larger project that is beyond just the training chart of accounts and Finance will include this as a larger efficiency project in 2021. The priority for 2020 will be the investigation and implementation of an Expense Management module.	Q4-2021