



OFFICE OF THE
City Auditor

Private Vehicle Reimbursement Audit

August 27, 2012

The Office of the City Auditor conducted
this project in accordance with the
*International Standards for the
Professional Practice of Internal Auditing*

Private Vehicle Reimbursement Audit

Table of Contents

1. Introduction	1
2. Background	1
3. Audit Objectives, Scope, & Methodology	2
4. Observations	3
4.1. Adequacy of the Directive	3
4.1.1. Daily logs	3
4.1.2. Normal work location	4
4.1.3. Role of the coordinator	4
4.2. Compliance to the Directive	5
4.2.1. Daily log	5
4.2.2. Timeliness of reimbursement claim	6
4.2.3. Supervisor review and approval	6
4.2.4. Pre authorization to use private vehicle	6
4.3. Effective Use of Private Vehicles	7
5. Conclusion	9

Private Vehicle Reimbursement Audit

1. Introduction

In 2011, the City reimbursed its employees \$2.1 million for the use of their private vehicle for business purposes. We scheduled a review of the City of Edmonton's private vehicle reimbursement process in our *2012 Annual Work Plan*.

This corporate level audit included a review of the City's Private Vehicle Reimbursement Administrative Directive and a review of the effectiveness of existing internal controls.

2. Background

The reimbursement process is governed by the Private Vehicle Reimbursement Administrative Directive A1413P and associated Administrative Procedure dated January 1, 2012 (Directive). The Directive establishes the procedures for reimbursing employees for the use of their private vehicle in the performance of their duties. Currently, the City reimburses employees at a rate of \$0.49 per business kilometre traveled. The Chief Financial Officer is the designated authority for the Administrative Procedure.

The City bases the private vehicle use reimbursement rate on a set formula. The formula contains three components:

- The fixed cost of owning a personal vehicle and using it for business purposes, including depreciation, interest, personal insurance, and license costs.
- The variable cost associated with driving the vehicle, including gasoline, maintenance, repair, and normal wear and tear costs.
- The incremental costs of the required business insurance.

With the exception of the gasoline costs, Corporate Accounting and Treasury Branch staff update the information they use in the formula on a yearly basis. They enter the weekly gasoline price into the formula and if it translates to a change of \$0.01 or more to the reimbursement rate for a period of 13 consecutive weeks, a recommendation for a rate change is made to the City Manager through the Chief Financial Officer, effective the first day of the month in which the 13-week period ended.

In 2010 and 2011, approximately 1,300 City employees claimed a reimbursement for the use of their private vehicles for City business each year. Table 1, on the following page, shows the reimbursement made by each Department, as well as the associated kilometres claimed in each year.

**Table 1 – Private Vehicle Reimbursement Claims (\$) and Kilometres
(In thousands)**

Department	2010		2011	
	\$ Claimed	Km Claimed	\$ Claimed	Km Claimed
Community Services	\$643	1,368	\$713	1,389
Infrastructure Services	542	1,153	459	894
Transportation Services	155	330	423	824
Sustainable Development	462	983	318	620
Financial Services	4	8	98	191
Corporate Services	91	194	92	179
Office of the City Manager	0	0	4	8
Totals	\$1,897	4,036	\$2,107	4,105

The City generally uses PeopleSoft¹ to process private vehicle reimbursement claims. City staff enter the kilometres being claimed into PeopleSoft, and PeopleSoft automatically calculates the amount of the reimbursement (i.e., approved kilometres claimed * approved reimbursement rate). The City then pays the employee the calculated reimbursement in the payroll period in which they made the claim.

3. Audit Objectives, Scope, & Methodology

Audit objectives

The objectives of this audit were to:

1. Determine if the private vehicle reimbursement Directive is adequate and if staff are complying with the Directive.
2. Determine if controls over monitoring and use of private vehicles are effective.

Audit scope and methodology

This was a corporate audit. The scope of this audit included all private vehicle reimbursements paid to City employees that worked for departments that report to the City Manager in 2011. We did not include private vehicle reimbursements paid to the Edmonton Police Service or Edmonton Public Library employees.

During the planning stage of the audit, we worked with the Human Resources Branch to determine the extent of private vehicle reimbursements in the City and with Financial Services to review the directive and procedure. We also developed an understanding of the process and any related challenges and risks based on our research and from a previous audit. We used this information to determine the project scope and develop the audit objectives and detailed audit programs.

¹ PeopleSoft is the City's payroll processing system and is used to support its human resources and employee compensation functions.

Detailed audit programs were completed as part of the fieldwork phase of the audit. This included:

- Examining the Directive.
- Conducting interviews with key staff.
- Testing a statistically valid sample of 138 claims for compliance to the Directive and for the effectiveness of controls over the approval and monitoring process. A statistically valid result allows us to extrapolate our findings over the entire population.

4. Observations

4.1. Adequacy of the Directive

The Directive provides definitions and establishes the guidelines for all City employees to claim reimbursement for the use of their private vehicle.

We assessed the adequacy of the Directive and found areas where it could be improved or updated. These include specifying the type of information to include in the daily logs, designating a normal work location for all employees, and aligning the roles of a coordinator with the current practices.

4.1.1. Daily logs

The Directive specifies that employees are responsible for maintaining a daily log of business travel to support reimbursement claims. The Directive, however, does not specify the format of the daily logs or the information employees should be recording in the daily logs.

In order for a daily log to appropriately support reimbursement claims it should contain specific information. According to the Canada Revenue Agency this includes the date, the destination, the purpose, and the distance traveled for each trip. We found that not all City employees are recording this type of information in their daily logs. Some only record a single number to represent the number of business kilometres traveled for the full day.

We also found that employees are using a variety of different formats for their daily logs. This includes the reimbursement claim form used in PeopleSoft, personal journal books, outlook calendars, desktop calendars, or daily log sheets.

The guidance provided in the Directive is not adequate to ensure employees are consistently maintaining daily logs that are appropriate to support reimbursement claims. Not keeping a detailed record of travel increases the risk that the City will reimburse employees for non-business kilometers. A detailed record of travel allows for justification of the business kilometres that each employee is claiming.

(Recommendation 1)

4.1.2. Normal work location

The Directive defines the normal work location as the location where an employee normally reports to work or the location designated as the employees normal work location. An employee would have a designated normal work location if they normally travel directly between home and job sites. Employees are not allowed to claim the kilometres they drive between their home and their normal or designated normal work location.

We believe that the guidance in the Directive is not adequate to ensure consistent interpretations of the definition of a normal work location. We found that some areas have allowed employees to designate their car as their normal work location. This interpretation of the Directive allows those employees to claim the kilometers they drive from their home to the place they are working.

By not clarifying the definition of a normal work location there is a risk that the City may be paying for kilometres incurred that are considered personal travel.

(Recommendation 1)

4.1.3. Role of the coordinator

The Directive states that coordinators must process claims for reimbursement and ensure that claimants provide the required certification. However, the current process does not always involve a coordinator.

A coordinator is only involved when the employee does not have access to PeopleSoft. In these cases, the employee's supervisor approves their daily log sheet and forwards it to a coordinator for entry into PeopleSoft. The coordinator is also responsible for compiling the insurance declaration for these staff members as this information is required in PeopleSoft.

For employees with direct access to PeopleSoft, the coordinator is not involved with the processing of the reimbursement claims. Employees enter their business kilometres into PeopleSoft and their supervisor approves it electronically.

The Directive should be updated to align with the current private vehicle reimbursement process. **(Recommendation 1)**

Recommendation 1 – Update the Private Vehicle Reimbursement Directive

The OCA recommends that the Chief Financial Officer review and update the Private Vehicle Reimbursement Directive to ensure information requirements and roles are clearly defined. This includes:

- Defining the requirements of a daily log.
- Defining a normal or designated normal work location for all employees.
- Updating the role of a coordinator.

Management Comments

Accepted

Responsible Party: Corporate Accounting and Treasury Branch Manager

Planned Implementation: March 31, 2013

Financial Services will update the current Directive, including:

- Development of a standard log template to be added to the Directive and utilized consistently by all staff claiming private vehicle reimbursement (Quarter 3, 2012).
- Adding clarity around definition of “normal work location” (Quarter 1, 2013).
- Review and adding clarity of the appropriate treatment where a “normal work location” is less evident (Quarter 1, 2013).
- Revising the role of coordinator to reflect process and expectations (Quarter 3, 2012).

4.2. Compliance to the Directive

In order to assess compliance with the Directive, we tested a sample of private vehicle reimbursement claims from 2011. Our sample of 138 claims included staff from each City department. We reviewed the claims to ensure that:

- A daily log is submitted to support each reimbursement claim.
- Reimbursement claims are submitted within the allowable timeframe.
- The employee’s supervisor reviewed and approved the reimbursement claim.
- The supervisor ensures that the employee has the required insurance prior to authorizing the use of their private vehicle.

4.2.1. Daily log

The Directive states that employees are responsible for maintaining a daily log of business travel to support reimbursement claims and for submitting the log to their supervisor with the claim for reimbursement. We found that there are employees who are not complying with this requirement.

Our review found that:

- 53 percent (73 out of 138) of employees track their business kilometres in their personal daily journals or calendars but do not submit this with their reimbursement claim.
- 25 percent (35 out of 138) of employees were not able to provide documentation of the kilometres claimed.
- 22 percent (30 out of 138) of employees maintain a daily log and submit it to their supervisor for review and approval.

When employees do not provide daily logs with their claims, supervisors are not able to determine the reasonableness of the kilometres the employees are claiming. This increases the risk that the City is reimbursing employees for non-business related kilometres or kilometres that they have not driven. For example, we found one case where an employee did not provide detailed daily logs with their claims and duplicate kilometres entered were subsequently approved by their supervisor.

(Recommendation 2)

4.2.2. Timeliness of reimbursement claim

The Directive states that employees must submit claims no later than the end of the month following the month of the claim. Also, the supervisors must review and approve claims and ensure claims are submitted by the end of the month following the month of the claim. We found that there are employees who are not complying with this requirement.

Our review found that:

- 87 percent (120 out of 138) of employees submitted their claims no later than the end of the month following the month of the claim.
- 7 percent (10 out of 138) of employees did not submit their claims on time.
- 6 percent (8 out of 138) of employees did not include conclusive dates of travel on their claims, thus we were not able to determine whether they were submitted on time.

Submitting claims within the required time is important because supervisors can more readily verify the claims and it ensures the claim is paid at the rate applicable at the time the kilometres were driven. We found that 6 of the 10 claims submitted after the required time were paid at an incorrect rate. **(Recommendation 2)**

4.2.3. Supervisor review and approval

The Directive states the supervisor must review and approve claims for reimbursement. We found that there are employees who are not complying with this requirement.

We found that one percent (2 out of 138) of claims were approved by an employee who is not in a position senior to the employee making the claim. Supervisory approval is a control that ensures a person of authority can question and request evidence of kilometres incurred, therefore, all approvals should be completed by a person in a supervisory role to that of the employee. **(Recommendation 2)**

4.2.4. Pre authorization to use private vehicle

The Directive states that supervisors must ensure that employees certify that they have required insurance prior to authorizing the use of their private vehicle for business travel. The current process does not ensure that employees have the required insurance prior to using their private vehicle for business travel.

We found that supervisors are not checking the insurance and license requirement until the employee makes their business kilometre claim in PeopleSoft. Therefore, there is a risk that employees may have already driven their private vehicle for city business without having a valid licence or necessary business insurance in place. As discussed previously, the City's reimbursement rate includes business insurance as part of the calculation, thus business insurance should be in place prior to the vehicle being used for business purposes. **(Recommendation 2)**

Recommendation 2 – Private Vehicle Reimbursement Directive Compliance

The OCA recommends that the Chief Financial Officer (CFO) ensure a communication plan is in place to reinforce the need to comply with the Private Vehicle Reimbursement Directive. This includes:

- Recording, retaining, and submitting daily logs for review for each reimbursement claim.
- Ensuring claims are submitted on a timely basis.
- Ensuring that supervisors are reviewing and approving claims.
- Ensuring that supervisors ensure employees have the required insurance coverage prior to using their private vehicle for City business.

Management Comments**Accepted**

Responsible Party: Corporate Accounting and Treasury Branch Manager

Planned Implementation: June 30, 2013

Correspondence will go out from the Chief Financial Officer to General Managers, Branch Managers and Directors within Quarter 3 of 2012, to emphasize compliance with the Directive, including the matters specifically raised in the recommendation.

Financial Services will develop a training and communication plan collaboratively with Corporate Communications and Human Resources in Quarter 3 of 2012, for full implementation by Quarter 2, 2013. Training and communication will also take place as appropriate following the updates to the Directive referenced in the response to Recommendation 1 above.

4.3. Effective Use of Private Vehicles

To determine whether employees are using their private vehicles effectively, we asked management how they monitor private vehicle usage and determine if using a private vehicle is more cost-effective than using a City-owned vehicle.

We found that the City does not have reports available for managers to assess the reasonability of an employee's use of their private vehicle for business purposes. It also has not defined the point at which it would be more cost effective for an employee to use a City-owned vehicle.

Table 2 shows the number of employees and the total reimbursement costs for different ranges of total claim amounts and kilometres for 2011.

Table 2 – 2011 Private Vehicle Reimbursement Usage per Employee

Range of Total Claim Amounts	Range of Total km Claimed	# of Employees in Range	Total Amount Claimed
<\$1,000	<2,000	828	\$320,000
\$1,000 - \$2,567	2,000 - 5,000	272	\$438,000
\$2,567 - \$4,000	5,000 - 8,000	115	\$373,000
\$4,000 - \$8,000	8,000 - 16,000	127	\$705,000
\$8,000 - \$10,000	16,000 - 20,000	19	\$169,000
\$10,000 - \$17,000	20,000 – 33,000	9	\$102,000
	Total	1,370	\$2,107,000

There were nine employees that the City reimbursed more than \$10,000 in 2011. The supervisors who approved their claims were aware that the employees were incurring high kilometres. They were also able to justify the employee's need to drive their vehicles at that level as those employees are responsible for completing inspections of equipment, buildings, job sites, etc. on a daily basis.

We found that supervisors are not using reports to monitor the usage of private vehicles by all employees. Standard reports would be beneficial to identify employees incurring high amounts or unusual amount of business kilometres, identify exceptions, or to complete analytical (trending) analysis over a period of time. By not using reports showing the kilometres all employees are claiming in their areas, supervisors are limiting their ability to effectively monitor private vehicle usage.

Recommendation 3 – Monitoring of Private Vehicle Use

The OCA recommends that the Chief Financial Officer ensure monitoring reports are available for supervisors to assess the reasonability of private vehicle use in their areas.

Management Comments

Accepted

Responsible Party: Corporate Accounting and Treasury Branch Manager

Planned Implementation: March 31, 2013

Financial Services will work with Human Resources and IT to research reporting currently available or reasonably created from PeopleSoft, to be made available to supervisors on an annual or exception basis. Reporting for 2012 will be made available in Quarter 1 of 2013.

At some point it may become more cost effective for an area to provide an employee with a City vehicle versus continuing to reimburse them high amounts for the use of their personal vehicle. We found that some areas do perform analyses to determine this point. However, the information they used is not consistent because the City does not have standard cost assumptions that managers can use to make this determination. Not

having standard information could lead to supervisors making decisions based on inaccurate figures.

Recommendation 4 – Cost Effectiveness of Private Vehicle Use

The OCA recommends that the Chief Financial Officer ensure there are consistent cost assumptions for supervisors to use when determining the cost effectiveness of using a city vehicle versus using a private vehicle.

Management Comments

Accepted

Responsible Party: Corporate Accounting and Treasury Branch Manager

Planned Implementation: March 31, 2013

The Chief Financial Officer will work collaboratively with Fleet Services and operating areas to develop a process and methodology for review of the cost effectiveness of using a city vehicle versus a private vehicle. The process will establish private vehicle kilometre threshold levels over which an annual cost effectiveness review will be required, beginning in 2013, with the results from the 2012 report referred to in the response to Recommendation 3 above.

5. Conclusion

The objectives of this audit were to determine if the Directive is adequate, whether staff are complying with the Directive, and if the use of the private vehicle is cost effective.

We made four recommendations to the Chief Financial Officer that will lead to a clearer Directive, improved compliance with the Directive, and improved cost effectiveness of the use of private vehicles.

We thank the management and staff of all the Departments involved for their cooperation and assistance during this audit.