



OFFICE OF THE
City Auditor

Employee Business Expense Review

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The Office of the City Auditor conducted
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Employee Business Expense Review

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Employee Business Expense Review

1. Introduction

Because municipalities need to be in a position to assure taxpayers that its expenditures are reasonable and appropriate, they need to maintain close scrutiny and detailed reporting of their expenditures. Control and monitoring employee business expenses are an important part of ensuring the City of Edmonton's expenditures are reasonable and stand up to public scrutiny.

The objective of this review was to assess whether policies, procedures and controls over employee business expenditures are adequate and being followed.

2. Background

Employees incur expenses related to their work at the City of Edmonton in many different categories. Table 1 shows the total expenditures recorded in several common categories of employee expenses for the years 2006, 2007 and 2008.¹

There are no corporate guidelines that direct staff on which account to record these expenditures in. During our fieldwork we noted significant coding errors and inconsistency between departments. Therefore, Table 1 does not represent actual amounts spent on each of these types of employee expenses; rather, it represents the expenditures coded to these employee expense accounts. The need for coding consistency is further discussed in Section 5.3.4 of this report.

Despite the issues with account coding, Table 1 clearly shows that total expenses recorded in these cost categories has increased substantially since 2006. This highlights the importance of scrutinizing them and taking appropriate action to rectify concerns.

Table 1: City Expenditures (in thousands)

ACCOUNT	2006 Expenditure	2007 Expenditure	2008 Expenditure
Business Travel	\$1,462	\$1,383	\$1,615
Training Requiring Travel	\$500	\$622	\$623
Conference fees	\$223	\$356	\$438
Local Training	\$3,000	\$4,062	\$4,408
Mandatory/Legislated Training	\$490	\$498	\$788
Food Services	\$591	\$803	\$895
Hosting	\$1,343	\$1,750	\$2,255
Employee Recognition	\$324	\$495	\$543
Car Allowance	\$1,659	\$1,632	\$1,811
Other Employee Transportation	\$82	\$101	\$139
Total Expenditures	\$9,674	\$11,702	\$13,515

¹ Account balances for all business areas reporting to the City Manager.

Employee business expenses are regulated by:

- Administrative Directive A1415G, *Employee Business Expenses – Local and Out of Town*
- Administrative Directive A1439, *Purchasing Goods Services and Construction, Appendix II – Restricted Purchases*
- Corporate Procurement Card Procedures

Administrative Directive and Procedure A1415G, *Employee Business Expenses – Local and Out of Town* (the business expense Directive) establishes guidelines for reimbursing expenses that City employees incur while conducting official City business. Expenses paid by Corporate Procurement Card are also regulated by the City's Corporate Procurement Card Procedure.

When an employee incurs a business expense and requests reimbursement, they must complete one of the following approval forms:

- Employee Business Expense Statement - used mainly for travel related expenses. Employees must also complete the statement for portions of travel expenses paid by Corporate Procurement Card.
- Cheque Requisition - used mainly for non-travel related expenses.

The employee then submits the completed and approved forms to Accounts Payable for reimbursement of the expense. Reimbursement occurs via cheque to the employee, not through payroll or direct deposit.

3. Objectives

To define our audit objectives, we examined relevant Administrative Directives and Guidelines, reviewed prior audits, interviewed key staff involved in the process and performed a high-level risk assessment. On the basis of the work performed during our planning phase, we developed the following audit objectives:

- **Objective 1:** Assess the adequacy of the Administrative Directives, Procedures and Guidelines.
- **Objective 2:** Assess the level of compliance to City Administrative Directives, Procedures and Guidelines.
- **Objective 3:** Assess whether adequate controls exist to prevent or detect inappropriate employee expense payment.
- **Objective 4:** Assess the overall efficiency of the employee business expense process.

4. Scope and Methodology

To complete this review we utilized the following techniques to gather audit evidence and form our observations:

- Interviews with travel coordinators, managers, accountants and Accounts Payable staff.
- Review of all applicable Administrative Directives, Administrative Procedures, and various other documentation related to employee business expenses.
- Review of three other organizations' travel and expense procedures/guidelines.
- Anonymous questionnaire completed by 60 non-management staff and 25 management staff who incurred business expenses between January 1, 2007 and June 30, 2008.
- Detailed review of 300 employee business expense payments (both Corporate Procurement Card and reimbursement by cheque).

For the payment testing portion of our fieldwork, we reviewed a sample of employee business expense payments from January 1, 2007 to June 30, 2008 from all City Departments reporting to, and including, the City Manager.² We sampled payments from the following cost categories:

- Business Travel
- Training Requiring Travel
- Conference fees
- Local Training
- Mandatory or Legislated Training
- Food Services
- Hosting
- Program Expenses
- Employee Recognition
- Car Allowance
- Other Employee Transportation.

We used the requirements of the following Directives and Procedures to audit the payment sample for compliance and adequacy:

- Administrative Directive A1415G, *Employee Business Expenses – Local and Out of Town* (both the November 30, 2007 and February 1, 2005 versions): This Directive lists a variety of different expenses, mostly travel related, and the guidelines pertaining to them.
- Administrative Directive A1439, *Purchasing Goods Services and Construction, Appendix II – Restricted Purchases*: This Appendix is a list of items that are restricted from regular purchase. These items must be ordered from City stores or purchased by Materials Management.
- Corporate Procurement Card Procedures: The Procedures set out definitions, responsibilities and guidelines for the use, approval and processing of Corporate Procurement Card payments.

² Only expenses for employees in departments reporting to the City Manager were included in our sample.

5. Observations and Analysis

5.1- Objective 1: Assess the adequacy of the Administrative Directives, Procedures and Guidelines.

In order to satisfy our audit objectives, we assessed the Directives and Procedures for clarity, completeness, and ready availability to all staff. It is important that the Directives and Procedures are clear because the business expense process, in particular travel, can be complex. Robust directives and procedures that are readily available provide staff and management guidance on their responsibilities and help to minimize the incidence of errors and inappropriate items paid for by the City.

In addition to the Administrative Directives and Procedures, two other documents are available on the City's intranet to assist employees with travel and related expenses: Employee Travel Guidelines and the Employee Travel document. The Employee Travel Guidelines contain the same information as the Administrative Procedure and the Employee Travel document is a step by step guide for employees to follow when arranging business travel and claiming travel expenses.

The focus of our work in this section was on the business expense Directive (Administrative Directive and Procedure A1415G) because it contains the most relevant information. For the purposes of this objective, we reviewed the most recent version of the business expense Directive, effective November 30, 2007. We also used the February 1, 2005 version of the Directive to evaluate samples dated earlier than November 30, 2007.

5.1.1 Availability to Staff

The business expense Directive and supplementary Guidelines are easily accessible to all staff through the City's Intranet. Results from our employee questionnaire showed that just over 68% of respondents are either somewhat familiar or very familiar with the business expense Directive but 28% do not use it.

Travel coordinators received updated training after the newest version of the business expense Directive became available in November 2007. Travel coordinators, who are in most cases administrative assistants, are available to assist staff with all aspects of travel and travel related expenses, including booking travel arrangements.

There is no formal requirement for the business expense Directive to be updated regularly and no formal communication process to educate staff on significant changes or additions. The staff member responsible for the business expense Directive takes the initiative to review and update it every two years and communicate significant changes to relevant staff.

Our sample payment testing revealed a considerable number of payments that were not in compliance with the business expense Directive (See section 5.2), despite its

accessibility and the availability of travel coordinators to assist staff. Lack of clarity within the existing business expense directive and inadequate enforcement of the directive are primary reasons for the high level of non-compliance found in our sample.

Recommendations 1 and 4 address the issues noted here.

5.1.2 Clarity and Completeness

Table 2 (on the next page) highlights a number of deficiencies with the existing business expense Directive and where further clarification is needed.

While we recognize it is not practical to expect the Administrative Directive to cover every situation, in our opinion, it should provide clearer direction on the most common expenses as well as specific guidance on roles and responsibilities for all parties involved.

The most significant issue we observed regarding the business expense Directive was the lack of clear guidance on roles and responsibilities with respect to expense review and approval. The business expense Directive does include some information on roles and responsibilities of employees, travel coordinators and General Managers. However, the Directive remains largely silent on who is responsible for the review of expense forms to ensure correctness and completeness, and who is responsible for expense approval.

Table 2: Employee Business Expense – deficiencies in Directives, Procedures and related forms.

Clarifications needed in Administrative Directive & Procedure A1415G (Business Expense Directive):	
1.	<u>Authorizations for out of country travel</u> – The Directive does not state whether the General Manager’s signature is required on the Employee Business Expense Statement or if their approval is required when travel expenses are significantly over the budgeted amount.
2.	<u>Prohibited and personal items</u> – The Directive provides little specific direction on prohibited or personal items and no reference to Administrative Directive A1439, <i>Purchasing Goods Services and Construction, Appendix II – Restricted Purchases</i> .
3.	<u>Receipts for meals while travelling</u> – The Directive does not include clear guidance on whether receipts are required for meals while travelling.
4.	<u>Travel days eligible for reimbursement</u> – The Directive does not specify what travel days prior to the start or beyond the end of a meeting or conference will be approved.
5.	<u>Lost receipts</u> – The Directive does not provide guidance regarding the procedure employees should follow if they lose their expense receipt.
6.	<u>Internet</u> – The Directive does not provide guidance on whether internet in hotel rooms is an allowable business expense when employees are travelling for training or business purposes.
7.	<u>Catering</u> – The Directive does not require the number of persons or the business reason to be noted for catering.
8.	<u>Hosting</u> – The Directive lacks a clear description of what is considered acceptable for hosting and firm guidance on acceptable amounts. The Directive should be consistent with the definition of hosting in the Finance Branch’s guideline, <i>Cost Elements – Descriptions and Examples</i> .
Clarifications needed in other Administrative Directives or Guidelines	
1.	<u>Employer paid/provided parking</u> – Parking Guidelines for monthly employer-provided parking are not included in any current Administrative Directives or Procedures.
2.	<u>Fuel within Edmonton limits</u> – Fuel within Edmonton city limits is listed as a restricted item in Administrative Directive A1439G <i>Purchasing Goods Services and Construction, Appendix II</i> , but we noted circumstances where it may be appropriate (e.g., rental cars). This should be clarified in Administrative Directive A1439G Appendix II and included in Administrative Directive A1415G.
3.	<u>Promotional items</u> - There is no guidance in the Administrative Directives & Procedures regarding this type of expenditure.
4.	<u>Cheque Requisitions</u> – There are no Administrative Directives or Procedures that provide guidance on the use of Cheque Requisitions.
5.	<u>Account coding</u> – There is no widely available resource for employees to use to ensure items are coded to the correct cost element and thus allocated to the correct account in the corporate financial system.

Business areas rely on different combinations of travel coordinator, supervisor and client accountant to review and ensure that expense claim forms are correct and complete prior to forwarding to Accounts Payable for payment. In our sample testing, we observed that expense form approval is generally completed by a supervisor, but we also observed instances where the employee claiming the expense approved their own claim and others where an employee that was not in a supervisory position (e.g., Administrative Assistant) signed for approval. (See Appendix I for further detail on inadequate approvals).

We also reviewed the employee business expense policies of three other organizations:

- Alberta Government
- EPCOR
- Workers' Compensation Board (WCB) Alberta

The City's Administrative Directive A1415G is more detailed than the other policies reviewed with respect to the coverage of specific expense items. Many items covered in the City's Directive are not mentioned in the other policies. Other policies however, are clearer in some key areas, like meal allowances.

Overall, the most significant difference was the inclusion of specific direction on roles and responsibilities in the other policies. Both EPCOR and WCB have specific sections or paragraphs detailing the responsibility for reviewing and approving expenses. A good example of the clarity and directness regarding approvals in a robust policy is the following statement. "The responsibility for ensuring that the expense reimbursement request conforms in all respects with these guidelines rests with the person who authorizes the request, that is, "one-up" approval."³

Recommendations 1 and 4 address the issues noted in this section.

³ WCB Expense Policy Section 1.00 – General Overview.

5.2 - Objective 2: Assess the level of compliance to City Administrative Directives, Procedures and Guidelines.

Staff compliance with Administrative Directives and Procedures is important so that expenses are appropriately claimed and paid. In 2008, approximately \$12.5 million dollars was spent on employee business expenses.⁴ Considering the substantial amount spent on travel claims and other employee expenses processed by the City in one year, small compliance violations can add up to significant dollar amounts.

In order to test the level of compliance with City Administrative Directives, we reviewed 300 payment samples. Travel expenses comprised 64 of the payments reviewed. All items related to the travel claim selected and included on the Employee Business Expense Statement were included in our review.

The other 236 payments were selected from all cost elements within the scope of the review. 136 of these were payments using a Corporate Procurement Card and 100 were payments reimbursed through Cheque Requisitions.

5.2.1 Compliance Concerns

Of the 300 payments sampled, 106 (35%) contained at least one exception and 141 exceptions were noted in total (many payments contained more than one exception).

When reviewing payments, we noted an exception if:

- The documentation was not sufficient (i.e. there was not an original itemized receipt or other reasonable proof of payment).
- The item purchased was inappropriate (i.e. was not business related or was listed as a restricted purchase⁵).
- The amount paid was uneconomical (i.e. it was above the amount set forth in the business expense Directive or there was evidence that the least expensive option was not chosen).
- The purchase was not approved appropriately (i.e. no supervisor signature or General Manager signature as required by policy).

Table 3 summarizes our testing results. Further details are provided in Appendix 1.

⁴ We consider this number approximate because we noted incorrect and inconsistent coding of payments into the various accounts (see section 5.3.4).

⁵ As per Administrative Directive A1439 –Purchasing Goods Services and Construction, Appendix II – Restricted Purchases

Table 3: Payment Testing Results Summary

Description of Exception	# of Incidents
Inadequate Documentation	58
Inappropriate Item	14
Uneconomical	44
Purchase Splitting	1
Inadequate Approval	24
Total Exceptions	141

Inappropriate or uneconomical items are those that either should not have been purchased or too much was paid for them. In the transactions we sampled, the City paid \$22,186 for items that were either overpriced or should not have been purchased at all.

Based on our review and analysis, we believe the most significant factors that have contributed to the substantial number of exceptions detected are:

- Requirements and guidelines around employee expenses, especially travel expenses, are not completely understood, making the potential for error high.
- There is no clear guidance on who is responsible for reviewing and ensuring employee expense claims conform to the Directive (see Section 5.1.2). This has resulted in approvers not performing due diligence reviews when reviewing Cheque Requisitions and Employee Business Expense statements.
- When it is left to travel coordinators or administrative assistants to review employee expense claims for accuracy, they may find it difficult to confront managers or senior coworkers regarding inaccurate or inappropriate expenses.
- Some employees are either not using or unaware of Administrative Directive A1415G.

Recommendations 1 and 4 address the issues noted in this section.

5.2.2 Hosting Expenses

We observed recurring non-compliance issues with the Business Expense Directive in the area of hosting expenses during our payment testing. The two issues that were repeatedly noted were:

1. Not recording the individuals and business reason for hosting on the meal receipt.
2. Some meals cost significantly above the per diem guideline (reason unknown because details were not documented on the receipts).

The majority of hosting is done by managers; therefore most of our scrutiny in this section is related to managers’ expenditures. One of the recommendations that came out of the CPC review we completed in 2005 was that guidance to employees regarding in-town restaurant and catering expenditures, including appropriate use and dollar limits, was required. The business expense Directive was updated in November 2007 and now includes a definition of hosting and guidance on dollar limits. Unfortunately, the definition of hosting in the business expense Directive does not adequately address appropriate use, nor does it match the definition provided in a document that the Finance Branch provides to CPC cardholders to assist them in coding items to the proper cost element. This document, called “Cost Elements – Description & Examples”, specifies hosting must be with external stakeholders, while the business expense Directive defines hosting as a business meal with other employees, customers or guests.

We reviewed Corporate Procurement Card transaction information for 35 Branch and General Managers for the period January 1, 2007 to June 30, 2008. We isolated hosting expenses by vendor. We found a significant variance in hosting expenditures amongst City managers. The 5 managers who spent the most on local meals during this time period represented 34% of the total with average spending of \$5,271 each while the remaining 30 managers spent on average of \$1,713 for the same time period. Chart 1 shows the amount spent by each of the 35 managers on hosting expenses for the period January 1, 2007 to June 30, 2008.

Chart 1 – Manager Hosting Expenses January 2007 to June 2008.

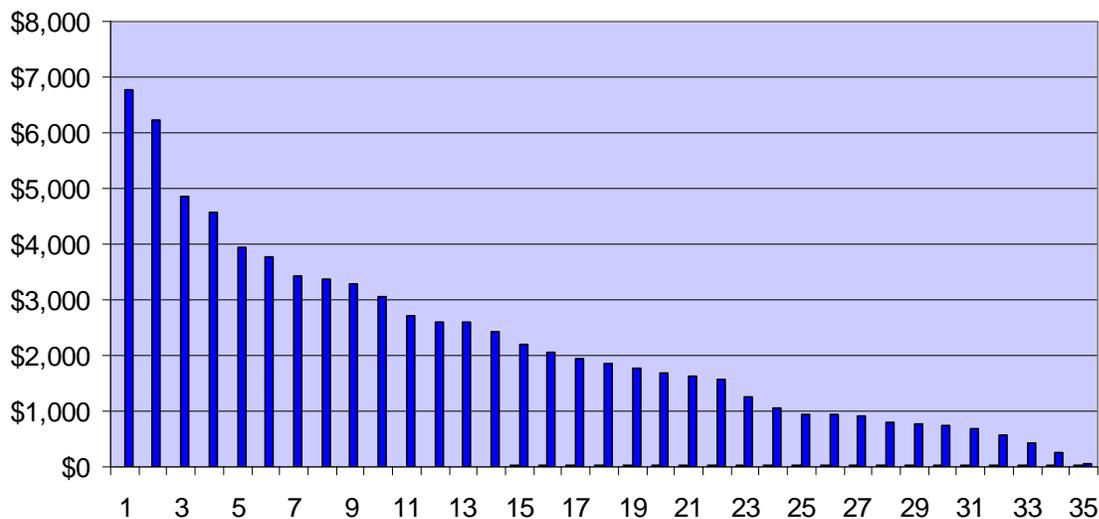


Chart 1 highlights the wide disparity in management expenditures with respect to hosting. We believe that while this can be attributed partially to differences in job requirements, the lack of a common understanding of what constitutes legitimate business hosting is also a significant factor.

Recommendation 4 addresses the issues noted in this section

5.3 - Objective 3: Assess whether adequate controls exist to prevent or detect inappropriate employee expense payments

Management is responsible for establishing and maintaining an effective internal control system which is the integration of activities, plans, attitudes and policies to provide reasonable assurance that the organization will achieve its objectives. Controls also exist to help prevent or detect undesirable employee behaviour. We completed a high level risk and control assessment as part of the planning phase of this review. During our testing, we further examined the control system for employee business expenses.

Our examination revealed that significant weaknesses exist in both preventative and detective controls over the risk of inappropriate employee expense payments. The four main control weaknesses were in the following areas: (1) review and approval (2) itemized receipts (3) document integrity and (4) account coding.

5.3.1 Review and Approval

One of the most important controls in any expense system is the review and approval process. A person with sufficient authority and knowledge must complete reviews so that errors or inappropriate expenses are noted and corrected prior to approval and payment. In the City of Edmonton's expense reimbursement process, evidence of review and approval is the signature of the employee's supervisor on the claim form (Employee Business Expense statement for travel, Cheque Requisition for all other expenses).

During our payment testing, we observed many approval signatures that were unreadable. The Employee Business Expense statement does not have an area for the authorizing supervisor to print their name; therefore there was no way for us to identify the signature and confirm that the person signing had the appropriate authority. Accounts Payable advised us that in regards to approvals, they process expense claims for payment as long as there is an authorizing signature (for Cheque Requisitions) or two signatures (for Employee Business Expense statements). They do not verify signatures or approval authorities. Accounts Payable indicated that this approach was adopted after City '97⁶ which made managers directly responsible and accountable for their Department's direct purchases of low value non-tendered goods and services.

Our payment testing also detected payments that had:

- no approval signature (5);
- been approved by the employee claiming the expense (9);
- been approved by employees not in a supervisory position above the employee claiming the expense (7);
- no General Manager signature where required - out of country travel requests (2) and private vehicle usage (1).

⁶ City '97 was a corporate project conducted under the shared services charter from Senior Management Team (SMT). The goal of the project was to incorporate best practices into the redesign of service delivery.

We consider these payments as inadequately approved and believe they should not have been processed without obtaining the appropriate approval. As noted in Section 5.1.2 of this report, Administrative Directive A1415G does not provide clear and detailed direction on responsibility for review and approval of expense claims.

Based on the above observations and the considerable frequency of errors and miscalculations we noted in our payment sample, we believe there is a significant control weakness in the area of review and approval of expense claims.

Recommendation 1 addresses the issues noted in this section.

5.3.2 Original Itemized Receipts

Payments are being approved and paid without original itemized receipts. To help prevent duplicate payments and provide proof of payment, original itemized receipts should accompany all employee business expenses for approval and payment.

Original receipts must be provided for all expenses according to the Business Expense Directive. The Corporate Procurement Card Procedure states that original receipts must be forwarded along with cardholder statements when sent for review and approval. Accounts Payable advised that their processes only require original receipts for Corporate Procurement Card payments. Employee business expenses reimbursed from a Cheque Requisition (non travel) can be processed with a copy of the receipt. Employee business expenses reimbursed from an Employee Business Expense statement (travel) are processed without receipts as the receipts remain in the business unit.

During our payment testing we detected five expenses paid on Corporate Procurement Card and eight payments reimbursed through Cheque Requisition (non travel) that were paid without a receipt. This shows that expense approvers in the business units are not consistently requiring staff to submit original receipts as proof of payment prior to approval. The fact that Accounts Payable has processed payments without receipts shows there is also risk that the City may pay a single expense claim more than once.

The risk of duplicate payments via cheque is diminished by automatic controls embedded in SAP. After payment information is entered, SAP compares vendor and invoice date to prevent duplicate payments via cheque. Without more stringent requirements for original receipts, however, the risk of duplicate payments on Corporate Procurement Card or between Corporate Procurement Card and cheque remains high.

The risk of false expenses is also poorly controlled in the current environment. Without the consistent requirement for original receipts, approvers and Accounts Payable have no documentary proof of payment or that it is a legitimate City expenditure. Individuals could submit completed expense forms and get reimbursement for items they did not receive and/or pay for.

Recommendation 2 addresses the issues noted in this section.

5.3.3 Document Integrity

Another control weakness is related to the use of manual forms for the recording and approval of employee business expenses reimbursed by cheque. We did not observe any formal requirement that the approver of employee business expenses send approved forms directly for processing, without going back to the employee or administrative assistant. As the expense forms are manual, there is a risk of changes to the form after approval signatures are obtained.

During our testing, we observed 33 instances where the Employee Business Expense statement was manually altered and 19 instances where the Authority to Travel form was manually adjusted. We were unable to determine if the alteration was before or after the approval signatures except in one instance. In that one instance, we found evidence that the Authority to Travel form was significantly altered after approval and no further signatures or initials were obtained following the changes.

Recommendation 1 addresses the issues noted in this section.

5.3.4 Account Coding

Coding of items to cost elements in the City's financial system ensures that the expenditure is recorded in the correct account in the general ledger. Correct and consistent recording are part of a strong control environment because they enable effective budget comparison, cost management and monitoring. Although there is no guidance in Administrative Directives regarding what cost element to code a payment to, there is a guideline document available through Finance called "Cost Elements – Descriptions and Examples". This document is distributed by Finance to all travel coordinators and Corporate Procurement Card cardholders.

In our sample, we observed 80 out of 300 (26%) payments reviewed were coded to the wrong cost elements (\$66,958). In addition, there is significant incorrect coding of sponsorship support into the hosting cost element (approximately \$750,000 in 2006 and \$1 million in each of 2007 and 2008).

We also observed some coding that was not incorrect, but rather inconsistent between different Business Areas. For example, some areas coded conference fees to Business Travel while other areas code them to Conference Fees. Incorrect coding results in inaccurate account totals and makes it difficult to analyze and monitor budgets and costs. There is also a risk that an inappropriate expense may be "hidden" by purposely coding to the wrong account.

Recommendation 3 addresses the issues noted in this section.

5.4 - Objective 4: Assess the overall efficiency of the employee business expense process.

An efficient process is one which achieves its planned activities and objectives using the minimal amount of resources. In order to assess the efficiency of the current employee business expense process, we looked at the:

- use of electronic processes
- amount and complexity of required expense forms
- timeliness of reimbursements

We previously reviewed the Corporate Procurement Card process in 2005. Therefore we considered only cheque reimbursements (Cheque Requisitions and travel expenses from the Employee Business Expense statement) in this section.

Overall, we found the employee business expense process efficient with respect to reimbursement for non travel expenses by Cheque Requisition. Although it is not an entirely electronic process, it achieves the intended activity of reimbursing employees in a timely manner with minimal resources. Reimbursement for travel expenses, however, is a less efficient process.

5.4.1 Volume and Complexity of Forms

Employees must complete one of two forms when claiming reimbursement for business expenses; the Employee Business Expense Statement for travel expenses and a Cheque Requisition form for non-travel expenses. We also observed another form available to employees on eCity, the Request for Reimbursement. As we did not see this form used in our sample, nor was there any mention of it in the Directive, we did not pursue a detailed review or analysis of it.

The Cheque Requisition form is simple and straightforward and we did not note any difficulties with the completion of this form during our sample testing. The substantial number of errors and corrections to the Employee Business Expense forms we observed, however, indicates that staff have some difficulty completing this form accurately.

5.4.2 The Use of Electronic Processes

The use of electronic processes is desirable because they accomplish the intended task faster with fewer resources than manual ones. Electronic processes also allow for the use of automated preventative and detective controls which are more effective for preventing and detecting inappropriate or unauthorized expenses.

The City's employee business expense system utilizes the following electronic processes:

- The Employee Business Expense statement and Cheque Requisition forms are available online and can be completed electronically with the exception of approval signatures.

- The Employee Business Expense statement has some calculated fields and some areas populate automatically from the Authority to Travel form.
- Accounts Payable enters the payments into SAP and produces cheques electronically.

Approval signatures and processing the completed expense forms in Accounts Payable are manual operations. Although not all business areas process expenses in the same manner, in general, travel expense forms must physically move between at least 4 people (employee, supervisor, travel coordinator and client accountant) prior to being sent to Accounts Payable for processing. This physical movement of travel expense forms makes the manual part of the process inefficient, as evidenced in our analysis of timeliness below.

5.4.3 Timeliness

For travel payments in our sample reimbursed via the Employee Business Expense statement, the average turnaround time from employee submit date to cheque production was 20 days. The shortest turn around time was 4 days while the longest was 101 days.

Non-travel expenses reimbursed through Cheque Requisitions took on average 7 days from employee submit date to cheque production. We believe the reason for this 13-day difference in average turnaround times between travel and non travel expense reimbursement is due to the complexity of the travel claim process and the current requirement to manually process the Employee Business Expense statement, which is handled by at least 4 employees prior to processing the payment.

Another factor affecting travel claims timeliness is the employee submission date. The business expense Directive states that employees must submit their Employee Business Expense statement within 21 days after completing travel. Fourteen out of 64 (22%) Employee Business Expense statements reviewed in our sample were not submitted within this timeframe.

Recommendation 1 addresses the issues noted in this section.

6. Conclusion and Recommendations

Our main objective was to assess whether corporate policies, procedures and controls over employee business expenditures are adequate and being followed. The employee business expense policies and procedures should provide clearer direction on the most common expenses as well as specific guidance on roles and responsibilities for all parties involved.

Some controls are in place to prevent and detect inappropriate expenses, but we found several areas of weakness that need to be addressed. The significant number and value of exceptions and non compliance found in our sample demonstrates the need for additional clarity in the Administrative Directives and increased vigour in the City's control system. Most importantly, the responsibility for ensuring expenses claims are complete, correct and approved adequately must be determined and communicated.

We would like to thank the travel coordinators, client accountants, Accounts Payable and all other staff who assisted us in completing our review. Our recommendations are noted in the table below.

Recommendations	Management Response and Action Plan
<p>The OCA recommends:</p> <p>1. The Chief Financial Officer & Treasurer determine the most appropriate way to strengthen controls over expense payments. This should include, but is not limited to:</p> <ul style="list-style-type: none"> • Defining roles and responsibilities of all parties involved in the expense process, including Accounts Payable. • Completing a cost benefit analysis of an electronic expense claim processing system. 	<p>Accepted</p> <p>Comments: Finance and Treasury will develop a detailed work plan in conjunction with the Deputy City Managers Office by June 2009. The work plan will include a comprehensive review of related processes to identify control gaps and options for improvement. The results of this review will be incorporated to the Directive A1415G noted under recommendation 4 of this report.</p> <p>Finance and Treasury will also work with General Managers to review and follow up on compliance concerns identified during the audit.</p> <p>Planned Implementation: Work plan to be developed by June 2009</p> <p>Responsible Party: Finance and Treasury Department in conjunction with Deputy City Manager's Office.</p>

<p>2. The Finance and Treasury Department should require all employee expense forms to be accompanied by original itemized receipts in order to be authorized and processed for payment. Any exceptions to the above need to be clearly defined in the business expense Directive (e.g., claiming per diem amounts for meals).</p>	<p>Accepted</p> <p>Comments: The Finance and Treasury Department will send a reminder of this requirement to all General Managers. This requirement will pass on to the operating departments when the process is automated.</p> <p>Planned Implementation: Immediate</p> <p>Responsible Party: Finance and Treasury Department</p>
<p>3. The Finance and Treasury Department develop a coding methodology to allow for consistent coding to cost elements and educate all Business Areas and Departments on this methodology.</p>	<p>Accepted</p> <p>Comments: Finance and Treasury will develop a listing of accounts and provide guidelines on their use to improve consistency across departments. The guidelines will be appropriately communicated to all users.</p> <p>Planned Implementation: By December 2009</p> <p>Responsible Party: Finance and Treasury Department</p>
<p>4. The Deputy City Manager's Office update Administrative Directive A1415G - Employee Business Expenses – Local and Out of Town, as follows:</p> <ul style="list-style-type: none"> • Clarify each participant's roles and responsibilities. • Address deficiencies noted in Table 2 of this report. 	<p>Accepted</p> <p>Comments: Scope of implementation is subject to the outcome of the business process review in Recommendation one and clarification of deficiencies noted in Table 2 of this report.</p> <p>Planned Implementation: Detailed work plan to be created by June 2009 in conjunction with the work plan noted under Recommendation one.</p> <p>Responsible Party: Deputy City Manager's Office and Finance and Treasury will jointly undertake a review of the Directive A1415G. Once an updated Directive is in place, Finance and Treasury will assume ongoing responsibility.</p>

Appendix I – Additional Payment Sample Details

In order to test the level of compliance with City Administrative Directives regarding employee business expenses, the OCA tested 300 payment samples. Below are details regarding our observations.

Inadequate Documentation - \$149,157⁷

Of the payments reviewed where we found the documentation was inadequate (58):

- 13 had no receipt attached with the expense form - (\$131,669).
- 14 did not have an itemized receipt attached with the expense form (we were not able to determine what items were purchased) - (\$5,613).
- 31 had insufficient detail (e.g., did not note name and title of the persons hosted and/or business reason on the receipt as per the Directive) – (\$11,875).

Inappropriate Items - \$11,418

Of the payments reviewed where we found the item purchased to be inappropriate (14):

- 9 payments were for personal items, not related to City business (such items as conference field trip not included in the price of the conference and flying home from Victoria rather than Vancouver where the conference was held) – (\$1,810).
- 3 payments were for expenses of non-City staff – (\$7,136).
- 2 payments were for restricted items⁸ (computer, safety equipment) – (\$2,472).

Uneconomical - \$10,768

Of the payments reviewed where the amount was considered uneconomical (44):

- 21 payments where the dollar amount for meals was over the per diem amount listed in the Directive⁹ - (\$5,233).
- 18 payments where the travel days or departure times were calculated incorrectly, resulting in extra incidentals or meals being paid - (\$594).
- 3 payments where the amount paid for airfare was not economical (due to route chosen, class of seat or personal trip extension) – (\$1,845).
- 2 payments where the amount paid for education was greater than the amount approved in the original training contract – (\$3,096).

⁷ This total includes one payment in the amount of \$127,075 for training that was not supported by a vendor receipt.

⁸ Administrative Directive A1439 – *Purchasing Goods Services and Construction, Appendix II – Restricted Purchases*

⁹ This included both meals while travelling and local hosting and catering. Administrative Directive A1415G suggests the per diem meal amounts be used as a guide for all meals that are hosted and catered (breakfast - \$10, lunch - \$15 & dinner - \$25). As the Directive does not require the per diem be strictly adhered to for local hosting and catering, the OCA considered hosted or catered meals that were in excess of 25% over the per diem amount to be uneconomical.

Purchase Splitting - \$15,657

Each Corporate Procurement Card has an automated transaction limit to prevent cardholders from making an individual purchase higher than the limit set by the cardholder's supervisor (to a maximum of \$5,000). We saw one example of purchase splitting:

- Multiple (7) lower-value transactions made to the same vendor related to "Managing a Culturally Diverse Workforce Conference" – (\$15,657)

Inadequate Approval - \$17,838

Of the payments reviewed where we considered the approvals inadequate (24) we noted:

- 9 where the employee incurring the expense signed the approval for their own expense – (\$7,148)
- 7 with no supervisory signature (employee who signed was not in a supervisory position) – (\$3,395)
- 5 with no signature – (\$5,960)
- 3 with no General Manager signature where required - request for out of country travel (2) and private vehicle usage (1) – (\$1,335)

Additional Compliance Issues

Additional compliance issues observed but not considered exceptions as per the above categories include:

- Authority to Travel form not completed (9)
- Authority to Travel form completed either after travel arrangements were made or after travel was completed (10)
- Travel within Canada where Air Canada was used instead of the City's preferred carrier, West Jet (8)