

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 24, 2014

Item 2, Report No. 7, of the Finance, Administration and Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on June 24, 2014.

2 INTERNAL AUDIT REPORT – EMPLOYEE BUSINESS EXPENSES

The Finance, Administration and Audit Committee recommends:

- 1) That the recommendation contained in the following report of the Director of Internal Audit, dated May 26, 2014, be approved;
- 2) That the presentation by the Audit Project Manager and C2, presentation material entitled “*Employee Business Expense Audit*”, dated May 26, 2014, be received;
- 3) That the City’s Internal Auditor conduct an audit on Members of Council expenses and this audit be reviewed by an external auditor; and
- 4) That the Internal Auditor review the Council Expense Policy and bring forward a report for Council’s consideration in 2015.

Recommendation

The Director of Internal Audit recommends that:

1. The Internal Audit Report on Employee Business Expenses be received.

Contribution to Sustainability

Internal Audit activities and reports contribute to the sustainability of the City by providing advice and assurance that controls supporting the effective delivery of services and programs are effective. Longer term sustainability needs the support of good, efficient risk mitigation strategies. Internal Audit can provide support for that sustainability by providing independent advice and assurance.

Economic Impact

There are no direct economic impacts associated with this report.

Communications Plan

Not applicable.

Purpose

To present to the Finance, Administration and Audit Committee the Internal Audit Report on Employee Business Expenses and to provide an evaluation of operational and process controls, as well as opportunities for improvement.

Background - Analysis and Options

This audit was done to evaluate the effectiveness of controls, processes and procedures in place to mitigate risks that could affect the proper approval and processing of Employee Business Expenses for the City of Vaughan.

The audit was part of the 2012 to 2014 Revised Risk Based Internal Audit Plan previously approved by the Finance, Administration and Audit Committee.

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 24, 2014

Item 2, Finance Report No. 7 – Page 2

Relationship to Vaughan Vision 2020/Strategic Plan

This report is consistent with the priorities previously set by Council and supports the strategic goal of organizational excellence.

Regional Implications

Not applicable.

Conclusion

The audit did not find any evidence of inappropriate, duplicate or unauthorized expenses for the period under review. The Audit did, however, identify opportunities to improve controls of the business expense process by:

- Providing formal guidelines for how employee business expenses are to be allocated.
- Performing better data analyses over employee spend.
- Reviewing and if necessary, developing policies and procedures to provide more transparency and clarity over employee expectations as it relates to employee business expenditures.
- Implementing automated work flow solutions for managing the employee business expense process.

Attachment

Internal Audit Report – Employee Business Expenses

Report prepared by:

Paul Wallis CPA, CMA, CIA, CISA, CRMA
Director, Internal Audit

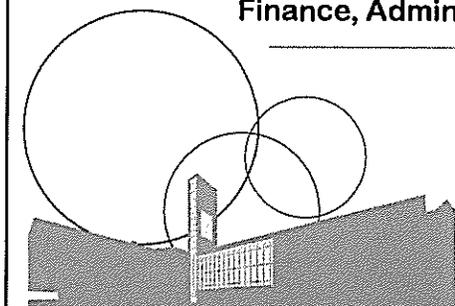
(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)

C 2	
COMMUNICATION	
FAA -	MAY 26/14
ITEM -	2

Employee Business Expense Audit

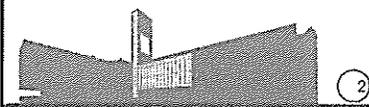
Finance, Administration and Audit Committee

Monday May 26, 2014



Today's Presentation

- Audit Objective, Scope and Methodology
- Audit Conclusion
- Audit Recommendations
- Management Response and Action Plans
- Next Steps
- Questions



Audit Objective

- To evaluate the effectiveness of the controls, processes and procedures in place to mitigate the business risks associated with managing employee business expenses.

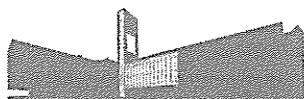


3

Audit Scope & Methodology

- Review of existing City Policies and Procedures
- Staff interviews
- Data analytics
- Sampling of physical expense submissions
- Review period was January – December 2013.
- \$453,000 - approximate employee spend.
- \$12,000 – approximate SMT spend through AMEX.

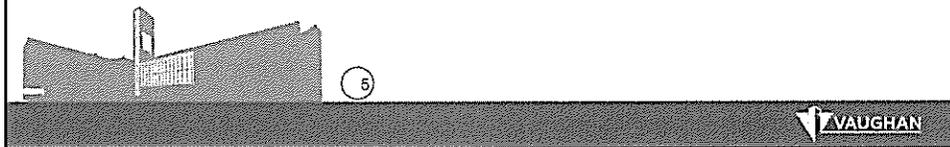
Not in Scope: → VPL and Council Expenses



4

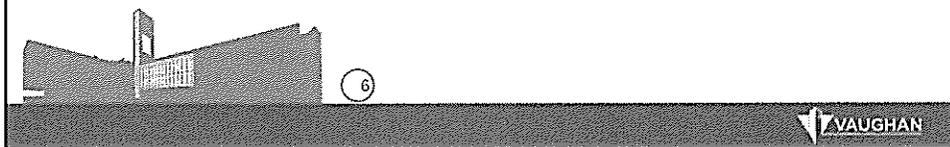
Audit Conclusion

- No evidence of inappropriate, duplicate or unauthorized expenses for the period under review.
- Opportunities exists to strengthen controls over the employee business expense process.



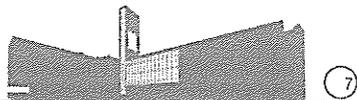
Audit Recommendations

1. Providing formal guidelines for expense allocation.
2. Enhancing data analyses over employee spend.
3. Providing more transparency & clarity over expectations as it relates to employee business expenditures.
4. Implementing automated work flow solutions for managing the employee business expense process.



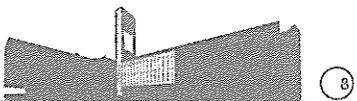
Management Action Plans

1. Providing formal guidelines for expense allocation:
 - Review of expense accounts & streamline where possible.
 - Development of a list of accounts and guidelines on appropriate use.
 - Communication plan and training.



Management Action Plans

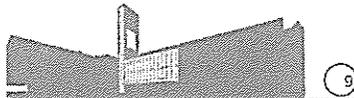
2. Enhancing data analyses over employee spend:
 - Quarterly reviews
 - Identifying and investigating areas of concern



Management Action Plans

3. Providing more transparency & clarity over expectations as it relates to employee business expenditures:

- Identification of processes where business demands may have changed/evolved.
- Eliminate or develop or enhance policy, procedures and appropriate parameters.



Management Action Plans

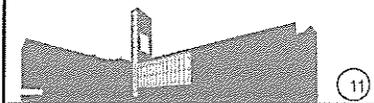
4. Implementing automated work flow solutions for managing the employee business expense process.

- City wide Procure to Pay review will provide further recommendations and actions for improvement.

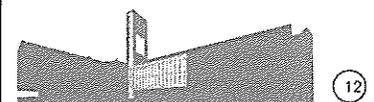


Next Steps

- Action plans have been developed.
- Implementation is underway.
- Internal Audit will follow-up and report on the status of these action plans.



Questions?



INTERNAL AUDIT REPORT – EMPLOYEE BUSINESS EXPENSES

Recommendation

The Director of Internal Audit recommends that:

1. The Internal Audit Report on Employee Business Expenses be received.

Contribution to Sustainability

Internal Audit activities and reports contribute to the sustainability of the City by providing advice and assurance that controls supporting the effective delivery of services and programs are effective. Longer term sustainability needs the support of good, efficient risk mitigation strategies. Internal Audit can provide support for that sustainability by providing independent advice and assurance.

Economic Impact

There are no direct economic impacts associated with this report.

Communications Plan

Not applicable.

Purpose

To present to the Finance, Administration and Audit Committee the Internal Audit Report on Employee Business Expenses and to provide an evaluation of operational and process controls, as well as opportunities for improvement.

Background - Analysis and Options

This audit was done to evaluate the effectiveness of controls, processes and procedures in place to mitigate risks that could affect the proper approval and processing of Employee Business Expenses for the City of Vaughan

The audit was part of the 2012 to 2014 Revised Risk Based Internal Audit Plan previously approved by the Finance, Administration and Audit Committee.

Relationship to Vaughan Vision 2020/Strategic Plan

This report is consistent with the priorities previously set by Council and supports the strategic goal of organizational excellence.

Regional Implications

Not applicable.

Conclusion

The audit did not find any evidence of inappropriate, duplicate or unauthorized expenses for the period under review. The Audit did, however, identify opportunities to improve controls of the business expense process by:

- Providing formal guidelines for how employee business expenses are to be allocated.
- Performing better data analyses over employee spend.
- Reviewing and if necessary, developing policies and procedures to provide more transparency and clarity over employee expectations as it relates to employee business expenditures.
- Implementing automated work flow solutions for managing the employee business expense process.

Attachment

Internal Audit Report – Employee Business Expenses

Report prepared by:

Paul Wallis CPA, CMA, CIA, CISA, CRMA
Director, Internal Audit

Respectfully submitted,

Paul Wallis CPA, CMA, CIA, CISA, CRMA
Director, Internal Audit



INTERNAL AUDIT REPORT

Employee Business Expenses

April 2014

INTERNAL AUDIT REPORT

AUDIT OF EMPLOYEE BUSINESS EXPENSES

CONCLUSION AND SUMMARY

We did not find any evidence of inappropriate, duplicate or unauthorized expenses for the period under review. We did, however, identify opportunities to improve controls of the business expense process by:

- Providing formal guidelines for how employee business expenses are to be allocated.
- Performing better data analyses over employee spend.
- Reviewing and if necessary, developing policies and procedures to provide more transparency and clarity over employee expectations as it relates to employee business expenditures.
- Implementing automated work flow solutions for managing the employee business expense process.

We need to have a better understanding of the expense information we require and how it should be captured from a financial perspective. Developing and communicating formal descriptions, purposes and guidelines for each expense category will help provide a streamlined approach for allocating expenses.

Performing periodic analysis of employee spend is another opportunity to identify areas of processing risk and process improvement. Although processes are in place to monitor actual spending to budget, more detailed spend analysis will help ensure expenditures are being identified and captured appropriately while providing timely opportunities for further training and reinforcement. Implementing these process improvements will help mitigate organizational inconsistencies and the risk of adverse decision making that could result from the use of expense data that may not be accurate.

For some business related expenditures, more transparency and clarity is required to ensure operational and reputational risks to the City are mitigated. In some cases, it may be more beneficial to change a process entirely or at minimum, develop clear policy, procedures and criteria on how the process should proceed going forward. Expenditures such as mileage accumulation, home internet expenses and reimbursements for personal phone calls are examples of processes that should be re-evaluated.

It is expected that the Purchasing Card program, once fully implemented, will eliminate the need for some types of employee business expense claims and cash advance requests as these expenses will be paid through a Purchasing Card. This program is a progressive step toward automation which should improve authorization, monitoring and reporting capabilities. However, further effort is required to mitigate risks associated with manual processes. Alternative mechanisms, such as automated work flow solutions, should be examined to mitigate the potential risk of impacting internal and external service delivery standards.

INTERNAL AUDIT REPORT

AUDIT OF EMPLOYEE BUSINESS EXPENSES

BACKGROUND

The current Internal Audit Risk Based Work Plan included an audit of Employee Business Expenses.

The purpose of the City's Employee Reimbursement for Business Related Expenditures and Advances is to establish guiding principles, internal controls and procedures for the appropriate use of taxpayer's funds with respect to the reimbursement of employee business related expenditures.

Monitoring and control over employee business expenses are an important part of ensuring the City of Vaughan's expenditures are reasonable and stand up to public scrutiny.

OBJECTIVES AND SCOPE

The objective of the audit was to evaluate the effectiveness of the controls, processes and procedures in place to mitigate the business risks associated with managing employee business expenses. The audit approach included data analyses of business expense spend, sampling of reimbursements, review of City policies and procedures and interviews with staff and management.

The Audit Scope included:

- Transactions that occurred between January and December 2013, representing **approximately \$450,000**.
- All 2013 American Express Senior Management expenses, representing **approximately \$12,000**.

The Audit Scope did not include member of Council expenses or staff from Vaughan Public Libraries.

Auditor and Author: Kevin Shapiro CIA, CFE, CRMA

Director: Paul Wallis CPA, CMA, CIA, CISA, CRMA

Signature: _____

Date: _____

INTERNAL AUDIT REPORT

AUDIT OF EMPLOYEE BUSINESS EXPENSES

DETAILED REPORT

1. *Develop Guidelines for Employee Business Expense Cost Allocation*

Employees incur expenses related to their work at the City in many different cost categories. Based on review of policies and procedures, and discussions with staff, it was confirmed that the City does not have formal descriptions, purposes and guidelines for each expense category and the nature of expenses that should be allocated to each account. The City also has similar, related expense categories, such as materials and supplies and office supplies, which may cause additional confusion for staff.

As a result, there is an absence of organizational consistency in how employee expenses are being allocated. Expense accounts reviewed in the financial system contained expenses that should have been allocated to other expense categories. For example, expenses related to mileage were found in at least 14 different expense accounts.

As a further example, the Department Sundry Expense account contained expenses that should have been allocated to other expense accounts such as mileage, department meals, supplies and materials, accommodations, and protective uniforms/clothing.

Although the material risk is low with respect to mileage charges, the risk associated with this current practice include:

- The inability to analyze and monitor actual employee business expenditures to budget by category, as the actual cost allocations by line item are not accurate, which could have an adverse impact on decision making.
- Potential for loss or misappropriation, as inappropriate expenses may be masked by improper coding.

Recommendations

We recommend that management review the type of expense information that the organization requires and how it should be captured from a financial perspective including:

- Reviews of all the expense accounts in the financial system and where possible, deactivate similar expense categories to avoid employee confusion.
- Developing and communicating formal descriptions, purposes and guidelines for each expense category and the nature of expenses that should be allocated to each account.

INTERNAL AUDIT REPORT

AUDIT OF EMPLOYEE BUSINESS EXPENSES

Management Action Plan

Some of the issues identified are historical in nature. Some departments were using the general ledger for management reporting, which can be problematic as departments have different reporting needs, which has led to organizational inconsistencies. In addition, costs allocated to sundry have been significantly reduced over the past seven years, but further education and training can be provided to reduce this even further.

Finance and City Treasury is in the process of reviewing expense accounts within the financial system and where possible, streamlining accounts.

Finance and City 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 and training offered, where required.

Data analysis of employee spend will also be conducted by Budgeting & Financial Planning on a sample basis to determine the effectiveness of these new procedures. This will also apply to P-Card purchases. Further follow-up and training will be provided where required, based on the results of the spend analysis.

INTERNAL AUDIT REPORT

AUDIT OF EMPLOYEE BUSINESS EXPENSES

2. *Enhance Transparency and Clarity over Expectations*

Although the audit did not find any evidence of duplicate or unauthorized expenses, opportunities exist to provide more transparency and clarity over expectations as it relates to employee business expenditures.

For example, at a time when home internet was not prevalent, it was an expense paid for by the City for a number of employees. City internet services were provided to minimize the frequency of employees being asked to come in to City Hall during off hours to perform network/servicing related tasks. It was also considered as a pilot to assess telecommuting for the City. Over the years, the number of staff requiring this benefit has reduced. The City does not have a policy governing the expensing of home internet charges or any defined eligibility criteria. However, some employees are still receiving this benefit.

It is also current practice for employees to reimburse the City for personal use of the City's mobile plan for charges such as 411 calls, picture texting, roaming and long distance. In some cases, employees are depositing pennies at Cashiering Services to cover this expense. The time it takes for staff to complete the required reimbursement form, line up at Cashiers to pay, process the transaction and make the journal entry to account for the transaction is significantly more costly to the City than the cost of the phone call.

The absence of transparency, clarity and reasonableness over some of the City's expense practices may pose operational and reputational risks to the City.

Recommendations

We recommend a review over these and other processes to determine:

- Whether there is a continuous business need for these types of expenditures and reimbursements to continue. If it is determined that there is a continuous business need for these practices to continue, then formal policy, procedures and parameters should be developed, approved and communicated to ensure clarity and transparency over these processes.
- Whether a minimum repayment threshold be established for personal mobile use.

Management Action Plan

ITM is currently assessing whether home internet should be continued for some ITM Technical staff. If it is determined that there is a continuous business need, then formal policy, procedures and eligibility criteria will be developed.

In addition, a review is being conducted to determine what type of policy is required to guide the repayment of personal phone usage. Benchmarking other municipality's practices is being conducted to assist with this review.

INTERNAL AUDIT REPORT

AUDIT OF EMPLOYEE BUSINESS EXPENSES

3. *Improve Oversight and Control over Mileage*

Buildings Standards employees, especially those with the Building/Plumbing Inspector job title, use their personal vehicles extensively as of part of their job duties. In 2013, the total identifiable mileage claims in the City was approximately \$160,000. Building Standards represented approximately \$74,000, or 46% of the total. Average monthly mileage for some staff is over 1,300 kilometers a month.

In reviewing Mileage Expense reports, the mileage description states "On Site Inspections/Meetings", rather than the actual "to" and "from" destinations which is not consistent with established City practices. Further discussions with staff indicated that these employees do not track the order of the inspection sites or the times that they made their visits. As a result, we were unable to review the mileage claims submitted by Building Standards staff.

This practice poses operational, financial and reputational risks to the City, as the inability to perform accurate management oversight over mileage could result in inaccurate claims. In addition, allowing staff to use personal vehicles and expensing mileage versus the use of City owned or leased vehicles may not be the most effective from both a cost and risk perspective.

Recommendation

We recommend that management:

- Investigate the feasibility from both a risk and cost perspective of providing City vehicles to Building Standards staff to perform their job duties.
- Develop cost effective procedures that will support compliance with the mileage reimbursement provisions outlined in the City's Employee Reimbursements for Business Related Expenditures & Advances Policy and the City's Mileage and Transportation Reimbursement Policy.

Management Action Plan

Building Standards Management will investigate the potential costs of providing City vehicles for all Building Inspection supervisors and staff. The rollout of the enhanced AMANDA system with its additional field mobility reporting and monitoring features will make the transition less cumbersome if staff were provided City vehicles. With the assistance of the new Fleet Manager and Corporate Finance, other risk related intangibles such staff time dedicated for reporting, vehicle insurance and liability, etc. will be reviewed.

In the interim, inspection site to and from locations are now being recorded by Building Inspection staff and will accompany all mileage reimbursement submissions.

INTERNAL AUDIT REPORT

AUDIT OF EMPLOYEE BUSINESS EXPENSES

4. Acquisition of Goods & Services Through Employee Business Expenses

In reviewing the type of expenditures incurred by employees, we found that some of the mechanisms used for procuring and paying for goods/services may not be appropriate.

For example, in order to pay for some reoccurring low value purchases for online services, such as server domain hosting and advertising City employment opportunities externally, the practice is for the employee responsible for managing the process to pay for these costs out of pocket and initiate an employee business expense claim to recoup the cost. This was done because there was no process in the City that would make payment to the vendor, as this vendor only accepted online payments through credit cards.

In Recreation and Culture, cash advances are used to help alleviate the financial burden on staff. Although the City's Employee Reimbursements for Business Related Expenditures & Advances Policy outlines cash advance provisions, internal procedures for administering this process are informal and roles and responsibilities for process stakeholders are not defined.

It is also permissible for business units to purchase computer hardware through the employee expense process if they have funds in their budget for the purchase, the product is not supported by Information and Technology Management (ITM) and there is a legitimate business need to procure the product. Although we observed only one instance of this during the period reviewed, by allowing staff to procure unsupported computer hardware without a formal mechanism for ITM review, there is the possibility that alternative supported products may have been available.

Risks associated with these practices include:

- Not receiving the best price and quality for goods/services.
- Expecting employees to incur out of pocket costs for routine business expenditures resulting personal financial burden.
- Routine maintenance and updates may not be performed on unsupported devices.
- Loss or misappropriation of computer related equipment as these devices are not captured in ITM's asset management system.

Recommendation

It is expected that the Purchasing Card program, once fully implemented, will eliminate the need for some types of employee business expense claims and cash advance requests as these goods and services would be paid through the Purchasing Card.

As the City's business processes continue to evolve, additional flexibility will be required to ensure employees have the appropriate technology to perform their job duties.

INTERNAL AUDIT REPORT

AUDIT OF EMPLOYEE BUSINESS EXPENSES

We recommend that management:

- Identify opportunities where a Purchasing Card could be used to pay for goods and services instead of through the employee business expense or cash advance processes.
- Investigate other vendors or procurement methods, such as establishing vendors of record and blanket purchase orders, to ensure that the City is receiving the best price and quality for online services.
- Evaluate and improve the process for integrating new technology into the City when identified as a requirement by a business unit.

Management Action Plan

The 2nd phase of the Purchasing Card pilot program is underway. As part of this phase, additional staff are being identified for inclusion in the pilot, which includes complete training for cardholders, approvers and reconcilers. As the pilot continues, additional users will be identified and included. It is expected that all identified staff will receive a Purchasing Card at the conclusion of the pilot program.

As part of the ongoing organizational wide Procure to Pay review, staff is performing a formal review of the way the City procures and pays for goods and services. Other mechanisms, such as establishing vendors of record and blanket purchase orders will also provide opportunities to streamline purchasing activities.

Information and Technology Management will review the process for integrating new technology into the City when identified as a requirement by a business unit.

Management has advised that they are currently working on a Petty Cash policy and procedure to help address the cash advance issue.

INTERNAL AUDIT REPORT

AUDIT OF EMPLOYEE BUSINESS EXPENSES

5. *Improve Employee Educational Assistance Request Tracking*

The City's Learning & Development Strategy outlines a systematic and comprehensive plan for training and developing City staff. As part of this strategy, the City provides opportunities for financial assistance to cover tuition fees for employees participating in self-initiated, external educational opportunities resulting in a diploma, degree or academic certificate on their own time, which is directly related to their current position or realistic future career path.

The City's Educational Assistance Policy states that employees and business units are to ensure that the Application for Educational Assistance request, course transcripts, and original tuition fee receipt are to be submitted to HR for tracking and statistical purposes.

However, Human Resources were made aware of only one of the nine requests and reimbursements that we reviewed. As a result, there is increased risk that Human Resources may not be able to fully analyze whether the Learning & Development program goals and objectives are being achieved.

Recommendations

We recommend that the current process be reviewed and improved to help support that the goals and objectives of the education assistance program can be effectively monitored.

Management Action Plan

Human Resources will review the Learning and Development and Educational Assistance policies and forms and provide better communication across the City about the goals and objectives of the education assistance program and requirements for successful completion. In addition, Human Resources will ensure they have received all the supporting documentation from the employee prior to the approval of the tuition reimbursement.

INTERNAL AUDIT REPORT

AUDIT OF EMPLOYEE BUSINESS EXPENSES

6. *Eliminate Manual Pay Cheques*

Although not related to this audit, through the examination of employee related business expenses, we found that 11 full time staff receives their bi-weekly pay in the form of cheques instead of through the direct deposit system. These cheques are processed through PowerStream's payroll payment system and the accounting entries are made to record the payroll expense in the City's accounting records.

This practice poses operating risks to the City, as manual processes are inefficient, more prone to human error and there is increased risk of misappropriation or loss when dealing with cheques instead of direct deposit.

Recommendations

We recommend that all staff salaries be paid through the electronic fund direct deposit system.

Management Action Plan

Human Resources is in the process of eliminating this practice and converting all remaining employees to the direct deposit system, subject to limitations as per the CUPE full time Collective Agreement.

INTERNAL AUDIT REPORT

AUDIT OF EMPLOYEE BUSINESS EXPENSES

7. Investigate Automation of Work Flow Processes

Many organizations have moved away from manual, paper intensive processing to a variety of automated work flow solutions to manage their entire Procure to Pay cycle, including the employee business expense process. Several benefits were outlined; including improvements in efficiency, such as reduced costs to process an employee business expense, faster turnaround times, improved cash flow management practices and strengthened controls throughout the cycle.

By not examining alternative solutions for improving the efficiency and effectiveness of the employee business expense process there are risks that can negatively impact internal and external service delivery and impact the City's reputation.

Current processes pose several risks to the City, as manual processes are inefficient, prone to error and can impact integrity of data.

Recommendations

We recommend management investigate the feasibility of implementing an automated work flow solution to manage the employee business expense process.

Management Action Plan

Work performed through the City wide procure to pay (P2P) process review being led by the Innovation and Continuous Improvement group (ICI) in collaboration with Internal Audit, Purchasing and Accounting has confirmed that the P2P process, including the employee expense process, is manual and labour intensive. The jurisdictional benchmark scan that was performed by ICI further confirmed that the City of Vaughan is not unique in relying on labour intensive manual process to process transactions.

The P2P review will provide further recommendations and actions for improvement.