Employee Expense Audit

June 12, 2018

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The City Auditor's Office completes all projects in conformance with the *International Standards for the Professional Practice of Internal Auditing.*

Executive Summary

City of Calgary (City) employees incur expenses in the course of conducting City business, such as, travel, meals, training and development and professional fees and dues. In 2017, The City paid approximately $4.5M for employee expenses for out of town travel, courses, memberships, parking, and car allowances. Although the Corporate Credit Card is the preferred method of payment, employee expenses paid directly by an employee are reimbursed through the employee expense claim, petty cash claim, or mileage claim process.

City Administration has developed policies to define the business rules and restrictions for employee expenses and has also defined the shared values[1] and expected behaviours for City employees: Character, Competence, Commitment, and Collaboration (4Cs). Non-compliance with policies and misalignment with shared values and the 4Cs can result in payment for inappropriate expenses, unnecessary costs and reputational damage.

The objective of the audit was to assess employee expenses for compliance with City policies and alignment with The City's shared values and the 4Cs, and identify efficiency and cost saving opportunities. Data analytics were utilized to identify and select a sample of expense reimbursements and credit card payments from October 1, 2016 to September 31, 2017.

All employee reimbursements and Corporate Credit Card expenses tested in our sample of 64 high dollar transactions complied with applicable City policies and aligned with shared values and the 4Cs. In addition, a year-over-year downward trend on total expense claims from January 1, 2015 to December 31, 2017 may be viewed as a positive result of Administration's intentional management of controllable costs.

We raised two recommendations focused on enhancing policy and guidance related to the use of personal vehicles, and consistent course reimbursement practices. Enhanced policy will improve general awareness to ensure employees that use personal vehicles to perform City duties have appropriate insurance, a valid driver's license and a mechanically fit vehicle. Additional guidance was recommended specific to employee development reimbursement guidelines to promote consistent practices and transparency, and support One City, One Voice.

We also identified resource efficiency opportunities, through automation of the employee reimbursement process, and reducing the 100% validation of expense claims to a sample approach.

Finance and Human Resources agreed with all but one recommendation, which was partially agreed to, and have indicated in their responses a commitment to implement action plans no later than December 31, 2019. The City Auditor's Office will follow-up on all commitments as part of our ongoing recommendation follow-up process.

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[1] The City's shared values are individual responsibility and collective accountability.

1.0 Background

The City of Calgary (The City) pays for business related expenses incurred by city employees and contractors, such as travel, meals, parking, training and development, and professional fees and dues. In 2017, The City spent approximately $4.5M[2] on employee expenses incurred in the course of conducting City business. The Corporate Credit Card (CCC) is the preferred method of payment for employee expenses. However, where expenses are paid directly by an employee, they are reimbursed through an employee expense claim.

City Administration has developed policies and guides to define the business rules and restrictions for employee expenses, including the following:
- FA-010 (D) Accounts Payable- Transactions and Payments- Effective: 2015/04/01; Revision due: 2018/04/01
- FA-011 (D)- Reimbursement of Employee Travel, Vehicle, Parking, Insurance, Petty Cash and Other Expenses- Effective: 2015/02/06; Revision due: 2017/02/06
- FA-016 (E)- Accounts Payable Corporate Credit Card- Effective: 2013/11/12; Revision due: 2017/12/05
- FA-048 (B)- Reimbursement of Meal and Hosting Expenses- Effective: 2015/02/06; Revision due: 2017/02/06
- HR-001 (A)- Car Allowance- Effective: 2017/05/25; Revision due: 2020/05/25
- Local Travel/Car Allowance Administration Guide- Revised January 2017.

City Administration has also defined the shared values[3] and the essential behaviours of our organization: Character, Competence, Commitment and Collaboration (4Cs). All employees are expected to demonstrate these shared values and behaviours.

Non-compliance with employee expense policies and misalignment with shared values and the 4Cs can result in payment for inappropriate expenses, unnecessary costs and reputational damage. The Employee Expense Audit was part of the City Auditor's Office 2017/2018 Audit Plan, approved by Audit Committee.

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[2] Total expenditures of $4.5M do not include amounts invoiced directly by vendors and paid by The City (i.e. not processed on a CCC or through employee expense claim processes).
[3] The City's shared values are individual responsibility and collective accountability.

2.0 Audit Objectives, Scope and Approach

2.1 Audit Objective
The objective of this audit was to assess employee expenses for compliance with City policies and alignment with The City's shared values and the 4Cs, and identify efficiency and cost saving opportunities.

2.2 Audit Scope
The audit focused on a sample of employee reimbursement and CCC claims charged to the following accounts from October 1, 2016 to September 30, 2017:

Account Category	Account Type	Account Number	Account Description
Out of Town Travel	Meals and Gratuities	77540	Business Travel - Travel expenditures of public servants. It includes transportation by air, rail and sea, bus, taxi and air taxi. It includes highway tolls. It also includes expenses for food and accommodation and incidentals such as tipping.
Other Common Expenses	Course, Conference, Seminars	77660	Conferences - Amounts paid for conference fees. A conference includes a congress or convention or other formal gathering in one location where participants discuss, contribute to or are informed about matters of common interest.
		77550	Training and Staff Development - All fees related to the purchase of training packages and courses of an educational nature from external parties. The primary purpose of courses and training is to enable participants to maintain or acquire skills or knowledge.
		77560	
		77570	
		77580	
	Memberships and Subscriptions	77520	Membership Fees and Dues - Amounts paid for membership fees. Membership fees include payments for corporate, departmental, agency and individual memberships, registrations and licensing with accredited boards, associations, societies and similar professional and technical organizations.
Car Allowance and Parking	Car Allowance	77500	Car and Parking Allowance - Car allowances paid to City employees. Paid through payroll.
	Parking	30997	Parking - Not CPA - Parking costs paid to external service providers (not Calgary Parking Authority).
		30998	Parking - CPA - Parking costs paid to CPA through other means than the monthly billings. Will include purchase of tokens and payment or reimbursement of daily parking amounts.

Given Administration's emphasis on intentionally managing controllable costs over the last two years, we performed trend analysis of expenditures from January 1, 2015 to December 31, 2017.

<u>Out of Scope</u>
For the purpose of this audit, employee expenses charged to the following accounts were out of scope:
- Accounts 30992 and 30993- Meeting Supplies/Refreshments
- Account 30996- Employee Recognition and Awards.

In addition, CCC monitoring processes and controls in the Accounts Payable (AP) division within Finance were considered out of scope since they were covered in an earlier Corporate Credit Card (Data Analytics) Audit- AC2018-0035.

2.3   Audit Approach
The audit assessed the following:
- Compliance to City policies, shared values and the 4Cs by obtaining data through the use of data analytics and selecting a sample of CCC transactions and employee reimbursements (including Petty Cash) coded to the accounts noted above, and reviewing detailed back-up (tests of details). The sample focused on high dollar transactions.
- Effectiveness of the design of controls over employee expense approvals by reviewing the signing authority structure, and related policy.
- Efficiency and cost saving opportunities by evaluating employee expense trends and the use of available financial system functionality.

3.0 Results

The audit sampling approach was non-statistical (judgmental) focused on high dollar transactions. Using data analytics, data was pulled from various systems: PeopleSoft Financial & Supply Chain Management System (FSCM), PeopleSoft Human Capital Management System (HCM), Financial Data Warehouses and the Credit Card System.

We selected the following employee reimbursement and credit card charges as our sample:
- Twenty employee reimbursement claims and five petty-cash reimbursements selected from the accounts listed under the audit scope;
- Twenty CCC transactions selected from the Business Travel Account, which were expanded to include additional related transactions (e.g. if a flight was selected, expanded sample to include the related meal, taxi fare, accommodations) for a total sample of 35; and
- Four mileage reimbursement expenses for the use of personal vehicles to carry out City work.

The total dollar value of the 64 transactions in our sample was $90,441.

3.1 Overall Compliance

All expense charges selected in our test sample complied with City expense policies and aligned with The City's shared values and the 4Cs. In addition, there were no instances of duplicate payments for the sampled CCC transactions, where an employee also submitted an expense reimbursement for the same expense.

Employee Expense Approval

All employee expenses require approval by the employee's supervisor (DeptID Owner). All sampled employee expenses were approved by the appropriate approval authority (one level up). In addition, we tested a sample of ten senior management team CCC transactions to verify expenses were approved by the appropriate DeptID Owner as outlined in FA-010 (D) Accounts Payable- Transactions and Payments, Signing Authority and Authorization. There were no exceptions noted.

Employee Memberships

The City pays for employee professional dues and memberships associated with job roles. Membership fees include payments for individual memberships, registrations and licensing with accredited boards, associations, societies and similar professional and technical organizations. We reviewed a sample from the highest dollar transactions:
- Chartered Professional Accountants (CPA);
- The Association of Professional Engineers and Geoscientists (APEGA);
- The Association of Science and Engineering Technology Professionals of Alberta (ASET); and
- The Alberta Professional Planners Institute (APPI).

We evaluated the consistency of payments to identify instances where additional fees were incurred due to late payments and noted that fees for the sample tested were consistent with expected fees. In addition, we noted that AP batch processed high volume membership payments, which resulted in greater efficiency.

Mileage Reimbursement
Where a mileage reimbursement was claimed, we verified no fuel was expensed on the employee's CCC for the same trip, for a sample of five high dollar transactions. We also verified that mileage claims submitted by senior management who receive a monthly car allowance to cover local travel up to a 100km radius from the City centre were, in all cases, related to out of town travel.

3.2   Policy and Guideline Improvements
In the fieldwork phase of the audit we identified improvements to existing policies and guidelines that will enhance risk mitigation with respect to employee use of personal vehicles in the performance of City duties and consistent course reimbursement practices. Four policies are due for revision, including one of two related to the use of personal vehicles, which we have brought forward to Administration.

Use of Personal Vehicles
Guidance on use of personal vehicles is referenced in two separate Administration policies and in one guide and includes the requirement to complete Form X96 (Travel Plan Insurance Declaration) every three years. We recommended policy updates requiring that employees using personal vehicles for City duties provide a signed Form X96 annually confirming the mechanical fitness of the motor vehicle and provide documentation of appropriate motor vehicle liability insurance and a valid driver's license. (Recommendation #1).

Inconsistent Course Reimbursement Practices
Since our sampling of employee reimbursement expenses focused on large dollar transactions, 11 of 20 samples reviewed related to reimbursements for courses. We identified inconsistent course reimbursement practices with respect to reimbursement percentage, study-days, and commitment to return for work. To promote consistency and transparency, and support One City, One Voice, we recommended that HR review current practices and develop employee development reimbursement guidelines (Recommendation #2).

3.3   Trending
We performed trending analysis of employee expenses from January 1, 2015 to December 31, 2017. As shown in Diagram 1, employee expenses in aggregate decreased by 18% in 2016 and by 12% in 2017. The decrease was not attributed to a reduction in staff levels as these remained relatively consistent from 2015 to 2017 (less than 3% change year-over-year).
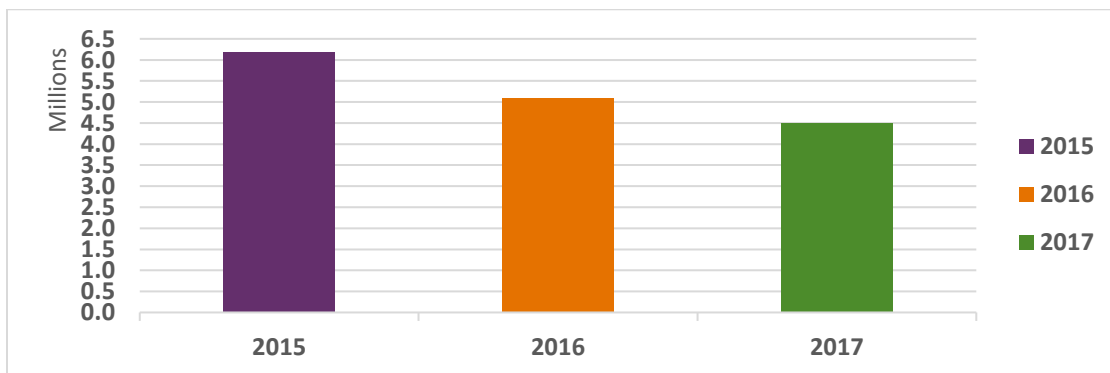

Diagram 1

There was also a significant reduction in expenses from 2015 to 2017 coded to Out of Town Travel (36%), Conferences (39%) and Training and Staff Development (37%). Due to the variability of coding within employee expense accounts and coding errors identified in testing (Section 4.3) we are unable to provide complete assurance over these numbers, however, positive results on an aggregate basis, support the intentional management of controllable costs.

3.4   Efficiency and Cost Saving Opportunities
Throughout the audit we evaluated results to identify efficiency and cost saving opportunities. We recommended the following to enhance the efficiency of employee reimbursement processes by reducing employee input and processing time, reducing the potential for coding errors, and related corrective entry time, as well as the number of expense claim compliance verifications performed. We believe these efficiencies gained and/or opportunities to redeploy resources could be significant.

Automated Employee Expense Claim Workflow
To increase the efficiency and effectiveness of the employee expense process, we recommended that Finance should implement an automated employee expense claim workflow (Recommendation #3). Utilizing the automated expense module included in The City's current financial software, would reduce manual system entry and allow for reallocation of staff to other priorities. In addition, automated forms with built in currency exchange, calculation functionality and account coding controls, will result in reduced review time and fewer errors.

Employee Expense Claim Compliance Verification
When non-compliance is identified by AP staff as a result of employee expense claim verifications, there is no process in place to track and monitor exceptions. In order to identify training and awareness opportunities, we recommended tracking and monitoring non-compliance and recurring errors (Recommendation #4). In addition, we recommended that Finance should implement a risk and sample based employee expense claim verification approach, rather than the current practice of reviewing 100% of claims previously approved by the DeptID Owner.

We would like to thank staff from Finance and Human Resources for their assistance and support throughout this audit.

4.0 Observations and Recommendations

4.1   Use of Personal Vehicles

Employees who use their personal vehicles for City business are required to complete Form X96 every three years. Employees who receive per kilometer (km) reimbursements should complete a relevant signed Form X96 annually to ensure that they have adequate and appropriate motor vehicle liability insurance based on intended business use, a vehicle in sound mechanical condition, and adequate driving privileges. Annual confirmation of these conditions reduces both financial and reputational risk to The City.

We identified 19 employees who received $5,000 or more in per km mileage reimbursements (approximately 10,000km). These claims were cumulative from October 1, 2016 to September 30, 2017. We followed up with the DeptID Owner for four claims to determine if there was a current Form X96 on file (within the past year) and obtained an up to date form for two samples. Pay Services provided up to date forms for the remaining two samples (2016 renewal process).

The requirement to complete Form X96 is referenced in Administration Policies HR-001 (A)-Car Allowance and FA-011 (D)- Reimbursement of Employee Travel, Vehicle, Parking, Insurance, Petty Cash and Other Expenses, and the Local Travel/ Car Allowance Administration Guide (Guide). Although the Guide indicates that Pay Services will coordinate a renewal process of Form X96 every three years, there is no annual requirement for the DeptID Owner to review Form X96 or for the employee to annually reconfirm appropriate insurance and the mechanical fitness of the vehicle. There is also no requirement for the employee to present proof of valid business insurance and driver's license.

Recommendation 1

The Chief Human Resources Officer and the Director Finance/City Treasurer update Policy HR-001 (A)-Car Allowance, Policy FA-011(D)-Reimbursement of Employee Travel, Vehicle, Parking, Insurance, Petty Cash and Other Expenses, and the Local Travel/Car Allowance Administration Guide and associated practices to require DeptID Owners to ensure that:
- Form X96 (Travel Plan Insurance Declaration) is completed annually for all employees receiving per kilometer reimbursements; and
- Employees provide proof of valid business insurance and driver's license.

Management Response

Partially agree.

We believe the 3-year cycle for completion of Form X96 that is currently in place is sufficient due to our value-based culture and the administrative burden that would result from annual completion. We agree there is value in an annual reminder to employees. The implementation of HR's Learning Management System may result in technological advances that would make annual completion feasible in the future.

Action Plan	Responsibility
HR will continue to request completion of the Form X96 every three years. In addition, HR will issue annual communication (e.g. Take5) to leaders and employees reminding them of their responsibilities under the policy and the associated guidelines, including the requirement to have appropriate business insurance and a valid driver's license.	Lead: Manager, HR Support Services Support: HR Leader, Corporate Pay Commitment Date: December 31, 2018

City Auditor's Response
An annual reminder to employees and DeptID Owners will raise awareness and may reduce the risk exposure in the short term. We advise HR to periodically reassess the related risk exposure and consider alternative risk mitigation solutions as appropriate.

4.2   Inconsistent Course Reimbursement Practices
City practices to reimburse employees for courses vary across the organization. The City should establish employee course reimbursement guidelines to support consistent practices and One City, One Voice. Adopting consistent practices will support transparency and reinforce an equitable approach to employee course support and reimbursement. If the financial investment in the course is significant, practices could include reimbursement only on successful completion.

Eleven of 20 ($34,116) expense claims reviewed related to payments for external courses, three ($14,662) of which were related to one semester of Master of Business Administration designation. The reimbursement percentage and other incentives (e.g. study-days) were not always formally documented and in some instances were verbally discussed and approved. We noted that for our sample:
- Eight completed Form X35 (Training Application), which outlined the expected return to work commitment.
- One department in our sample utilized a Management Development Programs (MDP) form, which included criteria to assess the percentage reimbursement, study-days and return to work commitment.
- There were varying practices with respect to the percentage reimbursed (from 55% to 75%).
- One case included authorized employee work time to complete course assignment requirements.

Recommendation 2
The Chief Human Resources Officer review current reimbursement practices for employee development and develop City of Calgary guidelines to support consistent practices.

Management Response

Agree.

Action Plan	Responsibility
Corporate guidelines will be provided to assist in decision making on reimbursement practices. Our review of current reimbursement practices will include elements such as the amount and timing of reimbursements and best practices.	Lead: Manager, Talent Development Support: Lead, Learning and Development Commitment Date: December 31, 2019

4.3 Automated Employee Expense Claim Workflow

The employee expense claim process is manual and does not leverage the available FSCM Expenses Module. Finance should use an automated workflow, which will improve the efficiency and effectiveness of the expense claim process and the utilization of AP resources. In addition, an automated workflow may reduce the risk of errors inherent in a manual process.

Currently, employees manually fill out the expense claim form and forward to their DeptID Owner for review and approval. The form is then sent to AP where AP analysts enter each claim into FSCM.

We identified three coding errors in our sample of 20 employee expense claims related to employee relocation expenses that were charged to the Business Travel Account (77540). Two of the samples were not subsequently reversed. AP advised that they do not check account coding since accurate account coding is the responsibility of the employee and the DeptID Owner.

The City's financial software, FSCM, includes an automated expense module. Utilizing this module will result in the elimination of AP analyst data entry time which will allow the reallocation of resources to other high priority activities. Automated forms with built in currency exchange, calculation functionality and account coding controls, will result in reduced review time and fewer errors. This module will also provide AP with the ability to generate reports to better understand employee expenditures and increase monitoring effectiveness as a result of improved coding.

Recommendation 3
The Manager of Tax, Payables and Receivables should implement the automated Expenses Module, which is part of the existing PeopleSoft Finance and Supply Chain Management system.

Management Response

Agree.

Action Plan	Responsibility
a) Accounts Payable will evaluate implementing the Expense Module in The City's financial software, FSCM. b) If implementation of the Expense Module in FSCM is not feasible, Accounts Payable will evaluate other options to enhance the existing employee expense claim process. c) Contingent upon the identification of options to enhance the existing employee expense claim process, Accounts Payable will implement enhancements identified.	Lead: Finance Leader, Accounts Payable Support: Information Technology Commitment Date: a) September 30, 2018 b) March 31, 2019 c) June 30, 2019

4.4 Employee Expense Claim Compliance Verification

There is no tracking or monitoring of expense claim trends identified during compliance verification of employee expense claims. Tracking and monitoring of trends supports the identification of global training and awareness opportunities. In addition, AP analysts verify 100% of expense claims for compliance. Employee expense claims should be verified using a risk based approach that focuses on coverage across the organization as well as high dollar transactions, which will allow AP to reallocate staff to high priority activities.

When AP analysts enter each claim into FSCM they review the details of the claim and validate compliance to Policy FA-011 (D)- Reimbursement of Employee Travel, Vehicle, Parking, Insurance, Petty Cash and Other Expenses, FA-016 (E)- Accounts Payable Corporate Credit Card, and Policy FA-048 (B)- Reimbursement of Meal and Hosting Expenses. From October 1, 2016 to September 30, 2017, AP entered and verified approximately 1,000 employee expense claim forms, which may include multiple expenses. When non-compliance is identified, AP notifies the employee or the DeptID Owner. There is no tracking or monitoring of expense claim trends (e.g. non-compliance, recurring errors).

AP's practice is to verify employee expense claims when entering the claim in FSCM. Employing a risk based approach will increase efficiencies by enabling AP analysts to track and monitor expense claim trends.

Recommendation 4
The Manager of Tax, Payables and Receivables should:
 a) Track and monitor employee expense claim trends to identify and communicate training and awareness opportunities to the organization; and
 b) Implement a risk based approach to the existing employee expense claim verification process that reduces the number of verifications.

Management Response

Agree.

Action Plan	Responsibility
a) Accounts Payable will evaluate processes to track and monitor expense claim trends and identify opportunities to communicate training and awareness to the organization. b) Contingent upon the implementation of process enhancements identified in Management Response 3c) evaluate implementing a risk-based audit approach to the employee expense claim verification process that reduces the number of verifications.	Lead: Finance Leader, Accounts Payable Support: Internal Controls and Risk Management Commitment Date: a) December 31, 2018 b) June 30, 2019