



**CITY OF VANCOUVER
INTERNAL AUDIT REPORT
2021 Employee Expense Audit**

Distribution:

Audit Committee
KPMG
(External Auditor)

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EXECUTIVE SUMMARY

September 17, 2021

Employee expenses cover various City-related expenditures where employees are reimbursed for business related expenses. The audit assessed whether the City's 2020 employee expenses were valid, reasonable, and in compliance with established policies and procedures.

Management has implemented various improvements to enforce tighter requirements for expense submission claims, improve spend analysis reporting, and in the process of implementing an expense management tool across the City.

No material items were identified to be inappropriate or in violation of policies and procedures. However, recommendations have been identified to strengthen controls in lower value expense categories. The more significant findings and recommendations from this audit include:

F.1 Re-iterate policies on Purchase Card and Business Meeting & Discretionary Expenses

Accounting Operations should continue to follow-up and re-iterate the Corporate Purchasing Cards and Business Meeting & Discretionary Expenses policies with purchase cardholders when non-compliances are identified. To address situations involving recurring policy non-compliances, an escalation process for notification to appropriate senior management and revocation of PCards should be implemented.

F.2 Improve accountability for honorarium payments to external recipients

Honorarium payments are provided to external non-City staff as tokens of appreciation for providing time and knowledge to certain City organized forums or meetings. Updates to departmental and City-wide procedural guidelines for honorarium payments would improve controls and accountability on distribution.

F.3 Clarify guidelines for IT purchases

Policies require that IT purchases made by staff for business use require approval by Technology Services. Clarification to staff on the appropriate channels for purchasing IT equipment and software and monitoring of exceptions would improve adherence to policy requirements.

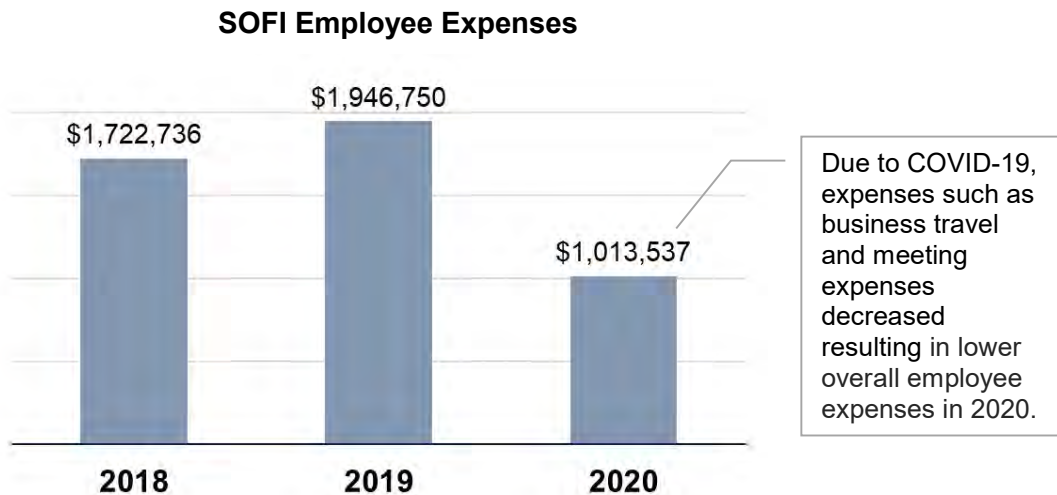
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A. BACKGROUND

Employee expenses in 2020

Employee expenses cover various City-related expenditures including travel, training, business meals, mileage, and professional dues where employees are reimbursed for business related expenses. The City’s Statements of Financial Information (SOFI) reports employee expenses between 2018 and 2020 as follows:



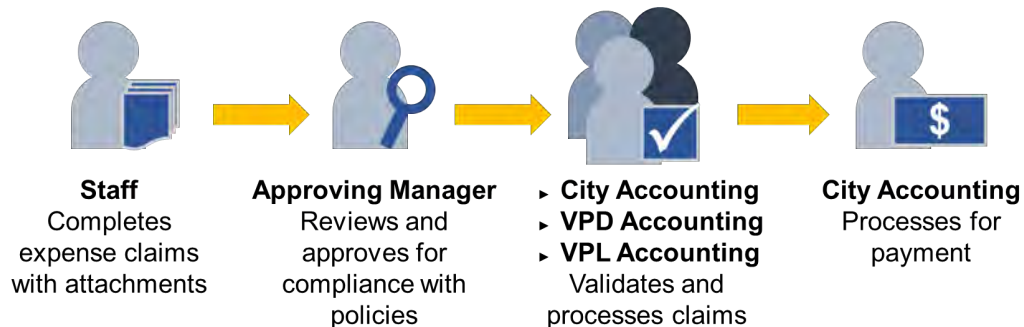
Employee expense policies and process

City policies relating to employee expenses include:

- Business Meeting & Discretionary Expenses (ADMIN-013)
- External Training (AE-017-01)
- Travel (ADMIN-026)
- Corporate Purchasing Cards (AF-010-01)
- Hiring Interview Expenses (AE-014-01)
- Professional Dues (AE-024-01)

The Vancouver Police Department (VPD) and Vancouver Public Library (VPL) have their own respective policies that cover employee expenses.

Expense claims are completed by staff, approved by managers, and submitted to the respective accounting functions in the City, VPD, VPL for validation before being paid.



B. SCOPE

The audit assessed whether the City's 2020 employee expenses were valid, reasonable, and in compliance with established policies and procedures. This audit is conducted every two years, with the previous audit completed in 2019, on 2018 employee expenses.

The scope of the audit included employee expenses, travel & training claims, and purchase card (PCard) transactions for the period of January 1 to December 31, 2020 for City, Parks and Recreation, VPD and VPL staff. VPD and VPL expenses were also covered under the Financial Statement Reviews performed by Internal Audit in February and April 2021 respectively.

Our work included interviews with members of the Accounting Operations and Payroll teams, along with work procedures that included:

- review of City policy documents;
- use of data analytics on Purchase Card and employee expense submissions to identify potential exceptions, outliers, and trends for follow-up as required;
- identification of potential duplicated claim submissions;
- verification of expense approvers and approval requirements; and
- review of supporting transaction receipts and reimbursement claim forms.

The audit was not designed to detect fraud. Accordingly, there should be no such reliance.

C. CONCLUSION

Management has implemented various improvements to enforce tighter requirements for expense submission claims, improve spend analysis reporting, and in the process of implementing an expense management tool.

No material items were identified to be inappropriate or in violation of policies and procedures. To improve purchase card administration and non-compliances in lower value expense categories, the Corporate Purchasing Cards and Business Meeting & Discretionary Expenses policies should be re-iterated to staff along with implementing processes to address situations of recurring non-compliances. Additional departmental and City-wide procedures should be developed for honorarium payments and IT related purchases to strengthen controls.

Findings and recommendations were discussed with management and their responses were incorporated in this report. Management has committed to implementing the recommendations. We thank the Accounting Operations and Payroll teams for their assistance with the audit.

D. RISK ANALYSIS

The potential risks considered if controls over employee expenses were not in place included:

- financial loss due to inappropriate or excessive claims;
- reputational harm from loss of confidence in the integrity of City processes; and
- non-compliance with established policies and procedures.

E. POSITIVE OBSERVATIONS

Since the 2019 audit of employee expenses, management has addressed previous audit recommendations and have implemented the following:

- quarterly analysis and reporting of employee expenses to identify trends, anomalies and potential policy violations;
- tighter enforcement of submission claims for travel and business meeting expenses through expense submission audits and checks; and
- implementation of an employee expense management tool scheduled to be rolled-out in 2022 to streamline expense submission channels, enhance expense approval and embed City expense policy rules.

F. AUDIT ISSUES, RECOMMENDATIONS AND MANAGEMENT RESPONSES

F.1 Re-iterate policies on Purchase Card and Business Meeting & Discretionary Expenses

Some transactions not compliant with Purchasing Card policy

AF-010-01 Corporate Purchasing Cards outlines the policies that cardholders must follow. There were approximately 24,000 PCard transactions totalling \$5.3M. While not material, non-compliances from 314 transactions were noted. Non-compliances included:

- professional dues and membership fees that should be claimed through Payroll;
- training workshops fees where the Training Claim Form was not submitted with PCard supporting documentation;
- transactions that were not approved by a manager in the PCard reconciliation process;
- transactions that exceeded the \$2,000 PCard policy transaction limit;
- split transactions where the total purchase amount was split into multiple transactions to avoid the \$2,000 PCard policy transaction limit; and
- transactions where descriptions of expenditures were not provided in the PCard reconciliation process to enable informed managerial review and approval.

Refer to Appendix A for detailed transaction volumes and totals.

Non-compliance with Business Meeting & Discretionary Expense policy

City policy ADMIN-013 Business Meeting & Discretionary Expenses outlines disallowable expenditures. Purchases of meals and gifts to staff for reasons such as birthdays, anniversaries, illness, retirement, bereavement are included in the list of disallowable expenditures under this policy. Twenty-nine transactions totaling \$5,000 fell under the disallowable expenditure categories from 14 card accounts within one department. Expenses were related to staff retirements and meals that were approved by senior management.

Re-iterate PCard policies and monitoring processes

Accounting Operations performs quarterly analysis to identify trends and anomalies noted above. To improve compliance, policies and cardholder obligations should be re-iterated to cardholders, approving managers, and site coordinators. Follow-up with account cardholders with non-compliances should continue to be performed. As per AF-010-01 Corporate Purchasing Cards:

“Failure to comply with the P-Card policy and related procedures may result in the P-Card being revoked. Any violations of this policy may be reported to the appropriate General Manager and Human Resources for further actions.”

Where exceptions to policies have been approved by senior management, expenditures should be tracked for monitoring and reporting. Excessive expenditures should be escalated to the respective department General Manager to enable effective monitoring.

Recommendations:

F.1.1 The Associate Director, Accounting Operations should reiterate to purchase cardholders their responsibilities as outlined in AF-010-01 Corporate Purchasing Cards and ADMIN-013 Business Meeting & Discretionary Expenses. The communication should also include reminding approving managers and site coordinators of their responsibilities in verifying card transactions and administering card requirements. This should be completed by March 31, 2022.

Management Response:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Agree with the findings | <input checked="" type="checkbox"/> Agree with the recommendations |
| <input type="checkbox"/> Disagree with the findings | <input type="checkbox"/> Disagree with the recommendations |

Management Action Plan:

Management will communicate these policies through Citywire and continue to follow up on audit exceptions identified through random audit of payments and quarterly exception reports, which are shared with Director, FS and Director FRS.

F.1.2 The Associate Director, Accounting Operations should continue to follow-up with cardholders on PCard transactions that do not comply with policies. The process should include an escalation process for notification to appropriate senior management and revocation of the PCard where deemed necessary. Where exceptions to policies have been approved by senior management and deemed significant in nature and recurrence, expenditures should be tracked for monitoring and escalation to departmental General Managers as required. This should be completed by March 31, 2022.

Management Response:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Agree with the findings | <input checked="" type="checkbox"/> Agree with the recommendations |
| <input type="checkbox"/> Disagree with the findings | <input type="checkbox"/> Disagree with the recommendations |

Management Action Plan:

Management will continue to follow up on audit exceptions identified through random audit of payments and quarterly exception reports, which are shared with the Director, FS and Director FRS.

F.2 Improve accountability for honorarium payments to external recipients

Honorarium payments are given to external non-City staff as tokens of appreciation for providing time and knowledge to certain City organized forums or meetings. Honorarium payments distributed averaged approximately \$50 per recipient. However, the following were noted:

- Payments from personal accounts and fund advances
Honorarium payments should be paid to recipients by Accounting Operations to ensure adequate control and oversight. However, 20 expense submissions totalling

\$9,800 of honorarium payments were made from fund advances or from staff personal funds using e-transfers and cash for expense reimbursement.

- Incomplete acknowledgements of receipt

35% of claims sampled did not have acknowledgements of receipt by the recipients of honorarium payments totalling \$5,500 from 7 expense claims. Acknowledgements of receipt were also not consistently obtained for gift cards distributed to external non-City staff. There were approximately 96 PCard transactions, totalling \$10,600 of gift cards purchased for distribution. Gift cards range from \$5 - \$50 for community programs, outreach client services and emergency services.

Acknowledgement of receipt is a control to ensure that payments are made to intended recipients and to prevent misappropriation of funds. An acknowledgement of receipt should contain the recipient's initial or signature, name, date and amount.

- No SIN provided by recipients

60% of claims sampled had no or partial tax information provided. The Canada Revenue Agency considers honorariums a taxable benefit. The City is required to issue T4A tax forms to individuals who receive \$500 or more in a year. Tax information such as name, SIN and mailing address are needed to issue T4A forms.

The Arts, Culture and Community Services (ACCS) department issued the majority of honorarium payments to support their programs and initiatives. ACCS works with populations experiencing marginalization where obtaining tax information is not always possible.

Update procedures for honorarium payments

In the short-term, procedures for honorarium payment methods, requirements for recipient tax information, receipt acknowledgement and exceptions monitoring should be updated. Currently, City-wide guidelines are documented in the Honorarium Requisitions form managed by Accounting Operations. ACCS departmental procedures for issuing honorarium payments are documented in the ACCS Honorarium Guidelines which are aligned to City-wide guidelines.

Going forward, ACCS and Accounting Operations plan to holistically address situations where tax information cannot be readily obtained for honorarium payments. This includes consultation with non-profits and other agencies, as this is a challenge faced similarly by other non-profits and other levels of government across Canada. ACCS staff reported that they are working with a national committee related to the Missing and Murdered Indigenous Women Inquiry recommendations, who are undertaking this work as part of reconciliation work, to examine who to provide honoraria to Indigenous people without asking for SIN numbers and other information which often replicates issues of colonization.

Recommendations:

F.2.1 The Associate Director, Accounting Operations should clarify and communicate procedures on honorarium payments to external non-City staff. This includes updating and communicating procedures for:

- **Honorarium payment methods whereby honorariums should be paid to recipients directly from the City and not through staff personal funds for expense reimbursement. Where necessary, alternative payment solutions should be explored.**
- **Documentation requirements for tax purposes such as name, mailing address, date paid, amount, and SIN.**
- **Documentation for receipt acknowledgement on honorariums and gift card payments.**

This should be completed by June 30, 2022.

Management Response:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Agree with the findings | <input checked="" type="checkbox"/> Agree with the recommendations |
| <input type="checkbox"/> Disagree with the findings | <input type="checkbox"/> Disagree with the recommendations |

Management Action Plan:

Management will share with ACCS the relevant compliance rules regarding taxation and general payment guidelines to 3rd parties and employees who are using their own funds to pay 3rd parties and will update the current Honorarium Requisition to include such guidelines.

F.2.2 The General Manager of Arts, Culture, and Community Services (ACCS) should update the ACCS Honorarium Guidelines and practices as required, to reflect updates to honorarium payment procedures once updated by Accounting Operation.

For exceptional situations where tax information cannot be obtained, honorarium payments should be tracked to include the amount, date and purpose of payments. The tracking list should be reviewed and approved by the General Manager of ACCS, at least annually, to ensure reasonability on overall payments. This should be completed by June 30, 2022.

Management Response:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Agree with the findings | <input checked="" type="checkbox"/> Agree with the recommendations |
| <input type="checkbox"/> Disagree with the findings | <input type="checkbox"/> Disagree with the recommendations |

Management Action Plan:

ACCS Honourarium Guidelines do not contradict City Policy; rather they provide operational guidance for staff as to when an honourarium can be considered and in fact refers to City forms and policies for actual implementation. The Guideline refers to City Policies, procedures, and forms for how to implement an honourarium once an operational decision has been made to offer one. ACCS GM is open to hearing from Audit team how the purpose of this document and its relationship with existing City Policy can be better articulated so as not to be perceived to be in contradiction to City Policy.

It should be noted, however, that the existing approaches to providing honourariums are creating challenges for engaging communities who experience marginalization, including Indigenous Elders. This is having an adverse effect of our reconciliation and equity commitments. Other organizations, including UBC, are finding ways to enable staff to support engagement with Indigenous elders: e.g., e-transfer funds from personal accounts and claim it back, not requiring SINs in some cases, etc. to be responsive to the life situations of marginalized community members. ACCS staff would like to work with Accounting Operations to explore how to implement Reconciliation and equity principles into honourarium practices.

- *GM ACCS agrees that better internal processes for regular review of honourariums should be implemented, including GM review, and will do so as recommended by June 30, 2022.*
- *GM ACCS will also ensure that Managing Directors discuss with staff who do offer honourariums the requirement to follow City procedures for how to disburse and account for them.*
- *While ACCS Guidelines only address when to offer an honourarium and not how, the latter*

which is the subject of City Finance policy and procedures, the GM ACCS will ensure that once Finance alerts ACCS to updates of any Honourarium Policy and Procedures that ACCS staff are updated on the requirements for how to implement to ensure compliance.

- This work will be assigned to the new Managing Director of Departmental Services and Partner Agreements to implement, including discussing issues noted in comments above with Accounting Operations.

F.3 Clarify guidelines for IT purchases

Approval required for IT related purchases

For IT related purchases, approval by Technology Services is required as stated in the following City policies:

- AF-010-01 Corporate Purchasing Cards: *“Prohibited purchases include: computer hardware and software, cellular phones, unless written authorization obtained from the Chief Information Officer.”*
- ADMIN-035 Acceptable Use: Prohibited applications and subscriptions: *“All applications must be authorized and installed by Technology Services and meet the City standards, which are published through the ServiceNow service catalog. Staff are not permitted to use cloud software and web applications (e.g. dropbox, trello, etc) that aren’t yet approved by Technology Services.”*

IT related purchases made without written approval submitted

IT related purchases through employee expenses and PCard did not consistently include written Technology Services approval. Of the transactions reviewed, there were 255 transactions totalling \$45,000. Purchases include computer accessories and software subscriptions. This amount excludes purchases that enabled the rapid transition to remote work from COVID-19 between March to April 2020. Transactions identified have since been reviewed by Technology Services.

Risks of unapproved IT equipment and software

Unauthorized software subscriptions could introduce cybersecurity, information privacy and reputational risks to the City. Inappropriate purchases of IT equipment may result in higher IT equipment costs and introduce longer-term equipment support issues.

Recommendations:

F.3.1 The Director, Enterprise Technology should develop a process for handling IT purchases for equipment and software that are not from the ServiceNow Catalog. The process should include communication, escalation and resolution of those IT purchases to reduce potential risks to the City. This should be completed by June 30, 2022.

Management Response:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Agree with the findings | <input checked="" type="checkbox"/> Agree with the recommendations |
| <input type="checkbox"/> Disagree with the findings | <input type="checkbox"/> Disagree with the recommendations |

Management Action Plan:

Technology Services will create a new process to manage unapproved IT purchases. This action plan depends on the implementation of the new Travel and Expense system in 2022. The Associate Director, Accounting Operations would provide Technology Services a report periodically indicating any non-compliant purchases. Technology Services would communicate to the employee and their manager/supervisor and request an action plan from them for resolution. The resolution may involve other departments like the PCI Office, Access to Information and Privacy and Accounts Payable.

F.3.2 The Director, Enterprise Technology should develop a communication plan to educate City staff on the appropriate channels for purchasing IT equipment and software. Once developed, Technology Services should communicate and remind staff and managers on an on-going basis. This should be completed by June 30, 2022.

Management Response:

- Agree with the findings
- Disagree with the findings
- Agree with the recommendations
- Disagree with the recommendations

Management Action Plan:

Technology Services will need to partner with CEC to develop a communication plan regarding the appropriate channels for purchasing IT equipment and software.

F.3.3 The Associate Director, Accounting Operations should develop reports of IT purchases for equipment and software that were not from the ServiceNow Catalog to enable follow-up by Technology Services. This should be completed by June 30, 2022.

Management Response:

- Agree with the findings
- Disagree with the findings
- Agree with the recommendations
- Disagree with the recommendations

Management Action Plan:

Management will review the information from Director, IT and incorporate into the automated Expense System as Business rule to identify exceptions, to be shared with Director, IT

F.4 Enhance spend analysis and controls monitoring through data analytics

Accounting Operations provides quarterly analysis of employee expenses to identify trends, anomalies and possible policy violations. Analysis is mainly performed using a spreadsheet tool.

Opportunity exists to enhance the transactional data analysis of employee expenses with an analytical tool. A data analytics tool could enable the ability to perform checks on a continuous basis to better detect non-compliances on a more timely basis. Enhanced reporting capabilities should be explored with the new employee expenses management tool.

Recommendation:

F.4.1 The Associate Director, Accounting Operations should explore the use of data analytics and exceptions reporting to enhance the review of employee expenses. This should be completed by June 30, 2022.

Management Response:

Agree with the findings

Agree with the recommendations

Disagree with the findings

Disagree with the recommendations

Management Action Plan:

Management will use standard reports and customized reports to identify exceptions that were otherwise not identified through Business rules.

G. OTHER OBSERVATIONS

G.1 Review and refresh employee expense policies

There are currently six City policies and various procedures relating to employee expenses. VPL and VPD have their own respective policies that cover employee expenses.

As part of the expenses management tool implementation project, employee expenses related policies will be reviewed and updated. Where applicable, policies will be consolidated and integrated into the new tool to improve awareness and communication of policies.

APPENDIX A

Details of identified non-compliant purchase card transactions related to F.1

While not material, 314 transactions that did not comply with the Corporate Purchasing Card policy were noted as detailed below:

	# of Transactions	Total	Average	# of Cards	Categories of purchases
Professional dues not claimed through Payroll	5/10 transactions sampled	\$3.8K	\$778	5	Individual professional membership or association fees
Training Claim Form not submitted with PCard receipts	7/10 transactions sampled	\$10K	\$1,500	5	Training workshops and seminars for professional development
Unapproved card transactions ^{1,2}	52	\$8.8K	\$170	16	Operations supplies, association fees
Over \$2,000 transaction limit ¹	46	\$149K	\$3,200	21	Group membership fees, software renewals, operations equipment and parts
Split transactions ^{1,3}	78 split transactions	\$267K	\$3,400 per grouping	36	Service repairs, pandemic supplies
Without descriptions ¹	126	\$30K	\$224	47	Operations equipment and parts, building materials

- (1) Categories may include PCard transactions that relate to both employee expenses and purchases related to business operations that are not considered employee expenses.
- (2) Unapproved card transactions refer to PCard transactions that were not approved by a manager in the PCard system. Managers are responsible for reviewing and approving the cardholder's monthly transaction statements online each month and ensuring appropriate supporting documentation is attached for each transaction.
- (3) Split transactions refer to transactions where the total purchase amount was split into multiple transactions to avoid the \$2,000 PCard policy transaction limit.