



CITY OF VANCOUVER

INTERNAL AUDIT REPORT

Travel, Training and Employee Expenses

February 3, 2025

EXECUTIVE SUMMARY

The Travel, Training and Employee Expense Audit assessed the processes and controls in place to ensure the City's travel, training and employee expenses comply with established policies and are valid, reasonable expenses. The audit also reviewed the expense claim processes involved with the newly implemented expense management system to ensure internal controls are adequate, and the processes are effective and efficient.

In our opinion, internal controls related to employee expense processes are generally adequate, with opportunities for improvement. While some expense transactions were identified as non-compliant with City policies, the value of these items was not material. To improve compliance, it is recommended that processes be formalized to identify potentially non-compliant transactions and to report and escalate non-compliance issues as required. Additionally, there is an opportunity to align approval workflows in the expense management system with the approval requirements set out in City policies.

The more significant findings and recommendations are:

F.1 Enhance monitoring of travel, training and employee expenses for compliance to City policies

Expenses that were non-compliant with the Corporate Purchasing Cards Policy, Business Meeting and Discretionary Expenses Policy, and Training Policy were identified in our review, although these transactions were approved in the system by management. Accounting Operations should reiterate relevant policy requirements to all staff and management. Additionally, periodic monitoring and follow-up processes should be implemented to identify and address non-compliance issues with expense owners.

F.2 Align system approval workflows with policy requirements for travel and training

Pre-approval and approval workflows in the system for travel and training expenses are not reflective of the approvals required in the City policies for these items, which has resulted in expenses that were non-compliant with the Travel Policy and the Training Policy. System approval workflows should align with the requirements outlined in the relevant policies to facilitate the appropriate level of both pre-approval and approval for these expenses.

A handwritten signature in black ink, appearing to read "C. Fuellbrandt".

Carmen Fuellbrandt, CPA, CMA, CIA
Chief of Internal Audit

A. BACKGROUND

As per the City's Statements of Financial Information, employee expenses totaled \$2.27M in 2023. Employee expenses include travel, training, business meals, professional dues and other miscellaneous items. These expenses are paid either using a City-issued payment card (P-card) or via the employee expense reimbursement process. To ensure the reasonableness of expenditures and the appropriate use of P-Cards, the City provides guidance to staff through the following policies and procedures:

- ADMIN-013 Business Meeting and Discretionary Expenses;
- ADMIN-018 Financial Spending Authority;
- ADMIN-026 Travel;
- ADMIN-054 Corporate Purchasing Cards;
- ADMIN-054P1 Purchasing Card Procedures;
- AE-017-01 Training – External; and
- AE-024-01 Professional Association Fees.

In March 2023, the City implemented Chrome River, an expense system that enables management of employee expense reimbursements, monthly P-Card reconciliations, and approvals for all travel, training, and employee expenses. Since May 2023 and June 2024, respectively, Chrome River has also been used by the Vancouver Public Library (VPL) and the Vancouver Police Department (VPD).

B. SCOPE

The Travel, Training and Employee Expenses Audit was initiated to assess the processes and controls in place to ensure the City's travel, training and employee expenses comply with established policies and are valid, reasonable expenses. Additionally, the audit reviewed the expense claim processes involved with the newly implemented expense management system to ensure that internal controls are adequate, and the related processes are effective and efficient.

The scope of the audit included employee expenses, travel and training claims, and P-Card transactions related to these expenses for the period of March 1, 2023, to February 29, 2024, for City, Parks and Recreation, VPD and VPL staff.

Our work included interviews with members of the VPL Finance team, VPD Finance team, and the City's Accounting Operations team, along with work procedures that included:

- Review of City policy documents;
- Data analysis of purchasing card and employee expense claims to identify potential exceptions, outliers, and trends for follow-up as required;
- Sample review of expense claims for verification of approval and sufficient supporting documentation.

The audit was not designed to exclusively detect fraud but serves as an evaluation of internal controls used to detect or mitigate fraud. Accordingly, there should be no such reliance.

C. CONCLUSION

In our opinion, internal controls related to employee expense processes are generally adequate, with opportunities for improvement. While some minor non-compliance items were noted, these items were not material. To improve compliance, it is recommended that processes be formalized to identify potentially non-compliant transactions and to report and escalate non-compliance issues as required. Additionally, there is an opportunity to align approval workflows in the expense management system with the approval requirements set out in City policies.

Findings and recommendations have been discussed with appropriate management and their responses are incorporated in this report.

D. RISK ANALYSIS

The potential risks considered if controls over travel, training and employee expenses were not in place include:

- Financial loss due to inappropriate, invalid or excessive expenses incurred by City staff;
- Reputational harm from loss of confidence in the integrity of City processes; and
- Non-compliance with established policies and procedures.

E. POSITIVE OBSERVATIONS

Management has taken the following actions to address audit recommendations from Internal Audit's previous audits of employee expenses.

- Implemented an employee expense management tool (Chrome River) in March 2023;
- Established regular meetings with the Chrome River Service Support team to identify areas of improvement and resolve any challenges post-implementation; and
- Commenced revision of employee expense related policies to reflect the new procedures involved with submitting expenses in the Chrome River system.

F. AUDIT ISSUES, RECOMMENDATIONS AND MANAGEMENT RESPONSES

F.1 Enhance monitoring of travel, training and employee expenses for compliance to City policies

Managers are responsible for approving expense claims submitted by their direct reporting staff. Part of this approval process involves ensuring that expenses are compliant with City policies.

While we found that employee expense claims were approved by managers in the system, data analysis revealed transactions that were potentially not in compliance with City policy, based on the descriptions and information available in the expense management system. These areas include:

- Expenses disallowed by policy, including those incurred for staff retirements and year-end or Christmas events;
- Purchases made on P-Cards prohibited by policy, such as training expenses where proof of satisfactory completion is required for reimbursement and office furniture and equipment;
- Purchases made on P-Cards requiring written approval, namely computer hardware and software; and
- Circumvention of P-Card transaction limits by splitting purchases into multiple transactions.

These findings indicate that additional measures may be required to monitor travel, training and employee expenses to facilitate compliance with City policies. There is a need to follow-up on non-compliance issues with employees and their managers, and for an escalation process to be in place for repeat occurrences to ensure accountability.

Recommendations:

F.1.1 The General Manager, Finance & Supply Chain Management should oversee that a reminder is issued to all staff reiterating acceptable P-Card purchases and business expenses as outlined in the Corporate Purchasing Cards Policy and the Business Meeting and Discretionary Expenses Policy. The communication should also include reminding approving managers and site coordinators of their responsibilities in verifying the validity of expenses and ensuring compliance with City's policy. This should be completed by March 31, 2025.

Management Response:

Please check one:

- ☒ Agree with the findings
☐ Disagree with the findings

Please check one:

- ☒ Agree with the recommendations
☐ Disagree with the recommendations

Management Action Plan:

Management will draft a communication and send to staff.

F.1.2 The Associate Director, Accounting Operations should establish a formalized periodic review process for employee expenses to identify potentially non-compliant transactions. The reporting capabilities of the expense management system should be investigated and leveraged to provide the data for monitoring and flagging exceptions. This process should also involve reporting and escalating non-compliance issues to the General Manager, Finance & Supply Chain Management and department managers as required. This should be implemented by March 31, 2025.

Management Response:

- ☒ Agree with the findings
☐ Disagree with the findings

- ☒ Agree with the recommendations
☐ Disagree with the recommendations

Management Action Plan:

Management will continue with the existing Exception reporting process to the Director of Finance.

F.2 Align system approval workflows with policy requirements for travel and training

Since March 2023, all expense approvals are processed through the expense management system rather than through paper forms previously in use. The system approval workflow is currently set up so that any expense claims submitted by employees will route to their direct reporting manager for approval.

Travel Expense Approvals

As set out in the City's Travel Policy, all employee travel expenses must be approved prior to departure by the General Manager (for travel within North America) or the City Manager (for travel outside North America). The General Manager is also responsible for approving expenses relating to the travel that are claimed for reimbursement post-travel.

There is no automatic routing of travel expense claims in the system to the department General Manager or the City Manager, and our analysis of the expense transaction data confirmed that these approvals did not occur in the system. Additionally, pre-approval of travel has not been set up in the system as a mandatory requirement.

As per discussions with management in Accounting Operations, a review of ADMIN-026 Travel Policy is in progress and management indicated that the pre-approval requirements are still valid.

Training Expense Approvals

All training expenses must be approved by the department head prior to enrolment. City policy distinguishes between short-term (seminars, workshops) and long-term (credit and non-credit courses) training because it affects the recipient and timing of payments. For example, fees for short-term training are paid directly to the training institution whereas fees for long-term training are reimbursed to employees in two increments (at the start and upon successful completion). Short and long-term training is not distinguished in the expense management system and does not facilitate compliance with the different policy requirements for approval and timing of payment.

The City's Training – External Policy was last updated in 1996 and requires review to ensure it reflects current practices, includes updated references, and considers the validity of approval requirements.

Once policies and procedures are updated, the system approval workflows should be implemented in the expense management system to align with the relevant policy requirements for the type of expense.

Recommendations:

F.2.1 The Associate Director, Accounting Operations should work with the expense management system vendor to assess the feasibility of aligning approval workflows in the expense management system with the approval requirements in the updated ADMIN-026 Travel Policy. Alternatively, if pre-approvals are to be obtained outside of the expense management system, this requirement should be re-iterated to management and staff, and a reference to the pre-approval should be made in the system. This should be completed by December 31, 2025.

Management Response:

☒ Agree with the findings

☒ Agree with the recommendations

☐ Disagree with the findings

☐ Disagree with the recommendations

Management Action Plan:

The policy is currently under review. If the pre-approval requirements stay in place, the implementation period will extend beyond the deadline of March 31, 2025, as it will require cost assessment and inherent changes in the approval system.

F.2.2 The Director, Talent Strategies should ensure that the AE-017-01 Training Policy is reviewed, updated and approved. The review should include an assessment and update of the pre-approval and approval requirements for training expenses. In addition, detailed descriptions should be added to distinguish between short-term and long-term training. The policy updates should then be outlined and communicated to all staff. This should be completed by October 31, 2025.

Management Response:

☒ Agree with the findings

☒ Agree with the recommendations

☐ Disagree with the findings

☐ Disagree with the recommendations

Management Action Plan:

F.2.3 Upon completing the revision for the AE-017-01 Training Policy (Recommendation F.2.3), the Director, Talent Strategies should work with Accounting Operations to implement system pre-approval and approval workflow to ensure that all training-related expenses are routed to appropriate level of approvers as stipulated in the updated AE-017-01 Training Policy. This should be completed by October 31, 2025.

Management Response:

☒ Agree with the findings

☒ Agree with the recommendations

☐ Disagree with the findings

☐ Disagree with the recommendations

Management Action Plan:

F.3 Establish guidelines for accurate expense categorization

Expenses should be categorized correctly to ensure they are recorded in the appropriate account and to maintain the accuracy of financial data. During our review of employee expense transactions, instances of expenses being incorrectly categorized in the expense management system were observed. There was a total of \$404,993 in expenses categorized as "Miscellaneous/Other" for the period under review. A sample of 30 transactions from this expense category revealed that 19 of those items were incorrectly categorized. These expenses would be more accurately categorized under IT services, program supplies, parking, courier, equipment, professional fees, memberships and training.

Once miscategorized items are submitted and approved, it becomes difficult to identify and follow up on these discrepancies. Management from Accounting Operations indicated that they are aware of this issue and have added additional categories in the expense management system to assist with reducing the number of incorrectly categorized items. However, the trend of miscategorized items persists.

Incorrect expense categorization could lead to inaccurate employee expense reporting and could also circumvent system controls such as required approvals. This issue may also affect the monitoring process for exception identification and data analytics.

Recommendation:

F.3.1 The Associate Director, Accounting Operations should establish guidelines for expense categorization and ensure they are communicated and accessible to all staff. The communication should also address limiting the use of the category “Miscellaneous/Other” in the expense management system. This should be completed by March 31, 2025.

Management Response:

☒ Agree with the findings

☒ Agree with the recommendations

☐ Disagree with the findings

☐ Disagree with the recommendations

Management Action Plan:

Management will envisage a process around coding to miscellaneous expenses and reiterate through CFO communication as part of finding F.1.1.

G. OTHER OBSERVATIONS

G.1 Streamline the calculation of employee expenses reported on the Statement of Financial Information

The implementation of Chrome River has enabled the centralization and electronic availability of employee expense records which should help to streamline the annual calculation of employee expenses as reported on the annual Statement of Financial Information. Doing so will ensure the consistency and accuracy of this annual calculation.

DISTRIBUTION

To:

City Leadership Team
Julia Aspinall – Director, Financial Services
Michael Walia – Associate Director, Accounting Operations
Andrew Naklicki – Chief Human Resources Officer
Simon Goldsmith – Director, Talent Strategies
Nancy Eng – Senior Director, Financial Services, VPD
Julia Morrison – Director, Corporate Services & CFO, VPL

CC:

Audit Committee
Auditor General
External Auditor (KPMG)