SUBJECT: Audit Report 2006-05 – Business Travel, Training and Related Expenses (CM07009) (City Wide)

EXECUTIVE SUMMARY:
As part of the work plan, Internal Audit reviews business travel, training and other related expenses on an annual basis. The results for 2006 expenses are included in a formal audit report containing observations, recommendations and management responses, attached as Appendix “A” of Report CM07009.

BACKGROUND:
This annual review included an assessment of compliance with specific policies and procedures related to travel and tuition reimbursement as well as ensuring the accuracy, completeness, authorization and proper recordkeeping in regard to such expenditures. The audit work was completed in December, 2006.

The Audit and Administration Committee receives and approves final audit reports and reviews as part of its responsibilities for the oversight of governance and control.

RECOMMENDATION:
(a) That Report CM07009 respecting Audit Report 2006-05, Business Travel, Training and Related Expenses, be received; and

(b) That the management actions plans as detailed in Appendix “A” of Report CM07009 be approved and the General Manager of Finance and Corporate Services direct the appropriate staff to have the plans implemented.
ANALYSIS/RATIONALE:

This audit is performed annually as part of the Internal Audit work plan. The objectives are to determine whether adequate controls exist to prevent unauthorized travel, seminar and conference expenditures and whether travel expense reports and payments are processed in compliance with the City’s policies and procedures. Mileage and tuition claims were examined in a similar manner.

The attached Appendix “A” of Report CM07009 contains the observations, recommendations and management responses resulting from the audit of business travel, training and other employee related expenses.

Due to the nature of the expenditures (i.e. the employees’ responsibility for the purchase of goods and services resulting in their personal benefit and the reliance on management for diligent review), there is a risk of financial loss to occur. As individual expenditures are normally small dollar amounts, the overall risk of significant financial loss is relatively low. This audit is performed on an annual basis, lowering the risk of ongoing losses. The frequency of the audits may also act as a deterrent.

There has been some significant improvement in incidences of non-compliance with policies and procedures over the time period since the last audit.

The main recommendations noted for action in the report pertain to: consistency in charging expenses to accounts; final travel claims submitted within prescribed timeframes (even though Accounts Payable staff have been diligent in sending reminders) and enforcement of withholding further advances or expense reimbursements from delinquent staff; communication of and adherence to the process of referring payment requests to appropriate Finance and Administration (F&A) staff prior to sending invoices to Accounts Payable; and tighter controls over reimbursement for mileage.

Management and staff have agreed to take measures in order to implement all of the seven recommendations. Specific action plans can be found in the attached audit report.

ALTERNATIVES FOR CONSIDERATION:

Not applicable.

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

Financial
None.

Staffing
None.

Legal
None.
POLICIES AFFECTING PROPOSAL:

None.

RELEVANT CONSULTATION:

The attached report includes management action plans which reflect the responses of management and staff responsible for business travel, training and related expenses (i.e. Financial Services and Finance & Administration, Divisions of Corporate Services).

CITY STRATEGIC COMMITMENT:

By evaluating the “Triple Bottom Line”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

- Community Well-Being is enhanced.  ☑ Yes  ☐ No
- Environmental Well-Being is enhanced.  ☐ Yes  ☑ No
- Economic Well-Being is enhanced.  ☑ Yes  ☐ No

The City Council’s strategic commitment to “Best Practices – Best Value” under “A City That Spends Wisely and Invests Strategically” is addressed through audits and reviews and their subsequent follow up to ensure controls are in place to protect the assets of the City and promote efficient, effective and economic services and programs.

- Does the option you are recommending create value across all three bottom lines?  ☑ Yes  ☐ No
- Do the options you are recommending make Hamilton a City of choice for high performance public servants?  ☑ Yes  ☐ No

ap:dt
Attachment
### OBSERVATIONS OF EXISTING SYSTEM

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<td>The current policy requires final travel expense reports to be submitted to Accounts Payable within 30 working days following the conclusion of a seminar or conference (submission required within 20 days prior to the June 28, 2006 policy revision). Even though Accounts Payable staff have been diligent in sending reminders to employees with overdue advances, with a copy to the employee’s General Manager, of the ten (10) travel expenses that had advances selected for testing, only two (2) were cleared within the prescribed time period. The other eight (8) employees who did not comply had days overdue ranging from 36 to 140 days. The delay in final clearing is partly attributable to the need of the External Disbursements Clerk to return forms to the claimant or request clarification on items submitted (supporting information not attached or lack of clear details). Similar exceptions have been brought up in previous audit reports. If advances are not cleared on a timely basis, costs of travel may not be properly allocated, receipts may go missing and overall accountability for expenditures is diminished. Review of the September 2006 Travel Advance account (12820) reconciliation revealed that six (6) employees had not submitted their final expense forms and had their Accounts Payable vendor file placed “on hold” to prevent any further payments being made to them until the advance cleared. However, a review indicated that two (2) of the six (6) individuals noted had reimbursements during their hold period. There is no interface of the AP and Payroll systems and these employees received payment through the Payroll system. Co-ordination is required as the External Disbursements Clerk has to inform the Accounts Payable Clerk of those that are on hold.</td>
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### RECOMMENDATION FOR STRENGTHENING SYSTEM

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<td>That a general reminder of the required supporting information to be attached be circulated to Finance and Administration Managers (and their staff) for further distribution to departmental signing authorities. Consideration should be given to having examples of acceptable supporting information posted on the corporate network drive with the Travel Policy. That Finance and Administration staff become more familiar with the policy to aid in enforcement and compliance. Greater scrutiny and review should take place before forms are forwarded to the External Disbursements Clerk for clearance of the advance. That Accounts Payable and Payroll develop a system for ensuring that those employees “on hold” in the AP system due to untimely submission of travel costs are also flagged in the Payroll system.</td>
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### MANAGEMENT ACTION PLAN

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<td>Agreed. A list of “most common” errors and examples of claims will be prepared. This will be presented to the Finance and Administration (F&amp;A) staff in an information session, posted on the network and implemented in the 2nd quarter of 2007. Agreed. Financial Services will be asked to conduct information sessions with all F&amp;A staff prior to the end of 2007. Agreed. Accounts Payable (AP) will investigate the possibility of holding certain types of payments in the Payroll system. If this is not possible, the use of the current manual list system will continue. Although some payment holds may be missed, they do not represent a financial loss to the City. This will be investigated in the 2nd quarter of 2007.</td>
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## BUSINESS TRAVEL, TRAINING AND RELATED EXPENSES
### DECEMBER 2006

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| 2. | As reported in prior employee expense reviews, there continues to be charges processed to inappropriate accounts associated with business travel, training and related expenses. There does not appear to be adequate review of expenses as to their allocation in the general ledger accounts.  
In testing travel expense reports, there were several instances noted where the cost of a conference was charged to the Travel account instead of Conferences or Training.  
In another example, $3,977 of legal expenses for costs awarded in a motion endorsement were charged to Meeting Expenses. A staff person’s fact finding trip and consultation was charged to Conferences.  
The Membership and Professional Dues account (designated for individual employee’s professional dues and memberships) is often incorrectly used as corporate memberships are routinely charged to professional dues.  
Invoices for the Royal Canadian Golf Association (RCGA) and Ontario Golf Information Network (OGIN) fees were erroneously coded to Memberships and Professional Dues. These fees are collected from golfers and subsequently remitted to the Golf Association of Ontario (GAO).  
When incorrect accounts are used, the accuracy of reported information is affected which could compromise the quality of decision making. | That a review of accounts relating to travel, training, conferences and memberships be undertaken with the intent of standardizing the accounting of such charges.  
That Finance and Administration staff ensure that expenditures are adequately analyzed and charged to the appropriate accounts. | Agreed. F&A staff have attempted to conduct a thorough review of the Chart of Accounts to clarify the uses of each account. Resource limitations have prevented any further review. Staff will be assigned to complete this review in the 4th quarter, 2007. Upon completion, a detailed Chart of Accounts will be prepared outlining the accounts and descriptions of what is to be charged to each account and provided to staff. |
### Observations of Existing System

#### 3. The Notification of Signing Authority files indicate employees who are allowed to approve invoices for payment. During the review of various payments related to memberships, meeting expenses and tuition, it was noted that an employee in the sampled transactions exceeded her approval authority limits as indicated on the form retained by F&A staff. One employee who approved an invoice for payment did not even have a signed form on file.

Such situations may have been avoided if invoices approved for payment by departmental staff had been forwarded to the appropriate F&A staff for review and signature prior to being sent to Accounts Payable as required by a procedure put in place in February, 2006 as a result of a prior audit. There was no evidence of such referral on these invoices.

**Recommendation for Strengthening System**

That all department approvers be informed of the procedure to refer invoices approved for payment to the appropriate F&A staff prior to submission to Accounts Payable. In addition, Accounts Payable staff should return all payment requests which do not bear the required signatures of the F&A staff.

**Management Action Plan**

Agreed. Staff will be informed of the procedure immediately. The only exception to this will be the staff of the Councillors’ offices and other corporate billings currently processed by Accounts Payable.

In the 2nd quarter, 2007, a memo will be prepared and issued to all Managers and staff outlining their respective responsibilities with respect to Signing Authority limits.

#### 4. As of January 2006, mileage reimbursement is made at $.50 per kilometer to a threshold of 5,000 kms and $0.44 per kilometer thereafter per fiscal year. Reimbursement is generally tracked as it is paid through the Payroll system.

Infrequent mileage claims are still reimbursed via Accounts Payable (e.g. mileage for travel to conferences claimed as part of a travel advance clearance). However, these kilometers are not captured in the Payroll system and thus are not taken into consideration in the reaching of the 5,000 kilometre threshold. There is the potential for mileage reimbursements made incorrectly at the higher rate as all mileage claims have not been accumulated.

Some instances were noted where payments for mileage claims were incorrectly calculated. These were as a result of coding errors (i.e. employee paid at a rate higher or lower than entitled). Of the four instances noted in the sample of sixteen (16), there were three (3) underpayments and one (1) overpayment.

**Recommendation for Strengthening System**

That a system be developed to ensure that mileage reimbursement from all sources is tracked by the individual employee.

**Management Action Plan**

Agreed. A procedure that integrates all mileage claims will be investigated. As the errors are minor, a solution will only be implemented if a cost benefit analysis, to be conducted in the 2nd quarter of 2007, supports the initiative.
The following items were noted during the course of the audit. Although they do not present an internal control deficiency, they are indicated in this Addendum so management is aware of the error/issue and can address them.

1. The Policy for Business Travel, Seminars and Conferences is referenced on the City eNet in multiple locations (5 noted). Not all of the links refer back to the same document. Three link to the most current approved policy (address of one is to the appropriate policy but has different URL). Of the other two, one link is to a blank screen and one is to the 2004 policy (i.e. two revisions prior).

Employees are not being provided with consistent information. This could result in non-compliance due to adherence to an out-of-date policy.

*It is recommended:*  
*That all links should be referenced to the most current Travel Policy. A process defining responsibility for maintaining corporate policies on the eNet should be developed and followed.*

2. There are staff that use their personal vehicles extensively as part of their employment (Inspectors, Area Supervisors). Average mileage for some of these employees can be up to 1,500 kilometres per month. The annual cost associated for this reimbursement would be $8,220 per year or $24,660 over a three year period.

*It is recommended:*  
*That management consider investigating more cost effective alternatives (e.g. City leased vehicle) to mileage reimbursements for those employees with significant annual mileage claims.*