



# Internal Audit: Employee Expense Control Clerk 2014 Activities

**Item 7**  
April 16, 2015  
Building Investment, Finance  
and Audit Committee

**To:** Building, Investment, Finance and Audit Committee      **Report:** BIFAC:2015-22

**From:** Chief Internal Auditor

**Date:** April 7, 2015

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**Strategic Plan Priority:**      **Service Excellence:**

- Demonstrate Value for Money and Public Accountability

## PURPOSE:

To provide the Building Investment, Finance and Audit Committee (“the Committee”) with a report on the 2014 activities of the Toronto Community Housing Corporation’s Employee Expense Control Clerk, a member of the Internal Audit Department.

## RECOMMENDATIONS:

It is recommended that the Committee receive this report for information.

## REASONS FOR RECOMMENDATIONS:

### Auditor General Recommendation

In its December 7, 2010 report to the Toronto Community Housing Corporation Board of Directors entitled “*Toronto Community Housing Corporation – Controls over Employee Expenses are Ineffective*” (The AG Report), the City of Toronto Auditor General’s Office (AG) recommended Internal Audit be directed to conduct ongoing audits of all Toronto Community Housing Corporation (TCHC) employee expense claims (Expense Claims or the claim).

The Internal Audit Department did exactly that – two reports on Expense Claims were submitted to the BIFAC predecessor committee<sup>1</sup>, as follows:

- *Internal Audit Report: Review of Employee Expense Claims*, report dated July 8, 2013, presented at the Committee’s July 26, 2013 meeting; and
- *Internal Audit Report: Employee Expense Claims 2013 Follow Up Review*, report dated June 4, 2014, presented at the Committee’s June 27, 2014 meeting.

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<sup>1</sup> The Committee came into its current configuration in January 2015. Prior to that the Committee was called the Corporate Affairs and Audit Committee.

In the latter report we noted that over the course of two internal reviews there had been a marked improvement in the nature of the expenses submitted for reimbursement (i.e. all business related) and the processes used to obtain reimbursement (i.e. proper forms, backup documentations and receipts submitted with proper authorizations).

### **Employee Expense Control Clerk**

In late 2013 the new position of an Employee Expense Control Clerk (EECC) was created within the Internal Audit Department.

Since March 1, 2014, the EECC has been responsible for:

- Reviewing each Expense Claim prior to it being paid out to ensure that pursuant to the TCHC *Expense Reimbursement Policy* and *Expense Reimbursement Procedures* (the Expense Policy) (i) an appropriate expense was submitted, (ii) the proper documents to support the expense were included with the claim, and (iii) the claim was properly approved;
- Obtaining and reviewing the monthly reconciliations of the TCHC PCard accounts; and
- Accumulating and preparing the information and documents necessary for the
  - Quarterly reporting to the Committee; and
  - Monthly public disclosureof Board and Senior Management Expenses.

For all intents and purposes, the EECC has been continuously 'auditing' all Expense Claims and PCard reconciliations. As such, and as was noted in the aforementioned June 4, 2014 Internal Audit report, there is no longer a need for Internal Audit to conduct specific reviews, twice a year, on Expense Claims.

Internal Audit did, however, commit to report annually to the Committee on the general activities of the EECC, including but not limited to:

- The volume of Expense Claims received;
- The nature and scope of Expense Claims that were not, before reimbursement was made, compliant with the Expense Policy;
- The efficiency of the expense report review process (e.g. length of time incurred to review individual Expense Claims); and
- Other matters of relevance.

### **Volume of Expense Claims Received**

From March 1, 2014 to December 31, 2014 there were 233 Expense Claims received and reviewed by the EECC. Because this is the first year that this type of review has been conducted, we do not have data from previous years to compare. Accordingly, we do not know if this is a 'normal' volume of Expense Claims.

### **Frequency of Errors Made in Expense Claims**

Of the 233 Expense Claims submitted, we found errors and/or missing information in 37 (15.9%) of them. Six Expense Claims had more than one type of error.

We had expected that the bulk of these errors would have occurred in the first couple of months of this new program because Expense Claims were being scrutinized more thoroughly. Our expectations were incorrect. The errors were spread throughout the year.

What we did find, however, was that once a claimant was advised of an error in an Expense Claim submitted, the claimant rarely made the same mistake a second time.

**Errors in Expense Claim Forms Submitted**

The errors found in employee expense claims submitted fall into the following categories:

- **List of Attendees** – expenses were claimed for a community event and the list of attendees at the event was not submitted with the claim;
- **Proof of Payment** – the claimant did not provide evidence that the expense had actually been paid by the claimant;
- **Receipts** – some of the required receipts supporting the claim were not submitted with the claim;
- **Currency** – an expense was paid for in U.S. dollars and the claimant did not indicate the Canadian dollar equivalent for reimbursement;
- **Approval** – though the Expense Claim was approved, the approver did not have sufficient authority to approve the claim; and
- **Miscellaneous** – these include incorrect amount of tips paid, further explanations were required about the nature of the expense, or the form was not dated and/or signed.

The number of Expense Claims that had these errors is summarized as follows:

<b>Type of Error</b>	<b>No. Exp Claims Noted<sup>2</sup></b>
List of Attendees	8
Proof of Payment	6
Receipts	10
Currency	1
Approval	5
Miscellaneous	<u>13</u>
<b>Total</b>	<b><u>43</u></b>

**Expense Claim Turnaround Time**

When the EECC position was created, there was a concern by TCHC staff that this additional review process would unduly delay the reimbursement of Expense Claims to employees. Given the nature of the TCHC inter-office mail system, the EECC Expense Claim review process does add at least one to two days to the reimbursement process. We have recently

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<sup>2</sup> Some expense claims had more than one type of error.

increased the frequency of inter-office mail delivery to our office in an effort to reduce further the processing time of Expense Claims.

It is the goal of the EECC Expense Claim review process to review and forward the Expense Claim to Accounts Payable on the same day it is received in our office.

For the period of operation in 2014, 197 (84.5%) of Expense Claims reviewed were turned around on the day of receipt in our office.

The number of days Expense Claims that were held in our office are summarized as follows:

<b>No. of Days Held</b>	<b>No. Exp Claims</b>
1	10
2	7
3	8
5	2
6	3
7	<u>1</u>
<b>Total</b>	<b><u>31</u></b>

In every one of these instances, the Expense Claims were held because we needed more information or additional documentation from the claimant.

In addition, four Expense Claims were returned to the claimant for more information and resubmission. The number of days for these Expense Claims to be resubmitted to the EECC ranged from the same day as requested to 35 days.

One Expense Claim submitted was withdrawn by the claimant.

### **Future Amendments to Expense Claim Procedures**

By reviewing the numerous expense claims submitted, we have come across several areas where the wording of the TCHC *Expense Reimbursement Procedures* (which sets out in the Expense Claim procedures employees must follow), is inconsistent or not clear or ambiguous, or all of the above. We are keeping track of such items and we will submit them to the appropriate department so that the *Expense Reimbursement Procedures* can be updated.

### **Other EECC Activities**

#### PCard Reconciliations

As at December 31, 2014 TCHC had 22 active PCards in operation.

PCard holders must reconcile their PCard statements on a monthly basis. The reconciliation must also be reviewed and approved by the PCard holder's supervisor.

Responsibility for accumulating and tracking Pcard reconciliations was transferred to the EECC effective March 1, 2014.

Not only does the EECC track PCard reconciliations, all PCard transactions for all PCards are reviewed to ensure purchases made are compliant with TCHC policies. No exceptions were found during this period.

PCard transactions are also reviewed to determine if the expense incurred is publicly disclosable pursuant to TCHC policy.

#### Public Disclosure of Board and Employee Expenses

It is the policy and practice of TCHC to publicly disclose expenses incurred by all:

- Members of the Board of Directors; and
- Employees with an annual salary \$100,000 or more.

This information is posted on a monthly basis on the TCHC website. It is also reported to the Committee on a quarterly basis.

Responsibility for accumulating this information was transferred to the EECC effective March 1, 2014.

This responsibility involves many tasks to be conducted on a monthly basis. These are outlined below for the information of the Committee:

- Ensure the list of applicable employees is up to date and accurate;
- Identify appropriate expenses from Expense Claims submitted and PCard transactions incurred;
- Review of data in the TCHC accounts payable system to identify other disclosable expenses;
- Identify and obtain mileage and parking claims submitted by the applicable employees (mileage and parking claims are reimbursed through the TCHC payroll system);
- Scan a copy of all disclosable expenses (which includes scanning all documentation that supports the expense);
- From the scanned documents, redact all personal information that should not be publicly disclosed;
- Prepare individual disclosure schedules that will be posted on the website, along with the redacted supporting documentation; and
- Upload the redacted information on the TCHC website and create the appropriate links to supporting documents.

Quarterly, this expense information is accumulated and set out on schedules that accompany the report to the Committee.

#### **IMPLICATIONS AND RISKS:**

It is often said that reputational risk has no level of materiality. This was made loud and clear in the AG Report. If we cannot demonstrate to our shareholder and the public that we have control over our expenses, then their confidence in management's ability to properly run this organization plummets.

We have found that the errors noted on Expense Claims have been relatively insignificant when compared to the size of TCHC’s budget. But they do expose the organization to reputational risk.

One could argue that having yet another level of review of Expense Claims is redundant. But, in 2014 we found that despite claims being reviewed and approved by the claimant’s supervisor, we still found errors in slightly over 15% of Expense Claims submitted. The good news is that these errors were found by the EECC and corrected *prior* to the Expense Claim being paid out.

In 2015, through a re-education program, efforts will be made to reduce errors made on Expense claims.

The EECC’s responsibilities serves TCHC well to mitigate, and hopefully extinguish, reputational risk arising from inappropriate Expense Claims.

*“Michael Vear”*

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