



# Internal Audit Report: Tenant and Employee Cash Advances Compliance Audit

**Item 8**  
February 5, 2015  
Building Investment, Finance  
and Audit Committee

**To:** Building Investment, Finance and Audit Committee (BIFAC) **Report:** BIFAC:2015-03

**From:** Chief Internal Auditor

**Date:** January 27, 2015 Page 1 of 3

**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 the Internal Audit Report “*Tenant and Employee Cash Advances Compliance Audit*”.

## RECOMMENDATIONS:

It is recommended that the Committee receive for information the Internal Audit Report “*Tenant and Employee Cash Advances Compliance Audit*”.

## REASONS FOR RECOMMENDATIONS:

### Introduction

The City of Toronto’s Auditor General issued a report dated December 7, 2010, *Controls Over Employee Expenses are Ineffective*. Recommendation 9 of that report stated:

*The Chief Executive Officer review the controls relating to the issue of cash advances and make appropriate changes as required.*

This report sets out the results of our review of the cash advance process at Toronto Community Housing Corporation (TCHC).

Due to the fact that TCHC makes cash advances to tenants in addition to those made to employees, this review has looked at both types of cash advances that are made.

# Internal Audit Report – Tenant and Employee Cash Advances Compliance Audit

Report: BIFAC:2015-03

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## Findings

### Employee Cash Advances

With respect to TCHC employee cash advances we found that not only is the employee cash advance policy appropriate for its current purpose, it is generally being adhered to by TCHC staff.

We have no Recommendations to make with respect to employee cash advances.

### Tenant Cash Advances

Similarly, there are definitive policies and procedures with respect to tenant cash advances. For the most part, they are being adhered to by tenants and TCHC staff.

We did, however, find room for improvement with respect to:

- The proper completion of the tenant cash advance application forms; and
- The follow up by TCHC staff in obtaining settlement records from tenants who received such cash advances.

These two findings have been reflected in the two Recommendations contained in this report.

## IMPLICATIONS AND RISKS:

Though the amount of funds advanced through cash advances, when compared to the size of the TCHC budget, is miniscule, improper use of cash advances creates reputational risk to TCHC. By having proper cash advance procedures in place, and being adhered to, the reputational risk to TCHC is mitigated.

*“Michael Vear”*

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Michael Vear, CA, CPA, CPA (Illinois)  
Chief Internal Auditor

**Attachment:** 1: Internal Audit Report: *Tenant and Employee Cash Advances Compliance Audit*

**Internal Audit Report – Tenant and Employee Cash Advances  
Compliance Audit**

Report: BIFAC:2015-03

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**Toronto Community Housing Corporation**  
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# **Tenant and Employee Cash Advances Compliance Audit**

## **TCHC Internal Audit Department**

**January 9, 2015**  
**(with Management's Response dated January 27, 2015)**



**Tenant and Employee Cash Advances Compliance Audit**  
**January 9, 2015**  
**(with Management's Response dated January 27, 2015)**

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**Tenant and Employee Cash Advances Compliance Audit  
January 9, 2015  
(with Management's Response dated January 27, 2015)**

## **EXECUTIVE SUMMARY**

### **Introduction**

The City of Toronto's Auditor General issued a report dated December 7, 2010, *Controls Over*

*Employee Expenses are Ineffective*. Recommendation 9 of that report stated:

*The Chief Executive Officer review the controls relating to the issue of cash advances and make appropriate changes as required.*

This report sets out the results of our review of the cash advance process at Toronto Community Housing Corporation (TCHC).

Due to the fact that TCHC makes cash advances to tenants in addition to those made to employees, this review has looked at both types of cash advances that are made.

### **Findings**

#### Employee Cash Advances

With respect to TCHC employee cash advances we found that not only is the employee cash advance policy appropriate for its current purpose, it is generally being adhered to by TCHC staff.

We have no Recommendations to make with respect to employee cash advances.

#### Tenant Cash Advances

Similarly, there are definitive policies and procedures with respect to tenant cash advances. For the most part, they are being adhered to by tenants and TCHC staff.

We did, however, find room for improvement with respect to:

- The proper completion of the tenant cash advance application forms; and
- The follow up by TCHC staff in obtaining settlement records from tenants who received such cash advances.

These two findings have been reflected in the two Recommendations contained in this report.

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**SIGNATURE**

A handwritten signature in blue ink, appearing to read 'M. Vear', written over a horizontal line.

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## 1.0 BACKGROUND

The City of Toronto's Auditor General issued a report dated December 7, 2010, *Controls Over Employee Expenses are Ineffective*.

In that report the Auditor General noted several instances of large cash advances being made to Toronto Community Housing employees that

- Had not been reconciled in quite some time; or
- Actually was a duplicate payment to the employee; or
- Were accounted for using inappropriate documentation.

As a result, Recommendation 9 of that report stated:

*The Chief Executive Officer review the controls relating to the issue of cash advances and make appropriate changes as required.*

This report sets out the results of our review of the cash advance process at TCHC.

Due to the fact that TCHC makes cash advances to tenants in addition to those made to employees, this review has looked at both types of cash advances that are made by TCHC.

### Cash Advances to TCHC Employees

Cash advances to TCHC employees are governed by the Cash Advances section of the *TCHC Expense Reimbursement Procedures*.

### Cash Advances to TCHC Tenants

Cash advances to TCHC tenants are governed by the TCHC documents:

- *Distribution of Tenant Council Funds*; and
- *Expense Reconciliation Procedures for Toronto Community Housing Tenants*.





## **2.0 ENGAGEMENT OBJECTIVES AND SCOPE**

### **2.1 Objectives**

The objectives of this assignment were to:

- Ascertain whether proper procedures were observed in (i) granting cash advance funds and (ii) reconciliation of said cash advances;
- Evaluate whether the applicable procedures are clear to staff and the applicable forms are adequate to cover the needs of the cash advance processes;
- Determine whether adequate controls are in place to ensure adherence to the procedures; and
- Make recommendations and identify opportunities for improvement, as appropriate.

### **2.2 Scope**

The scope of this audit covered employee and tenant cash advances issued between June 2013 and November 2014. The audit approach included, but was not limited to the following:

- Obtaining an understanding of TCHC cash advance procedures for employees and tenants to identify areas of risk and key controls;
- Selecting a sample of cash advances for the period under review, and testing for compliance to the appropriate TCHC procedures and policies;
- Conducting interviews with appropriate TCHC staff;
- Data analysis;
- Discussion of the findings with management and obtaining their feedback; and
- Completing the final report, incorporating management's responses and action plans to address the audit recommendations, as appropriate.

### **2.3 Acknowledgements**

During the course of this engagement, Internal Audit received full and unrestricted access to TCHC staff and documents that were available. We would like to thank management and staff of Resident and Community Services and Finance for their assistance during this engagement.



### 3.0 DETAILED FINDINGS

#### 3.1 Employee Cash Advance Policy

Subsequent to the Auditor General's Report, TCHC policies and procedures were updated and incorporated into the Cash Advances section of the TCHC *Expense Reimbursement Procedures* (the Cash Advance Policy). Salient points of the Cash Advance Policy include:

- Cash advances are '*provided in exceptional circumstances only*';
- Specific forms are required to (i) request and (ii) settle cash advances; and
- The maximum amount now allowed for a cash advance is \$500.00.

#### 3.2 Volume of Employee Cash Advances

In the time period subsequent to the Auditor General's Report, the volume of employee cash advances has been minimal – usually 10 – 12 per year. Aside from a couple of well documented exceptions, the advances have all been within the \$500 limit pursuant to the Cash Advance Policy.

#### 3.3 Employee Cash Advance Procedures

We found that there has been general compliance with the procedures for cash advances as set out in the Cash Advance Policy:

- The proper requisition forms have been completed and properly approved;
- The correct settlement forms have been prepared and submitted, accompanied by the appropriate receipts; and
- There is a well-entrenched, monthly process for the following up of outstanding cash advances.

#### 3.4 Tenant Cash Advances Policies

Through the long standing tenant engagement initiatives of TCHC, it is not uncommon for cash advances to be made to tenant groups to assist in improving their building environments. The most common example of tenant cash advances is with respect to the purchase of garden supplies in the spring of each year.

Due to the very nature of tenants' income levels, it is not practical to request tenants to make such purchases upfront and then request reimbursement from TCHC.

##### Tenant Cash Advance Policies

Cash advances to TCHC tenants are governed by the following TCHC documents (collectively the Tenant Cash Advance Policy):

- *Distribution of Tenant Council Funds*; and
- *Expense Reconciliation Procedures for Toronto Community Housing Tenants*.

Tenant cash advances are limited to \$500.

Toronto  
Community  
Housing**Tenant and Employee Cash Advances Compliance Audit**  
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## Volume of Tenant Cash Advances

Numerous Tenant Cash Advances are made every year. In 2014 there were approximately 110 Tenant Cash advances made, with a total cash outlay of nearly \$18,800.

### **3.5 Tenant Cash Advance Procedures**

#### Tenant Cash Advance Requests

The processes and approvals required for requesting a Tenant Cash Advance are thorough and well documented. A tenant must submit a detailed application form for the request, which must include the:

- Nature of the purpose of the advance;
- Estimated cost of the purchase(s); and
- Anticipated benefit to the tenant's community.

The application then goes through a lengthy approval process, which includes approval from the appropriate Tenant Council and several levels of TCHC management.

#### Tenant Cash Advance Settlements

Likewise, the Tenant Cash Advance Policy sets out, in considerable detail, the steps that must be taken by tenants to settle their advance with TCHC.

TCHC field staff are generally responsible for following up on outstanding tenant cash advances.

In addition, there is a codified process within the Finance Department to follow up on outstanding tenant cash advances on a monthly basis.

### **3.6 Compliance with Tenant Cash Advance Procedures**

#### Tenant Cash Advance Requests

We found that there has been general compliance with the procedures for requesting tenant cash advances as set out in the Tenant Cash Advance Policy:

We found that improvement could be made, however, in the completion of the relevant application forms. In particular:

- In a few applications all of the necessary approvals were not evidenced;
- The Confirmation of Receipt of Cash Advance form (which tenants sign upon receipt of the cash advance) were not necessarily completed correctly; and
- In a few cases, the Confirmation of Receipt of Cash Advance form was not in the file so we were unable to determine if it was completed.



### ***Recommendation #1***

***In processing tenant cash advance applications, TCHC staff should be reminded of the (i) proper completion of the requisite forms and (ii) need to evidence on the forms all of the necessary approvals.***

#### **Tenant Cash Advance Settlements**

As noted above, there are very specific procedures that must be followed in order for tenants to reconcile and settle their cash advances.

The Tenant Cash Advance Policy requires that Tenant cash advances must be settled within 14 days of the event and/or purchases made.

We found that on numerous occasions the settling up of cash advances took considerably longer to be completed. It was not uncommon to have such cash advances outstanding in excess of six months.

We also found that though the Finance Department would send out follow up emails on a monthly basis, in some instances they were largely ignored by the TCHC employee the messages were sent to. It was not until we began this internal audit, and made enquiries about the long outstanding cash advances, that such long time outstanding tenant cash advances were settled.

Though we are cognisant of the fact that obtaining the applicable receipts from tenants may be problematic and time consuming, there has to be a greater sense of urgency in doing so.

### ***Recommendation #2***

***TCHC staff ensure that TCHC Tenant Cash Advances are settled within the timeline set out in the Tenant Cash Advance Policy.***

## Appendix A

**Internal Audit - Tenant and Employee Cash Advances Compliance Audit Report  
Management's Response - January 27, 2015**

Rec. No.	Recommendation	Agree (X)	Disagree (X)	Management Comments	Action Plan / Time Frame
1	In processing tenant cash advance applications, TCHC staff should be reminded of the (i) proper completion of the requisite forms and (ii) need to evidence on the forms all of the necessary approvals.	X			Resident & Community Services will remind staff responsible for processing tenant cash advances of the proper completion of the requisite forms and the need for evidence on the form of all of the necessary approvals. Q115
2	TCHC staff ensure that TCHC Tenant Cash Advances are settled within the timeline set out in the Tenant Cash Advance Policy.	X			Resident & Community Services will remind its managers of the timelines and front-line staff will be reminded to follow-up with outstanding cash advances within the Policy and procedures. Q115