



***Employee Expense Reimbursement &
Reporting – Strategy & Transformation -
Finance***

November 2020

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1.0 Management Summary

Audit Services has completed an audit of the employee expense reimbursement and reporting process, which is under the Strategy & Transformation branch of the Finance department. The objectives of the review were to ensure: the adequacy of systems and controls for the administration of the process, including compliance with policies/procedures, proper segregation of duties and approvals; records retention; exception reporting; and integration of applicable systems. In addition, we looked for potential areas for improving the efficiency and effectiveness of the process to ensure continued compliance, accuracy in information, and management oversight.

The audit methodology included interviews with appropriate personnel, review and testing of the systems supporting the employee expense process, and detailed testing of a sample of employee expense claims for the period April 1, 2019 to March 31, 2020.

Our audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

Based on the work Audit Services performed, we concluded that overall, the employee expense reimbursement and reporting process is being managed and controls are designed to support the Region's compliance with the Region's existing internal policies. Opportunities for control and process improvements have been noted and discussed in the body of this report. These opportunities include implementing and updating various employee expense related policies; training/education for staff and management on coding requirements; and implementing exception reporting for a more targeted oversight approach.

It should also be noted that there were key areas identified during the audit where controls were strong and working effectively as designed. These areas include the implementation and management of the InforXM system, including employee training; ensuring expenses are accompanied by the proper receipt, maintaining an updated delegated authority listing and timely processing of claims.

Should the reader have any questions or require a more detailed understanding of the risk assessment and sampling decisions made during this audit, please contact the Director, Audit Services.

Audit Services would like to thank the Strategy & Transformation department staff and management for their co-operation and assistance provided during the audit.

2.0 Introduction

The employee expense reimbursement process is managed by the Strategy and Transformation branch within the Finance department. The Strategy and Transformation branch is responsible for business planning, budgeting, workforce planning, and workforce development functions, and

drives transformation in transaction-focused financial and business services, including payroll, payables, revenue operations, and office services.

The Region reimburses employees for eligible expenses incurred on behalf of the Region. Employee expense claims must be authorized by a manager and include receipts and valid general ledger codes.

In 2019, there was a new automated system Infor XM (Infor) implemented for claiming and processing of employee expense claims. As of April 1, 2019, employee expense claims are submitted electronically through the Infor system. Total expenses paid for the 12-month period under review, April 1, 2019 to March 31, 2020, was approximately \$2,850,704 representing approximately 108,000 transaction and 12,489 Expense Reports.

3.0 Objectives and Scope

AUDIT OBJECTIVES

The main objectives of this engagement were:

- To ensure the adequacy of systems and controls for the administration of the employee expense reporting and reimbursement process, including compliance with policies/procedures, proper segregation of duties and approvals, records retention, exception reporting, and integration of applicable systems.
- To identify potential areas for improving the efficiency and effectiveness of the process to ensure continued compliance, accuracy in information, and management oversight.

AUDIT SCOPE AND METHODOLOGY

The audit objectives were accomplished through:

1. Interviews with appropriate personnel.
2. Review of policies/procedures, and applicable documentation.
3. Detailed testing of employee expense claims for the period April 1, 2019 to March 31, 2020.
4. Review of systems supporting the employee expense process.

4.0 Detailed Observations

4.1 *Employee Expense Policy*

Observation

The following gaps were identified regarding employee expense related policies:

- There is an absence of a comprehensive overarching employee expense policy at the Region. There is a guideline in place for using the Infor system and there are some individual specific expense related policies in place; however, there is not an overarching policy that governs the employee expense claim/reimbursement process in its entirety. Without a comprehensive policy there is a risk of unqualified expenses being reimbursed and inconsistencies in the employee expense claims process.
- There is an absence of a meals/food related expense policy for staff purchases for non-travel related meals/food purchases. Based on discussions with staff and a review of total meals/food related expenses claimed in the test period, there are inconsistencies in how these expenses are applied and claimed. Without clear policies in place to guide food related expenses, there is the opportunity for inconsistencies in employee reimbursements within the Region and/or potential reputational risk to the Region.
- The Membership/Professional Association Fee Policy does not include a reminder to employees that amounts reimbursed or paid by the Region are not to be claimed as expenses on their personal tax returns. Without clearly defining the employees' responsibilities there is the potential for employees to incorrectly claim an income tax expense for an amount reimbursed or paid by the Region.
- The requirement to use one's Purchasing Card (P-card) for small dollar value purchases (as stated in the P-card policy) rather than claiming a personal expense is not clearly communicated to staff. Without clearly defining this expectation, there is the potential for loss in efficiencies and cost savings that come with using the P-card as intended.

Recommendation

4.1.1 Management should develop and implement an overarching Employee Expense Policy that governs the employee expense process.

4.1.2 Management should develop a meals/food related expense policy clarifying when meals and food expenses are eligible for reimbursement and either include this in the new employee expense policy or as a standalone supporting policy.

4.1.3 Management should update the current Membership/Professional Association Fee Policy employee responsibilities section to clearly note that staff should not claim professional fees on their personal tax return that have been either reimbursed or paid by the Region.

4.1.4 Management should also include the requirement for staff to first consider using their P-card for permitted purchases where possible. This requirement could be included in both the new Employee Expense Policy and the Purchasing card policy.

Management Response

4.1.1– Q4 2021: Controllership Office, in collaboration with the Strategy and Transformation branch and Human Resource Services will develop a new overarching draft Expense Policy that will clarify eligibility for expense reimbursements and process to receive reimbursement.

4.1.2 – Q4 2021: Controllership Office, in collaboration with the Strategy and Transformation branch and Human Resource Services, will include in the new overarching draft Expense Policy clarification of eligibility for meals and food expense reimbursement.

4.1.3 – Q4 2021: Controllership Office, in collaboration with the Strategy and Transformation branch and Human Resource Services, will include in the new overarching draft Expense Policy clarification that staff are not to claim the amount of professional fees reimbursed by the Region on their personal tax return.

4.1.3 – Q2 2021: The Strategy and Transformation branch will include a banner message on the Membership Expense Type in Infor XM, that amounts reimbursed by the Region are not to be claimed for on the employee’s personal tax return. *Completed.*

4.1.4 – Q4 2021: Language will be included in the PCard guideline and training materials to encourage the use of PCards as applicable and when appropriate.

4.2 Review & Oversight

Observation

There is currently no exception reporting performed as part of the review and oversight process for the employee expense claim system. Since the inception of the Infor system, staff have reviewed 100% of claims to ensure compliance. The 100% review of the expense claims may not be the most effective use of staff resources now that the software has been in use for over a year.

Infor is designed with several “flags” built into the system to alert the employee, manager, and quality assurance review if there is an exception to a rule and/or identified policy. One of the key flags is triggered when an expense was already claimed through a P-card purchase. The system will pick up a potential duplication where there is an exact match on three fields (date, expense

type and amount). Given that coding can be inconsistent there is the potential for duplication in an expense claim and P-card claim to be missed under the current flag set up.

Recommendation

4.2.1 Management should consider reducing the percentage of claims reviewed and/or implementing an exception reporting control process for a more effective and efficient oversight function. Exception reporting could be designed for specific control areas within the system.

4.2.2 Management should consider reducing the flag parameters on P-card matches to search on expense amount and date.

Management Response

4.2.1 – Q3 2021: The Strategy and Transformation Branch will undertake a detailed review of claims history to optimize the percentage of claims subject to a random review, where no other audit flags exist, by the end of Q3 2021.

4.2.2 – Q2 2021: Current standard functionality of the Infor solution is to identify match on 3 elements: date, amount, expense type. Deviation from this will require a customization from the vendor. As part of upgrade to the Infor system anticipated to begin in 2022, the Strategy and Transformation Branch will explore the opportunity to revise and enhance flag parameters to be able to identify matches for only expense amount and date, and remove the third criteria of expense type. In the interim, the Strategy and Transformation Branch will work with Audit Services to provide a combined employee expense and PCard dataset which can be used for comparative analysis.

4.3 Results of Detailed Testing

Observation

The following exceptions were found during the detailed testing of fifty (50) randomly selected expense claims for the period April 1, 2019 to March 31, 2020:

- There were ten (10) examples out of the fifty (50) transactions reviewed where the expense subcategory appeared to be incorrectly coded based on the employee's description and submitted receipt. Five (5) out of the ten (10) were for meals/food related items based on the receipt and employee description, however, were coded as either "supplies" or "other expense type". The other five (5) related to other expenses such as travel and recognition. Inaccurate coding may result in inaccurate reporting of financial information.
- As a result of the above coding exceptions found during detailed testing, testing was expanded and an additional twenty-five (25) expense claims were reviewed. The expense claims selected were for what appeared to be non-travel related meals/food purchases as

stated in the employee description. Out of the twenty-five (25) expense claims reviewed, there appeared to be eight (8) where the expense claim was inaccurately coded to other non-food/meals related sub accounts.

- There were five (5) examples found of incorrect use of the retirement/bereavement recognition code. As per the Retirement Recognition policy, department management is permitted to expense a gift and supplies related to the retirement celebration and required to code the expense under the “recognition” budget line. The five (5) examples found appeared to be related to staff recognition and not employee retirement.
- In addition, there is not an employee recognition policy in place that permits the purchases of items for recognizing staff efforts unrelated to retirement. The Region’s iCare program is currently the only permitted program in use for this purpose. Without a clear policy on employee recognition, there is a risk of errors and inconsistency between departments, potentially leading to employee dissatisfaction.

Recommendation

4.3.1 Management should update and implement additional training for staff and supervisors on the proper coding and review of expenses.

4.3.2 Management should implement a non-travel related meals/food policy, as described in issue 4.1 “Employee Expense Policy”. This policy should be clear on when food related items are permitted to be purchased for meetings, etc.

4.3.3 Management should determine and clearly communicate what is permitted in terms of non-retirement related employee recognition. This could be included in the Employee Expense Policy as recommended in issue 4.1 “Employee Expense Policy”.

Management Response

4.3.1 – Unlike paper expense reports, where employees/managers were required to include the applicable General Ledger Account number associated with the expense line, the Infor tool requires users to select an “Expense Type”, and in many cases a “Business Purpose” as well. It is this combination of Expense Type and Business Purposes that identifies the applicable General Ledger Account, which is maintained on the back end of the solution and agreed upon by Controllership Office and Finance units across the organization. While Expense Types may differ, the combination of Expense Type and Business Purpose may lead to the same General Ledger Account number. The only option for a user to manually identify a specific General Ledger Account number is with “Other Expense – Not in List” Expense Type. When the system was first launched in April 2019, many users elected to use the “Other” Expense Type and manually entered the General Ledger Account. As this was not the behavior we expected, nor wanted, Strategy and Transformation developed additional training materials and an excel macro based look-up tool to aid users and guide them in selecting the applicable Expense Type and Business Purpose for their expense. Expense Reports that now contain the Expense Type “Other” are Flagged for Quality Assurance review by Accounts Payable. Accounts Payable will decline

the expense report and notify the user if there is an applicable Expense Type and Business Purpose for their indicated General Ledger Account number.

4.3.1 – Q2 2021: The Strategy and Transformation Branch will include a banner message on the main page of Infor XM to remind staff and supervisors on the importance of selecting the correct expense type. Completed.

4.3.1 - Q4 2021: The Strategy and Transformation Branch in collaboration with Controllershship Office will undergo a review of definitions and comments included on each expense type and strengthen language to provide further clarification and guidance on usage.

4.3.2 – Q4 2021: Controllershship Office, in collaboration with the Strategy and Transformation branch and Human Resource Services will develop an overarching draft Expense Policy that will clarify eligibility for non-travel related meals/food and provide clarity on when food related items are permitted to be purchased for Regional business meetings.

4.3.3 – Q4 2021: Controllershship Office, in collaboration with the Strategy and Transformation branch and Human Resource Services Branch, will develop an overarching draft Expense Policy that will clarify eligibility for non-retirement related employee recognition.

4.3.3 Human Resources Response:

Q3 2021: Service Milestone Recognition – Revisit the practice. Update the Recognition Toolkit. Communicate update to Region through MCOE (Management Center of Excellence).

Q4 2021: Retirement Recognition Policy – Pull all the finance wording into the overarching draft Expense Policy.

Q4 2021: Combine the Service Milestone Recognition & Retirement Recognition as one Recognition Guideline (after draft Expense Policy is complete so we can fill in any gaps with the guideline)

Original Signed

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