TO:	**FINANCE AND RESPONSIBLE GOVERNANCE COMMITTEE**
SUBJECT:	**2024 Q2 INTERNAL AUDIT STATUS UPDATE**
WARD:	**ALL**
PREPARED BY AND KEY CONTACT:	**S. MACGREGOR, DIRECTOR OF INTERNAL AUDIT, EXT. 5452**
SUBMITTED BY:	**S. MACGREGOR, DIRECTOR OF INTERNAL AUDIT**
GENERAL MANAGER APPROVAL:	**N/A**
CHIEF ADMINISTRATIVE OFFICER APPROVAL:	**M. PROWSE, CHIEF ADMINISTRATIVE OFFICER**

RECOMMENDED MOTION

1.   That the 2024 Q2 Internal Audit Status Update be received as information.

PURPOSE & BACKGROUND

2.   The purpose of this staff report is to provide the 2024 Q2 Internal Audit Status Update.

3.   The following table summarizes Internal Audit activities performed from April to June 2024:

#	Project	Focus	Status
1	PCard and Expense Reimbursement	Compliance	Complete
2	MTO Driver Certification Program	Compliance	Complete
3	Building Inspections	Process Review	In Progress
4	Vendor Reviews	Compliance	In Progress
5	Fraud & Wrongdoing Program Oversight	Consulting	Ongoing

ANALYSIS

PCARD AND EXPENSE REIMBURSEMENT

Background

4.   The Purchasing Branch ("Purchasing") of the Finance Department oversees the City of Barrie's (the "City") Purchasing Card (PCard) Program. The City provides PCards to eligible City employees if justified by an approved business case. The City's PCard Policy describes a PCard as a "credit card" that provides City employees a convenient and efficient method to purchase low

value goods and services. The City's PCard Policy and PCard Procedures provide governance and guidance related to the City PCard Program.

5. The Payroll Branch ("Payroll") of the Human Resources ("HR") Department oversees the City's Expenses Policy. The Expenses Policy states that "*the City reimburses only those Corporate expenses that are both allowable, reasonable and necessary to provide high quality services to residents and taxpayers*." Expense reimbursements are approved by the individual's supervisor and processed by Payroll.

6. Recurring PCard and Expense Reimbursement reviews are conducted by Internal Audit to monitor and measure compliance with City policies and procedures.

Objective

7. To assess compliance with City policies and procedures for PCards and Expense Reimbursement.

Methodology

8. Our scope of review included PCard transactions and expense reimbursements for the 12-month period March 1, 2023 to February 29, 2024 (the "Period of Review").

9. The following activities were performed:
    a) Discussions with City departments;
    b) Reviewed applicable City policies and procedures for PCard and Expense Reimbursement including the PCard Policy, PCard Procedures, and Expenses Policies;
    c) Judgmentally selected 25 PCardholders, based on the dollar value of purchases and department, to assess compliance with City policies and procedures;
    d) Judgmentally selected 10 employees with expense reimbursements, based on the dollar value and type of reimbursement, to assess compliance with City policies and procedures; and
    e) Conducted data analysis of PCard transactions to identify possible transaction splitting or other irregularities.

10. Our review included only transactions for City of Barrie staff and did not include Barrie Public Library or members of council, which are administered by the City.

11. The findings in the report are divided into two sections: (1) PCards and (2) Expense Reimbursement.

Conclusion

12. The City provides effective purchasing methods for staff to facilitate low value procurement needs. Detailed City policies and procedures exist to provide coordinated governance over PCard usage and Expense Reimbursement.

13. Based on the work performed, compliance with the PCard Policy and PCard Procedures has not improved from prior years. The types of non-compliance identified were also noted in the 2022 and 2021 PCard reviews. As compliance has not improved, stronger disciplinary actions are required to enforce compliance, such as card suspension or revocation (as deemed appropriate).

14. Based on the work performed, compliance with Expense Policies and Procedures has increased from prior years. However, full compliance in our sample testing has not been achieved.

15. Implementation of Internal Audit's recommendations will assist with the monitoring of compliance for PCard use and Expense Reimbursement at the City.

Findings

Section 1 – PCards

16. City PCard transactions during the Period of Review are summarized in the table below:

Description	2024	2022	2021
# of active PCards	305	312	340
# of transactions	9,510	6,672	9,472
Value of transactions	$2,546,005	$1,851,556	$2,661,197

17. The City's PCard Program was established to provide a convenient and efficient means to acquire low value goods and services, and reduce the costs associated with initiating and paying for those types of transactions. Typically, PCard transactions are one-off immediate purchases unavailable through current City arrangements and cost ineffective to process through a traditional purchasing process (i.e. travel, membership dues, online purchases).

18. PCard transaction limits range from $500 to $5,000 and monthly credit limits range from $1,000 to $10,000 per cardholder. PCards are set up with automatic payments to the credit card provider so that all outstanding balances on all City cards are paid in full by the City each month.

Updates Required to the PCard Policy & Procedures

19. PCardholders are responsible for obtaining and retaining all supporting documentation. As outlined in the PCard Procedures*, "original purchase documentation should at a minimum indicate the transaction date, description, vendor, payment method, individual item amounts, taxes and totals. Including only a credit card transaction confirmation receipt is insufficient, detailed receipts are required. A description of the nature of the transaction must be included.*"

20. The City's PCard Policy and PCard Procedures require all PCardholders to code their transactions each month in the credit card provider's software ("Spend Dynamics") to the appropriate financial accounts. Once transactions are coded and approved in Spend Dynamics by the transaction approver (including review of all supporting documentation), the supporting records are either retained by the Finance department or the PCardholder.

21. The PCard Procedures currently require PCardholders to provide their signed reconciled monthly statement, including hardcopies of their supporting documentation (i.e. itemized receipts), to their designated transaction approver for review and authorization. However, based on the work performed, most PCardholders upload their supporting documentation electronically in Spend Dynamics. Email communication was circulated to staff in December 2022 allowing supporting documentation to be submitted physically or electronically. However, this has not been formalized in the PCard Procedures.

22. Physical submission of PCard statements and supporting documentation may result in inefficiencies in the transaction approval process, as the approver is required to approve (i.e. sign and date) the hardcopy of the statement and supporting documents, and approve the transactions in Spend Dynamics.

23. Although there are City staff that may have limited access to a computer, PCardholders are required to code their transactions to the appropriate financial accounts in Spend Dynamics regardless of how the supporting documentation is submitted.
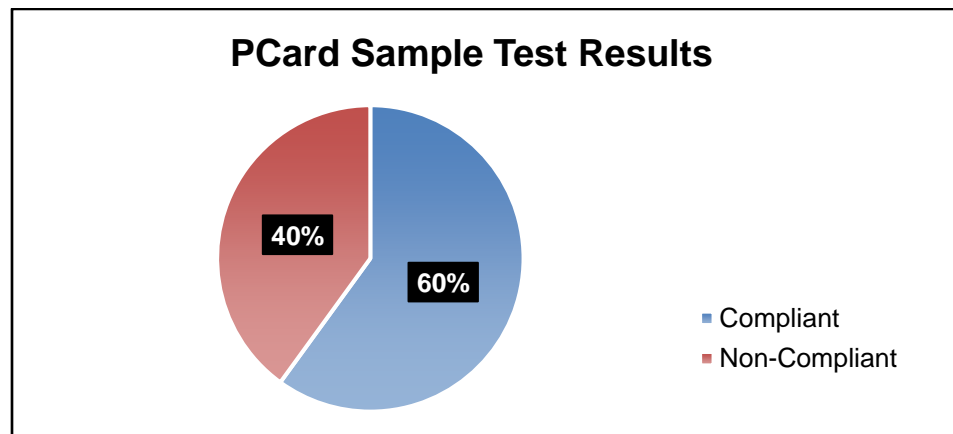
24. Purchasing should consider requiring electronic submission of supporting purchase documentation in Spend Dynamics.

25. Additionally, the PCard Policy and Procedures still reference the General Manager of Community and Corporate Services (CCS) throughout the documents. As the CFO/Treasurer no longer reports to the General Manager of CCS, the PCard Policy and Procedures should be updated to reflect the current reporting structure.
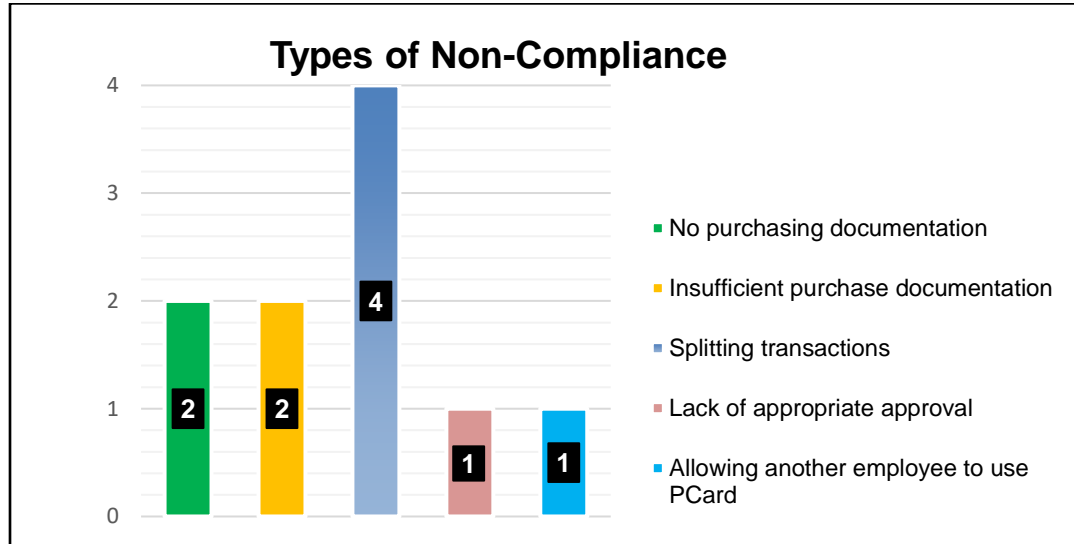
PCard Security

26. Our review identified instances where PCardholders are using secure mobile payment service applications (i.e. Apple Pay, Google Pay) to pay for PCard purchases, which would initially require them to enter the PCard information (card number, expiry, security code, etc.) into the application.

27. Use of the PCard via mobile payment applications may increase the risk that PCards are shared among staff. For example, a PCardholder who has set up their PCard on a mobile payment application could provide their physical PCard to another employee for use. We did not detect instances of this during our review.

28. Additionally, use of the PCard through a mobile payment application may increase the risk that the physical card is misplaced.

29. Formal guidance should be added to the PCard Procedures outlining whether use of the PCard via mobile payment applications is permitted and if so, what the responsibilities of the PCardholder are regarding card security (i.e. only allowing the card information to be entered in a City-issued mobile device).

Sample Testing of PCardholders

30. Our PCard sample testing included 25 PCardholders selected across the organization and involved a detailed review of one month's PCard transaction statement to assess compliance with the PCard Policy and PCard Procedures.

31. Our testing concluded that 15 of 25 (60%) PCardholders reviewed were compliant and 10 of 25 (40%) PCardholders were non-compliant.

PCard Sample Test Results

40%
60%

■ Compliant
■ Non-Compliant

32.   The types of non-compliance identified, as well as the number of PCardholders, are shown in the graph below.
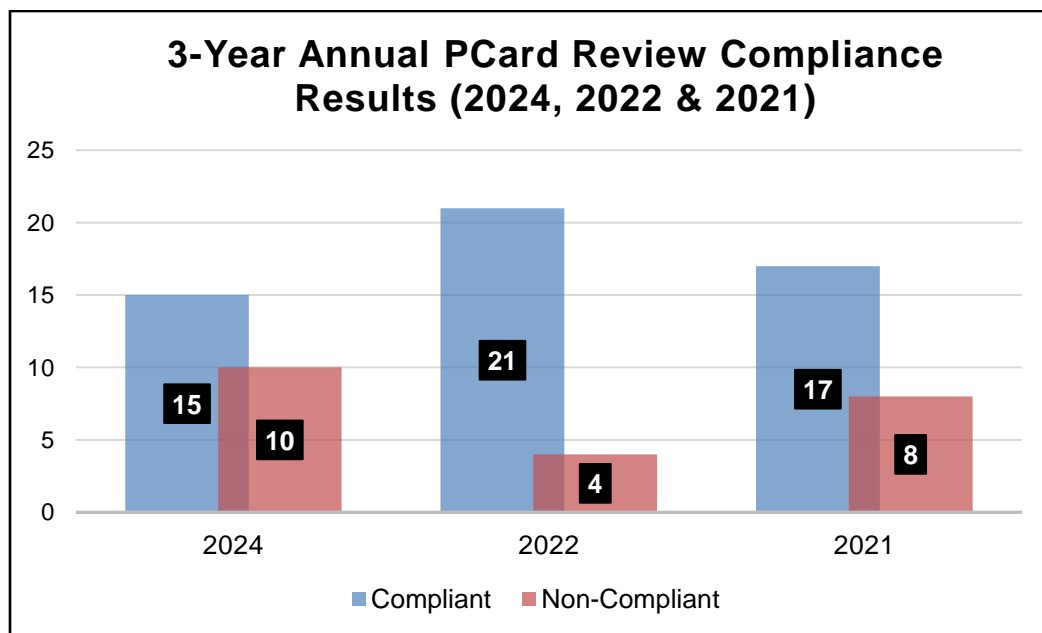

33.   The following table provides a brief description of each type of non-compliance identified during our review:

Non-compliance Type	Description
No purchasing documentation	No documents were available to support the transaction (such as an itemized receipt). Required protocols for missing receipts (i.e. completion of the Missing Receipt Form) were also not completed at the time of statement reconciliation.
Insufficient purchase documentation	Documentation provided did not fully support the transaction, such as a credit card receipt that is not itemized.
Splitting transactions	Transactions were split among the PCardholder or with other City staff to circumvent procurement protocols. Examples include: • A single vendor invoice split into multiple payments below the PCardholder's transaction limit, or • Multiple vendor invoices for the same/similar items on the same date (or over a few days) resulting in multiple purchases that are below the PCardholder's transaction limit.
Lack of appropriate approval	Inappropriate approval was obtained for the purchase. Examples include: • Employees approving transactions processed for their benefit when approval should have been obtained from a management-level above them, or • Employees requesting PCardholders to make purchases that have not been approved by the requesting employee's immediate supervisor.
Allowing another employee to use PCard	PCardholder allowed another City employee to use their PCard, which is not permitted. The Cardholder Agreement that employees must sign prior to receiving a PCard requires the employee to attest that *"[the] PCard is issued in my name, and I shall not permit any other person to use my card*."

34.   Based on the types of non-compliance identified, additional guidance in the PCard Policy and/or Procedures is required regarding obtaining appropriate approval for transactions.

35.   Although the PCard Procedures require the transaction approver to be "*a supervisor who can independently and objectively review/authorize transactions*", there are no documented protocols

for when a PCardholder makes purchases that primarily benefit their immediate supervisor (and thus, transaction approver). For example, this may occur for PCardholders in administrative roles who support the operations of their department.

36.   Additionally, one instance was identified where a PCardholder was asked to make a purchase by another employee who did not have the same transaction approver. Thus, the requesting employee's immediate supervisor should have approved the transaction.

37.   Formal guidance should be added to the PCard Policy and/or Procedures to confirm the required approval in these instances, such as requiring approval from one management-level above the individual benefiting from the transaction.

38.   Based on the work performed, the results of our review indicate a 29% decrease in compliance compared to 2022 and a 12% decrease in compliance compared to 2021. The decrease in compliance is largely driven by the increased number of split transactions identified.

39.   The graph below summarizes the number of compliant and non-compliant PCardholders reviewed in 2024, 2022, and 2021.

3-Year Annual PCard Review Compliance Results (2024, 2022 & 2021)

Year	Compliant	Non-Compliant
2024	15	10
2022	21	4
2021	17	8

Note: A review of PCards was not performed in 2023 due to Internal Audit resource limitations.

Purchase Amounts Exceeding PCardholder Transaction Limits

40.   Our review identified 3 transactions where the value of the purchase exceeded the PCardholder's transaction limit in Purchasing's records. Certain transactions are permitted to exceed the PCardholder's transaction limits (i.e. pre-authorized charges), however, these 3 transactions did not fall within this category.

41.   For these 3 transactions, the value of purchases was $6,687, of which $1,187 (18%) exceeded the PCardholders' transaction limits.

Compliance with Applicable HR Procedures

42. Certain PCard purchases fall under additional HR procedures (i.e. Tuition Reimbursement or Professional Designation & Association Memberships). Based on the work performed, PCardholders do not consistently consider the requirements of other HR procedures when using their PCard. HR does not have visibility to purchases made by PCardholders.

43. For example, professional dues paid by the City (whether through a PCard or expense reimbursement) require the employee to submit a Membership Support Request Form (MSRF) to HR. However, HR would not be aware of PCard purchases for professional dues if the MSRF is not completed/submitted.
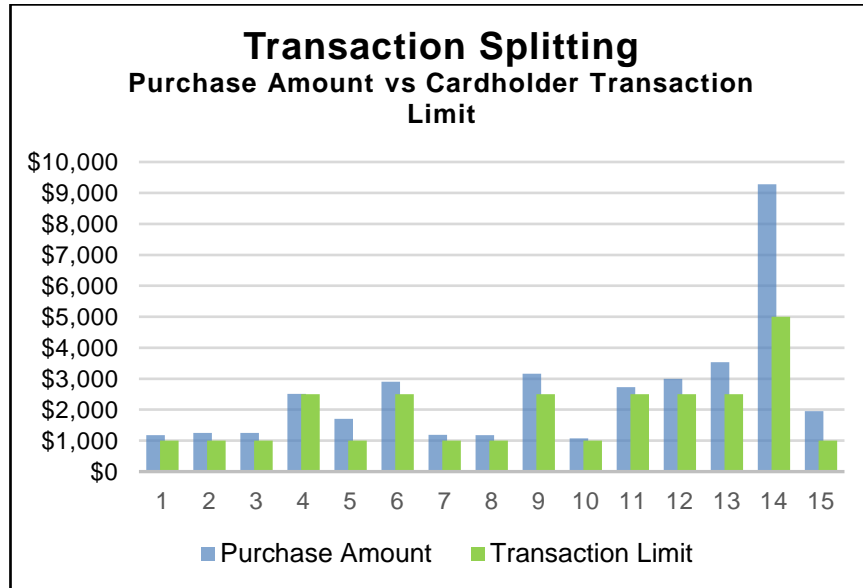
Additional Areas Of Improvement

44. The following additional areas of improvement were also identified during our review and may require additional guidance or training from Purchasing:

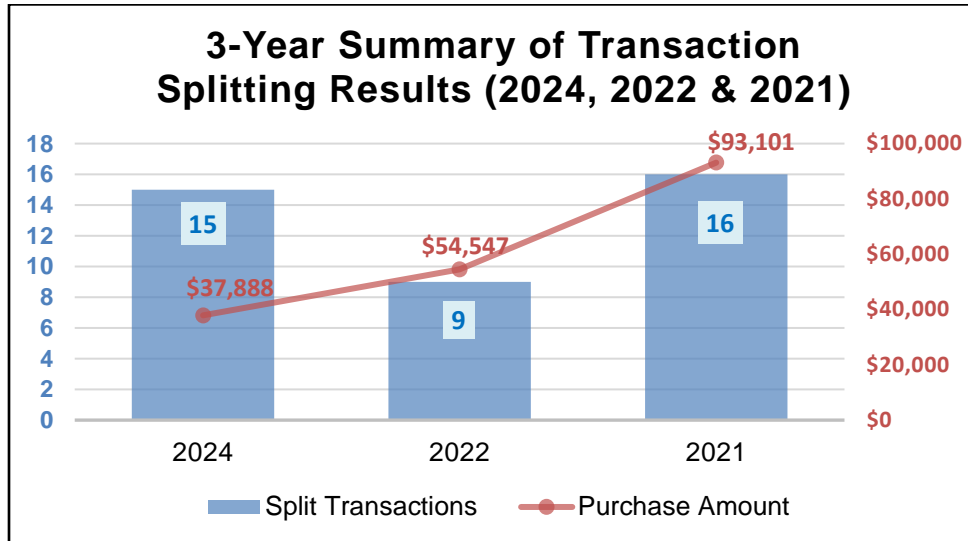| Area of Improvement	Description
Timely submission of supporting documentation	In certain instances, documentation was obtained directly from the PCardholder, as they did not upload their supporting documentation electronically or submit hard copies to Finance by the required deadline.
Business justification for purchases	Spend Dynamics has a "Business Justification" field for transactions where PCardholders can document the nature of their transaction. However, this is not a required field. As a result, business justifications provided by PCardholders are inconsistent. The inconsistency is further increased due to the transition from hardcopy submission of supporting documents to electronic submission.
Non-taxable purchases	Although Spend Dynamics typically identifies non-taxable transactions automatically, instances were identified where this was not detected resulting in the purchase incorrectly showing tax in Spend Dynamics.

Transaction Splitting

45. The PCard Policy states that "*transaction splitting is not permitted and is defined as purchases costing more than the PCard transaction limit where the purchase is split into a dollar amount to allow a cardholder to remain within their authorized transaction limit.*"

46. In addition to our sample testing of PCardholder statements, we conducted data analytics to analyze transactions and identify potential instances of transaction splitting or other irregularities.

47. Transaction splitting results in staff exceeding their approved spending authority and potentially increases the risk of inappropriate and unauthorized purchases.

48. Our review identified 15 instances where transactions were split into dollar amounts to allow the PCardholder to remain within their authorized transaction limit, as set out in the graph below.

Transaction Splitting
Purchase Amount vs Cardholder Transaction Limit

49. Note: The above graph only identifies transaction splitting of business products. It does not include instances where PCardholders made multiple purchases to the same vendor on the same day for training, conferences, and association memberships for multiple City staff.

50. For the 15 instances identified, the value of purchases made was $37,888, of which $9,888 (26%) exceeded the PCardholders' transaction limits. 4 of the 15 instances in the above graph were identified in our sample testing of 25 PCard statements. 11 additional instances were identified through data analysis.

51. In addition to the $37,888, we were unable to verify whether two purchases made to the same vendor on the same date totaling $545 were split to circumvent the PCardholder's transaction limit, as the PCardholder was unable to provide supporting documentation/information for one of the two purchases.

52. The instances of transaction splitting can be further grouped into two types:
    a) **Multiple payments:** 14 employees each paid for a single invoice by spitting the payment into two credit card transactions (either on their own or with other City staff) resulting in 24 transactions to remain within their individual PCard transaction limits which ranged from $1,000 to $5,000.
    b) **Multiple purchases:** 3 employees each paid for the same or similar products from the same vendor on multiple invoices with the same date to remain within their individual PCard transaction limits, all of which were $1,000.

53. The identified transactions were approved by the appropriate authority. However, the method of purchasing does not comply with the PCard Policy, which does not permit transaction splitting to circumvent procurement protocols.

54. As shown in the graph below, there has been an 67% increase in the total number of split transactions compared to 2022, and a 6% decrease in the total number of split transactions compared to 2021.

55. However, the value of purchases made through split transactions has decreased by 31% compared to 2022 and 59% compared to 2021.

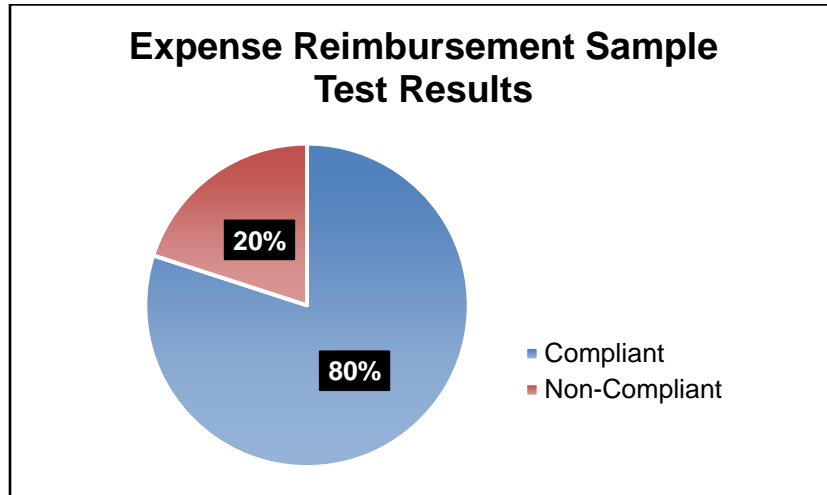3-Year Summary of Transaction Splitting Results (2024, 2022 & 2021)

56. Although the objective of this analysis was to verify whether transaction splitting occurred to circumvent procurement protocols, the same issues identified in our sample testing of PCardholder statements (i.e. no/insufficient supporting documentation) were also noted.
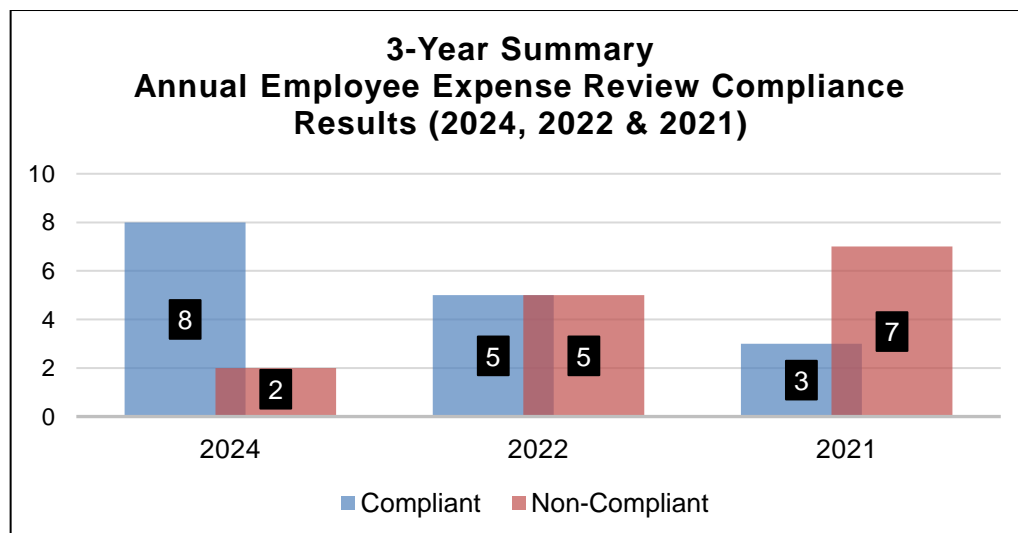
Section 2 – Expense Reimbursement

57. Expense reimbursement transactions during the Period of Review are summarized in the table below:

Description	2024	2022	2021
# of individuals receiving reimbursement	462	397	440
# of transactions	1,895	1,315	1,728
Value ($) of transactions	$414,666	$318,352	$395,898

58. Our expense reimbursement testing included 10 employees selected across the organization and involved detailed review of their expense reports to assess compliance with City Expense Policies and Procedures.

59. Based on the work performed, 8 out of 10 (80%) employees sampled were compliant and 2 (20%) were not compliant, as shown in the graph below.

**Expense Reimbursement Sample
Test Results**

60. Both instances of non-compliance were due to appropriate approval not being documented prior to enrolling/registering in courses for which tuition was reimbursed (2 employees). In both instances, the employees confirmed that verbal approval was received prior to course registration.

61. The results of this review indicate an improvement in compliance compared to prior years. Based on the work performed, there was a 60% increase in compliance compared to 2022 and a 167% increase in compliance compared to 2021.

62. The graph below summarizes the total compliant and non-compliant employees reviewed in 2024, 2022, and 2021.

**3-Year Summary
Annual Employee Expense Review Compliance
Results (2024, 2022 & 2021)**

Tuition Reimbursement

63. Our review identified that the Tuition Reimbursement Procedure requires further clarity regarding what is considered tuition vs. a business expense for courses taken. Payroll does not have visibility into what courses are required for an employee's job vs. courses required to maintain a designation/certification.

64. For example, courses that are required to maintain a professional designation/certification do not need to follow the Tuition Reimbursement Procedure if the employee's manager is aware and the cost is within the department's budget. However, this is not clearly outlined in the procedure.

65. As a result, supporting documentation provided for courses taken were inconsistent among staff. Some expense claims followed the requirements in the Tuition Reimbursement Procedure (i.e. submission of Pre-Enrolment Authorization Form, Tuition Reimbursement Form), while others followed the General Business Expense Procedure (i.e. submission of Expense Form).

66. Due to the lack of clarity in the Tuition Reimbursement Procedure, submission through either the Tuition Reimbursement Procedure or General Business Expense Procedure for courses completed were both considered compliant for the purposes of our review, provided the supporting documents required for the procedure followed were submitted.

Mileage

67. To be reimbursed for the use of a personal vehicle for business, the Meal and Mileage Reimbursement Procedure currently requires that employees list the following on the expense report:
   - Date and purpose of trip,
   - Locations travelled to and from, and
   - Mileage.

68. In prior reviews of Expense Reimbursement, instances of employees not including the locations travelled to/from on their Expense Form were identified. However, these employees regularly used their personal vehicle for business and visited multiple City locations in a day (i.e. building inspectors). This prompted discussions between Human Resources, Internal Audit, and various departments, as staff advised the Meal and Mileage Procedure was for occasional use of personal vehicles for City business.

69. To balance operational needs while still protecting City interests, in 2022, the process was adapted to allow these employees to provide one daily total mileage amount. However, to ensure validity and accuracy of mileage claimed, supervisors would perform audits of mileage throughout the year. Our review identified that detailed mileage audits have not been performed by all departments.

70. Observations identifying areas for improvement, recommendations and management's response are summarized in Appendix "A" (PCards) and "B" (Expense Reimbursement). The recommendations relate to the following areas:

Area	# of Recommendations
PCards	7
Expense Reimbursement	3
Total	**10**

71. We note that many of the observations or areas for improvement identified are consistent with the prior year's review, which highlights the need for continued monitoring and remediation of PCard and Expense Reimbursement compliance, as well as stronger disciplinary measures to enforce compliance.

ONTARIO MINISTRY OF TRANSPORTATION - DRIVER CERTIFICATION PROGRAM

Background

71.   The purpose of the Ontario Ministry of Transportation (MTO) Driver Certification Program (DCP) is to allow participating organizations to conduct their own driver training and testing on behalf of the MTO.

72.   As a participant in the DCP, the City of Barrie is authorized to administer MTO testing for employees who require a licence upgrade or renewal to operate City vehicles as part of their regular duties. This ensures City vehicles are operated by competent drivers who have been properly trained and possess the appropriate licence in compliance with Ministry legislations as well as City of Barrie policies and procedures. It also eliminates the travel and wait times that would otherwise be incurred by employees to attend an MTO Drive Test Centre to complete their training/testing.

73.   Internal Audit was approved by the MTO in 2019 to provide DCP attestation services for the City of Barrie which allows the City to perform this mandatory inspection without engaging an external party at additional cost.

Objective

74.   To conduct the MTO inspection required in connection with licensing requirements for the City of Barrie.

Methodology

75.   The following activities were performed:
        a)   Completion of the MTO DCP Inspection program;
        b)   Review of relevant DCP policies and documents;
        c)   Meetings with management and staff in HR; and
        d)   Submission of inspection results to the MTO.

76.   The scope of the inspection included City of Barrie DCP activities for the period November 7, 2022 to May 28, 2024.

Conclusion

77.   Management successfully addressed infractions noted by Internal Audit in prior years and no infractions were noted during this inspection. The inspection results were submitted to the MTO on June 6, 2024.

ENVIRONMENTAL AND CLIMATE CHANGE IMPACT MATTERS

78.   There are no environmental and/or climate change matters related to the recommendation.

ALTERNATIVES

79.   As this Staff Report is being presented for information purposes only, no alternatives are presented.

FINANCIAL

80.   There are no immediate financial implications for The Corporation related to this Staff Report.

LINKAGE TO 2022-2026 STRATEGIC PLAN

81.   The information and recommendation included in this Staff Report supports the following goal identified in the 2022-2026 Strategic Plan:
    ☒   Responsible Governance

82.   Implementation of the recommendations identified in the Internal Audit projects will achieve enhanced processes and controls to protect the City's assets as well as find efficiencies in the delivery of services to improve financial stewardship.

Appendix "A" – PCard Observations, Recommendations and Management Response

Observation	Recommendation	Management Response
1. Updates Required to the PCard Policy and Procedures Although email communication was circulated to staff in December 2022 allowing supporting documentation to be submitted physically or electronically, the PCard Policy and Procedures have not been updated to reflect this change. The PCard Procedures still state that PCardholders must provide their signed reconciled statement, including hardcopies of their supporting documentation, to their designated transaction approver for review and authorization. Physical submission of supporting documentation may result in inefficiencies in the transaction approval process, as the approver is required to approve the hardcopy of the PCard statement and supporting documents (i.e. signature and date), <u>and</u> approve the transactions in Spend Dynamics. Additionally, the PCard Policy and Procedures still reference the General Manager of Community and Corporate Services (CCS) throughout both documents. However, the CFO/Treasurer no longer reports to the General Manager of CCS.	The statement reconciliation requirements in the PCard Procedures should be updated to accurately reflect current practices (electronic submission of supporting documents). To ensure an efficient and effective transaction approval process for PCard purchases, Purchasing should consider requiring electronic submission of supporting documentation in Spend Dynamics (rather than allowing physical or electronic submission). As the CFO no longer reports to the General Manager of CCS, the PCard Policy and Procedures should be updated to reflect the current reporting structure.	Agree. Updates will be made to the PCard Policy and Procedures to reflect current practices and reporting structure, and any changes as a result of these recommendations. Agree. Staff will move forward with requiring only electronic submission of support documentation. Agree. PCard Policy and Procedures will be updated to reflect current reporting structure.

Observation	Recommendation	Management Response
2. PCard Security Instances were identified where PCardholders used secure mobile payment service applications (i.e. Apple Pay, Google Pay, etc.) to pay for PCard purchases, which would initially require them to enter the PCard information (card number, expiry date, security code, etc.) into the application. This may increase the risk that PCards are shared among staff. A PCardholder who has set up their PCard on their mobile payment application could provide their physical PCard to another City employee for use. We did not detect instances of this during our review. Additionally, use of the PCard through a mobile payment application may increase the risk of misplacement of the physical card. Use of PCards via mobile payment applications is not addressed in the current PCard Policy or Procedures.	Formal guidance should be added to the PCard Policy and/or Procedures outlining whether use of the PCard via mobile payment applications is permitted and if so, what the responsibilities of the PCardholder are regarding card security (i.e. only allowing the card information to be entered in a City-issued mobile device).	Agree. In consultation with IT, Purchasing will investigate further and make recommendations to update the PCard Policy and Procedures.
3. Non-Compliance with PCard Policy and Procedures PCardholders are responsible for obtaining and retaining supporting documentation for transactions. The PCard Procedures require that "*original purchase documentation should at a minimum indicate the transaction date, description, vendor, payment method, individual item amounts, taxes and totals. Including only a credit card transaction confirmation receipt is insufficient, detailed receipts are required. A*	Transaction approvers must ensure PCardholders provide sufficient supporting documentation for each PCard transaction to verify completeness and accuracy. Formal guidance should be added to the PCard Policy and Procedures to confirm the required approval in instances where a PCardholder either: • Makes purchases that primarily benefit their transaction approver, or	Agree. Guidance to address these situations will be included in the updated PCard Policy and/or Procedures, as applicable.

Observation	Recommendation	Management Response
description of the nature of the transaction must be included." Additionally, the transaction approver must be *"a supervisor with appropriate delegated financial authority who can independently and objectively review/authorize transactions for completeness, accuracy, and appropriateness."* Our testing concluded that 15 of 25 (60%) PCardholders reviewed were compliant and 10 of 25 (40%) PCardholders were non-compliant. The following instances of non-compliance were identified during our review: • **No supporting documentation** for purchases (2 PCardholders), • **Insufficient supporting documentation** for purchases (2 PCardholders), • **Transaction splitting** to circumvent transaction limits (4 PCardholders), • **Lack of appropriate approval** for purchases (1 PCardholder), and • **PCardholder allowing another employee to use their PCard** (1 PCardholder).	• Is asked by another employee (with a different transaction approver) to make a purchase. Approval from one management-level above the individual benefiting from the transaction should be required. Appropriate disciplinary action should be taken for repeated instances of non-compliance, such as consistent non-existent or insufficient submission of supporting documents.	Agree. In consultation with HR and EMT, staff will develop a disciplinary action framework.
4. Purchase Amounts Exceeding PCardholder Transaction Limits Our review identified 3 transactions where the value of the purchase exceeded the PCardholder's transaction limit in Purchasing's records. Certain transactions are permitted to exceed the PCardholder's transaction limits (i.e. pre-authorized charges), however, these 3 transactions did not fall within this category.	PCardholders should not attempt to make purchases that exceed their transaction limits. Transaction approvers must scrutinize transactions to ensure PCardholders are following procurement protocols.	PCardholders will be reminded to not attempt to make purchases that exceed their transaction limits either through communication or training. Approvers will be reminded to scrutinize transactions to ensure PCardholders are following procurement protocols either through communication or training.

Observation	Recommendation	Management Response
A total value of $6,687 was purchased, of which $1,187 (18%) exceeded the PCardholders' transaction limits.	Purchasing should work with the credit card provider to confirm why these transactions were permitted.	Staff are working with the PCard provider to understand why the transactions were permitted and what changes they can make to their system to ensure compliance with thresholds.
5. Compliance with Applicable HR procedures Certain PCard purchases fall under additional HR procedures (i.e. Tuition Reimbursement or Professional Designation & Association Memberships). Our review identified that PCardholders do not consistently consider the requirements of other HR procedures when using their PCard. HR does not have visibility to purchases made by PCardholders. For example, professional dues paid by the City (whether through a PCard or expense reimbursement) require the employee to submit a Membership Support Request Form (MSRF) to HR. However, HR would not be aware of PCard purchases for professional dues if the MSRF is not completed/submitted.	Purchasing and HR should collaborate to communicate or provide training to employees regarding PCard purchases covered by additional HR procedures, such as tuition reimbursement or professional dues.	Staff will review with HR to determine a path forward for compliance with HR policies and PCard use. The Tuition Reimbursement Policy is currently being updated into a new Tuition Reimbursement for Continuing Education Policy. The new policy defines continuing education (for which tuition is reimbursable) as formal courses and programs offered through accredited education institutions that are graded with a final mark and where successful completion would require meeting the minimum grade, which would lead to achieving a certificate, diploma, degree or professional designation. Anything outside of the above definition would be the responsibility of individual departments to review and approve, and not need to be reviewed by HR. Staff will be trained on the new policy once it has been finalized and approved. With this clearer definition and training at roll out, it is expected that compliance will improve.

Observation	Recommendation	Management Response
6. Additional Areas of Improvement Based on the work performed, the following additional observations were identified as areas for improvement: • **Timely submission of supporting documentation** – Certain PCardholders did not submit supporting documents for purchases physically or electronically by the required deadline. • **Documentation of business justifications** – The level of detail and sufficiency of business justifications provided for purchases was inconsistent across City staff, which is largely due to staff transitioning from physical submission of supporting documents to electronic submission. Additionally, the "Business Justification" field in Spend Dynamics is not currently a required field for PCardholders. • **Non-taxable purchases** – In certain instances, PCardholders did not identify the transaction as non-taxable in Spend Dynamics, resulting in the purchase incorrectly showing tax.	Appropriate disciplinary action should be taken for repeated instances of non-compliance, such as PCardholders consistently not submitting supporting documentation by the required deadline. The "Business Justification" field in Spend Dynamics (where PCardholders can enter a description of the nature of the transaction) should be a required field. Examples of sufficient business justifications should be added to the existing Spend Dynamics Guide. Additional guidance should be added to the existing Spend Dynamics Guide outlining how PCardholders identify non-taxable transactions in Spend Dynamics (if not automatically identified).	Agree. In consultation with HR and EMT, purchasing will develop a disciplinary action framework. The "Business Justification" field in Spend Dynamics will be made a required field in the coming months and communication will be sent to PCardholders and approvers with examples of sufficient business justifications. This will also be added to the updated PCard Policy and/or Procedures, as applicable. Additional guidance will be added to the existing Spend Dynamics Guide outlining how PCardholders identify non-taxable transactions in Spend Dynamics.
7. Transaction Splitting The PCard Policy states that "*transaction splitting is not permitted and is defined as purchases costing more than the PCard transaction limit where the purchase is split into a dollar amount to allow a cardholder to remain within their authorized transaction limit.*" Transaction splitting results in staff exceeding their approved spending authority and increases	Transaction approvers must scrutinize transactions of PCardholders to ensure there is no transaction splitting. Departments should review existing staff PCard transaction limits to ensure they are adequate for current purchasing requirements.	Approvers will be reminded to scrutinize transactions to ensure there is no transaction splitting either through communication or training. Communication will be sent to department Directors with a list of the current Pcardholders and their transaction limits to verify that they are adequate for current purchasing requirements.

Observation	Recommendation	Management Response
the risk of inappropriate and unauthorized purchases. Our review identified 15 instances of transaction splitting with a total value of $37,888, of which $9,888 (26%) exceeded the PCardholders' transaction limits. Although the total number of instances has increased compared to 2022, the value of purchases made through split transactions has decreased.	The existing PCard Policy and Procedures should be updated to provide guidance and clarity regarding when it is acceptable to make multiple transactions to the same vendor on the same day or within a few days (i.e. conference registrations). Appropriate disciplinary action should be taken for repeated instances of transaction splitting to circumvent procurement protocols.	Guidance regarding when it is acceptable to make multiple transactions to the same vendor on the same day will be included in the updated PCard Policy and/or Procedures, as applicable. Agree. In consultation with HR and EMT, Purchasing will develop a disciplinary action framework.

Appendix "B" – Expense Reimbursement Observations, Recommendations and Management Response

Observation	Recommendation	Management Response
1. Supporting Documentation Appropriate, detailed supporting documentation is required to clearly describe items for which reimbursement is requested and to confirm the nature of the reimbursement complies with City policies and procedures. Based on the work performed, 8 of 10 (80%) employees sampled were compliant and 2 of 10 (20%) were not compliant. Both instances of non-compliance were due to appropriate approval not being documented prior to enrolling/registering in courses for which tuition was reimbursed. In both instances, the employees confirmed that verbal approval was received prior to course registration. Insufficient purchase documentation increases the risk that expense reimbursements are not valid City expenses and do not comply with Canada Revenue Agency requirements.	Expense reimbursement approvers must ensure sufficient supporting documentation is provided for each expense claimed based on the applicable policy/procedure.	As per the response from #5 in Appendix A, the new Tuition Reimbursement policy will more narrowly define what should be covered by Tuition Reimbursement. This should result in fewer tuition reimbursement claims related to the policy. In cases where insufficient proof of payment is provided, HR/Payroll will be sending the reimbursement claim back to the submitter to have them attach appropriate documentation as per City policies. Once proper documentation has been provided, then the claim will be processed.
2. Tuition Reimbursement Procedure The Tuition Reimbursement Procedure states that the City will reimburse an eligible employee the tuition fee and the cost of the textbook(s) subject to specific requirements, including the completion of a Pre-Enrolment Authorization form <u>four weeks in advance</u> of enrolling in the course. However, the procedure does not contain clear criteria as to what is considered tuition vs. a	Further clarity should be added to the Tuition Reimbursement Procedure outlining the criteria for tuition vs. a general business expense for courses taken. This will ensure supporting documentation submitted for claims is compliant with the necessary procedures and consistent among staff. Additionally, the procedure should be updated to reflect current practices and expectations, such as whether it is necessary for employees	As per the response from #5 in Appendix A, the current Tuition Reimbursement Policy is being revised. The new policy will no longer include a pre-approval process, which will eliminate issues of non-compliance with the Pre-Enrolment Authorization Form.

Observation	Recommendation	Management Response
general business expense for courses taken. As a result, supporting documentation and procedures followed for courses/exams taken by staff was inconsistent. For example, courses/exams required to maintain professional designations or certifications do not need to follow the Tuition Reimbursement Procedure, but this is not clearly outlined in the procedure. Based on the work performed, instances of employees not completing a Pre-Enrolment Authorization Form prior to course enrolment/registration (2 employees) were identified. Failure to obtain approval in advance for courses or provide proof of successful completion increases the risk that the staff member's course does not appropriately benefit the City.	to complete a Pre-Enrolment Authorization form four weeks in advance. Once the procedure is updated, training needs to be delivered to employees and management clarifying the necessary approval and documentation required for tuition reimbursement claims.	
3. Mileage In 2022, the mileage claim process was adapted for employees who regularly use their personal vehicle for City business and visit multiple City locations in a day (i.e. building inspectors). These employees were permitted to provide one daily mileage total. To balance operational needs with protecting City interests, supervisors would perform mileage audits throughout the year to confirm the validity and accuracy of the claims. Our review identified that detailed mileage audits have not been performed by all departments.	Departments with employees who regularly use their personal vehicle for City business and visit multiple locations in a day should work with HR to ensure appropriate controls are in place to verify mileage claims. HR should update the Meal and Mileage Reimbursement Procedure to reflect any approved process amendments implemented by departments. Internal Audit can provide advisory assistance, as required.	HR will work with departments to document any amendments to the Meal and Mileage Reimbursement Procedure (as appropriate). However, the primary responsibility for ensuring submitted mileage claims are accurate is with the expense approver.