



**AUDITOR GENERAL'S
REPORT
ACTION REQUIRED**

**Toronto Community Housing Corporation – Controls
Over Employee Expenses Are Ineffective**

Date:	February 25, 2011
To:	Board of Directors of the Toronto Community Housing Corporation
From:	Auditor General
Wards:	All
Reference Number:	

SUMMARY

Attached is the Auditor General's report entitled "Toronto Community Housing Corporation – Controls Over Employee Expenses Are Ineffective".

The Auditor General's 2010 Annual Work Plan included a review of procurement practices at the Toronto Community Housing Corporation (TCHC). During the course of the procurement audit, we identified a significant number of issues pertaining to the management of employee expenses. Rather than include these issues in one report which for the most part will focus on procurement practices, we determined that a separate report on employee related expenses should be issued. The management of employee expenses is the subject of this report.

Our review identified certain expenses which are inappropriate. A greater concern is a culture at the TCHC which allows such expenses to occur. If TCHC's expense claim approval process had been working effectively, we would have expected many of the instances of non-compliance to be addressed. We also identified instances where controls over cash advances were deficient.

The attached report contains 10 recommendations along with a management response to each of the recommendations.

RECOMMENDATIONS

The Auditor General recommends that:

1. Recommendations in the attached Auditor General's report entitled "Toronto Community Housing Corporation – Controls Over Employee Expenses Are Ineffective" be adopted.
2. This report be forwarded to the City's Audit Committee for information.

Financial Impact

We were advised by the Chief Executive Officer that expenses of the nature identified in the attached report will be discontinued. This action has the potential to save at least \$200,000 on an annual basis.

CONTACT

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SIGNATURE

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10-TCH-01

ATTACHMENTS

[Appendix 1](#): Toronto Community Housing Corporation – Controls Over Employee Expenses Are Ineffective

[Appendix 2](#): Management's Response to the Auditor General's Review of Toronto Community Housing Corporation – Controls Over Employee Expenses Are Ineffective

APPENDIX 1

**Toronto Community Housing Corporation
Controls Over Employee Expenses Are Ineffective**

December 7, 2010



Auditor General's Office

Jeffrey Griffiths, C.A., C.F.E.
Auditor General
City of Toronto

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BACKGROUND

The Auditor General's 2010 Work Plan included a review of procurement practices at the Toronto Community Housing Corporation (TCHC). A separate audit report will be issued in regard to this audit in the near future.

*Separate report
for management
of employee
expenses*

During the course of the procurement audit, we identified a significant number of issues pertaining to the management of employee expenses. Rather than include these issues in one report which for the most part will focus on procurement practices, we determined that a separate report on employee related expenses should be issued. The management of employee expenses is the subject of this report.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

*Extent and scope
of our audit*

The issues we have identified in this report were noted during our procurement review at the TCHC. Our procurement review covered the period from January 1, 2009 to June 30, 2010. The issues highlighted in this report were not the result of a complete and systematic audit of employee expenses. In addition, we did not specifically review the use and controls over TCHC corporate purchasing cards. Finally, we did not review any transactions pertaining to the TCHC subsidiary companies, Housing Services Inc. and Housing Connections Inc.

*Compliance with
generally
accepted
government
auditing
standards*

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence that provides a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT RESULTS

Certain Employee Related Expenses Are Inappropriate

TCHC staff should spend taxpayers' funds with the same care as they spend their own money

City staff as well as staff of the City's Agencies, Boards, Commissions and Corporations should be spending taxpayer dollars with the same care they take in spending their own money. A City funded corporation must manage public resources prudently while at the same time meeting its business objectives.

Even though TCHC is a separate City corporation with its own Board of Directors, it should manage its public resources in much the same way as the City does.

Policies are not being followed

Our review of the Expense Policy at the TCHC indicated that for the most part it is comparable to the City's. While we have no major issues with the Expense Policy itself, we do have significant concerns with the extent and nature of staff related expenses. While the policies are adequate, they serve no purpose if they are not being followed. This is the case in many instances at the TCHC.

Culture needs to change

A greater concern is a culture at the TCHC which allows such expenses to occur. If TCHC's expense claim approval process had been working effectively, we would have expected many of the instances of non-compliance to be addressed. This is not the case.

We have identified certain expenses which are inappropriate. The following are examples of these expenses and by no means represents an exhaustive list:

Examples of inappropriate expenses

- A net expenditure of \$40,000 for a staff Christmas dinner at a local banquet hall in December 2009 and a similar expenditure in December 2008 for \$53,500. It is our understanding that a similar event has recently occurred in 2010. Presumably the Board of Directors was aware of these events.
- An expenditure of \$1,925 for a divisional planning meeting at a local spa. The expenditures covered a three-course lunch, pedicures, manicures and water therapy services for eight staff.
- An expenditure of \$6,000 for an offsite planning session in Muskoka.
- An expenditure of \$3,000 for a two-day staff planning session at a resort in Alliston.
- An expenditure of \$1,850 for a four-hour boat cruise for “staff training and development”.
- Various expenditures on staff birthday parties paid for by the TCHC. The extent of these expenditures are difficult to determine as they are spread throughout the year and in many cases, the nature of the expense is not apparent. However, this type of expense appears to be common practice.
- An expenditure of \$1,000 at Holt Renfrew for chocolates. Apparently these were staff gifts.
- An expenditure of \$1,004 for gift cards for recognizing staff achievements.
- Expenditures in 2009 for entertainment at one restaurant downtown which totalled almost \$5,000. These expenditures were approved by the individual who incurred the expense. There is no documented reason for the expense nor is there any record of who attended. In each case, there is no bill supporting the expenditure other than a copy of a credit card slip.
- Significant hospitality expenditures for staff relating to seasonal festivities. This appears to be common practice.
- Various expenditures at a number of golf courses outside Toronto which appear to be for meals. We were unable to determine the reasons for these expenditures.
- An expenditure of \$800 for “4 chair massage practitioners providing short relaxation massages for staff”. This expense was incurred in conjunction with a staff summer picnic.

***Expenses for
“team building”***

We have been advised by certain staff that some of the expenses were necessary and contributed to “team building” and to an improvement in employee morale. While this may be the case, it is inconceivable that staff would view the expenditure of public funds, for example, on a visit to a spa as appropriate no matter the justification. In this context, a more appropriate use of public funds would be a training program on ethics so that staff are more able to recognize inappropriate expenses. Staff should be directed that under no circumstances should expenses of the nature identified be incurred.

In addition, an ongoing compliance program is required to ensure that all expenses are being incurred in accordance with policies and procedures. Such a program should be the responsibility of the internal audit group.

***Reimbursements
not followed up***

There also appears to be a general lack of due diligence in terms of managing expense reimbursements from third parties. For example, the former Chief Executive Officer attended a conference subsequent to his leaving the TCHC. The cost of the conference which occurred in 2009 was paid for by the TCHC but was to be reimbursed by a third party. The reimbursement of \$3,175 was made 15 months after the expenditure and only after we inquired about it.

***The Auditor
General's prior
years reports
contain
recommendations***

The Auditor General has issued a significant number of audit reports over the past number of years. A number of these reports pertain to employee expenses and the use of purchase cards. The recommendations contained in these reports should be reviewed by senior TCHC staff in order to determine their relevance at the TCHC. Where appropriate recommendations be implemented at the TCHC.

The recommendations in this report should also be addressed to the TCHC's subsidiary companies.

Recommendations:

- 1. The Chief Executive Officer review the current expense policy in detail to ensure that it is comprehensive and very clearly articulates expenditures which are not appropriate. Expenses which serve no direct business purposes such as those incurred on staff celebrations be immediately discontinued.**

- 2. Senior Management be directed to ensure that all expenses incurred by staff are in compliance with policy. Under no circumstances should expenses be approved and processed without supporting, appropriate, sufficient documentation. Further, employees should not approve their own expenditures.**
- 3. The internal audit unit be directed to conduct ongoing audits of all expense claims and report any instances of non-compliance to the Chief Executive Officer. The Chief Executive Officer take appropriate action when instances of non-compliance are identified.**
- 4. The Chief Executive Officer review the ongoing use of purchasing cards in order to determine whether or not their issue to current staff is appropriate. Purchase cards be cancelled where appropriate.**
- 5. The Chief Executive Officer ensure that expenses which are recoverable from third parties are followed up on a timely basis.**
- 6. The Chief Executive Officer review audit reports previously issued by the Auditor General, particularly those related to the use of purchasing cards and employee expenses in order to ensure that the recommendations contained in those reports are addressed and implemented at the Toronto Community Housing Corporation.**
- 7. The Chief Executive Officer ensure that recommendations contained in this report are also implemented at the Toronto Community Housing Corporation's subsidiary companies.**

Internal Audit Reports Identified Issues of Concern

We did not review to any extent the purchasing card process at TCHC. The newly established internal audit section of the Compliance and Ethics Unit conducted an internal review of the program in May 2010. We have reviewed the report issued by the Unit in detail and have significant concerns with the observations contained in this report.

The review conducted by the Unit was restricted to three operating units only. The report indicated that *“supporting documentations were absent in 76 instances (42%) the PCard transactions for a total of \$57,000 (51%).”*

Our review found that most cardholders were submitting only the credit card receipts for meals instead of submitting the detailed receipts that showed what was actually consumed. As pertinent information such as names of the attendees and description of the function were absent on the receipts, it was impossible to conclude if these transactions on meals were legitimate and appropriate.”

The report further states that *“failure to perform the steps to verify and approve purchases might potentially lead to fraudulent, improper, and abusive purchases, and also miss the opportunity to identify and resolve any account problems within 60 days of the statement date.”*

Certain expenses are inappropriate

In addition, the report provides examples where *“transactions did not follow the rules of PCard usage as stated in the Policy and some of the purchases might be inappropriate:*

- *One occasion of circumventing transaction dollar limit by splitting one single purchase into three transactions.*
- *One occasion in using PCard to pay for University tuition fees that should be reimbursed by another method.*
- *Two parking violation tickets for personal vehicles.*
- *Some questionable purchases such as flower arrangements, gifts (including gift card), TTC passes, \$4 purchases at Tim Horton's and gasoline for personal vehicles.”*

We have reviewed the recommendations contained in the internal audit report and are in agreement with the course of action. However, based on our discussions there does not appear to be any follow-up action on the expenses which are clearly inappropriate. Neither does there appear to be any intent to recover expenses which are personal nor is there any action proposed against those staff who may have used the cards inappropriately.

Recommendation:

- 8. The Chief Executive Officer follow up on all expenditures which appear to be inappropriate and:
 - a. recover any Toronto Community Housing Corporation funds which were used for non TCHC business purpose;**
 - b. review with legal and other appropriate staff a proposed course of action towards those employees who have knowingly used purchase cards inappropriately; and**
 - c. discontinue the use of purchase cards until appropriate policies and oversight processes are put in place.****

Controls Over Cash Advances Are Non Existent

Staff use cash to pay for certain activities involving tenants and for making small dollar purchases. Requests for cash are processed either in the form of a cheque requisition or a cash advance request. The corporate Finance Policy and Procedures document includes clear directives on the processing of cheque requisitions and advances.

We identified the following instances where controls were obviously lacking:

- A cheque of \$8,500 for expenses for an event was issued to an employee in July of 2009. To date, no expense report has been submitted to account for the spending of the advance. Consequently, there is no record on what this \$8,500 was spent on.

- A cheque of \$700 was issued to an employee without the required cheque requisition form, supporting receipts, and supervisor's review and approval.
- An employee was reimbursed \$1,000 based on a supplier invoice submitted as proof of payment. Records showed that TCHC had already paid for the services based on an invoice previously submitted to accounting staff.
- Two employees were reimbursed for expense claims which included purchases charged to the corporate purchasing cards at the point of sale.
- Photocopies of gift cards totalling \$500 were accepted as receipts in support of cash funds advanced to an employee. The gift cards do not show their value, are not dated and do not have any unique identifiers, as such, it is impossible to ensure it was not merely one gift card copied several times.

Recommendations:

- 9. The Chief Executive Officer review the controls relating to the issue of cash advances and make appropriate changes as required.**
- 10. The Chief Executive Officer take immediate action to recover expenditures which are non business related and in consultation with the Legal Division take appropriate action towards those staff responsible for incurring such expenditures.**

CONCLUSION

We have had significant discussions with the Chief Executive Officer in regard to employee expenses. We were advised by the Chief Executive Officer that expenses of the nature identified in this report will be discontinued. This action has the potential to save at least \$200,000 on an annual basis.

On an annual basis, usually in December at the City, the City Manager issues a directive pertaining to staff expenses. The directive indicates that City funds are not to be used to subsidize social functions. We understand that a similar directive has recently been issued by the Chief Executive Officer at the TCHC.

The Chief Executive Officer was newly appointed in 2010 and since her appointment has implemented the following:

- new purchasing card policies & procedures
- established a Compliance & Ethics Unit with internal audit and investigation functions
- implemented an Enterprise Risk Management Initiative

Although these actions are in the right direction, significantly more work is required in order to address the recommendations in this report.

Finally, this audit did not include review of a wide range of employee related expenses such as:

- Vehicle expenses
- Vehicle rentals
- Cell phones, including BlackBerrys
- Travel
- Conferences
- Tuition
- Staff membership fees

It is our intent to conduct further work on certain of these areas and report back to the Board as soon as possible.

**Management's Response to the Auditor General's Review of
Toronto Community Housing Corporation - Controls Over Employee Expenses Are Ineffective**

Rec. No	Recommendation	Agree (X)	Disagree (X)	<u>Management Comments:</u> <i>(Comments are required only for recommendations where there is disagreement.)</i>	Action Plan/Time Frame
1.	The Chief Executive Officer review the current expense policy in detail to ensure that it is comprehensive and very clearly articulates expenditures which are not appropriate. Expenses which serve no direct business purposes such as those incurred on staff celebrations be immediately discontinued.	X		<p>When Toronto Community Housing was created from a merger of three separate municipal, metropolitan and provincial housing companies, each with very different staff cultures, management placed a high priority on organizational support for team-building, recognition, and diversity outreach. As a result, there has been a strong culture that supports activities to recognize staff achievements, promote a healthy workplace, and celebrate diversity.</p> <p>In light of the Auditor General's findings, the CEO has suspended all financial supports for staff celebrations. Approaches for staff recognition and healthy workplaces will be developed to reflect this new policy. The new policy will ensure clear parameters are in place that governs acceptable forms of recognition.</p>	<p>Action Plan: The CEO has launched an internal review to revise all existing policies and procedures for employee expenses, and put in place controls and processes that strengthen accountability and transparency.</p> <p>Timeline: Q2</p>

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Rec. No	Recommendation	Agree (X)	Disagree (X)	<u>Management Comments:</u> (Comments are required only for recommendations where there is disagreement.)	Action Plan/Time Frame
2.	Senior Management be directed to ensure that all expenses incurred by staff are in compliance with policy. Under no circumstances should expenses be approved and processed without supporting, appropriate, sufficient documentation. Further, employees should not approve their own expenditures.	X		<p>Currently all monthly purchasing card reconciliations are centralized with the Finance Department. Approval by the Director/Executive and all supporting documentation is attached to support the business expenses.</p> <p>Monthly reports are being prepared for the CFO for "non-filers" and for purposes of follow up with the appropriate Executive.</p>	<p>Action Plan: Later this year, Toronto Community Housing will implement its new Expenses Policy as per Recommendation 1, in conjunction with a new Fraud Policy. We will also launch a staff education program to strengthen awareness and understanding of the need to comply with policies and procedures and exercise sound judgment.</p> <p>Timeline: Q3</p>
3.	The internal audit unit be directed to conduct ongoing audits of all expense claims and report any instances of non-compliance to the Chief Executive Officer. The Chief Executive Officer take appropriate action when instances of non-compliance are identified.	X		<p>This work has already begun and will continue as a routine action.</p>	<p>Action Plan: The Internal Audit Unit will dedicate resources to conduct random audits of expense claims.</p> <p>Timeline: Q2 and ongoing</p>

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Rec. No	Recommendation	Agree (X)	Disagree (X)	<u>Management Comments:</u> (Comments are required only for recommendations where there is disagreement.)	Action Plan/Time Frame
4.	The Chief Executive Officer review the ongoing use of purchasing cards in order to determine whether or not their issue to current staff is appropriate. Purchase cards be cancelled where appropriate.	X		<p>Effective immediately, all purchase card transactions require the approval of a director or executive, pending the new purchasing card policy</p> <p>Plan is to eliminate all purchasing cards by March 31, 2011 and to have staff submit business expenses on their own cards for reimbursement.</p> <p>Finalization of plan is subject to obtaining confirmation that no notice period is required for bulk card cancellation and that no additional costs will be incurred for cancellation.</p>	<p>Action Plan: The Executive will review the use of purchase cards and take appropriate actions.</p> <p>Timeline: Q3 and ongoing</p>
5.	The Chief Executive Officer ensure that expenses which are recoverable from third parties are followed up on a timely basis.	X			<p>Action Plan: Toronto Community Housing will seek reimbursement on all recoverable expenses.</p> <p>Timeline: Q2 and ongoing</p>

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Rec. No	Recommendation	Agree (X)	Disagree (X)	<u>Management Comments:</u> (Comments are required only for recommendations where there is disagreement.)	Action Plan/Time Frame
6.	The Chief Executive Officer review audit reports previously issued by the Auditor General, particularly those related to the use of purchasing cards and employee expenses in order to ensure that the recommendations contained in those reports are addressed and implemented at the Toronto Community Housing Corporation.	X			<p>Action Plan: This recommendation will be carried out in conjunction with recommendations 1 and 4. The CEO will report back to the Board of Directors by September 30, 2011 on the company's progress in implementing the recommendations.</p> <p>Timeline: Q3 and ongoing</p>
7.	The Chief Executive Officer ensure that recommendations contained in this report are also implemented at the Toronto Community Housing Corporation's subsidiary companies.	X			<p>Action Plan: The CEO will notify subsidiary companies of the Auditor General's recommendations, and action items arising from them. A quarterly update from the subsidiary Board's will be required to update on progress and compliance.</p> <p>Timeline: Q1 notification; and Q4 and ongoing for implementation.</p>

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Rec. No	Recommendation	Agree (X)	Disagree (X)	<u>Management Comments:</u> (Comments are required only for recommendations where there is disagreement.)	Action Plan/Time Frame
8.	<p>The Chief Executive Officer follow up on all expenditures which appear to be inappropriate and:</p> <p>a. recover any Toronto Community Housing Corporation funds which were used for non TCHC business purpose;</p> <p>b. review with legal and other appropriate staff a proposed course of action towards those employees who have knowingly used purchase cards inappropriately; and</p> <p>c. discontinue the use of purchase cards until appropriate policies and oversight processes are put in place.</p>	X		In February 2011, we started review each case and took steps to recover funds used for non-business purposes or expenses considered unreasonable. We also took a range of disciplinary actions with staff. These actions have ranged from warning letters, reprimands to suspensions, cost recovery, and termination of employment.	<p>Action Plan: Recommendations 8(a) and 8(b) will be carried out in conjunction with Recommendation 5.</p> <p>Timeline: Q2</p> <p>Action Plan: Recommendations 8(c) is already in place. Pending a review, all purchase card transactions for any reason require approval of a director or executive. Discontinuance of purchase cards underway for Q2.</p> <p>Timeline: Immediate</p>
9.	The Chief Executive Officer review the controls relating to the issue of cash advances and make appropriate changes as required.	X			<p>Action Plan: This recommendation will be carried out in conjunction with Recommendation 1.</p> <p>Timeline: Q2</p>

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Rec. No	Recommendation	Agree (X)	Disagree (X)	<u>Management Comments:</u> <i>(Comments are required only for recommendations where there is disagreement.)</i>	Action Plan/Time Frame
10.	The Chief Executive Officer take immediate action to recover expenditures which are non business related and in consultation with the Legal Division take appropriate action towards those staff responsible for incurring such expenditures.	X			Action Plan: This recommendation will be carried out in conjunction with recommendations 5, 8(a), and 8(b). Timeline: Q2