

### 3. AUDIT ISSUES FROM PREVIOUS MEETINGS

<b>General Manager responsible:</b>	General Manager Corporate Services, DDI 941-8540
<b>Officer responsible:</b>	G Nicholas
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#### PURPOSE OF REPORT

1. The purpose of this report is to respond to issues raised by the Audit & Risk Management Subcommittee at the previous meeting:
  - Air points from business travel
  - Business class travel.
  - Private use of cell phones

#### EXECUTIVE SUMMARY

2. The current Council policy is that all air travel should be at least cost to the Council. Air points earned by staff on Council travel accrue to them as individuals. Although staff could be required to use these points for future business travel, it is impractical to actively monitor or enforce this.
3. The HR policy states that "Council will only fund economy class travel" for staff. When staff have travelled by other than economy class, the difference has been funded personally. The policy among other Councils sampled and guidance provided by the OAG generally allow travel on a basis other than economy class for flights beyond a certain duration. We have amended our policy to reflect this better practice.
4. Cell phone private use: This relies on an "honesty" system. Although another recording system for private calls is available from the supplier, this does not appear to offer significant advantages for the additional administration required.

#### STAFF RECOMMENDATIONS

It is recommended that the Subcommittee receive the report.

#### BACKGROUND ON AUDIT ISSUES

##### Air Points:

5. The Subcommittee requested that the feasibility of introducing a system for recording air points credited to staff and elected members for Council related travel, and the possible utilisation of such air points for future Council related travel be investigated.
6. I have researched several other Councils on this matter and examined the air points system with the Council's travel agent.
7. **Air Points are individual based:** The airlines used by the Council do not have corporate air points schemes, and all points are accumulated on an individual basis regardless of whether they paid for the flight themselves ie air points accrued by one person's travel cannot be applied to that of another staff member. Hence the benefits are only realisable by staff that travel frequently on Council business.
8. Individuals can top up their air points account with credit card points in some cases. Travellers' private travel earns air points that are also credited to the same individual account, which the Council has no interest in. Distinguishing between private and business earned points becomes difficult.
9. **Confidentiality:** Requests made to air lines by our procurement team for reports on air points credited have been declined on the basis that air points relate to individuals and are therefore confidential and private to those individuals.

10. Staff who accrue air points do not need to have the Council's travel agent log air points at the time of booking and can later present their "receipt" to have these credited outside of the Council's booking process. The travel agent could assess if there was "potential" for air points, however they would not know if they had been actually received.
11. **Cost to join the scheme:** Travellers are required to pay a one-off fee to join the air points scheme (\$50). If the Council wanted to make use of these points, staff may feel that the Council should reimburse the cost of membership.
12. **Points only apply to higher cost flights:** Air points tend to accrue only on the top tier fares rather than the cheapest fares. Instructions to Council travel co-ordinators are that the cheapest fares practical are to be used when booking travel for staff. The restriction on staff booking their own travel is an attempt to avoid staff selecting flights that enable them to accrue the maximum private air points. Staff in may be able to override this control by later booking of flights.
13. **Other Councils' Policies:** Wellington City Council and Waitakere City Councils both have policies that state that "air points earned on business travel remain the property of the Council". However both have no monitoring or audit process to ensure that staff apply these points to Council travel rather than private travel. There seems little benefit in putting such a policy in place if it cannot be effectively monitored or enforced.
14. **Other Organisations:** From discussions with the Council's travel agent (Orbit Travel), no client of theirs is known to have effectively utilised air points to reduce company travel costs.

#### **FINANCIAL AND LEGAL CONSIDERATIONS**

15. From discussions with the Council's travel agent, the potential benefits in air points accrued over September/October 2005 was approximately \$1,350 per month. Assuming this represents average travel activity, this equates to about \$15,000 per year in potential saving if these points were able to be fully utilised.
16. The Council could put in place a policy such as Wellington and Waitakere currently have which requires staff to apply their air points to Council travel. However this could be no more than a recommendation to staff, as the Council has no effective way of monitoring or enforcing a policy of this nature which is cost-ineffective and likely to cost more in other ways.

#### **PREFERRED OPTIONS**

17. Maintain the status quo.

#### **BACKGROUND ON AUDIT ISSUES**

##### **Business Travel:**

18. **Existing Council Policy:** The Council HR policy on staff travel states: *"All travel will be arranged, at least cost to the Council, through the Corporate Services unit ... Council will only fund economy class travel"*.
19. **Health & Safety Issues:** Deep Vein Thrombosis (DVT) is the formation of blood clots in the major veins and has been referred to in the media as "economy class syndrome".
20. The Council's Health & Safety officer, Melissa Haskell, indicates that despite this reputation, the condition is caused by inactivity and can occur even travelling in Business Class. Travellers with certain risk factors can take various prevention measures including medications to guard against the risk of DVT.
21. The GM Human Resources states that a more important consideration is that wherever possible, travellers should arrive at least 24 hours in advance of overseas work starting in order to catch up on sleep and adjust to the new time zone and climate: "we need to consider the costs of sending someone earlier (hourly rate, accommodation) verses the extra cost of business class."

22. Deep Vein Thrombosis would not be covered by ACC legislation as it does not meet the definition of "accident" nor "work-related gradual process, disease or infection" therefore our liability as an ACC accredited employer would be unaffected if an employee contracted this condition.

**What others suggest:**

23. **The Office of the Auditor General:** The report "*Review of Chief executive credit card expenditure*" issued in December 1994, commented on the policies adopted by central government departments. The OAG saw as reasonable that flights beyond Australia could be upgraded to Business Class if the employee will be required to assume duties soon after arrival following a lengthy journey. No hourly flight duration was suggested. The OAG is due to review sensitive expenditure by public bodies in the near future .
24. **The Institute of Internal Auditors NZ Inc** issued a publication in 1996, "*A Management Guide to Discretionary Expenditure*" that listed the results of their research into what was "common practice". This suggests that some organisations have a policy requiring all travel to be by economy class unless exceptional circumstances prevail. The publication suggests that the CEO or their delegate normally is the one who can approve "exceptional circumstances" which may include where an employee is required to assume duties soon after arrival following a lengthy journey (nine hours constitutes a common yard stick).
25. **The Council's travel agent** Orbit travel state that many of their clients operate under the rule that flights over five hours duration entitle the traveller to Business Class travel if they are expected to work the following day. These tend to be flights beyond Australia or the South Pacific.
26. **The Crown Company Monitoring Advisory Unit** responsible for SOEs and other central government owned organisations issued "*Directors Fess and Reimbursement Guidelines*" in February 2004. This states that air travel of less than four hours uninterrupted travel should be economy class rather than business class.
27. **Other City Councils in New Zealand:** The following table lists the rules used by several other large Councils:

<b>Business Class travel allowed if:</b>	<b>Wellington City Council</b>	<b>Auckland City Council</b>	<b>Waitakere City Council</b>
Destinations	Beyond east coast of Australia	Pacific Premium class allowed on international except to Australia (economy). This is available on Air NZ only.	Not specified
Minimum length of trip before Business class is possible	Exceeds 8 hours	Exceeds 7 hours	Exceeds 6 hours
Approval	1. In writing by GMs for staff. 2. Council resolution for elected members	1. CEO to approve international travel and any business class travel based on individual itinerary. 2. GMs approve Australian based economy travel	Not specified
Other conditions	1. Case by case basis. 2. No recuperation period is available on arrival.	1. Business class can be used if all travel points are reused on Council business. 2. Needs CEO approval	Exceptions granted because of health reasons or a very close relationship between the time of arrival and timing of events.
Comment	This policy is currently under review.	This policy is currently under review.	

## FINANCIAL AND LEGAL CONSIDERATIONS

28. As a general rule, Business Class flights are approximately three times more costly than economy class.
29. From an analysis of flights over the past 12 months, if applying the proposed rule that "flights beyond Australia would be taken as Business Class", ie flight legs over six hours duration, the cost of travel of staff only would have increased from \$26,700 to \$86,427 being a difference of approximately \$60,000 over what it actually cost the Council during this period.

## PREFERRED OPTIONS

30. Note the change to travel policy to allow staff to travel other than by economy class where:
  - The travel involves a flight leg that exceeds 10 hours duration and the person is expected to be working with in 24 hours of arrival at their final designation *or*
  - There are other health or business reasons for the person to travel other than by economy class *and*
  - The upgrade of travel is approved as part of the approval by the CEO for international travel.

## BACKGROUND ON AUDIT ISSUES

### Private Use Of Cell Phones:

31. **Current process:** Units are required to have in place a process whereby staff cell phone schedules are issued to staff each month and expected to be returned with private calls marked and with a payment (or receipt for payment) attached. The process is subject to periodic audit. The process relies on staff honestly in declaring private calls, as it is difficult for another person to determine which calls may be private. The Council policy allows *reasonable* use accepting that staff who do not operate out of the fixed locations or who work irregular hours should be able to contact family etc.
32. **Recording:** Calls made on cell phones or to cell phones from Council landlines are recorded in a database and are able to be accessed and analysed if required.

### OPTIONS:

33. **Duel billing:** Telecom offers a duel billing system whereby pushing a certain key when a private call is made, the call will appear on a separate account in the name of the employee. The employee would then be required to pay this direct to Telecom. The Council still remains liable for the account if the employee fails to pay however.
34. Advantages:
  - The employee makes the decision at the time as to whether the call is private rather than trying to remember when the account arrives.
  - Less administration by collecting and chasing up account schedules.
35. Disadvantages:
  - Text message will always appear on the Council account whether private or business (about 20% of accounts have these and the assumption is that these tend to be private). Hence if staff were required to pay for these, there is still administration effort required around collecting these accounts.
  - There would still need to be follow-up on private accounts that staff did not pay, as the Council would then be re-billed for these by Telecom. Given the monitoring currently required, this could become quite a task, as employees often tend to regard cell phones accounts as a low priority task.
  - There is no guarantee that staff will operate the process correctly or be more honest or diligent in identifying private calls than with the current arrangement.

## PREFERRED OPTIONS

36. Maintain the current process with occasional auditing of compliance.