



City Auditor's Office

Council Expense Audit

July 27, 2020

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The City Auditor's Office conducted this audit in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Executive Summary

In response to Notice of Motion C2020-0263 the City Auditor conducted an audit of Council expenses incurred by all Wards (excluding Ward 2) and the Mayor's Office, representing expenditures incurred in each year of the present Council's term of office. Based on the testing conducted, expenses claimed were generally in adherence to Council policy. More importantly, the audit identified systemic issues exist that require prompt resolution in order to maintain effective accountability and transparency regarding use of Council and Mayor budgets. The main systemic issues focus on enhancing policy clarity, and supporting governance processes, including independent authority to enforce and escalate policy compliance, timeliness of submission, and training and orientation to ensure expectations are consistently understood.

This report includes four recommendations to address the systemic issues and provide greater support to elected officials in transparency and accountability of their utilization of expense budgets and compliance with policy requirements. Recommendation 1 enhances the clarity of policy requirements, while Recommendations 2, 3 and 4 strengthen supporting governance processes: approval of expenses, timeliness of submission, and training and orientation.

As the Notice of Motion C2020-0263, specifically identified the City Auditor to work with the City Manager and other appropriate parties to determine a better governance model for Council oversight, and since the systemic issues identified align with a better governance model, this report has been shared with the City Manager to discuss potential action plans.

The City Manager has formed a Working Group to make recommendations to Council related to addressing the governance gap that exists in some matters of Council oversight, per the direction received from Council through 2020 February 24 Notice of Motion *Closing the Governance Gap in Office of the Councillors Efforts at Public Disclosure* (C2020-0263). Working Group members currently include:

- Council's Ethics Advisor;
- City Solicitor;
- Chief of Staff of the City Manager's Office; and
- City Auditor, acting in an advisory capacity.

This Working Group will consider areas of improvement identified in this audit report regarding updating Council expense policies and associated processes. In addition, the Working Group will consider approaches to closing any additional governance gaps that have been identified. The City Manager has committed to providing an update to Council regarding action plans to address the systemic issues no later than December 31, 2020.

1.0 Background

On February 24, 2020, to demonstrate adherence to expense policies by all members of Council (including the Mayor), Council directed the City Auditor, through Notice of Motion C2020-0263, to “immediately determine and execute the best way to verify expenses for all ward council offices and Mayor’s Office budget for the present Council’s term in office, to identify whether individual or systemic issues exist that require further attention”. This is one of four actions included in the Notice of Motion, additionally Council directed:

1. The City Auditor to conduct a forensic investigation into the Ward 2 City Councillor’s expenses;
2. The City of Calgary CFO to determine and execute the best way to make all centrally disclosed expenses for Councillors and Administration publicly accessible; and
3. The City Manager to determine a better governance model for Council oversight.

Councillors and the Mayor are expected to comply with the following expense policies:

- PAC006 Councillors’ Expenses/Allowances Policy;
- PAC007 Councillors’ Expenses – Out of Town Travel Policy; and
- PAC008 Office of the Councillors Expenditure Authorization Policy.

Ward budgeting and quarterly disclosure of expenses are detailed in PAC014, Budgeting and Accounting – Office of the Councillors, and additionally in section 28 and 29 of Bylaw 26M2018, “Code of Conduct for Elected Officials Bylaw”. Bylaw 26M2018 also states (Section D, part 18): “A *Member* must respect and comply with all obligations imposed on the *Member* by statute or other legal enactment, and by the City’s policies and procedures, including but not limited to the: (i) *Councillors’ Expenses/Allowances Policy (PAC006)* (j) *Office of the Councillors Expenditure Authorization Policy (PAC008)*”.

Councillors and the Mayor are provided various methods to claim or transfer direct expense costs through the following:

1. Corporate Credit Cards allocated to Councillors, their Ward Office staff, the Mayor, and staff in the Mayor’s Office;
2. Corporate Credit Cards allocated to staff in the Office of the Councillors;
3. Personal Expense Reimbursement Forms for cash payments or personal credit card charges; and
4. Petty cash obtained through the Office of the Councillors.

Approval of expenses is role dependent based on who incurred the expense.

Expenses Incurred by:	Approval Provided by:
Mayor	City of Calgary CFO
Mayor’s Chief of Staff	Mayor
Mayor’s Office staff	Mayor’s Chief of Staff
Councillors (excluding Chairman of the Coordinating Committee of the Councillors Office)	Chairman, or designate of the Coordinating Committee of the Councillors Office
Chairman of the Coordinating Committee of the Councillors Office	Manager, Office of the Councillors, or an alternate member of the Coordinating Committee of the Councillors Office
Ward Office staff	Ward Councillor
Office of the Councillors staff	Manager, Office of the Councillors
Office of the Councillors Manager or staff on behalf of a Ward	Chairman, or designate of the Coordinating Committee of the Councillors Office

2.0 Audit Scope and Approach

We selected a sample of expenses incurred by all Wards (excluding Ward 2) and the Mayor's Office representing expenditures incurred in each year of the present Council's term of office - October 2017 to February 2020. Our sample included expenses charged through Corporate Credit Cards (assigned to Councillors, Ward Office staff, the Mayor, staff in the Mayor's Office and staff in the Office of the Councillors) and Personal Expense Reimbursement Forms. Petty cash expenses were excluded from our sample as they represented lower dollar value. Gifts and personal benefits received by the Mayor and Councillors were considered out of scope of this audit, as was disclosure of expenses through the City of Calgary's internet web pages.

A judgmental sample of Corporate Credit Card statements and Personal Expense Reimbursements was selected:

- 59 Corporate Credit Card statements were reviewed. We selected a minimum of one credit card statement for each year that the credit card account was active in the audit's timeframe, October 2017 to February 2020. Two Councillors and their Ward Offices did not have corporate credit cards. The value of the sample was \$88,939.45.
- 62 Personal Expense Reimbursements were reviewed. The sample included a minimum 50% of Personal Expense Reimbursements to all Ward Offices (excluding Ward 2) and the Mayor's Office. The value of the sample was \$54,435.81.

We compared each expense in our sample to relevant Council policies to determine adherence to existing policies. Our audit did not assess whether any expenses incurred represented value for money.

After comparing the sample to relevant policies, interviews were held with each Councillor, and the Mayor to further understand expenses charged, and to obtain input on suggested improvement to governance of expenses. We additionally met with the Manager, Office of the Councillors, and Council's Ethics Advisor.

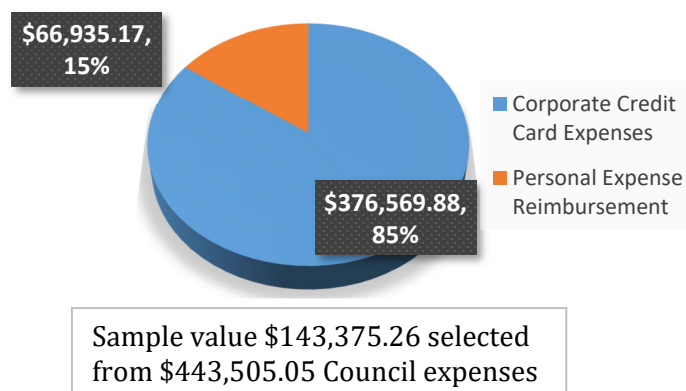
3.0 Results and Recommendations

Based on the testing conducted, expenses claimed were generally in adherence to Council policy. More importantly, the audit identified systemic issues exist that require prompt resolution in order to maintain effective accountability and transparency on use of Council and Mayor budgets. The main systemic issues focus on:

- Clarity of expense policy requirements (Recommendation 1), and
- Governance processes:
 - Independent authority to approve expenses, enforce, and escalate policy compliance (Recommendation 2);
 - Timeliness of submissions (Recommendation 3); and
 - Training and orientation to ensure expectations are consistently understood (Recommendation 4).

3.1 Adherence to Policy

We selected a sample of Councillor (excluding Ward 2) and Mayor expense reimbursements incurred between October 2017 and February 2020 to assess adherence to Council Policy. During the time period, a total of \$443,505.05 was reimbursed to Council and Mayor (\$376,569.88 expensed on Corporate Credit Cards and \$66,935.17 reimbursed through Personal Expense Reports).



The value of the expense reimbursements sampled was \$143,375.26, or nearly one third of the total reimbursements.

From the sample, expense reimbursements totaling \$133,591.93 (93.18%) adhered to Council Policy.

- Two expense reimbursements did not adhere to Council Policy; however we confirmed the expenses were valid and incurred while performing elected official duties:
 - One expense claim for \$55.44 was approved by a signing officer that was also a party to the expense, explained by the approver and expense claimant as an oversight. The approval process set out in PAC008, Office of the Councillors Expenditure Authorization Policy was not followed.
 - One expense claim for \$273.64 for travel in “business” class rail fare. PAC007 states: “Economy fair is normal, unless unavailable.”. The expense claim did not include a reason for business class, however follow-up discussion with the Councillor confirmed the choice of business class was to facilitate Council Office work during the trip.
- Thirteen expense reimbursements represented valid expenses, although they were not supported by documentation required by current policy, likely due to the unpracticality of current policy requirements:
 - Twelve expense claims totaling \$8,970.35 for hotel stays included receipts as required, however the receipts did not include information required in current policy. PAC007 states: “The City of Calgary” should appear on the hotel registration.”.
 - One expense totaling \$483.90 for a hire car included the Councillor’s name, but not reference to The City of Calgary as required by PAC007.

3.2 Policy Clarity

Through sample testing of expenses and associated interviews, we identified further policy clarity would support elected officials in making decisions regarding expenses to be charged in five key areas: hosting, alcohol, travel, gifts and donations, and office equipment. Further details are set out in Sections 3.2.1 – 3.2.5 below. Consolidation of requirements across policies, addition of definitions, revision of expense documentation requirements and clearly stated allowable/disallowable expenses would all support enhanced policy clarity.

3.2.1 Hosting Expenses

PAC006 allows “Hosting (meals and refreshments)” as a business expense. Proof of expense and names of the party hosted are required. PAC007 allows “Guest meals and other hosting, with an explanation of the nature of business and who attended”. Our sample of expenses included both in-town and out of town hosting events. Expenses adhered to policies as currently written. However, our testing and subsequent interviews indicated enhancements to policy would better support decision making by elected officials, such as:

- Specifying eligible categories of guests where expenses can be reimbursed (i.e. spouses, City of Calgary employees, third party organizations, volunteers, constituents, Ward/Mayor’s Office staff);
- Clarifying the details required to support a hosting expense, for example whether a list of attendees and the name of the event sufficiently articulates the purpose of the hosting;
- Extending the requirement to specify the purpose of the event to in-town hosting (e.g. hosting at the Saddledome);
- Clarifying how to treat expenses when more than one Councillor attends a meal/hosting event (i.e. whether the expense should be split, or whether one Councillor should cover the full expense);
- Clarifying the requirements of the \$100/day/attendee hosting limit; and
- Setting maximum limits on gratuities.

3.2.2 Alcohol

Alcohol expense guidelines for Council are in three separate policies; however, the current wording of the policies lack clarity and are open to interpretation.

PAC008 is the Office of the Councillors Expenditure Authorization Policy, but also includes guidance on “Expenditures For Alcohol” and states:

“Alcohol expenses for business meeting can only be permitted with City funds in the event a meeting meets all of the following criteria:

- The meeting involves third parties (i.e. non-City), external agencies or organizations; and
- Alcohol consumption is reasonable.

No alcohol expense will be paid by City funds for any meeting that is attended only by Councillors.”

PAC007 (Out of Town Travel Policy) includes the same criteria. Neither policy defines third parties other than stating “non-City”. The wording does not make clear whether “non-City” meeting attendees include Ward Office staff (who are not members of City of Calgary Administration), or staff or officials who work for City of Calgary Civic Partners/City of Calgary Wholly Owned Subsidiaries. Furthermore, the policy does not define “reasonable” alcohol consumption.

PAC008 and PAC007 also state: “...Councillors may continue to host appreciation events that include alcohol for volunteers and/or members of the public service and the Mayor may continue to host similar events for all Councillors.”. The policies do not define who “members of the public service” refers to, and whether this could include City of Calgary Administration staff, or Ward Office staff.

PAC006 (Councillors' Expenses/Allowances Policy) does not exclude or include alcohol as an allowable expense, however it lists expenses for "Hosting (meals and refreshments)" as an eligible item that the Councillor may include in business expenses. There are no exclusions stated on the type of guests at the hosted event (i.e. City of Calgary, non-City of Calgary, etc.).

While we did not identify instances of non-compliance in our sample with current policies as written, the wording is not sufficiently clear to provide direction regarding what is and what is not a permissible alcohol expense. In interviews with elected officials, each was asked: "Are there any changes to the expense policies that you believe would be beneficial in support of a transparent and accountable City of Calgary?". Seven elected officials commented on policies related to expensing alcohol each offering a different range of view:

- Guidance is sufficient and alcohol should remain a permissible expense;
- Insufficient guidance and clarity around permissible alcohol expenses; and
- Claims on alcohol should not be a permissible expense.

Although Council expense policies were updated in 2015 in response to a Council directed report by the City Auditor's Office, it may be time to reassess permissible alcohol expenses.

3.2.3 Travel Expenses

PAC007 includes Allowances for Personal Expenses when elected officials are travelling for business purposes. Our sample testing and subsequent interviews highlighted a number of areas where further policy clarity or updated wording may better support elected officials:

- "The City of Calgary" requirement on hotel receipts and hire car;
- "short" versus "longer" duration trips are not defined;
- Taxis/livery service at a travel destination is not described;
- \$125.00 daily meal limit applicability during conferences versus per diem; and
- Travel receipts for air, rail, and bus bookings and support to justify unavailability of economy pricing.

PAC006 includes in-town travel but current wording does not provide sufficient clarity regarding in-town travel and what is an allowable expense. For example, "Automobile Policy" states: "Usage of taxi cabs for transportation on Ward and City business...is permitted in the appropriate circumstances.", however "appropriate circumstances" are not further defined.

3.2.4 Gifts and Donations

PAC006 states: "Donations to political parties are specifically excluded as an eligible expense from this [Allowance] account or any other source of ward funding." No further guidance on donations is provided in the policies. In our sample of expenses, we noted several Councillors contributed to charitable endeavors within their Wards, with either monetary donations or tangible items such as gift cards. PAC006 does not provide guidance on how to appropriately record and expense items that are donations of a non-political nature, such as limits on donations (% or \$), tickets purchased for community fundraising events, or maximums set for donations of merchandise. Furthermore, the policy does not address how the charitable receipts should be handled (e.g. a requirement that charitable receipts are made out to The City of Calgary).

PAC006 does not specifically refer to purchase of gifts funded by the Allowance Account. Our sample included several expense claims for gifts. We discussed the purpose of the gifts with the Councillors and confirmed the gifts were for reasons such as recognition of Ward Office staff or appreciation of community volunteers. These expenses did not contravene policies; however, three Councillors expressed a need for greater clarification and guidance within the policy to outline the type of gifts that are appropriate and to clearly demonstrate that items are directly benefitting the Ward and its constituents.

3.2.5 Office Expenses

In completing our sample testing, we identified PAC006 contains limited guidance in relation to Ward Office and Mayor's Office expenses incurred by elected officials or their support teams.

PAC006 refers to "Office supplies and equipment not provided by the Office of the Councillors" but does not provide further guidance as to what mobile device hardware, and accessories are appropriate to expense. The current policy does not refer to guidance on what office equipment is appropriate for either the elected official incurring the expense or the approver. Likewise, no guidance is available to elected officials new to office as to what office fixtures and fittings (e.g. fridges, coffee makers) are appropriate to expense.

PAC006 states: "Office supplies or equipment purchased with Allowance Account funds with the value in excess of \$500.00 will become the Property of The City of Calgary at the end of the Councillor's term of office unless the asset is considered obsolete or is past its useful life as determined by the Chairman, CCCO in consultation with Corporate Properties.". Our sample included one office equipment expense claim of \$729.72. Discussion with the applicable Councillor confirmed the equipment was for the Ward Office's business purposes. However, there is no process to account for equipment purchased as an asset of the City of Calgary, and as a result it may not be possible to ensure conformance with asset life requirements.

Other office expenses in our sample but not referenced in PAC006 included mailing costs, Ward Office events such as lunches, team building events or offsite meetings, and recurring monthly costs such as home office internet and phone, and home security, which were grandfathered from particular events or circumstances.

Training and Learning expenses are covered in PAC014 which states: "Councillors may budget from their Ward Based Budget Package according to their needs in any given year for courses and seminars for themselves or their Assistants. Courses and seminars paid for by Councillors from their ward budgets must be job related and it is the responsibility of the Councillor to clearly demonstrate the relationship.". Reasonable verbal explanations were provided during our audit, however there was no supporting documentation provided at the time of the claim. Councillors were able to explain when interviewed how conferences and seminars in our expenses sample related to their role, however, there is no current supporting process in place where Councillors would document this relationship.

Recommendation 1

The City Manager, in conjunction with the Ethics Advisor, revise and update Council expense policy wording and supporting documentation requirements and processes to provide enhanced clarity, including but not limited to, hosting, alcohol, travel, gifts and donations, and office equipment expenses.

Management Response

Agreed.

Action Plan	Responsibility
<p>The City Manager will work with the Ethics Advisor and the Working Group to bring forward recommendations to Council to improve wording and provide enhanced clarity in Council’s expense policy and supporting documentation.</p>	<p><u>Lead:</u> City Manager</p> <p><u>Support:</u> Ethics Advisor</p> <p><u>Commitment Date:</u> December 31, 2020</p>

3.3 Governance Processes

Three aspects of governance should be enhanced to support elected officials in transparency and accountability: approval process, submission timeliness, and training and orientation.

3.3.1 Approval Process

The design of the current approval process for Council expenses may be perceived as a conflict of interest, and a potential impairment to transparency and accountability. The majority of Council expenses (expenses incurred on Councillor’s Corporate Credit Cards, and Councillor expenses claimed through Personal Expense Reports, see Background section above) are reviewed, approved and authorized by the Councillor who fulfills the role of the Chairman of the Coordinating Committee of the Councillors Office (CCCO). If unavailable, or if the Councillor in this role identifies expenses where they cannot sign off (e.g. a hosting event in which they participated), approval can be provided by another member of CCCO, or the Manager, Office of the Councillors.

This approval process puts one Councillor in the role of approving/declining other Councillor expenses, which may be perceived as a conflict of interest with the Councillor’s primary political role of working with other elected officials, and a barrier to independence and objectivity. One Personal Expense Report in our sample was approved by the Chairman of CCCO although expenses in the Report included a hosting event in which the Councillor participated. None of the elected officials interviewed felt that the current approval process was an appropriate governance structure, and most expressed the opinion that the approver role should not be held by a Councillor. It is not stated in current policy who provides guidance to Councillors or the approver regarding expenses in the event of disagreement or lack of clarity.

Members of Council and the Mayor agreed an independent approval should be in place which is free of political influence. In some cases, specific suggestions were raised including assigning the approval and authorization of Council expenses to the Office of the Councillors, or to the Finance business unit.

Recommendation 2

The City Manager, in conjunction with the Ethics Advisor, review and adjust the approval process for expenses incurred by elected officials to:

- a) Ensure the approval process’s signing officer is an independent authority with ability to enforce and escalate policy compliance; and
- b) Address the risk of the signing officer approving his/her own expenses.

Management Response

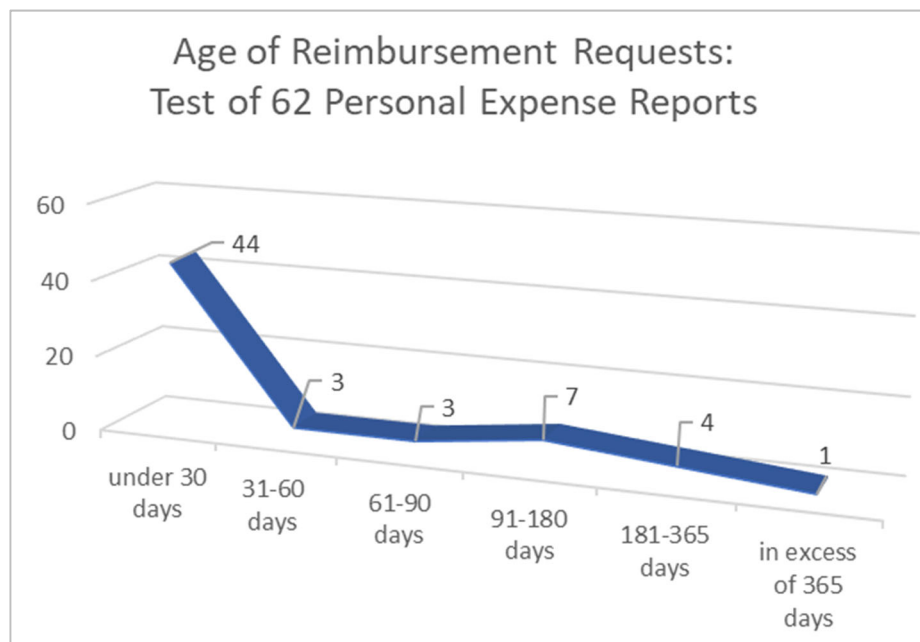
Agreed.

Action Plan	Responsibility
<p>The City Manager will work with the Ethics Advisor and the Working Group to bring forward recommendations to Council to review and adjust the approval process for expenses incurred by Elected Officials.</p>	<p><u>Lead:</u> City Manager <u>Support:</u> Ethics Advisor <u>Commitment Date:</u> December 31, 2020</p>

3.3.2 Submission Timeliness

Council expense policies do not address timely submission of Personal Expense Reports (i.e. expenses that were not charged to a corporate credit card) or specify report submission deadlines, with the exception of instances where Councillors obtained a travel advance (PAC007) and must submit a Personal Expense Report within 14 days of return. There is no time limit stated in policy beyond which expenses will be disallowed.

Of our sample of 62 Personal Expense Reports, 44 (71%) were submitted within 30 days of the actual expense.



However, 5 (8%) Personal Expense Reports took 6 months or more to be submitted. In addition, 6 of the 62 Personal Expense Reports occurred over The City of Calgary’s fiscal year-end which can impact financial reporting and expense transparency. Timely submission of Expense Reports can improve the quality and efficiency of the expense reimbursement processes, enhance transparency of reporting, and reduce the risk of errors, omissions, duplicate claims or lost receipts.

Recommendation 3

The City Manager, in conjunction with the Ethics Advisor, establish timeliness requirements for submission and approval of expenses claimed via Personal Expense Reports.

Management Response

Agreed.

Action Plan	Responsibility
The City Manager will work with the Ethics Advisor and the Working Group to bring forward recommendations to Council to establish timeliness requirements for submission and approval of expenses claimed via Personal Expense Reports.	<u>Lead:</u> City Manager <u>Support:</u> Ethics Advisor <u>Commitment Date:</u> December 31, 2020

3.3.3 Training and Orientation

Elected officials are not required to attend or complete training/orientation regarding expense policies during their term of office. Training and orientation on Council expense policies was offered to all members following the 2017 election, and five Councillors attended. Training and orientation support awareness of compliance expectations and consistency of interpretation of policy for members of Council, and for staff in Ward Offices/Mayor’s Office who support the preparation of expense submissions.

Nine of 14 elected officials interviewed identified training and orientation on expense policy and process should be strengthened. The following specific improvement opportunities were suggested regarding expense training:

- Mandatory for all elected officials;
- Additional training designed specifically for Ward Office staff once in position; and
- Ongoing training updates/refreshers for both elected officials and support staff.

Recommendation 4

The City Manager, in conjunction with the City Clerk and the Manager, Office of the Councillors, design and implement training to support updated Council expense policies.

Management Response

Agreed.

Action Plan	Responsibility
The City Manager will work with the City Clerk and the Manager, Office of the Councillors to design and implement mandatory training for elected officials and Ward Office staff on updated Council expense policies as part of the Council Orientation process. Consideration will be given to ongoing training updates and refreshers.	<u>Lead:</u> City Manager <u>Support:</u> City Clerk and Manager, Office of the Councillors <u>Commitment Date:</u> December 31, 2020