

City Auditor's Report to
Audit Committee
2026 April 23

ISC: UNRESTRICTED
AC2026-0321

Employee Expenses Continuous Auditing Project

PURPOSE

The purpose of this report is to communicate the outcome of the Employee Expenses Continuous Auditing Project, including Administration's response and corrective actions.

PREVIOUS COUNCIL DIRECTION

Bylaw 30M2004 (as amended) established the position of City Auditor and the powers, duties, and functions of the position. In accordance with Bylaw 30M2004 (as amended), the City Auditor reports the outcome of all audits to the Audit Committee (including Administration's response and corrective actions to be taken in regard to specific recommendations). The City Auditor is accountable to Council and subject to the oversight of Audit Committee under Bylaw 33M2020.

RECOMMENDATIONS:

That the Audit Committee:

1. Receive this report for the Corporate Record; and
2. Recommend that Council receive this report for the Corporate Record.

HIGHLIGHTS

- What does this mean to Calgarians? Controls over Corporate Credit Card processes support that card transactions are accompanied with appropriate documentation, flights, tips, fuel purchases are consistent with policy, and supervisory approvals are provided. Improvement is needed in accountability for gift card purchases and consistency in their use in employee recognition.
- Why does it matter? Compliance with Administration policy for employee expenses charged to corporate credit cards supports ethical conduct, responsible use of public funds and protects The City of Calgary's ("The City's") reputation.

RISK

The data analysis outlined in this report supports Administration in their on-going mitigation activities related to Reputation and Financial Sustainability Principal Corporate Risks.

DISCUSSION

The Corporate Credit Card (CCC) is the City's expected payment method for goods and services under \$5,000. Although employee expense transactions are typically low in value, compliance with Administration policy for expenses supports ethical conduct, protects the City's reputation, and supports responsible use of public funds.

Finance moved credit card processing from a manual process to an automated workflow in February 2025. Accounts Payable (AP) within Finance, administers the Corporate Credit Card program for The City.

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The objective of this audit was to determine if controls over Corporate Credit Card processes were effective in ensuring that employee expense transactions are consistent with Administration policy. Our audit scope covered approximately 69,000 transactions with a value of \$53.2M from January 26, 2025, to August 25, 2025.

We achieved this objective by identifying employee expense transactions that represented a higher-risk of non-compliance with policy and assessing whether corrective follow-up was completed where necessary. Transactions meeting these criteria are:

1. Expenses for cardholders that use the missing receipt forms or have insufficient receipt documentation.
2. Spending on travel, recognition, or entertainment that exceeds policy-defined reasonable limits.
3. Spending prohibited by policy.
4. Delayed supervisor review and approval of transactions.

To complete our testing, we extracted the text from all supporting documentation (receipts) submitted to the credit card workflow system during our audit period. We queried this data using a mixture of generative AI and keyword searches. The key results from our analysis for each criterion are shown in the scorecard attachment to this report. Overall, controls over Corporate Credit Card processes support that card transactions are accompanied with appropriate documentation, flights, tips, fuel purchases are consistent with policy, and supervisory approvals are provided. Improvement is needed in accountability for gift card purchases and consistency in their use in employee recognition.

1. Missing Receipts or Insufficient Receipt Documentation (Minor Risk)
Most transactions tested were supported by appropriate documentation with limited exceptions concentrated in certain receipt types. We looked at the full population of credit card transactions during the audit period and identified approximately 1% of transactions lacked receipts but included The City's standard Missing Receipt Form. We identified a further 1% of transactions with insufficient documentation when compared with documentation requirements outlined for a receipt in the Corporate Credit Card Quick Reference Guide, primarily due to missing itemized details for goods or services purchased. This additional 1% was identified by extrapolating an error rate for types of transactions with indicators of insufficient documentation to the full population. We have shared the types of transactions with higher incidences of insufficient document to AP to support ongoing cardholder education.
2. Spending on Travel, Recognition, or Entertainment (Negligible Risk (flights, tips), Significant Risk (gift cards))
As part of project planning, an initial risk assessment was completed and subsequently refined as testing progressed. Within the broader category of travel, recognition, and entertainment, the analysis extended beyond dollar value to also consider reputational risk,

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the closeness of items to cash, and testing efficiency. We focused transaction testing on flights, employee recognition gift cards, and tips.

- a. Travel – The City's Procedures for Reimbursement of Employee Business Expenses require that air travel be booked in economy class, when available, and through The City's contracted travel provider. We evaluated all 453 flight tickets purchased during the audit period and found that nearly all (98% or 442) of transactions complied with these requirements.

We identified three non-economy tickets consisting of two premium economy class tickets, one business-class ticket (for one flight segment of a multi-flight itinerary), and eight tickets booked via other travel providers. We referred these to AP for further investigation.

- b. Spending on Employee Recognition – Human Resources have established Corporate Recognition Guidelines, and there is existing functionality in The City's HR system for reporting gift cards given for employee recognition, but Guidelines do not provide direction that this functionality needs to be used. Overall compliance with these Guidelines was inconsistent.

We conducted an initial review of 38 employee recognition transactions identified through keyword searches to assess compliance. During this review, we noted several exceptions related to gift cards and therefore focused our testing in this area due to these early results and the associated risks tied to the liquid nature of gift cards.

We reviewed all 193 recognition transactions purchasing gift cards with a total of \$30,352 during the audit period, and we noted that 13% did not include information identifying the recipients—an important requirement for both CRA compliance and accountability over this liquid item. In addition, 55% of the gift cards issued exceeded the Corporate Recognition Guideline's suggested value of \$25, with a median gift card amount of \$100.

RECOMMENDATION 1

Director, Human Resources, design and implement a corporate framework for governing employee recognition gift cards that enables compliance with Canada Revenue Agency (CRA) legislation and aligns with public-sector good practice, including consistency, transparency, fairness, and proportionality. This should be achieved by updating and communicating the Corporate Recognition Guidelines, and by establishing—or where already in place, reinforcing processes for payroll reporting, compliance monitoring, oversight, and the structured management of exceptions.

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MANAGEMENT RESPONSE

Management accepts the recommendation. Management agrees that the audit identified gaps in consistency and accountability related to the use of gift cards for employee recognition, and that these gaps reflect intersecting policy, process, and oversight considerations across Human Resources and Finance.

Administration, led by HR and in collaboration with Finance, will undertake further work to clarify and align governance expectations for employee recognition gift cards, including confirming that existing Canada Revenue Agency reporting requirements are consistently applied and embedded within appropriate processes, and that roles, oversight, and accountabilities are clearly defined and applied in support of consistent application across the organization.

LEAD Leader HR - Labor Relations

Support Leader HR -Total Rewards, Manager HR Pay & Client Services

COMMITMENT DATE

September 30, 2026

- c. Accountability for Gift Card Purchases – Gift cards are purchased for uses beyond employee recognition e.g. community events. Given the exceptions noted during employee recognition testing above and the near cash nature of gift cards, we expanded our testing to include all \$98K gift cards purchased during the audit period. 38% of these transactions did not include recipient information. The City has a formal policy for cash and cheque handling but does not have a similar policy for gift cards.

RECOMMENDATION 2

Director, Finance,

- a) Develop a policy on gift cards as cash equivalent asset that includes when gift cards may be purchased, sets minimum expectations for record keeping including tracking recipients and purpose, storage, and authorities for granting policy exceptions.
- b) Update key guidance documents (Supporting Procedures for Corporate Credit Card, Corporate Credit Card Quick Reference Guide) to align with the policy.

MANAGEMENT RESPONSE

- a) Management accepts the recommendation. Management agrees that the audit identified gaps in accountability and documentation related to the purchase and use of gift cards

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more broadly, reflecting the absence of clearly articulated and consistently applied governance expectations for gift cards as a cash equivalent asset.

Administration, led by Finance and in collaboration with Human Resources, will undertake further work to clarify and align corporate expectations for gift card use, including permitted uses, record keeping, oversight, and authorities for exceptions, with alignment to Conflict of Interest requirements, and related financial controls. The outcome of this work will inform any subsequent updates to supporting procedures and guidance, once governance expectations are clarified, to promote consistent application across the organization.

- b) Management accepts the recommendation. Management will review and update the Supporting Procedures for Corporate Credit Card and the associated Quick Reference Guide to ensure information is consistent and aligns with the policy.

LEAD Finance Leader - Accounts Payable

Support Manager Financial Operations, Team Leader – Accounts Payable

COMMITMENT DATE

September 30, 2026

- d. Entertainment – We tested 2,302 detected tips transactions for compliance with the AP Supporting Procedures for Reimbursement of Employee Business Expenses, which stated that tips should not exceed 20%. We found that 98% of tips were compliant with this policy. Out of tips exceeding policy these were predominately low dollar amounts (80% were \$10 or less with most less than \$5). The small number of tips exceeding \$10 were passed to AP.
3. Spending Prohibited by Policy (Negligible Risk)
Fuel purchases are one of the categories of prohibited expenses. We focussed on this since The City reimburses mileage and there is a risk of the same purchase reimbursed twice. Exceptions may be allowed, such as for rental cars. We reviewed all purchases during the audit period and noted from keyword searches that fuel purchases were rare accounting for just 148 purchases. Out of this population we selected a sample of 48 fuel purchases to see if an exception was allowed under policy; all sampled transactions were found to be compliant with the AP Supporting Procedures for Reimbursement of Business Expenses.
4. Delayed Supervisor Review and Approval of Transactions (Minor Risk)
Supervisors (Dept Id Owners) independently approved all cardholder transactions within the audit period, but approval was not consistently done on time. The AP Supporting Procedures

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for Corporate Credit Card required that these approvals be completed by the 20th of the following month; however, 14% were not approved within this timeframe. Not approving by cut off increases the likelihood a transaction may be coded incorrectly. Although late, approvers finalized 80% of late approvals within 30 days of the due date, which still allows sufficient time to dispute charges with the card issuer.

The City Auditor's Office will monitor the status of commitments as part of its ongoing recommendation follow-up process.

ATTACHMENTS

1. Employee Expenses Scorecard AC2026-0321 ATT

DEPARTMENT CIRCULATION

Name	Title, Department or Business Unit	Approve/Consult/Inform
Liz Ormsby	City Auditor	Approve
David Duckworth	Chief Administrative Officer	Inform
Les Tochor	Chief Financial Officer	Inform
Jennifer Kapala	General Manager, PICS	Inform
Greg Juliano	Chief Human Resources Officer	Inform
Aaron Brown	City Treasurer/Deputy CFO	Inform
Cathy An	Deputy Director, Corp. Finance	Inform
Kari Imperato	Manager, Financial Operations	Inform

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