Corporate Procurement Card Duplicate Payments Review

January 25, 2011

THE CITY OF
Edmonton

The Office of the City Auditor conducted
this project in accordance with the
*International Standards for the
Professional Practice of Internal Auditing*

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Duplicate Payments Review

1.   Introduction

The Office of the City Auditor (OCA) included a review of accounts payable data to assess controls over duplicate payments in its approved *2010 Annual Work Plan*. Our focus for this duplicate payments review was to assess the City's controls over Corporate Procurement Card (CPC) transactions.
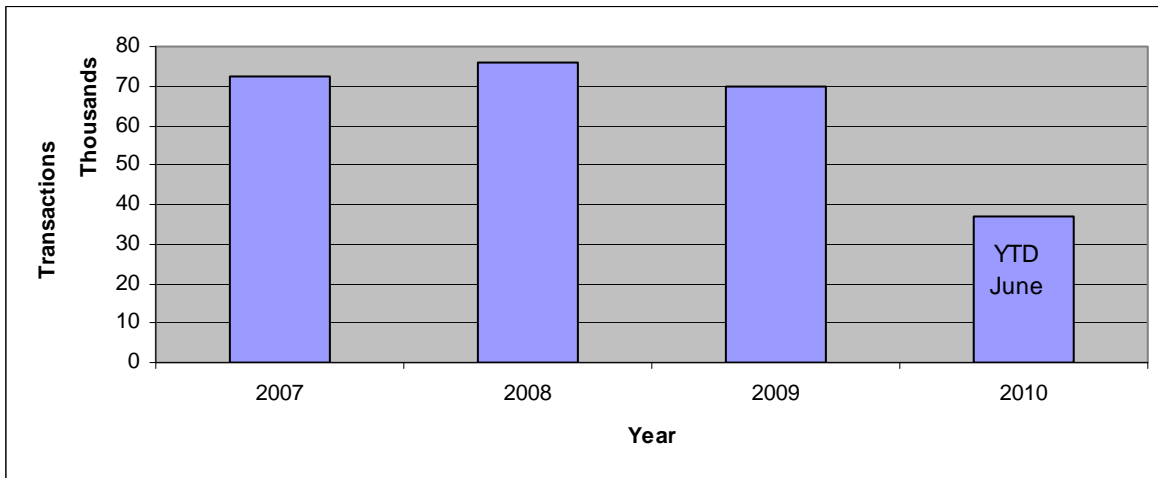
2.   Background

Duplicate payments occur when an organization pays more than once for the same product or service for the same purpose. They may be the result of human error (e.g., paying the same invoice twice) or an intent to commit fraud. However they occur, duplicate payments unnecessarily increase an organization's expenses.

Accounting systems typically contain some basic controls designed to minimize the risk of duplicate payments. However, they may be limited to only basic controls (e.g., same vendor, same date, and same amount). In addition, organizations may choose to not test certain types of transactions. Implementing more effective controls can be challenging, especially if the organization uses multiple information technology solutions that don't interface seamlessly. With the advent of computer-aided analytical tools, however, the potential exists for organizations to conduct in-depth payment analyses to identify duplicate payments, which would be difficult to detect using completely manual review processes.

The City of Edmonton's CPC program was rolled out corporately in 2000. It allows City employees to make low-value purchases on behalf of the City with a City-issued credit card. As at September 30, 2010, there were 1,391 CPCs in circulation. As shown in Figure 1, CPC expenditures for December 20, 2006 (Period 1, 2007) through June 20, 2010 (Period 6, 2010) have been relatively constant at approximately $20 million per year.
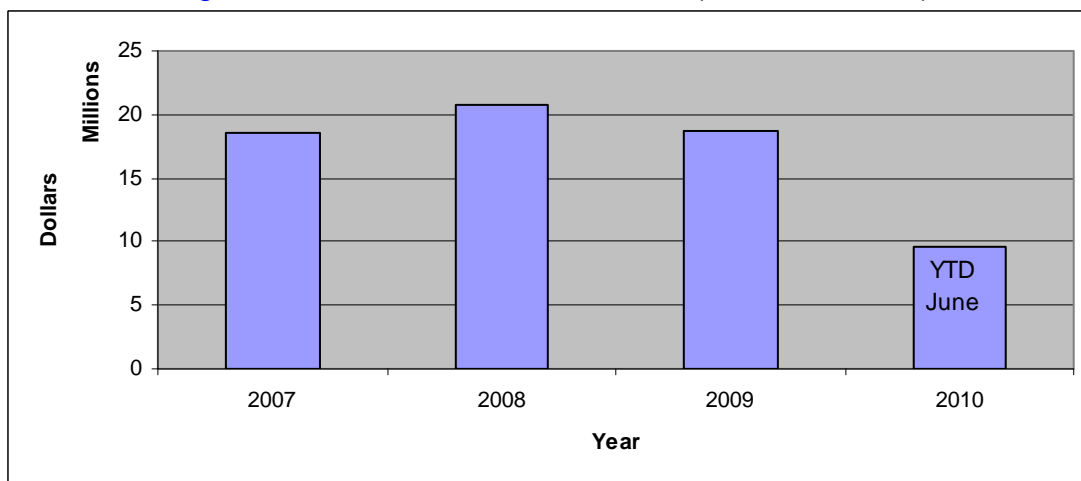
Figure 1 – CPC Dollar Volume (2007-2010YTD)

Source: Bank of Montreal (*details* Online®,[1] Transaction Detail Report)

As seen in Figure 2, the number of CPC transactions per year has also been relatively constant at about 70,000 transactions for 2007 to 2009. At June 20, 2010 the number of completed transactions stood at 37,059. For 2010, the number of transactions is consistent with the 2007-2009 trends.

Figure 2 – CPC Transaction Volume (2007-2010YTD)

Source: Bank of Montreal (*details* Online®, Transaction Detail Report)

The City's CPC program is administered by the City's CPC Administration within Corporate Accounts Payable (Treasury Management Section, Client Financial Services Branch, Finance and Treasury Department). Two documents define the program structure: *CPC Procedures* and *CPC Process Description*. The *CPC Procedures* outline the responsibilities of Cardholders, Supervisors, the CPC Administrator, the Director of

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[1] *details* Online® is the Bank of Montreal's online system for storing and processing corporate procurement card transaction data, including cardholder statement reviews, approvals, and central management.

Materials Management and other parties. The *CPC Process Description* defines appropriate use of cards, how Cardholders are to review and reconcile their purchases against their monthly statements, and the consequences of non-compliance with the prescribed process.

All Cardholders must adhere to the following practices:
- Only the Cardholder is allowed to use the card,
- The card must be used for acquiring only permitted low-value goods and services for City business purposes,
- Goods and services must be available for immediate delivery (i.e., no back-orders are permitted), and
- All purchases must be within the Cardholder's approved transaction and monthly limits.

To ensure that Cardholders adhere to these practices, the CPC payment approval process incorporates a three-level review and expenditure approval process:
- First, on a monthly basis, the Cardholder/Site Coordinator must review all transactions made with their CPC against the Cardholder Account Statement to ensure that all transactions are legitimate, accurate and accounted for. The Cardholder/Site Coordinator is required to mark each transaction as "Reviewed" in *details* Online®. A printed version of the reconciled Cardholder Account Statement is attached to the original transaction receipts and forwarded to the Cardholder's Supervisor.
- Second, the Supervisor reviews the Cardholder Statement and original transaction receipts to verify the legitimacy of each transaction and proper account distribution. The Supervisor reviews the Updated Cardholder Statement in details Online® and marks each transaction as "Approved." A hard copy of the Cardholder Account Statement and the original transaction slips are then forwarded to the CPC Administration.
- Third, the CPC Administration reviews the hard copy Cardholder Account Statements to ensure compliance with CPC Procedures and Guidelines. The CPC Administration also verifies the *details* Online® data to ensure that all transactions have been "Reviewed" and "Approved."

3.   Audit Objectives, Scope & Methodology

3.1 Objectives
The objectives of this review were to:
1. To analyze payment data and identify duplicate CPC payments.
2. To assess the internal controls within the City's CPC payment and duplicate payment recovery processes.

3.2   Scope and Methodology

During an unrelated investigation earlier this year, we identified two duplicate payments in the 2007 CPC data. One duplicate payment was recovered from the merchant, the other was not. As a result of this discovery, we decided to focus our initial duplicate payments review on CPC transactions.

This review focused on payments made by standard CPCs and temporary travel CPCs. We excluded CPCs used by the Edmonton Public Library and the Edmonton Police Service, because they do not report to the City Manager.

Each month, the CPC Administration downloads data from the card issuer's system (*details* Online®) and uploads it to the City's accounting system. We were informed that neither system uses automated controls to test CPC transactions for duplicate payments. In addition, there are no processes in place to test for duplicates between multiple payment methods (e.g., CPC and purchase order), different Cardholders, or different dates.

As we analyzed the data to identify possible duplicates, we observed that CPCs are used for many different kinds of purchases including, but not limited to:
- Periodic payments of memberships to professional organizations
- Travel and accommodation expenses
- Routine low-cost purchases
- Professional training (for example, courses, seminars, conferences, lunches)
- Identical purchases for multiple locations or work orders

In these instances, one Cardholder may be responsible for making purchases on behalf of multiple people or for multiple locations (for example, four employees of the same area attend the same training session). These categories of purchases often have the same data characteristics (same amount, same vendor, same date, etc.). When testing for duplicates using automated tests, these common characteristics result in false positives.[2] Because the electronic transaction records do not include unique identifiers for otherwise identical purchases (invoice number, employee name, etc.), both automated tools and manual reviews are required to accurately distinguish actual duplicate CPC payments.

We reviewed CPC transactions completed between December 21, 2006 (period 1, 2007) and June 20, 2010 (period 6, 2010).[3] In addition, we limited our scope to transactions over $100. We used specialized auditing software to extract transaction data from the City's financial system.

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[2] False positives are, in this instance, apparent duplicates that are not in fact duplicates.
[3] CPC statement periods run from the 21st of the month to 20th of the next month.

Cardholders/Site Coordinators had identified 33 cases[4] as duplicates during their expense statement verification reviews. We analysed those cases to determine the underlying reasons for those duplicate transactions. In addition, we completed two tests to identify potentially duplicate CPC payments that were not identified by Cardholders. From the two lists of potentially unidentified duplicate payments, we selected 34 cases each (68 in total). From our total sample of 101 cases, we conducted detailed manual reviews to identify any actual duplicate payments and determine the root causes underlying those payments. Finally, we assessed the effectiveness of existing CPC payment processes and controls for our sample.

4.   Observations and Analysis

During our review, we did not identify any duplicate transactions that had not already been identified by the Cardholders. We did, however, observe that Cardholder practices with regard to completing the description field as they review their transactions can be improved to allow better analysis and automated checks.

4.1 Cardholder-Identified Duplicates

Of the 33 cases where Cardholders/Site Coordinators included the word "duplicate" in the transaction description during their statement review, we determined that 3 of the cases were not actually duplicate payments. In 1 other case, although the transaction description indicated that it was a duplicate, there was no supporting documentation attached to the statement, leaving 29 cases of known duplicates.[5] During our review of the other 68 cases, we determined that 2 of those cases were actual duplicates. In total, we identified 31 cases of actual duplicate payments.

Section 2 of the CPC Process Description states: "The Cardholder must obtain, sign, and retain a receipt or transaction slip for each purchase." In addition, section 4 of the CPC Process Description states: "The Cardholder retains all original transaction slips and original vendor invoices for reconciliation."

Of the 31 identified duplicate payment cases, only 1 case had no supporting documentation for either the original or the duplicate transaction. In addition, 17 cases had no supporting documentation for the duplicate (second) payment transactions. Further, for 18 of the credit transactions (money refunded to the City), there was no supporting documentation. Because there was incomplete or no documentation, the root-causes of the duplicate transactions cannot be determined. To allow for appropriate monitoring and control, all transactions (including duplicate payment and credit transactions) must have supporting documentation. It is the Cardholder's responsibility to provide this supporting documentation.

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[4] We have used the word "case" to refer to all related original, refund, and/or recovery transactions. For example, in the simplest instance it would consist of the original CPC transaction plus the duplicate transaction plus the rebate for the duplicate.
[5] The CPC Administration subsequently advised us that this case was indeed a duplicate payment because the duplicate payment occurred using a different payment method and the money was recovered.

The CPC Process Description, Section 6 *Disputed Charges,* states that: "The Cardholder must record transaction errors or disputes resulting in an incorrect billing from a vendor on the CPC Dispute Log." This section is inconsistent with the definition of the Dispute Log recorded in the CPC Procedure, which states that the Dispute Log "is used to identify, and monitor transaction errors or disputes between the City of Edmonton and the Financial Institution." Currently the Dispute Log is only used to facilitate disputes with the Financial Institution that issued the CPC (not the vendors).

We consider a duplicate payment to be a form of disputed charge. When a duplicate payment occurs, the Cardholder should be required to fill out a CPC Dispute Log detailing how the duplicate payment occurred and how it was or is going to be recovered (credited). The Dispute Log definition in the CPC Procedure needs to be revised to include any disputed charges, including duplicate payments and credit transactions. A Dispute Log completed by the Cardholder would then serve as the supporting documentation for both the duplicate and credit (refund) transactions so that the root-causes of duplicate payments can be addressed.

Based on our observations, it is relatively easy for a duplicate CPC charge to occur either by the vendor charging twice or by the Cardholder paying twice for the same purchase (a control failure). Three possible scenarios include:
- A vendor receives a credit card number by phone and/or internet and processes the same payment twice.
- A Cardholder pays for the purchase when they place the order and then pays again when they pick up the item or receive an invoice.
- A Cardholder books training sessions for multiple employees and accidentally books one session too many.

We observed that the City's duplicate payment recovery process worked for all 31 duplicate payments. The process worked as intended for the 30 duplicate payments that were recovered directly from the vendor. In the remaining case, the duplicate payment was recovered from the financial institution via the disputed charges process. In most cases, the timeframe for recovering the duplicate payment was reasonable (recovery within 15 days is identified as reasonable in the CPC Process Description). In six cases, recovery took more than 15 days but less then 45 days. The duplicate payment that was recovered from the financial institution, however, was received 5 months after the initial purchase was made. Follow-up for recovery of this payment was done by the Cardholder and Accounts Payable was not informed that recovery was underway.

4.2   Transaction Descriptions

Of the remaining 70 potential duplicate payment cases in our sample, supporting documents were missing or not itemized in 7 cases, so there was no indication of whether a duplicate payment actually occurred. The remaining 63 cases were not duplicate payments, but transactions with common characteristics and no unique identifiers in the electronic systems (false positives).

As mentioned earlier, the CPC Process Description clearly requires that the Cardholder retain a receipt or transaction slip for each purchase made on his or her card. Section 1 of the CPC Procedure defines a receipt as,

> …the original supporting documentation received from a vendor at the time of a purchase (i.e., cash register receipt, invoice, etc). This should include the following information: vendor, date, line item description, unit price and quantity, total price, GST and GST registration number.

The "COE *details* Online® – Quick Reference Guide" states that when reviewing their monthly statement, Cardholders must "enter a description of the purchase on the **Description** line (150 characters maximum).*"* Supervisors need line item descriptions to evaluate the legitimacy of the purchase and the CPC Administration needs them to identify prohibited uses and duplicate payments. These descriptions are also important because they provide an on-line record of the items purchased, which should be used to differentiate between similar transactions. However, the Guide does not require that Cardholders enter meaningful identifiers in the description field.

Cardholders entered some form of description in 92 percent of the transactions from which we drew our sample. However, we observed that in most cases, Cardholders entered only generic descriptions (e.g., training or conference). These descriptions did not include an identifier such as invoice number, the name of the employee for whom the purchase was made, shipping location, etc. In all cases we reviewed, meaningful identifiers were available on the supporting documentation, but not entered by the Cardholder.

In practice, when the CPC Administration identifies transactions with common characteristics (e.g., same amount and same vendor) on the CPC statements, they review the supporting documentation to identify possible duplicate payments. If line item descriptions are not available, the CPC Administration follows up with the Cardholder to obtain this information.

While we observed that Cardholders generally comply with the requirement to obtain and submit appropriate supporting documentation, requiring Cardholders to enter an identifier in the description field would reduce the chance that they miss a duplicate payment as they review their statements. In addition, it would help the Supervisors and CPC Administration as they conduct their reviews because they would only have to verify, not search for, the identifier to ensure that no duplicate payments occurred. Finally, it would also allow continuous (automated) monitoring using automated controls.

Most of the potential duplicates (false positives) identified in this review were the result of payments on behalf of multiple employees (e.g., courses, travel expenses) or purchases of the same items for multiple locations (e.g., recreation centres, LRT stations).

5.   Conclusions and Recommendations

The City's CPC program is a purchasing method that allows for timely and easy purchases of low-value items. CPCs, however, carry additional risks compared to most other purchasing methods because purchase review and payment approval occurs after the purchase has been made, rather than before. One of those risks is the potential for duplicate payments.

We did not detect any duplicate payments in our sample that were not identified by the Cardholder or the CPC Administration. Based on our detailed data analysis and the results of an earlier investigation this year, however, we concluded that CPC transaction data requirements need to be expanded to include effective identifiers in the description field in the online transaction records.

We did observe that Cardholders demonstrated a high level of compliance with retaining and submitting appropriate supporting documentation for their purchases. However, because Cardholders do not provide appropriate support for duplicate and credit (refund) transactions, root-causes for duplicate payments are undetermined. The Dispute Log needs to be used not only for disputing charges with the financial institution, but also to document duplicate payments and resulting credit transactions.

We identified a few opportunities to improve the effectiveness of the CPC payment process and to ensure the data can be used for continuous monitoring on a go-forward basis. We believe these improvements will also enhance the effectiveness and efficiency of current CPC controls, specifically Cardholder review, supervisor approval, and the CPC Administration review.

Recommendation 1
The OCA recommends that the Finance & Treasury Department modify the CPC process documentation to: 1. Require that Cardholders/Site Coordinators enter a meaningful identifier in the description line (such as invoice/order number, employee's name on behalf of whom the transaction is made, shipping location, etc.). 2. Redefine the Dispute Log usage to require that it also be used to document duplicate payments and recoveries. 3. Enhance the CPC Administration review process to include sampling to verify that the identifiers entered by the Cardholder match the supporting documentation.

Management Response and Action Plan

Accepted

Action Plan:

CPC Administration has already started to update the CPC Procedure/Process documents to incorporate all three points in this recommendation.

1. The CPC Administration will update process documents where required and communicate requirement for meaningful identifiers in transaction descriptions to all Cardholders/Site Coordinators.

2. The CPC Administration will modify the Dispute Log Form to accommodate the documentation of duplicate payments and associated recoveries. CPC Procedure/Process documents will be updated and changes communicated to users.

3. The CPC Administration will include sampling to verify the use of meaningful identifiers in transaction descriptions. The absence of meaningful descriptors will be considered non-compliant and will result in written communication/notices to cardholder and managers.

Planned Implementation Date: January 31, 2011

Responsible Party: Director, Treasury Management

We thank the CPC Administration and other City Staff who participated in this review for their support, cooperation and feedback throughout this review.