



OFFICE OF THE  
**City Auditor**

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# **Continuous Auditing: Corporate Procurement Card Controls**

January 27, 2016

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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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## Executive Summary

The Office of the City Auditor's *2015 Annual Work Plan* included a continuous auditing proactive project. Continuous auditing has emerged as an efficient and effective method to perform control and risk assessments on a more frequent basis and using larger data sets than traditional auditing methods. These applications also enhance management's abilities to optimize their control processes.

We performed a risk assessment to select our first continuous auditing application. Due to its high inherent risk, increased usage, recent change of bank provider, and accessibility of data, our initial project focused on Corporate Procurement Card (CPC) controls. This report summarizes our observations based on monthly testing from January through August 2015.

Purchasing cards offer significant benefits including increased purchasing flexibility, reduction in the administrative burden and associated administration costs, rebate on spend, and staff empowerment. However, there are also associated risks of improper use by the cardholders.

The objectives of this audit were to determine whether the City's internal controls are effective in ensuring that CPC transactions are properly authorized, processed, and safeguarded. We have three key findings:

1. There was general compliance with the intent of the program and the program contains many of the controls identified as leading practices.
2. The purchasing card program remains an effective corporate tool to reduce administration cost associated with low-dollar purchases.
3. We identified a number of opportunities for improvement of the CPC program that will strengthen the control environment and reduce the potential for improper transactions to occur:
  - Improved timely supervisory online approval of purchases;
  - Clearer guidelines for restricted items;
  - Improved guidelines for gift card purchases;
  - Strengthened procedures governing the use of CPCs; and
  - Continued transaction and cardholder testing.

We made five recommendations to address these opportunities for improvement. Administration has accepted all five recommendations and developed action plans to address them. They are also actively working on continuing the testing conducted during this audit.

We anticipate that implementation of our recommendations will improve the overall control environment and reduce the risks associated with the CPC process.

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# Continuous Auditing: Corporate Procurement Card Controls

## 1. Introduction

The Office of the City Auditor's *2015 Annual Work Plan* included a continuous auditing proactive project. Continuous auditing is a tool used by internal auditors to perform control and risk assessments on a more frequent basis than traditional auditing methods. Continuous auditing methods have emerged as an efficient and effective way to understand and assess business process controls and information systems that manage large data sets. These applications also enhance management's abilities to optimize their control processes.

We performed a high-level risk assessment to select our first continuous auditing application. Due to its high inherent risk, increased usage, recent change of bank provider, and accessibility of data, our initial project focused on Corporate Procurement Card (CPC) controls. This report summarizes our observations based on monthly testing conducted from January through August 2015.

## 2. Background

### 2.1. City's Corporate Procurement Card Program

Traditionally, the City has used low value purchase orders (L-orders) to purchase goods and services below \$10,000. L-orders involve a four step process which includes obtaining a purchase order number prior to the purchase of the good or service; this signifies approval of the purchase and commitment of City funds. Once the good or service is received it is then reconciled with the invoice and the vendor's invoice is paid. In 2000, the CPC Program was implemented with the objective of establishing an alternative and simplified method of procurement and payment for low-dollar value goods and services used in the delivery of City Services. The CPC program is a two step process that allows City employees to make low-value purchases (typically less than \$10,000 per month) on behalf of the City with a City-branded credit card. The implementation of the CPC program was intended to achieve the following benefits:<sup>1</sup>

- Reduce costs in purchasing and payments
- Provide more timely payment to vendors
- Accelerate order placement and receipt
- Simplify receiving procedures for card purchases
- Provide faster, more productive resolution of purchase disputes
- Reduce overall transaction processing charges
- Meet customer needs simply and directly

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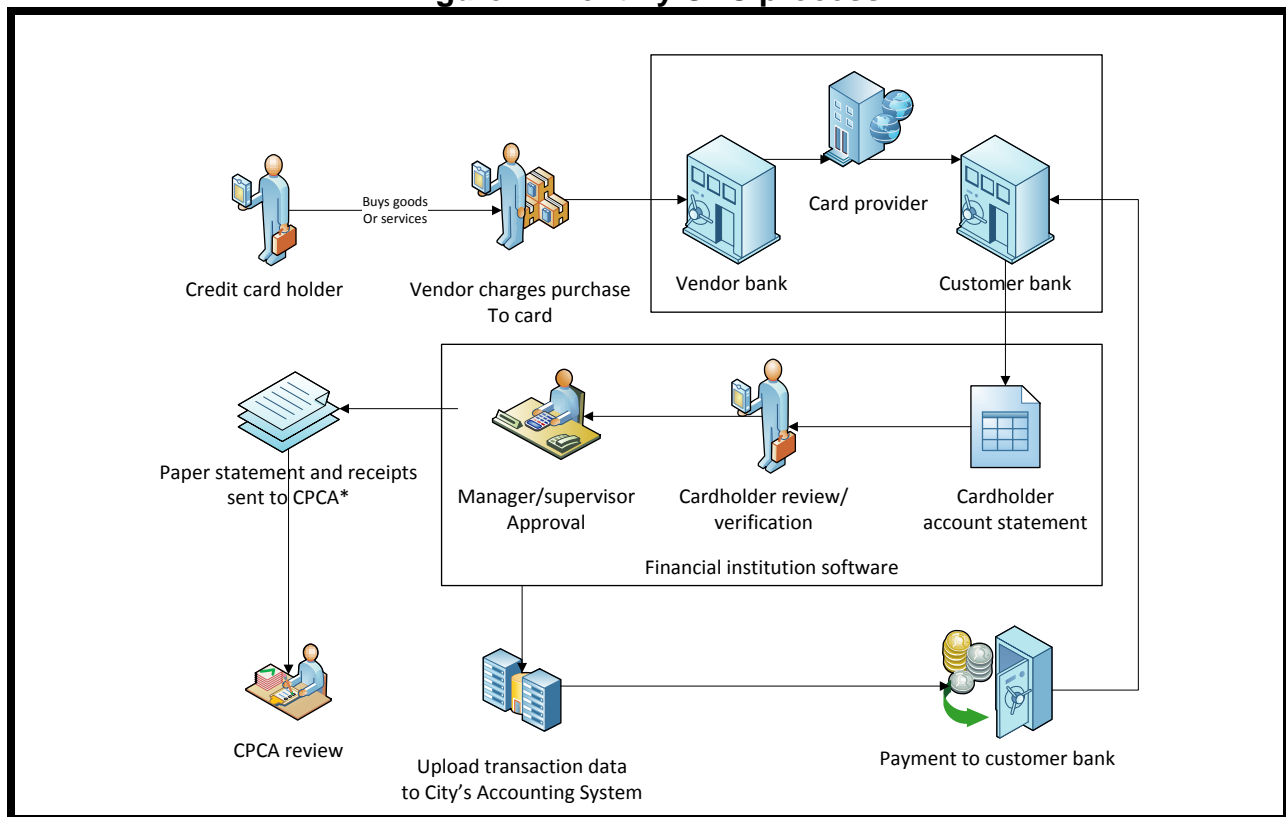
<sup>1</sup> Corporate Procurement Cards Implementation Project Charter, November 20, 2000.

The purchasing card is an effective tool to manage purchasing and accounting resources and to make the process for low-dollar purchases more efficient. Purchasing cards offer significant benefits as processing credit card transactions requires fewer steps, resulting in lower indirect costs and reduction in administrative burden when compared to other purchase and payment methods, with most of the processing being electronic. From a business area perspective there is increased purchasing flexibility and staff empowerment.

In addition, the City receives an annual rebate on purchases made with CPCs. In March 2015, the City’s rebate was approximately \$300,000 for the 2014 fiscal year.

The program is administered by the Accounts Payable unit in the Financial Services and Utilities Department. The City’s *Purchasing Card Program Procedures* (“the Procedures”) outline the processes required to ensure efficient and effective administration of the program. The Procedures have not been reviewed in detail since their initial implementation in 2000. Some updates were made in 2011 due to a change in bank provider. Figure 1 provides a high-level overview of the monthly CPC process as defined by the Procedures.

**Figure 1: Monthly CPC process.**



\* The Corporate Procurement Card Administrator (CPCA) in the Accounts Payable unit is appointed by the Financial Services Branch Manager to manage the issuance and processing of cards and transactions.



Cardholders are authorized, approved, and briefed by managers before they receive a card and are empowered to perform purchases and payments in accordance with the Procedures. Specific CPC purchases are reviewed and approved after the purchase has been made, rather than prior to the purchase as with purchase orders.

The effectiveness of any purchasing card program is largely dependent on the internal controls that have been implemented. Certain controls have been established to reduce the risk of abuse or misuse. The controls include but are not limited to the following:

- Signed cardholder agreement and training to clarify roles and responsibilities;
- Single transaction limits are set for individual cardholders;
- Monthly card limits are set for individual cardholders;
- Monthly CPC statements must be reconciled to actual receipts by all cardholders and forwarded to assigned approver;
- Approvers must review and approve all transactions made by their assigned cardholders in the online system prior to cut-off date;
- CPCA conducts routine checks and periodic random sample audits to detect process violations; and
- Restricted items listing.<sup>2</sup>

The Procedures underwent a significant review and update in 2015 as a result of this continuous auditing project, resulting in a relaunch of the program to all existing cardholders, approvers, and site coordinators. The new *Corporate Credit Card Handbook* has replaced the Procedures.

## **2.2. Corporate Procurement Card Usage**

As most vendors accept credit cards, the CPC provides City staff with significant flexibility in choosing where to buy goods and services. This also empowers employees and supports quality service delivery. The cards are issued to staff based on operational needs. Departments with more field staff tend to have more CPCs.

The total number of active cards within the City was 1,622 at the end of August 2015. As shown in Table 1, there were 1,375 CPCs used between March and August 2015. The remaining 247 cards were active but were not used between March and August 2015.

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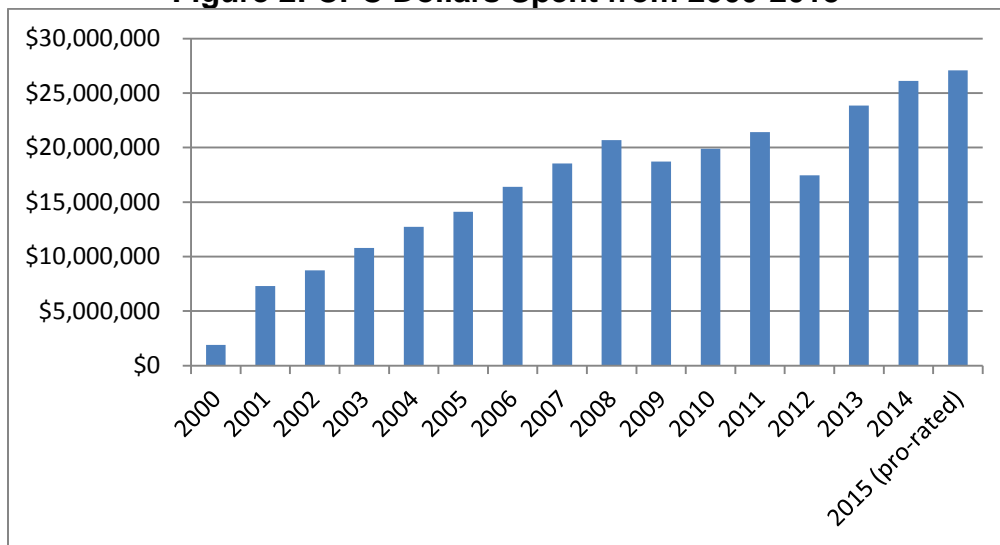
<sup>2</sup> Restricted items are specific goods and services which are not permitted to be purchased on a CPC. These are listed in Administrative Procedure A1439B, *Purchasing Goods, Services and Construction*.

**Table 1 – Overview of number of cards and usage (March to August 2015)**

Department	# of Cards	# of purchases	Value of Purchases
Community Services	755	24,523	\$ 6,232,532
Corporate Services	136	4,604	\$ 1,768,391
Financial Services and Utilities	249	6,582	\$ 2,325,874
Office of the City Auditor	1	56	\$ 17,299
Office of the Mayor / Councillors	9	353	\$ 74,072
Office of the City Manager	25	801	\$ 294,925
Sustainable Development	82	2,894	\$ 715,924
Transportation Services	118	4,443	\$ 1,789,385
<b>Totals</b>	<b>1,375</b>	<b>44,256</b>	<b>\$ 13,218,401</b>

As shown in Figure 2, the annual dollar value of purchases using CPCs has progressively increased from 2000 to 2015, with the exception of 2012 (the year in which the City changed card providers). This increase could be seen as an indication of the success of the CPC program in meeting its intended objectives of providing a more effective and efficient process for the purchasing of low-value goods and services.

**Figure 2: CPC Dollars Spent from 2000-2015<sup>3</sup>**



The goods and services that are typically purchased using CPCs included office supplies, travel and accommodation expenses, staff expenses (e.g., training, professional organization member fees), low-value building materials, small equipment purchases and maintenance, and program expenses. The City uses a “One Card” approach, with one card used for both travel and procurement.

<sup>3</sup> 2015 data was pro-rated to 12 months, based on 7 months of actual data (January to July).

### 3. Audit Objective

The objective of this audit was to determine whether the City's internal controls are effective in ensuring that CPC transactions are properly authorized, processed, and safeguarded. We used the following control objectives for this assessment:

- **Properly authorized:** to ensure that CPC transactions are properly reviewed and approved by responsible personnel in accordance with specific or general authority.
- **Properly processed:**
  - **Complete:** to ensure that all CPC transactions are recorded in City's financial system.
  - **Accurate:** to ensure that CPC transaction data is correct in all details and that information is recorded in a timely manner.
  - **Valid:** to ensure that CPC transactions fairly represent the events that actually occurred, are justified, and are supported by appropriate documentation.
- **Safeguarded:** to ensure that CPC usage is appropriately controlled and restricted to authorized personnel.

### 4. Methodology and Scope

#### 4.1. Methodology

Continuous auditing changes the more traditional audit approach of sporadic reviews of a sample of transactions to recurring audit testing (e.g., monthly) of 100 percent of transactions for a specified or indefinite time period. We used a risk-based approach to determine which CPC controls to test. We then used continuous auditing methodologies to test those key controls. In conjunction with the Manager, Accounts Payable, we developed a list of potential risks<sup>4</sup> that could lead to financial loss for the City or impact the efficient operation of the CPC program. We then documented the controls in place to mitigate each risk. As a result of this assessment, we developed tests for:

- Card activity and transactions (e.g., cards with no or low activity, split transactions for purpose of circumventing limits, duplicate transactions);
- Appropriate card usage (e.g., restricted purchases, preferred vendors, foreign transactions, explanatory transaction notes); and
- Approval processes (e.g., approved by cut-off date, aging of approvals, number of cardholders per approver, number of transactions per approver).

Appendix 1 provides a complete listing of the continuous auditing tests that we developed and conducted on a monthly basis from January through August 2015. The

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<sup>4</sup> Risk is defined as any circumstance or event that will have an impact on the achievement of business objectives. Accordingly, risk can be either a threat or an opportunity. The failure to seize an opportunity can negatively impact the achievement of business objectives.

results of the tests were communicated directly to the CPC team in monthly activity reports for follow up and response. This report summarizes our testing results and focusses on the high-level observations made during eight months of testing.

## **4.2. Scope**

We used transaction and cardholder data from November 2014 to February 2015 to design and develop our automated tests. We then conducted our monthly testing from March to August 2015. Where possible, we also included January and February 2015 data in our observations. Our data analysis software enabled us to analyze 100% of transactions. We concluded only on the selected key controls that we tested.

We excluded CPCs used by the Edmonton Public Library and the Edmonton Police Service because those organizations do not report to the City Manager.

## **5. Observations and Recommendations**

### **5.1. Report on Compliance**

Using the transaction data from January 2015 to August 2015, we conducted a number of tests to identify any:

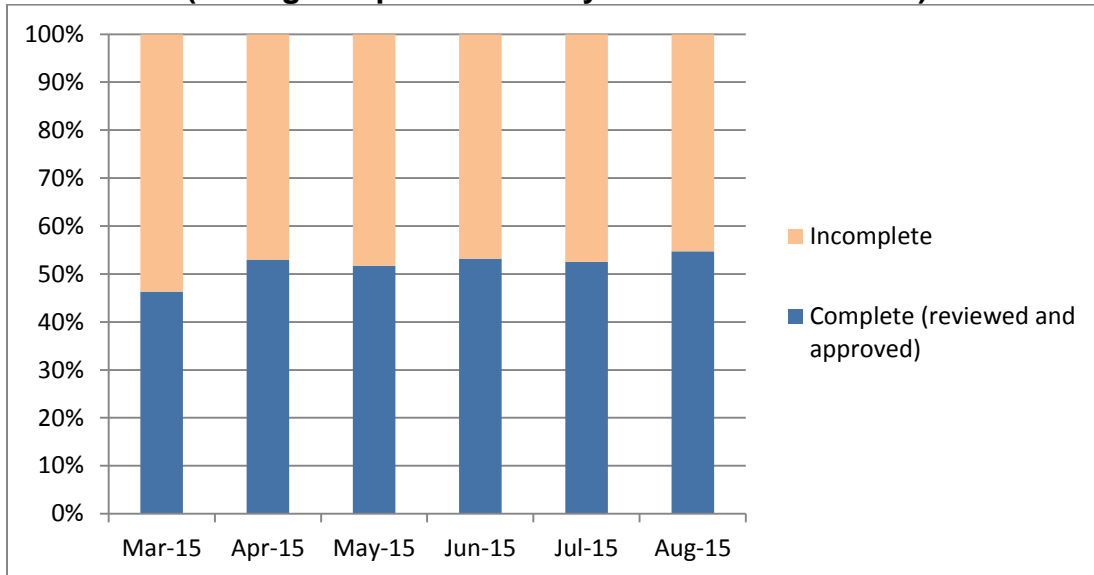
- a) Unapproved transactions;
- b) Unauthorized purchases;
- c) Inappropriate purchases;
- d) Authorized limits exceeded and/or split transactions;
- e) Duplicate transactions; or
- f) Account allocation errors.

#### **5.1.1. Unapproved transactions**

According to the CPC Procedures, cardholders must review their expense statements, add explanatory notes to each transaction, attach transaction receipts to paper copies of their statements, and submit their transactions for approval by the cut-off date each month. The approver then has 4-5 business days to review the paper statements and receipts, and complete online confirmation that the purchases were appropriate and charges were accurate. This is arguably the most important internal control.

For the period tested, the percentage of transactions approved and closed online by the cut-off date has been just above 50%. As such, we observed that the transaction review and approval controls are not working as intended. Figure 3 shows the rates of approval one day after the online approval cut-off date for the period March to August 2015.

**Figure 3: Percentage of Transactions Complete and Incomplete (testing completed one day after the cut-off date)**



We also reviewed how long it took for transactions to be approved online after the cut-off date had passed. Our testing showed that by one month after the cut-off date, about 74% of outstanding transactions had been reviewed and approved online and about 20% had been reviewed, but not yet approved online.

Approval may have been documented on the paper statements, but this is difficult to determine (for example: whose initials are on the paper statement?). In addition, in the online system there is an automated control that ensures cardholders cannot approve their own transactions. The CPC team has accepted initialed paper copies of the expense statements as proof that transactions were reviewed and approved. The CPC team has not been enforcing online approvals. As such, there is a risk that these transactions may never be reviewed by an approver with the appropriate authority and/or knowledge of the transactions.

During the course of our testing, we were advised that approximately 300 cardholders provide their receipts to site coordinators. The site coordinators reconcile all transaction slips with the electronic CPC statements. On behalf of the cardholder, site coordinators enter transaction descriptions and cost allocations. These transactions will show a 'reviewed' status in the online system. However, they are not consistently approved online as required by the Procedures.

Despite the fact that approximately 74% of outstanding transactions are being approved within one month after the cut-off date, we identified a number of exceptions that remained outstanding seven months after the cut-off date. For example, on August 11, 2015, there were 30 transactions from January 2015 that had still not been submitted by cardholders and 5 transactions that had been rejected by the approver and had not been resolved in the system. Management indicated that considering there was an average of 7,300 transactions per month between January and August 2015, this would

represent 0.5% of transactions. That said, as more time passes, the more difficult it becomes to determine whether purchases were for legitimate business purposes.

Additional factors contributing to unapproved transactions by the cut-off date are:

- Some approvers have a high number of cardholders and transactions to review (e.g., one approver is responsible for reviewing and monitoring the card usage for 24 cardholders).
- The cardholder's approver may not be the cardholder's supervisor (e.g., one Administrative Assistant approves transactions from 12 cards, including 2 cards assigned to directors). Approvers need to be sufficiently independent and/or of sufficient rank to question the cardholders when additional information is needed about specific transactions.
- Transactions are uploaded to the City's financial system and paid regardless of approval status. This reduces the incentive for approvers to approve transactions in a timely manner.

Approvers are responsible for performing the first level of review and for monitoring CPC transactions to ensure that they are appropriate and in accordance with the Procedures. Lack of compliance in this area is a concern as it increases the risk of improper transactions.

### Recommendation 1 – Supervisory Review

The OCA recommends that the Director Treasury Management design, implement, and communicate a process that emphasizes the importance of electronic supervisory review and approval of credit card transactions. This includes providing guidance to business units about appropriate assignment of approvers.

### Management Response and Action Plan

#### Accepted

**Comments:** The CPC program generates important benefits for the City. Based on 92,000 transactions annually and using the National Association of P-Card Professionals estimate of savings per transaction of \$63 compared to other purchase and payment methods, the estimated administrative savings of the card program are between \$3M to \$6M annually. While 94% of the transactions are reviewed and 74% of the transactions are approved online within one month of the cut-off date, we agree that timely review and approval of on-line transactions by an appropriate level of authority is a required key control.

The Corporate Procurement Card Handbook, procedures, and training have been revised to address and strengthen the oversight, electronic tracking and timeliness of this review and approval. The revised Corporate Procurement Card Handbook, procedures and training is now being shared through an annual update with all cardholders, approvers and administrators. This includes an exam at the end of the course and electronic tracking of successful completion. The importance and

requirement for timely on-line approvals is now emphasized in these materials. Risk-based continuous monthly monitoring of transactions has been implemented to strengthen compliance. Management is also working to develop effective regular reporting of key statistics which would include approval status to managers in the organization.

**Planned Implementation Date:** March 31, 2016

**Responsible Party:** Manager, Corporate Accounts Payable

### 5.1.2. Restricted purchases

Unauthorized or improper purchases represent a significant risk in any purchasing card program. Administrative Directive A1439C *Procurement of Goods, Services and Construction*, includes a list of restricted items which are not to be purchased using the CPC (See Appendix 2).

To determine whether cardholders had purchased restricted items with their CPCs, we tested transactions using:

- a) Merchant Category Codes (MCC) that identify the type of business (grocery, casino, financial services, etc.);
- b) City account codes that identify the type of purchases (e.g., stationary supplies, tools, training for employees); and
- c) Vendor location.

Our review of transactions confirmed that restricted items have been purchased with CPCs, albeit mostly low dollar value purchases of miscellaneous items that fall generally within the following restricted items categories:

- Computer hardware and related equipment, software, information technology services, software as a service, and custom apps;
- Printed forms and materials;
- Commercial or industrial packaged chemicals or hazardous products; and
- Goods and services imported from vendors outside of Canada.

According to the Procedures, a cardholder's supervisor is responsible for confirming that all transactions incurred are legitimate, accurate, and accounted for. In practice, this responsibility falls on the cardholder's approver, who is not always the cardholder's direct supervisor. Our tests show that a number of these restricted transactions have been approved. This indicates that the current approval process and tools, including the restricted items list, are not effective at preventing these purchases.

Accounts Payable management indicated that the responsibility for evaluating transactions for compliance with the restricted items list is not clearly defined or understood. According to the Procedures, the CPC team is to perform routine checks and periodic random sample audits to detect possible violations of the CPC procedures.

Accounts Payable management stated that the restricted items list it is not specific enough to enable the CPC team to conduct proper evaluations of these purchases.

### Recommendation 2 – Improve Restricted Purchases Guidelines

The OCA recommends that the Director Treasury Management:

1. Ensure that cardholders have clear and adequate guidance regarding items that can be purchased using CPCs; and
2. Ensure that CPC reviewers and approvers have clear and adequate guidance regarding how to identify and respond to inappropriate purchases.

### Management Response and Action Plan

#### Accepted

**Comments:** The restricted item list is issued by the Corporate Procurement & Supply Services Branch (CPSS) as part of Administrative Procedure 1439C (March 31, 2014). This list is reviewed by all new cardholders as part of the initial CPC training. In addition this information is now being shared through an annual update with all cardholders, approvers and administrators to ensure awareness and compliance. Annual updates will include any additions, deletions or modifications to the restricted items list.

We will work with CPSS to clarify where low dollar purchases of miscellaneous items that fall into these general categories should continue to be excluded from the CPC process or if some of these items (for example: phone cases, adapter cords, chargers etc.) are more appropriately purchased through the CPC process.

The CPC team will ensure that CPC reviewers and approvers have clear and adequate guidance regarding how to identify and respond to inappropriate purchases.

**Planned Implementation Date:** May 31, 2016

**Responsible Party:** Director, Treasury Management

### 5.1.3. Appropriateness of Purchases

#### Personal purchases

Personal purchases using CPCs are prohibited and should be considered misappropriation of City assets. We found transactions for personal use in each of the months we tested (March to August, 2015). Although the values were relatively low (e.g., August 2015 had four transactions for personal use items totalling \$185.14), these transactions are violations of both the Procedures and the City's *Employee Code of Conduct*. We were informed by the CPC team that appropriate action was taken and that the identified personal purchases were reimbursed. The processes required to monitor and manage repayments for personal purchases result in additional use of City time and resources.



We also identified two purchase categories that require clearer guidelines to ensure that purchases are appropriate and that consistent practices exist across the organization. These categories are gift cards and employee allowances.

### Gift Cards

Between January and August 2015, we identified 264 transactions for purchases of gift cards for employee or volunteer recognition with a total value of \$53,674. Gift cards involve increased risk because they are a form of cash.

The City's *Handbook for the Handling of City Money*<sup>5</sup> defines external gift cards as having a cash value that is purchased by the City from external suppliers and that needs to be stored securely. However, we were unable to identify any corporate-wide procedures to provide assurance that gift cards are purchased for legitimate reasons, are received by the appropriate person, and are reported according to Canada Revenue Agency Rules (i.e., gift cards given to employees may have tax consequences, depending upon value and purpose). The Procedures currently provide no guidance about gift card purchases and do not include any references to the City's *Handbook for the Handling of City Money* or other corporate-wide procedures.

### Recommendation 3 – Corporate Guidelines for Gift Cards

The OCA recommends that the Branch Manager Financial Services develop and implement guidelines for the proper tracking and accountability for the purchase and distribution of gift cards.

### Management Response and Action Plan

#### Accepted

**Comments:** There is an opportunity to delineate and clarify the tracking and accountability of gift cards. Corporate guidance on the use of gift cards for employee recognition and service performance will be reviewed by the Corporate Leadership Team - with appropriate direction to the organization to follow. Procedures for tracking and reporting gift card transactions will be developed in conjunction with the appropriate business areas.

Treasury Management is accountable for the handling of City Money and accordingly has developed city-wide processes for the storage and custody of near-cash assets. Requirements for the storage and custody of these near-cash assets has been incorporated into the training and annual update of all cardholders, approvers and administrators.

**Planned Implementation Date:** September 30, 2016

**Responsible Party:** Branch Manager, Financial Services

<sup>5</sup> The City's *Handbook for the Handling of City Money* is currently being revised. We were advised that the updated handbook is expected to be completed by the end of 2015.

### **Clothing Allowances**

Between January and August 2015, there were 378 transactions related to clothing allowances for a total value of \$144,510. According to the notes entered, these clothing items were either for the cardholder or for another employee.

Clothing allowances are defined in union agreements and each business unit is responsible for monitoring and keeping track of individual clothing allowances. Most allowances, including clothing allowances, are supposed to be processed through payroll reimbursement. However, there are no written restrictions prohibiting CPC's from being used for this purpose. We were unable to identify any corporate-wide processes to ensure that clothing allowances processed through CPCs were monitored to provide assurance that employees were not receiving more than their entitlement.

Clearer guidelines related to allowance transactions will help to ensure compliance with the applicable union agreements across the City. (Recommendation 4)

#### **5.1.4. Authorization limits and split transactions**

Transaction and monthly authorization limits are set for each cardholder at the time of card creation. Business units, in consultation with the CPC Administrator, set these limits based upon their assessment of users' needs and acceptable levels of risk. Limits can be adjusted as required.

Overall, our analysis revealed that the monthly card limit is working as intended. The same cannot be stated for the single transaction limit. To circumvent the single transaction limit, cardholders can divide a single purchase with a vendor into two or more smaller transactions. We found split transactions in each of the eight months tested. For example, our analysis revealed a total of 10 split transactions in June 2015 and 9 split transactions in August 2015. Some split transactions were approved even though this is a breach of the Procedures. We notified Accounts Payable of our observations and they are addressing the situation by contacting the cardholders and approvers to discuss these procedural violations and, as appropriate, adjust transaction limits.

By splitting transactions to circumvent approved purchasing limits, there is a risk that purchasing procedures are not being followed. In addition, the City may be exposed to financial loss as a result of not using contracting processes for bigger transactions. (Recommendation 4)

#### **5.1.5. Duplicate Transactions**

Duplicate payments occur when an organization pays more than once for the same product or service for the same purpose at the same time. Through our monthly testing for duplicates between March and July, we identified on average over 100 pairs of apparently identical transactions that could be duplicates. The CPC team reviewed paper receipts and invoices for the identified transactions and confirmed that the exceptions sampled were not actual duplicates. Instead, they were caused by cardholders not providing enough details in the explanatory notes field for transactions

with the same dollar amount, same date, and same vendor. In all other cases, the duplicate transactions had been identified by the cardholders and had already been credited back or were in the process of being resolved. (Recommendation 4)

#### **5.1.6. Account Allocation**

Cost allocation is the process of identifying and assigning costs to business units and account codes. Proper cost allocation is important as it contributes to effective and accurate cost reporting for specific areas within the City. It also enhances the quality of financial reporting.

Every cardholder is supposed to be assigned a default account allocation. If costs are not reallocated by cardholders prior to transaction approvals, they are allocated to the default account codes. We found 46 cardholders with no default account codes assigned. If these cardholders do not specifically allocate their transactions, they default to a clearing account.

Accounts Payable informed us that some business units have instructed their cardholders to leave transactions in the clearing account. We found transactions in the clearing account in each of the eight months tested. For example: in August, 2015, we identified 177 transactions in a clearing account. We also identified 26 transactions with non-existing account codes for which cardholders did change the allocation, but made an error in their entry. In all these instances, accounting staff have to reallocate transactions at a later date. (Recommendation 4)

#### **5.1.7. Summary of Compliance Testing**

Because of control weaknesses identified (such as the percentage of transactions not approved by cut-off each month) we cannot conclude that all purchases were made for appropriate business purposes. However, it should be noted that follow-up by Accounts Payable did not identify any major errors or improper activities. Reasonable explanations for observed exceptions were found in all cases.

We have identified situations where the Procedures can be improved to provide better guidance to support appropriate and consistent use of CPCs, including:

- Acceptable uses of CPCs;
- Unacceptability of personal use and split transactions;
- Proper explanatory notes; and
- Proper cost allocations.

Overall, we believe that clearer guidelines regarding acceptable use of CPCs, responsibilities of cardholders and approvers and the consequences of inappropriate use would improve the CPC control environment, reduce the risk of non-compliance with CPC procedures, and contribute to more effective and efficient operation of the program.

### Recommendation 4 – Update Procedures

The OCA recommends that the Director of Treasury Management review and update the CPC Procedures in the following areas:

- Responsibilities of cardholders, approvers and supervisors;
- Acceptable use of the CPC;
- Unacceptability of split transactions;
- Proper completion of online expense reports (for example: cost account allocation and explanatory notes); and
- Consequences of non-compliance.

The revised Procedures should emphasize compliance with related Administrative Directives and support consistent interpretation of appropriate purchases throughout the corporation.

### Management Response and Action Plan

#### Accepted

**Comments:** As discussed in Recommendation 1, the Corporate Procurement Card Handbook, procedures, and training have been revised and are now being shared through an annual update with all cardholders, approvers, and administrators. The handbook and training addresses the responsibilities of cardholders, approvers, and supervisors and outlines the acceptable use of CPC as well as the importance of proper completion of online expense reports. The handbook and training direct employees to the restricted items list and addresses areas of potential non-compliance such as the unacceptability of split transactions. Management is also working to develop effective regular reporting of key statistics, approval status and instances of non-compliance to managers in the organization.

**Planned Implementation Date:** March 31, 2016

**Responsible Party:** Manager, Corporate Accounts Payable

## 5.2. Other control environment concerns

### 5.2.1. Cardholder listing

Maintaining and regularly reviewing a listing of all cardholders is an important control to:

- Ensure the listing of cardholders from the bank is accurate; and
- Ensure cards are cancelled in a timely manner as staff leave or move within the City.

We compared the current cardholder listing from the bank to the City's employee listing. All cardholders were City employees. In addition, on a monthly basis we compared the cardholder listing to a list of employees that left the organization or went on long-term leave. We observed that card limits are typically reduced to \$0 but not always on or before the last day worked. Reducing the card limit to \$0 indicates that these cards are

inactive and prevents any further use, thereby reducing the risk of improper transactions and giving approvers time to process outstanding transactions.

We also tested for transactions that were processed after an employee's last-day worked. We found four cases, one in November 2014 and three in July 2015. We identified one case where the CPC was used to conduct two transactions (\$131.25 and \$52.50) after the employee's last workday in November 2014. This card was not cancelled until July 2015. Both transactions were reviewed by the CPC team and were determined to be legitimate transactions for business purposes, but they were conducted by somebody other than the cardholder. This is a violation of the Procedures. One of the July 2015 cases related to a credit transaction that was processed after the cardholder's last day worked. At the time of writing, the CPC team was in the process of following up on the other two cases.

A new off-boarding process for employees leaving the City's employment was launched in October 2014. This process includes a notification to the CPC team coming from Human Resources Branch. The notification is provided electronically to Treasury as part of the biweekly payroll run. However, this notification is dependent on the termination or retirement date entered by the Supervisor when completing the off-boarding tool; this date may not be identical to the last day worked. In addition, the notification does not include employees going on long-term leave. Supervisors may not notify the CPC team when employees go on long-term leave so that card limits can be reduced to \$0 or cards cancelled.

Supervisors of employees are required to collect the CPC along with the employee's identification card, parking pass, smartphone etc. as part of the employee sign off upon termination and/or resignation.

The CPC team did not conduct any regular testing to ensure that only current and active City employees hold active cards and that transaction limits were set appropriately. Changes to the cardholder listing were only made on a case-by-case basis.

The risk of improper use increases if CPCs are not cancelled or reduced to \$0 prior to or immediately following a cardholder's last day worked or going on extended leave. Although the City has insurance to cover financial losses arising from unauthorized purchases or fraudulent activity, there is a risk that the City may not be able to recover such charges if cards are not managed appropriately.

#### **Recommendation 5 – Active and inactive employee testing**

The OCA recommends that Director Treasury Management ensures regular testing (at a minimum monthly) is conducted to verify that cards are only held by authorized employees and card limits are set appropriately.

**Management Response and Action Plan****Accepted**

**Comments:** Current employee data is required to minimize the risk of loss. Accordingly Treasury Management has now collaborated with Human Resources and is using the Off-Board Payroll listing as well as the monthly Staff Changes Report to obtain a timely listing of relevant staff changes initiated by managers. This is then compared to active card date to initiate changes as required. This ensures that cards are only held by authorized employees and card limits are set appropriately.

**Planned Implementation Date:** February 29, 2016

**Responsible Party:** Director, Treasury Management

**5.2.2. Dormant cards**

Each CPC issued increases the City's financial risk exposure. The City's CPC financial exposure is the total of the monthly limits for all CPCs. In other words, if all the CPCs were "maxed out," how much would it cost the City? The City currently has over 1,600 active cards with an average monthly limit of \$10,000.

We identified 247 active cards that had not been used between March and August 2015.<sup>6</sup> Of these, 28 cards had not been used in the 18 months prior to August 20, 2015. Twelve of these 28 cards had not been used since they were created in January 2012.

We were informed by Accounts Payable management that cards are valid for 3 years from the date they are created or renewed. All 12 dormant cards identified above were created in 2012 and were renewed, but remain unused.

During the course of this audit, the CPC team developed a procedure to notify cardholders and approvers at intervals of 18 and 24 months asking them if they still need the cards. After 24 months of no usage, cardholders and approvers will be informed that the card will not be renewed as it is not required for corporate use.

**5.3. Opportunities****5.3.1. Vendor Contracts and Discounts**

The City has numerous contracts in place to obtain the best available price for products and services. Most purchases under these contracts have to be processed through the Corporate Procurement and Supply Services Branch. There is a risk that business units making CPC purchases from these vendors may not be receiving the best price for the product.

We determined that between January and August 2015, CPC purchases were made at approximately 6,080 vendors. Grand & Toy was the vendor with the highest total dollar

<sup>6</sup> This does not include a number of corporate cards that are specifically intended for appropriate coverage for ongoing operations in case of emergencies and, therefore, sit dormant.

sales and highest number of transactions (see Table 6). Grand & Toy (the City's stationery vendor at the time) had a dedicated website for City use, meaning that all orders were directly placed and paid through this website, which ensured that the cardholder received the discounted price for each item. As of August 1<sup>st</sup>, 2015, Grand & Toy was replaced by Staples Advantage using the same type of process.

**Table 6: Vendors with highest values of CPC purchases (January to August 2015)**

Vendor	Number of Transactions	Total Value
GRAND & TOY	8,694	\$ 1,829,626.89
AUTOMATED AQUATICS	530	\$ 456,304.79
EECOL ELECTRIC	1,708	\$ 393,118.96
ACKLANDS-GRAINGER INC	791	\$ 377,432.05
GREGG DISTRIBUTORS EDMONTON	837	\$ 281,493.13
COMMERCIAL SOLUTIONS	74	\$ 252,984.17
ALL SEASON EQUIPMENT	39	\$ 192,658.72
CHIEFTAIN EQUIPMENT	46	\$ 184,251.33
WESTJET	514	\$ 181,650.85
BGE SERVICE & SUPPLY LTD	664	\$ 151,521.39

We identified 55 vendors with purchase amounts over \$50,000 between January and August 2015. This poses both a risk and an opportunity for the City. Using CPCs to make purchases at vendors with whom the City has an outline agreement may result in increased costs if the cardholder does not obtain the contract price. However, expanding the number of outline agreements where CPCs may be used or negotiating annual rebates with these vendors could reduce the administrative cost to process purchases. As part of the spend analysis and category management work being done by the Corporate Procurement and Supply Services Branch, large spend categories and vendor spend are examined for opportunities to leverage various procurement tools, like outline agreements, to obtain best in market pricing.

### 5.3.2. Continuous Controls Testing

The CPC team currently reviews all transactions and paper expense reports for compliance and completeness. With on average 7,300 transactions per month and 1,600 cardholders, they have indicated that this is no longer efficient or effective. Approvers are responsible for performing the first level of review and for monitoring CPC transactions to ensure that they are appropriate and in accordance with the Procedures. The CPC team should focus on providing a second level of review: risk-based sampling, identifying trends and opportunities, and monitoring compliance. To ensure that the CPC program continues to function effectively, it is essential to conduct frequent and regular control system reviews.

The continuous controls testing procedures used in this audit report are being transitioned to Accounts Payable. The CPC team expects to begin independent testing of CPC controls in January 2016.

## 6. Conclusions

The objective of this audit was to determine whether the City's internal controls are effective in ensuring that CPC transactions are properly authorized, processed, and safeguarded. While CPCs provide City employees with a flexible and efficient method to purchase goods and services, there are significant associated risks. An ineffective control environment could allow unauthorized or improper transactions to occur.

Overall, the CPC program does contain many of the controls identified as leading practices. Appendix 3 provides a high-level summary of leading practices compared with the City's CPC program practices. There was also general compliance with the intent of the program.

We found the following opportunities to improve the CPC program that will strengthen the control environment and reduce the potential for improper transactions to occur:

- Improved timely supervisory online approval of purchases;
- Clearer guidelines for restricted items;
- Improved guidelines for gift card purchases;
- Strengthen procedures governing the use of CPCs; and
- Continued transaction and cardholder testing.

We made five recommendations to address these opportunities for improvement and provided management with suggestions to strengthen the control environment in which CPCs are used and reduce the risk of improper or unauthorized transactions.

The Procedures underwent a significant review and update in 2015 as a result of this continuous auditing project, resulting in a relaunch of the program to all existing cardholders, approvers, and site coordinators. The new *Corporate Credit Card Handbook* has replaced the Procedures. The revised handbook clearly establishes the roles and responsibilities of all users of the corporate credit card program. In addition, it outlines expectations and consequences of non-compliance. As part of the relaunch, all current cardholders and approvers are expected to complete an online training program related to the new handbook. Furthermore, all new cardholders and approvers, as well as all renewals are expected to complete online training prior to receiving access to the cards.

We thank the manager and staff of the Accounts Payable unit for their support, cooperation and assistance during this project.



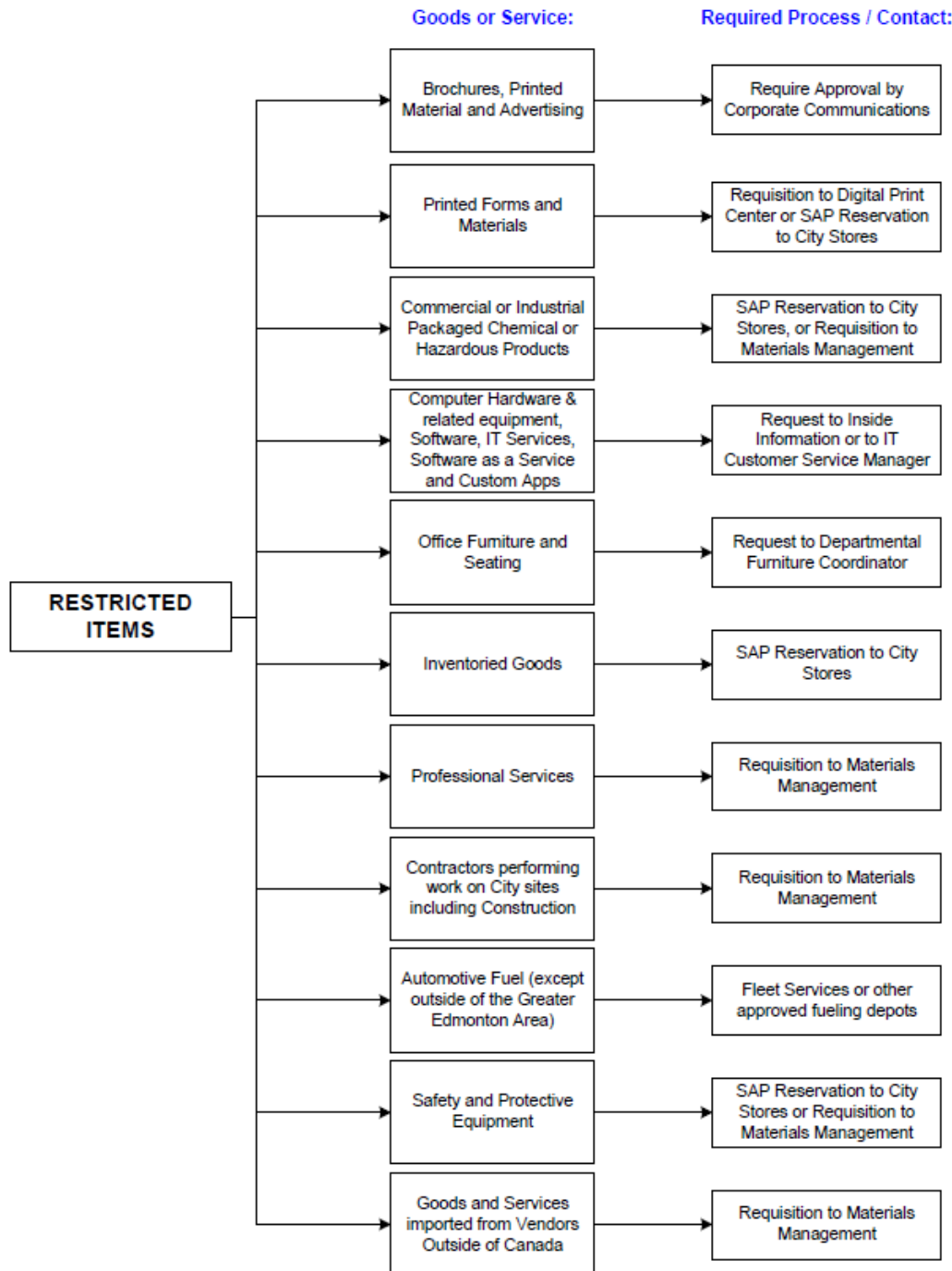
## Appendix 1: Listing of Detailed Tests

The OCA developed continuous auditing application tests to:

1. Identify dormant cards (cards with no activity in the last 18 months)
2. Identify low activity cards (e.g., 1 to 3 transactions in last 6 months)
3. Detect monthly card limits exceeded
4. Detect single transaction limits exceeded
5. Identify the number of cardholders and transactions per approver
6. Identify the number of cardholders with unapproved transactions
7. Determine the percentage of transactions approved after cut-off date (Aging Approvals)
8. Match listing of employees that left the organization with active cards
9. Determine how much time elapsed between an employee's last day worked and card cancellation date
10. Identify transactions at vendors with restricted Merchant Category Codes
11. Identify transactions assigned to General Ledger Accounts for restricted items
12. Identify duplicate transactions
13. Identify split transactions (for the purpose of circumventing transaction limits)
14. Identify transactions on weekends and holiday
15. Identify transactions with foreign vendors
16. Identify personal expenses
17. Summarize transactions by vendor
18. Identify transactions related to gift cards
19. Identify transactions related to clothing allowance
20. Identify transactions with no cost centre

## Appendix 2: Restricted Items List

Restricted items are specific goods and services which are not permitted to be purchased on a CPC. These are listed in Administrative Procedure A1439B, *Purchasing Goods, Services and Construction*, Attachment I.



March 2014

## Appendix 3: High-Level Comparison of Controls

Summary of Leading Practice <sup>7</sup>	City's CPC Program
• Central organization responsible to oversee and monitor the P-Card program.	• Same as leading practice.
• Establish criteria for cardholder eligibility; be selective in issuing cards.	• Business units determine who should receive a card based on business needs.
• Single purchase and monthly transaction limits.	• Authorization limits are set by business units based on needs. Same as leading practice.
• Cardholder required to sign P-Card agreement.	• Same as leading practice.
• Ensure separation of duties; responsibilities of cardholders, reviewing officials and purchasing card coordinators do not overlap.	• Same as leading practice.
• Blocking of merchant category codes not reasonably related to the cardholder's business needs.	• Due to the diverse nature of City business, currently not used.
• Clear guidelines regarding restricted purchases.	• Opportunity for improvement.(recommendation 2)
• Clear guidelines regarding allowable purchases.	• Opportunity for improvement.(recommendation 3)
• Mandatory training for cardholders and supervisors before card is issued.	• Mandatory training for cardholders, not for approvers.
• Establish consequences for card misuse or abuse, and outline to cardholder prior to card issuance.	• Opportunity for improvement. (recommendation 3)
• Identify appropriate approvers.	• Opportunity for improvement. (recommendation 1)
• Approvers should be responsible for timely approval of transactions.	• Opportunity for improvement. (recommendation 1)
• Approvers should be responsible for reviewing a limited number of cardholders.	• Inconsistent implementation across departments. Opportunity for improvement.(recommendation 1)
• Cardholders not allowed to split purchases to circumvent purchase limits.	• Formally documented, inconsistent implementation across departments. (recommendation 3)
• P-cards deactivated in a timely manner.	• Opportunity for improvement.(recommendation 4)
• Purchases should be substantiated by appropriate documentation.	• Same as leading practice.
• Periodic monitoring of purchases (optimize use of bank internet management reporting tools).	• Same as leading practice.
• Annual reviews to evaluate number of cardholders and cardholder limits.	• Review of cardholder limits done at time of card renewal.
• Periodic testing of cardholder listing for accuracy.	• Opportunity for improvement.(recommendation 4)

<sup>7</sup> Sources: Audit Department City of Winnipeg, Purchasing Card Program Review (2005), Georgia Department of Audits and Accounts Performance Audit Operations, State Purchasing Card Program (2007), City Auditor Department, City of Phoenix, Continuous Auditing (2015), Business Finance, 10 Best Practices for P-Card Programs (2008), Arizona State University, Best Practice: Purchasing Card Departmental Procedures (2015), MasterCard Corporate Purchasing Card, Best Practice Guide (2004)