**CITY OF HAMILTON**
**INTERNAL AUDIT REPORT 2015-14**
**CORPORATE SERVICES – PROCUREMENT CARDS (CONTINUOUS AUDITING PILOT)**

| OBSERVATIONS OF EXISTING SYSTEM | RECOMMENDATION FOR STRENGTHENING SYSTEM | MANAGEMENT ACTION PLAN |
|---|---|---|
| Automated Controls Require Updating<br>The current Procurement Card service provider (US Bank) allows the option to assign various blocking restrictions to cardholders as defined by the City, using a template. These templates block any purchases made to specified Merchant Category Codes (MCCs) such as airlines, hotels, or jewelry stores.  This enables the City to restrict purchases to the normal job responsibilities of the cardholder.<br><br>However, this control is less effective than it could be due to inconsistent maintenance and oversight, noted as follows:<br><br>▪ Several cardholders had blocking restrictions that were different from what was included on the approved documentation;<br>▪ Seven cardholders had no blocking restrictions;<br>▪ Some MCCs in certain categories were not consistently blocked, or were not restricted uniformly across templates;<br>▪ Blocking templates are not reviewed to ensure they reflect current business requirements and/or changes in MCCs; and<br>▪ The Maintenance Form (where blocking restrictions are assigned) does not effectively inform and explain the availability and effectiveness of utilizing blocking restrictions. | 1. That management work with departmental card coordinators to ensure that appropriate blocking restrictions are in place for all cardholders based on job responsibilities for all current cardholders.<br><br>2. That a process be created to periodically review blocking restrictions and templates to ensure they are effective and meet current business requirements.<br><br>3. That standard templates be set up for commonly requested blocking restrictions and exemptions.  These templates should be utilized consistently by the team administering procurement cards.  An assessment of appropriate blocking restrictions and exemptions should occur whenever a new or renewal card is issued. | *Accounts Payable Section:*<br>Agreed. Management will send departmental card coordinators a list of cardholders and their assigned blocking restrictions annually for review, update and approval. Anticipated implementation date: Q3 2017.<br><br>*Accounts Payable Section:*<br>Agreed. Management will review current restrictions and look for opportunities to enhance blocking capabilities as part of an upcoming Request for Information. Anticipated completion date: Q3 2017.<br><br>*Accounts Payable Section:*<br>Partially Agreed. Two standard templates already exist for commonly requested blocking restrictions. Accounts payable will assign blocking restrictions as indicated on approved application and maintenance forms. Management will modify the Maintenance Form, pointing operating departments to the procurement card manual for a detailed description of blocking restrictions, to ensure approvers use templates consistently across their teams. Anticipated completion date: Q2 2017. |

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**MAY 2016**

| OBSERVATIONS OF EXISTING SYSTEM | RECOMMENDATION FOR STRENGTHENING SYSTEM | MANAGEMENT ACTION PLAN |
|---|---|---|
| Automated Controls Require Update (cont'd) No instances of inappropriate usage were detected as a result of the above issues; however, relying on automated controls that are not adequately maintained may result in undetected errors or misuse. A preventive control such as automating block restrictions should be utilized. | | |

**CORPORATE SERVICES – PROCUREMENT CARDS (CONTINUOUS AUDITING PILOT)**
**MAY 2016**

| OBSERVATIONS OF EXISTING SYSTEM | RECOMMENDATION FOR STRENGTHENING SYSTEM | MANAGEMENT ACTION PLAN |
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| Compliance with Policies and Procedures<br>The Accounts Payable Section has written policies and procedures which describe the responsibilities and expectations of each position in the procurement card process. The documents are detailed and comprehensive, however current practises in some areas were observed to be inconsistent with the stated requirements:<br><br>a) Entering Transaction Descriptions in the Financial System<br>Approximately 50% of transactions were found to have no description entered into the online system. Reasons given were that the process was too consuming, or that the information was not perceived to be useful.<br><br>Not having this information restricts the volume of data analysis that can be performed for the Procurement Card program. | 4. That Finance provides training to Departmental Card Coordinators (DCCs) to resolve any processing issues. Explanations must be consistently provided for completeness of financial records. If feasible, this information should be loaded into the PeopleSoft Financial System. | *Finance & Administration Section:*<br>Agreed. Finance & Administration Managers will update the Procedure to indicate that better transaction descriptions are required. An email will be sent to DCCs reminding them of this requirement and highlighting revisions. Anticipated completion date: Q2 2017. |
| b) Use of Policy 19<br>Some confusion was noted regarding the use of Procurement Policy 19 for non-compliant transactions. Some employees have avoided using the procurement card altogether citing this concern.<br><br>Clarifying staff expectations and addressing concerns as the business need arises will ensure that staff may carry out work in a consistent manner. | 5. That management update policies and procedures to reflect current operations. A decision tree should be considered to guide management decision making regarding the treatment of non-compliance. | *Procurement Section and Finance & Administration Section:*<br>Agreed. The Procedure *"Procurement Card: Roles and Responsibilities"* includes both a chart and two decision trees to assist management and staff with determining non-compliance and the reporting of such. These changes were implemented during audit fieldwork. |

**CORPORATE SERVICES – PROCUREMENT CARDS (CONTINUOUS AUDITING PILOT)**
**MAY 2016**

| OBSERVATIONS OF EXISTING SYSTEM | RECOMMENDATION FOR STRENGTHENING SYSTEM | MANAGEMENT ACTION PLAN |
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| Inefficient Processes<br>On a monthly basis, DCCs send transaction statements to their respective cardholders. The cardholder is required to obtain and provide details including account allocation, transaction descriptions, approval signatures and supporting documentation, and return the package to the DCC.<br><br>The DCC then enters the information provided into the service provider's online system to be transferred to the accounting system.<br><br>This current process is inefficient and the data entry performed by the DCC duplicates much of the data entry performed by the cardholder.<br><br>Additional capacity could be freed up across the City to do more value added work if the process is streamlined. | 6. That management work with the service provider to make the process more efficient, including uploading transactions electronically or increased interfacing with other City software applications. | *Finance & Administration Section:*<br>Partially Agreed. Management will investigate ways to make the process more efficient. Management will work with the service provider, Accounts Payable, and/or other groups as necessary. Anticipated completion date: Q2 2017. |

**CORPORATE SERVICES – PROCUREMENT CARDS (CONTINUOUS AUDITING PILOT)**
**MAY 2016**

| OBSERVATIONS OF EXISTING SYSTEM | RECOMMENDATION FOR STRENGTHENING SYSTEM | MANAGEMENT ACTION PLAN |
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| Control over Travel Expenses<br>Travel expenses for meetings, conferences, etc. can be paid for using a procurement card or out of pocket by an employee who later submits the amount for reimbursement via the travel claims process.<br><br>Although procurement cards and travel claims each have their own set of internal controls, staff currently cannot reliably detect whether an expense paid on a procurement card is also being claimed for reimbursement via the travel claims process.<br><br>There is currently a gap in internal controls that needs to be remedied. Audit Services was unable to effectively perform detailed testing in this area due to the current gap in internal controls. | 7. That management set up a process within the Accounts Payable Section, DCC groups, or cardholder departments, to cross check travel expenses claimed with those paid by procurement card. | *Accounts Payable Section:*<br>Agreed. Receipts for travel clearly show payment methods. Staff will verify that reimbursement requests have not been charged to a City issued credit card. Anticipated implementation date: Q1 2017.<br><br>*Finance & Administration Section:*<br>Agreed. Finance & Administration Managers will coordinate with Accounts Payable and ensure that any related procedures are updated. Anticipated completion date: Q2 2017. |

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**ADDENDUM**

The following items were noted during the course of the audit.  Although they do not present an internal control deficiency, they are indicated in this Addendum so management is aware of the issue, risk, inefficiency or opportunity and can address them appropriately.

**High Value or Frequent Purchases**
Prior to 2014, Accounts Payable provided the Procurement Section information regarding procurement card usage on a semi-annual basis. This information was used to analyze whether a discounted rate or corporate contract could be negotiated for items purchased frequently or of a high dollar value across the organization. The practice was discontinued during a period of staff turnover. Resuming this analysis may identify opportunities for savings that individual operating units are unable to detect.

*It is recommended:*

8. *That management assess whether a process can be set up either with the Procurement Section or Accounts Payable to perform periodic analysis of high value or frequent purchases. Management may also wish to consider whether procurement card transactions are to be analyzed independently or in conjunction with Accounts Payable expenditures.*

*Management Responses:*

*Procurement Section:*
*Agreed. Management will work with Accounts Payable to identify what information is available and determine the feasibility of performing a spending analysis. Anticipated completion date: Q3 2017.*

*Accounts Payable Section:*
*Agreed. Management will provide Procurement with reports that can be used to identify frequent and high value purchases. Anticipated completion date: Q3 2017.*

**Program Rebates – Financial Opportunity**
The current service provider offers a rebate of 0.15% on purchases made through the Procurement Card Program. During the twelve month period, which ended July 2015, this amounted to $5,582 on expenditures of approximately $3.7 million. Based on the transaction and purchase volume, it is likely that the City is able to negotiate a higher return.  Based on publicly available information, it is estimated that the City of Toronto earns a rebate of approximately 0.81%.

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*It is recommended:*

9. *That management investigate market conditions and determine whether a higher rebate can be earned on its Procurement card Program, either with the current or a different service provider.*
*Management Response:*

<u>Accounts Payable Section:</u>
*Agreed. Management will investigate market conditions and the possibility of a higher rebate as part of an upcoming Request for Information. Anticipated completion date: Q3 2017.*