



CITY OF HAMILTON
CITY MANAGER'S OFFICE
Audit Services Division

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	March 6, 2017
SUBJECT/REPORT NO:	Audit Report 2015-14 Continuous Auditing Pilot – Procurement Cards (AUD17006) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Charles Brown CPA, CA, CPA (Illinois) 905-546-2424 x4469
SUBMITTED BY:	Charles Brown CPA, CA, CPA (Illinois) Director, Audit Services City Manager's Office
SIGNATURE:	

RECOMMENDATION

- (a) That the Management Action Plans as detailed in Appendix “A” of Report AUD17006 be approved; and
- (b) That the General Manager of Finance and Corporate Services be directed to instruct the appropriate staff to have the Management Action Plans (attached as Appendix “A” to Report AUD17006) implemented.

EXECUTIVE SUMMARY

The procurement card (P-card) is a payment tool intended to provide an efficient and cost-effective means of purchasing low dollar-value items in a timely manner. Due to its high risk of misuse and potential for negatively affecting public trust, the use of P-cards has been audited frequently in the past (2010-2012).

The 2015 Internal Audit work plan approved by Council included a review of P-card transactions and processes in order to develop a program to oversee and monitor P-card controls throughout the year. P-card transactions for the period of December 2014 to September 2015 were reviewed for compliance with policies and procedures as well as ensuring the accuracy, completeness, authorization and proper record keeping in regard to usage. Risks, observations and outstanding recommendations from prior P-card audits were incorporated into the planning for this year’s review.

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From January 2015 to September 2015, P-card spending amounted to \$2.7 million by 480 active cardholders. The number of cardholders has increased from 434 cardholders in 2012 (Audit Report 2012-08) to 480 cardholders by September 2015 (11% increase). Audit Services did not find evidence of misappropriation or fraudulent activities in the transactions reviewed.

The results of the audit are presented in a formal Audit Report (2015-14) containing observations, recommendations and management responses. Audit Report 2015-14 is attached as Appendix “A” to Report AUD17006.

In addition, Audit Services has developed P-card continuous auditing procedures which are expected to begin in Q2 2017.

Alternatives for Consideration – Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS (for recommendation(s) only)

Financial: Additional controls over travel expenses reimbursed through travel claims and paid by procurement card may reduce the risk of duplicate travel expense payments. Analysis of frequent and high dollar P-card purchases may result in negotiated contract and discounted rates. A financial opportunity may exist to negotiate a higher rebate on P-card purchases.

Staffing: More efficient processes to collect and enter cardholder transaction data into the service provider’s online system may result in additional capacity in the existing Departmental Card Coordinator staff complement.

Legal: None.

HISTORICAL BACKGROUND (Chronology of events)

The audit was scheduled as part of the 2015 Internal Audit work plan approved by Council. The results of this audit are attached as Appendix “A” of Report AUD17006.

The Audit, Finance and Administration Committee receives and approves final audit and review reports as part of its responsibilities for the oversight of governance and control.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

Procurement Card – Roles & Responsibilities Procedure
Procurement Card – Departmental Card Coordinator Responsibilities Procedure

RELEVANT CONSULTATION

Appendix “A” to Report AUD17006 includes action plans which reflect the responses of management responsible for the administration of the City’s procurement card program in the Financial Services and Financial Policy & Planning Divisions of the Corporate Services Department.

ANALYSIS AND RATIONALE FOR RECOMMENDATION (Include Performance Measurement/Benchmarking Data if applicable)

The P-card is a payment tool intended to provide an efficient and cost-effective means of purchasing low dollar-value items in a timely manner. Due to its high risk of misuse and potential for negatively affecting public trust, the use of P-cards has been audited frequently in the past (2010-2012).

From January 2015 to September 2015, P-card spending amounted to \$2.7 million by 480 active cardholders. The number of cardholders has increased from 434 cardholders in 2012 (Audit Report 2012-08) to 480 cardholders by September 2015 (11% increase).

In 2013, Audit Services began developing a continuous auditing framework. Continuous auditing is an automatic method used to perform auditing activities, such as control assessments, on a more frequent basis. The intent was to move certain audit activities from an annual project to a standardized, repeatable basis performed with higher frequency in order to provide ongoing assurance and more timely identification and mitigation of risk indicators. Technology plays a significant role in continuous auditing by helping to automate the detection of exceptions, analyze patterns and test controls, among other activities. In 2014, Audit Services acquired a data extraction and analysis software application to aide in continuous auditing efforts. P-card usage was one of two pilot areas included in the 2015 Internal Audit work plan for continuous auditing.

P-card transactions for the period of December 2014 to September 2015 were reviewed for compliance with policies and procedures as well as ensuring the accuracy, completeness, authorization and proper record keeping in regard to usage. Risks, observations and outstanding recommendations from prior P-card audits were incorporated into the planning for this year’s review. Various analyses developed and carried out during this review will be used to carry out P-card continuous auditing activities which are expected to begin in Q2 2017. Audit Services will submit a report to the Audit, Finance and Administration Committee in early 2018 with the results of the first year of P-card continuous auditing.

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A formal Audit Report (2015-14) containing observations, recommendations and resulting management action plans was issued. Nine recommendations were included in Audit Report 2015-14 (attached as Appendix “A” of Report AUD17006). Some of the recommendations made are as follows:

- Develop processes to ensure appropriate blocking restrictions are in place for all cardholders. Periodically review blocking restriction templates to ensure their effectiveness and ability to meet current business needs.
- Find a more efficient way to collect and enter cardholder transaction data into the service provider’s online system.
- Cross check travel expenses claimed with those paid by P-card.
- Assess the feasibility of analysing high value and frequent P-card purchases for contract or discount opportunities.
- Investigate whether a higher rebate may be earned on P-card purchases.

Management has agreed, in full or part, with all of the recommendations. Specific action plans can be found in the audit report attached as Appendix “A” to Report AUD17006.

Audit Services conducted this review in conformity with the *International Standards for the Professional Practice of Internal Auditing*. These standards require that Audit Services plan and perform the review to obtain sufficient, appropriate evidence to support the findings and conclusions based on the review objectives. Audit Services believes that the work performed provides a reasonable basis for the review comments and conclusions.

**ALTERNATIVES FOR CONSIDERATION
(Include Financial, Staffing, Legal and Policy Implications and Pros and Cons for each alternative)**

Not applicable.

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Our People and Performance

Hamiltonians have a high level of trust and confidence in their City government.

APPENDICES AND SCHEDULES ATTACHED

Appendix “A” to Report AUD17006