CITY OF HAMILTON

CITY MANAGER'S OFFICE
Audit Services Division

TO: Chair and Members Audit, Finance and Administration Committee	**WARD(S) AFFECTED:** CITY WIDE
COMMITTEE DATE: May 13, 2013	
SUBJECT/REPORT NO: Audit Report 2012-08 - Procurement Card Usage (AUD13014) (City Wide)	
SUBMITTED BY: Ann Pekaruk Director, Audit Services City Manager's Office **SIGNATURE:**	**PREPARED BY:** Ann Pekaruk 905-546-2424 x4469

RECOMMENDATION

(a)   That the Management Action Plans as detailed in Appendix "A" (Part C only) of Report AUD13014 be approved; and

(b)   That the Acting General Manager of Finance and Corporate Services be directed to instruct the appropriate staff to have the Management Action Plans (attached as Appendix "A" - Part B (not completed) and Part C (new) to Report AUD13014) implemented.

EXECUTIVE SUMMARY

Upon Council direction on September 29, 2010 and with the approval of the 2012 Internal Audit work plan, a review of procurement card (P-card) usage for the period of December 2011 to May 2012 was carried out. Compliance with policies and procedures was assessed as well as ensuring the accuracy, completeness, authorization and prior record-keeping in regard to specific transactions. This resulted in one new recommendation (Part C of Appendix "A").

Findings and recommendations from the past two audits (2010 and 2011) have led to several changes in processes and oversight.

From December 2011 to May 2012, the P-card spending amounted to $1.53 million by 434 active cardholders. The number of cardholders has been reduced from 526 cardholders in 2009 (Audit Report 2010-05) to 434 cardholders by October 2012 (17% reduction). No evidence of misappropriation or fraudulent activities was noted in the sample testing. Management has implemented several prior recommendations (Part A of Appendix "A") to strengthen the control system. However, there continues to be opportunities to improve, as noted in Parts B (Prior Recommendations Not Completed) and C (New Recommendation) of Appendix "A".

The results of the audit are presented in three parts in a formal audit report (2012-08). Part A contains the ten recommendations completed since the 2011-08 audit report. Part B contains eight recommendations that were not completed along with Audit Comments regarding the status of their implementations. Part C contains one new recommendation for which management has provided an action plan. The Report is attached as Appendix "A" to Report AUD13014.

Alternatives for Consideration – Not Applicable

FINANCIAL / STAFFING / LEGAL IMPLICATIONS (for Recommendation(s) only)

Financial: None.

Staffing: None.

Legal: None.

HISTORICAL BACKGROUND (Chronology of events)

During the September 29, 2010 Council meeting dealing with Audit Report 2010-05, the Audit Services Division was directed to conduct a Procurement Card Audit in 2011 that was presented to A,F&A Committee in December of the same year. This procurement card usage audit was included in the 2012 Internal Audit work plan as an annual responsibility until processes have been reviewed and tested for compliance with adequate controls.

OUR Vision: To be the best place in Canada to raise a child, promote innovation, engage citizens and provide diverse economic opportunities.
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The Audit Division targeted transactions from December 2011 to May 2012. The audit fieldwork was completed in October, 2012. The results of this audit are attached as Appendix "A" of Report AUD13014.

The Audit 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/LEGISLATED REQUIREMENTS

- By-law No. 11-297, Purchasing Policy #15 – Policy for Procurement Cards, Section 4.15 and Policy #19 – Non-Compliance with the Procurement Policy, Section 4.19 (Changed to By-law No. 12-255, November 2012).
- Procurement Card Processing Procedure – Received by Council April 13, 2011.

RELEVANT CONSULTATION

The results of the audit were provided to management responsible for the administration of the City's P-cards - Financial Services, Purchasing and Finance & Administration of the Corporate Services Department as well the Acting General Manager of Finance and Corporate Services.

ANALYSIS / RATIONALE FOR RECOMMENDATION
(include Performance Measurement/Benchmarking Data, if applicable)

The number of cardholders had been reduced from 526 cardholders in 2009 to 434 cardholders in October 2012 (17% reduction). In the six month period of December 2011 to May 2012, the accumulated spending amounted to $1.53 million.

The P-card allows purchases to be made much more economically with savings and efficiencies realized when cheques do not have to be generated and processed, fewer departments and staff are needed to initiate and process a purchase and goods and services can often be purchased more quickly. Although there is an administrative cost saving, management must continue to ensure there are adequate controls to mitigate the inherent risks. Detection controls have been put in place to identify instances of inappropriate or questionable purchases or inadequate support documentation. Staff have taken positive steps in improving P-card processes.

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A sample of transactions was selected on both a random and judgmental basis for detailed testing by departments, by individuals and by total dollars spent. Unusual activities were also selected for review.

A formal audit report containing observations, recommendations and management action plans was issued and is attached as Appendix "A" of Report AUD13014.

Of the 18 recommendations that management agreed to in the previous Audit Report 2011-08, ten have been completed (detailed in Part A of Appendix "A"), three are in progress and five are incomplete. These eight recommendations that were not completed are included in Appendix "A" as Part B. Both Part A and B provide Internal Audit's Comments as a result of follow up work carried out. There is one additional new observation and recommendation as a result of this audit. A Management Action Plan has been provided in Appendix "A" - Part C.

Part A

Part A of Appendix "A" details ten completed recommendations from the 2011-08 audit report. The completed recommendations include:

- Reviewing P-card activity by the General Managers to justify continued eligibility for a P-card;
- Ensuring the adequacy and completeness of supporting documentation; and
- Monitoring and quarterly clearing of P-card expenses from clearing accounts.

Part B

Part B of Appendix "A" contains eight recommendations from the previous report on P-card usage that were not completed. The first three columns are as originally noted in Report 2011-08 along with an added fourth column containing Internal Audit's Comments as a result of the audit work. The main areas still requiring further addressing for completion are:

- Prohibiting use of P-cards for personal expenses or when a corporate contract is in effect;
- Ensuring HST allocations are noted correctly;
- Allocating transactions to the correct account and department ID numbers in the 'US Bank' P-card system before the month end; and
- Ensuring written Information Services approvals are attached to the P-Card statements for computer and software purchases.

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Part C
One new recommendation was included in Part C of the report. A Management Action Plan has been provided in the third column of the standard three-column audit report. The area identified for improvement involves:

- Reporting instances of non-compliance with P-card policies as part of the quarterly reporting process under Procurement Policy #19.

Management and staff have agreed to the new recommendation in Part C.

ALTERNATIVES FOR CONSIDERATION

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

Not applicable.

ALIGNMENT TO THE 2012 – 2015 STRATEGIC PLAN:

Strategic Priority #3
Leadership & Governance

WE work together to ensure we are a government that is respectful towards each other and that the community has confidence and trust in.

3.4   Enhance opportunities for administrative and operational efficiencies.

APPENDICES / SCHEDULES

Appendix "A" (Parts A, B and C) to Report AUD13014

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CITY OF HAMILTON
INTERNAL AUDIT REPORT 2012-08
PROCUREMENT CARD USAGE
PART A – COMPLETED PRIOR RECOMMENDATIONS

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2012)
1.	Infrequently Used Cards Before granting P-card privileges to employees, department management should evaluate the employees' responsibilities to determine whether the availability of a P-card is warranted. Employees' eligibility to cards should be reviewed regularly based on their responsibilities and extent of use. The PCA (P-Card Administrator) sends usage reports to departments on a monthly basis to provide information to analyze cardholders' activity. However, there are no requirements to analyze the reports provided or to cancel infrequently used cards. There were 56 cardholders in the 2009 calendar year who did not incur any transactions. Of these cardholders, 54% (30) were still active as at April 27, 2010.	That GMs regularly review cardholders' continued eligibility for P-cards based on the level of use. The DCCs should ensure this review process occurs and appropriate actions are taken.	Agreed. An annual report will be sent to GMs listing all cardholders who have not used their cards in the past year. They will be strongly urged to have these cards cancelled. Stringent rules cannot be built into the program with respect to canceling all inactive cards as each business unit has unique situations.	Completed. The report was generated and cardholders without usage in 2011 were identified and investigated. There were 5 cardholders in the 2011 calendar year who did not incur any transactions. This is a 91% reduction from the original observation. Appropriate action has been taken by management to address this item.

PROCUREMENT CARD USAGE
PART A – COMPLETED PRIOR RECOMMENDATIONS
OCTOBER 2012

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2012)
1.	Infrequently Used Cards (Continued) Another 50 cardholders used their P-cards less than three times in all of 2009, spending a total of only $26,597. On one occasion, the single transaction incurred by one cardholder was for personal use and no other transactions were incurred on behalf of the City. Approximately 76% of these cardholders were still active as at April 27, 2010. The administrative cost of issuing and monitoring under-utilized cards, as well as the increased risk of fraudulent and inappropriate charges, can be avoided if P-cards are only issued to employees whose duties and usage warrant them.	That the PCA investigate a way to produce a report annually to note P-cards which have not been used in the 12 month period.	Agreed. The report noted above and an explanation letter will be sent out in February 2011 for the 2010 year by the PCA.	Completed. The PCA provided a yearly report to identify active cardholders with no usage for the 2011 calendar year. The percentage of low usage cardholders with fewer than three transactions between July 2011 and July 2012 was approximately 5% of active cardholders. This percentage is considered low and the residual risk with low card usage has been sufficiently mitigated.

PROCUREMENT CARD USAGE
PART A – COMPLETED PRIOR RECOMMENDATIONS
OCTOBER 2012

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2012)
2.	Delinquencies and Policy Infractions a) Cardholders are expected to remit approved P-card statements and supporting documentation by established month end deadlines. Many cardholders are consistently delinquent in providing these items on time. Over 30% of the P-card statements sampled were delinquent with approximately 31% of these delinquent cardholders missing the monthly deadline four or more times in 2009. In a few cases, the cardholder's remote location or seasonal work load were acceptable reasons for being late. As clearing accounts are not reviewed on a regular basis, disputed charges and fraudulent activity may not be identified in a timely manner to seek out insurance claims, cardholder reimbursement or card provider reversal.	That Accounts Payable formalize a policy assigning responsibility to track cardholder delinquencies and P-card policy infractions to DCCs and outline what action will be taken by the DCC and General Manager (GM) when a set number of delinquencies or infractions have been reached. Such actions may include training, a formal reprimand or revocation of P-card privileges.	Agreed. During the next Purchasing Policy review, the P-card policy will be changed to include consequences of not following the policy. Changes will be communicated to users. This review is expected to be undertaken in the first quarter of 2011.	Completed. The P-card policy was revised in Q1 2011. The Purchasing By-law was updated in Q4 2011. The section relating to non-compliance (Policy #19) had significant revisions. Based on the testing performed, the incidence of delinquent cardholders was 7% of the sample that was tested (4 of 61 cardholders). This is a significant reduction in delinquencies from the original audit observation. The residual risk associated with this item has been reduced to an acceptably low level by management.

PROCUREMENT CARD USAGE
PART A – COMPLETED PRIOR RECOMMENDATIONS
OCTOBER 2012

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2012)
2.	Delinquencies and Policy Infractions (Continued) a) In addition, expenses will not show against individual budget lines possibly resulting in overspending. For expenses not charged to a clearing account, there is a risk that the Departmental Card Co-ordinator (DCC) will not follow up on the outstanding information.		**Management Response (2011)**: Non-compliance to purchasing policies is an employee performance issue. These are handled by the operations Director/GM through Human Resources. The "Comments" column on the compliance summaries (where the delinquency is outlined) will be completed by the Director/GM at a high level to maintain confidentiality.	Completed. Based on the testing that was performed, there were no reportable observations related to P-card clearing accounts.

PROCUREMENT CARD USAGE
PART A – COMPLETED PRIOR RECOMMENDATIONS
OCTOBER 2012

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2012)
2.	Delinquencies and Policy Infractions (Continued) b) Inadequate supporting documentation was noted for 75 of the 174 transactions tested in detail. In 49 instances, additional information was requested by Internal Audit in order to understand the nature or validity of the expenditure. In 17 instances, entertainment transactions did not note the purpose, nature and/or date of the event and/or attendees, contrary to the policy. In five instances, no receipts or supporting documentation were present. Without an adequate explanation of an expenditure's purpose or the names of individuals attending an event, it is difficult to determine whether expenditures were incurred for business or personal purposes. There is a high degree of public interest in City entertainment and other P-card expenditures and filed documents should contain adequate detail to stand on their own and support the expenses.	That when GMs (or designates) and DCCs review and process P-card transactions, they ensure that: • Adequate information is provided to allow for a complete understanding of the nature and purpose of the expenditure; and • Entertainment expense information required under the P-card procedures is documented.	Agreed. Included in the communication above, an explanation of what supporting documentation and information is required and why it is important to both cardholders and approvers will be provided.	Completed. Detailed testing was completed by Audit Services. 301 transactions were reviewed. There was one instance (0.3%) where adequate supporting documentation was not provided. The residual risk associated with this item has been reduced to an acceptably low level by management.

PROCUREMENT CARD USAGE
PART A – COMPLETED PRIOR RECOMMENDATIONS
OCTOBER 2012

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2012)
3.	Policy Infractions Over a three-month period, one cardholder from one department incurred 21 transactions on the City's P-card. Of those transactions, the following deficiencies were noted: • 11 instances where additional information was required to assess the nature or validity of the expenditure; • nine instances where GST was recorded incorrectly; • eight instances where the purpose of an entertainment expense or the attendees were not recorded; • six instances where an inappropriate account number was used; • four instances where no receipts were present to support credit card charges; and • two instances where pre-approval in writing was not sought by the cardholder to purchase items for which a corporate contract existed.	That consistent cardholder policy non-compliance be addressed as noted in recommendation 2. a) above.	See management response to #2. a) above. The City employee referenced no longer has P-card privileges. **Management Response (2011)**: Non-compliance to purchasing policies is an employee performance issue. These are handled by the operations Director/GM through Human Resources. The "Comments" column on the compliance summaries (where the delinquency is outlined) will be completed by the Director/GM at a high level to maintain confidentiality.	Completed. The employee identified in the 2010 audit no longer has P-Card privileges. There were no other instances identified of persistent non-compliance. Management is taking action when non-compliance is identified. This includes reviewing the applicable procedure or corporate contract with the employee or providing additional training on the use of P-Cards. The section of the Purchasing By-law relating to non-compliance (Policy #19) had significant revisions. Based on the audit testing that was performed, the actions taken by management have reduced the residual risk to an acceptably low level.

PROCUREMENT CARD USAGE
PART A – COMPLETED PRIOR RECOMMENDATIONS
OCTOBER 2012

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2012)
3.	Policy Infractions (Continued) There were no indications as to the action (or inaction) taken by the DCC or GM to correct this cardholder's behavior. All statements had been approved by the cardholder's supervisor. Although this cardholder's total transactions represent a minimal percentage of total credit card purchases, the lack of adequate management oversight could draw a substantial amount of negative media or public scrutiny. Lack of oversight also creates an opportunity to use the cards inappropriately and may encourage other employees to not follow policies and procedures.			

PROCUREMENT CARD USAGE
PART A – COMPLETED PRIOR RECOMMENDATIONS
OCTOBER 2012

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2012)
4.	Clearing Accounts Clearing accounts used for P-card expenditures are meant to segregate those transactions requiring additional information or follow up. The accounts should be cleared to expenses, at year end at a minimum, but ideally on a regular month-to-month basis. On the average, it took 2-3 months to clear the transactions examined, with approximately 20% of the items cleared within 5-12 months. Although the accumulated amounts are not significant, the fact that the month end processing procedure and management review did not resolve the uncleared amounts undermines this control.	That Accounts Payable formalize a procedure assigning the responsibility of clearing the P-card clearing accounts at least quarterly to the DCCs. The corresponding BAs should ensure this occurs with a documented sign-off.	See management response to #3 above. **Management Response (2011)**: Clearing accounts are cleared as the information is made available. The monthly reports noted in #2. a) will show non-compliance against those cardholders who have not forwarded their information. It should be noted that the amounts are charged against the operating budget (just not the specific line budget) so that expenses are not being understated while additional information is being sought.	Completed. Based on the testing performed, an improvement in the Q1 and Q2 clearing account balances was observed. Given that the level of annual P-card spending is approximately $3 million, having Q1 2012 and Q2 2012 clearing account balances of $15,000 and $27,000 respectively, is relatively low. The residual risk associated with this item has been reduced to an acceptable level by management.

PROCUREMENT CARD USAGE
PART A – COMPLETED PRIOR RECOMMENDATIONS
OCTOBER 2012

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2012)
5.	Procedures Discrepancies Discrepancies exist between the documented Procedure for Procurement Card Section 5 Procedure #PR-15, approved on May 26, 2004 and actual practices. It was noted on the Maintenance Form located on the S drive that account code changes do not require GM approval. However, P-card procedures dictate that any changes must be approved by a GM. Internal Audit noted on numerous occasions that DCC approval signatures were missing from Application and Maintenance Forms, which contradicts the procedures specifying that these documents must originate from the DCC level. In addition, although DCCs or cardholders may call or email the PCA when cards are lost or stolen, procedures specify that a Maintenance Form must be completed. This currently does not occur. A lack of consistency between written procedures and actual practices can lead to inefficiencies and errors in the P-card process, as well as confusion for cardholders, DCCs and GMs.	That the P-card procedure be reviewed and changes made to reflect actual practices, where appropriate. Any changes should be communicated to cardholders, DCCs and GMs.	Agreed. Accounts Payable will make appropriate changes to the procedure to reflect the current practices. This will be done by the end of 2010. **Management Response (2011)**: The procedures referred to above are now complete.	Completed. The issue regarding account code changes not requiring GM approval has been resolved. A copy of the maintenance form (including the account code exception) is included in the approved procedure. DCC approval signatures were not identified as an issue during the current year's audit testing that was performed. When a P-card is lost or stolen, the current procedures specify that the cardholder must immediately notify the DCC. A maintenance form is no longer mentioned in these procedures.

PROCUREMENT CARD USAGE
PART A – COMPLETED PRIOR RECOMMENDATIONS
OCTOBER 2012

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2012)
5.	Procedures Discrepancies (Continued) The majority of cardholders complete a Procurement Card Approval Form at the request of the DCC. These forms capture transaction information, such as the vendor, transaction and HST amounts, account allocation and transaction description. These Approval Forms are not completed in all sections and there is no requirement stipulated in the P-card procedures.	That incomplete Procurement Card Approval Forms be returned to cardholders.	Agreed.	Completed. No testing exceptions were identified relating to this item.
	Procurement Card Department Co-ordinator Procedures are currently in draft form and have not been distributed to staff. As a result, DCCs continue to rely on past experiences which lead to inconsistencies in the P-card process.	That management finalize the Department Co-ordinator Procedures and distribute the document to all DCCs.	Agreed.	Completed. DCC Procedures were finalized in 2011.

PROCUREMENT CARD USAGE
PART A – COMPLETED PRIOR RECOMMENDATIONS
OCTOBER 2012

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2012)
6.	Computer Hardware and Software Purchases The current P-card policy requires computer hardware and software purchases to be pre-authorized in writing by the Manager of Purchasing. In the testing sample, seven transactions were identified as computer hardware and software purchases for which approval had not been obtained in writing. These transactions were not identified by the P-card approver, DCC, Business Administrator (BA) or Director as restricted purchases during their monthly reviews. Information Services has taken the position that departments may purchase hardware and software without approval if these items are not connected to the City's network. This position is not in compliance with current P-card policies and procedures.	That Procurement consult with Information Services to determine if approval is required for all computer hardware and software purchases. Changes should be made to the P-card policy, as necessary, and distributed appropriately.	Agreed. The Manager of Accounts Payable will complete this task by the end of the 1st quarter, 2012.	Completed. A meeting was held with Accounts Payable, F&A and Information Services to discuss this issue. It was decided that the current policy's approval requirements will remain so no change in the P-card policy was necessary.

CITY OF HAMILTON
INTERNAL AUDIT REPORT 2012-08
PROCUREMENT CARD USAGE
PART B – PRIOR RECOMMENDATIONS NOT COMPLETED

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2012)
7.	<u>Delinquencies and Policy Infractions</u> Two incidents in the sample were noted where cardholders used their P-cards for personal purchases. Even though the cardholders reimbursed the City, use of a City's P-card for personal transactions is strictly prohibited.	That Accounts Payable (AP) reinforce the policy regarding the prohibition of the use of P-cards for personal expenses to all cardholders. Reimbursement after personal use should not be considered as a means to override this restriction.	Agreed. A communication will be sent by the AP section in the 4th quarter of 2010 to all cardholders and approvers reminding them of the policy. **Management Response (2011):** The communication referred to under the original Management Action Plan was issued November 10, 2011.	Not completed. Two cardholders from the Library used their P-cards for personal purchases. The expenditures were reimbursed to the City. Neither of the statements associated with these purchases were marked as being non-compliant.

PROCUREMENT CARD USAGE
PART B – PRIOR RECOMMENDATIONS NOT COMPLETED
OCTOBER 2012

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2012)
8.	Contracted Goods and Services P-cards are not to be used when a corporate contract is in effect for an item purchased, unless pre-authorized in writing by the Manager of Purchasing. Of the 174 transactions tested, seven transactions were identified as products available under a corporate contract for which cardholders did not obtain approval to purchase elsewhere when using a P-card. For example, office supplies were purchased amounting to approximately $16,000 on 11 P-cards. However, the City has established a contract to order office supplies online at deeply discounted prices. By not following purchase agreements, the City is paying more for items as discounts are not realized.	That DCCs be charged with the responsibility of identifying P-card purchases that include any items for which there are corporate contracts and for which there is no evidence of pre-approval. In situations where such purchases occur, the DCC should inform the cardholder and monitor any future infractions as per the terms under recommendation 2. a) above	Agreed. The DCC procedures will be reviewed with emphasis placed on identifying non-compliance and the actions that should be taken - to be performed by F&A Managers by end of 2010. **Management Response (2011)**: The original Management Action Plan was completed. The shortcoming here is that employees must keep up to date on all corporate contracts. Efforts will be made to ensure a list of corporate contracts is circulated regularly.	In Progress. Fewer than 2% of transactions tested were identified as being non-compliant due to a corporate contract (6 out of 301). The percentage of non-compliant items identified is low but the internal control to detect and report non-compliance is not functioning effectively. Five of six non-compliant transactions were not identified by either management or DCCs.

PROCUREMENT CARD USAGE
PART B – PRIOR RECOMMENDATIONS NOT COMPLETED
OCTOBER 2012

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2012)
9.	GST (HST) Allocation In the detailed testing of 174 individual transactions, the following was identified: • In 11 cases, receipts were not present or there was not enough information on the receipt provided to assess whether GST was recorded accurately. • In 11 cases, enough information was present to calculate the correct amount of GST and errors were noted. In two cases, GST was incorrectly allocated when clearing items from clearing accounts. Also, GST errors were identified in four of ten process walk-throughs performed. Many of the errors are a result of the reviewing and correcting, where necessary, of the statements in the P-card system which automatically stipulates GST (sometimes erroneously). Similar issues will continue with the introduction of HST, if not addressed.	That DCCs ensure that invoices and receipts are analyzed thoroughly and corrections made to GST/HST allocations in the credit card system by the month end deadline.	See management response to #3 above.	Not Completed. HST allocation issues were identified. Incorrect HST amounts were recorded for 8% (25 out of 301) of transactions tested (7% in 2011). There has been no improvement when compared to the prior year. HST misallocations typically related to items that did not have the standard HST rate charged.

PROCUREMENT CARD USAGE
PART B – PRIOR RECOMMENDATIONS NOT COMPLETED
OCTOBER 2012

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2012)
9.	<u>GST (HST) Allocation (Continued)</u> Canada Revenue Agency requires adequate documentation to support rebates paid. As well, documentation provided to GST audit consultants should be concise and complete in order to fully realize the benefits of their work.			

PROCUREMENT CARD USAGE
PART B – PRIOR RECOMMENDATIONS NOT COMPLETED
OCTOBER 2012

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2012)
10.	<u>Account and Department ID Allocations</u> Department Card Co-ordinators (DCCs) have approximately ten (10) days after P-card statements are available from the US Bank to allocate transactions to the appropriate account and department ID numbers online with US Bank. Transactions that are not reallocated online are charged to the cardholder's default clearing account and department ID numbers when the P-card information is imported into PeopleSoft. Journal entries are prepared to allocate transactions from the clearing account to their appropriate account and department ID numbers.	That HECFI and the Library allocate transactions to their correct account and department ID numbers in the 'US Bank' P-card system before the month end deadline.	Library – Agreed. The Library has distributed notice to all holders of P-cards (June 7, 2011 and again on November 8, 2011) that should they continue to not have their statements submitted by the deadline, they will lose their P-card privileges. HECFI – Disagreed. HECFI puts great emphasis on internal controls surrounding P-card purchases and insists all transactions are properly documented by the cardholder and approved by the relevant Director before submission to Business Services. These procedures can seldom be prepared by the cut-off date. Time spent on preparing subsequent journal entries is a good tradeoff from strong internal control procedures.	Library - In Progress. 75% of statements reviewed during testing (6 of 8) were found to have been entered by the US Bank deadline. HECFI - Disagreed. No further audit work is required.

PROCUREMENT CARD USAGE
PART B – PRIOR RECOMMENDATIONS NOT COMPLETED
OCTOBER 2012

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2012)
10.	Account and Department ID Allocations (Continued) Internal Audit observed that HECFI does not specify account allocation changes in the P-card system before the month end deadline. Thirty-four P-cards were utilized by HECFI for 657 transactions for the six month period ending June 30, 2011. Transactions captured on the procurement statements required journal entries to reallocate charges from the clearing account. This practice also occurred for a period of time at the Library. The amount of time associated with preparing and processing P-card journal entries may be significantly reduced if HECFI and the Library used transaction allocation online with 'US Bank' before the month end deadline.			

PROCUREMENT CARD USAGE
PART B – PRIOR RECOMMENDATIONS NOT COMPLETED
OCTOBER 2012

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2012)
11.	Computer Hardware and Software Purchases The current P-card policy requires computer hardware and software purchases to be pre-authorized in writing by the Manager of Purchasing. In the testing sample, seven transactions were identified as computer hardware and software purchases for which approval had not been obtained in writing. These transactions were not identified by the P-card approver, DCC, Business Administrator (BA) or Director as restricted purchases during their monthly reviews. Information Services has taken the position that departments may purchase hardware and software without approval if these items are not connected to the City's network. This position is not in compliance with current P-card policies and procedures.	That P-card approvers ensure written approvals from Information Services are attached to the P-card statements for computer hardware and software purchases.	Agreed. Staff will be informed by the Manager of Accounts Payable by the end of 2011.	Not Completed. Four out of 18 (22%) transactions reviewed related to unapproved computer hardware or software purchases.

PROCUREMENT CARD USAGE
PART B – PRIOR RECOMMENDATIONS NOT COMPLETED
OCTOBER 2012

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2012)
12.	Procedures Discrepancies A Procurement Card Processing Procedure was approved by Council on April 13, 2011. The procedures require the Business Administrators and Directors to review six reports each month containing P-card transactions and compliance information. Of the 23 cardholders selected for testing, one or more reports were not prepared and/or reviewed for 74% (17) of cardholders. HECFI and the Library were unaware of these requirements as the revised procedures were not distributed to them until after the audit commenced.	That management verify that BAs and Directors are preparing and reviewing the six reports each month as per the procedure.	Agreed. The Finance and Administration (FA) Managers will ensure that there is compliance with what is outlined.	In Progress. The percentage of cardholders sampled by Audit and found without appropriate reports prepared has improved to 45% (25 out of 56) excluding HECFI, down from 74% in 2011. The compliance level for this item requires further improvement. HECFI - No Longer Applicable. HECFI does not prepare the monthly reports due to the separate reporting cycle that they utilize in order to generate monthly accrual-based financial statements.
	Discrepancies exist between the P-card policies and procedures. For example, the policy states that the purchase of computer hardware and software must be pre-authorized in writing by the Manager of Purchasing but the procedure states these purchases must be authorized by Information Services.	That inconsistencies between the P-card policy and procedures be reviewed and corrected. Amendments should be communicated to cardholders, P-card approvers, DCCs, BAs, Directors and GMs.	Agreed. Policies and procedures will be reviewed for inconsistencies by the Manager of Accounts Payable by the end of the 1st quarter, 2012.	Not Completed. Revisions were made to the Procurement Policy in December 2011, but not to the section for P-cards (Policy #15). The related procedure has not been updated since the 2011 audit, therefore the discrepancies still exist.

PROCUREMENT CARD USAGE
PART B – PRIOR RECOMMENDATIONS NOT COMPLETED
OCTOBER 2012

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2012)
12.	Procedures Discrepancies (Continued) The majority of cardholders complete a Procurement Card Approval Form at the request of the DCC. These forms capture transaction information, such as the vendor, transaction and HST amounts, account allocation and transaction description. These Approval Forms are not completed in all sections and there is no requirement stipulated in the P-card procedures. Procurement Card Department Co-ordinator Procedures are currently in draft form and have not been distributed to staff. As a result, DCCs continue to rely on past experiences which lead to inconsistencies in the P-card process.	That the P-card procedures stipulate all the information that is required on the Approval Form.	Agreed. The FA Manager (Corporate) will review this by the end of the 1st quarter, 2012.	Not Completed. Changes have not been made to the P-card procedures since the 2011 audit.

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PART C – NEW RECOMMENDATIONS

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
13.	Policy #19 Reporting Policy #19 (Non-compliance with the Procurement Policy) requires that all violations of the Procurement Policy be reported on a "Procurement Policy Non-Compliance Form" (to be completed by each Department) and that the use of these forms be reported to Council on a quarterly basis by the Procurement Manager. Five statements were identified as "non-compliant" by F&A staff. Of these five items, none were reported to Council via the Policy #19 quarterly reporting process.	That instances of non-compliance in P-card usage be reported as part of the quarterly reporting process for Policy #19.	Agreed. Non-compliant P-card purchases will be reported under Policy #19. The Procurement Policy Review Group will review Policy #19 in 2013 as part of the annual Procurement Policy Review. A recommendation may be brought forward to Council to amend Policy #19 to take into consideration the materiality and cause of the non-compliancy.