

**CITY OF HAMILTON**

**CITY MANAGER'S OFFICE**  
**Audit Services Division**

<b>TO:</b> Chair and Members Audit, Finance and Administration Committee	<b>WARD(S) AFFECTED:</b> CITY WIDE
<b>COMMITTEE DATE:</b> December 7, 2011	
<b>SUBJECT/REPORT NO:</b> Audit Report 2011-08 - Procurement Card Usage (AUD11033) (City Wide)	
<b>SUBMITTED BY:</b> Ann Pekaruk Director, Audit Services City Manager's Office	<b>PREPARED BY:</b> Ann Pekaruk 905-546-2424 x4469
<b>SIGNATURE:</b>	

**RECOMMENDATION**

- (a) That Report AUD11033 respecting Audit Report 2011-08, Procurement Card Usage, be received;
- (b) That the Management Action Plans as detailed in Appendix "A" (Part C only) of Report AUD11033 be approved; and
- (c) That the City Treasurer 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 AUD11033) implemented.

**EXECUTIVE SUMMARY**

Upon Council direction on September 29, 2010 and with the approval of the 2011 Internal Audit work plan, a review of procurement card (P-card) usage for the period of January to June 2011 was carried out. Compliance with policies and procedures was assessed as well as ensuring the accuracy, completeness, authorization and proper recordkeeping in regard to specific transactions.

From January to June, 2011, \$1.43 million was spent on approximately 8,900 P-card transactions carried out by 441 active cardholders. This is a reduction of 85 cardholders from Internal Audit's 2010-05 report. No evidence of misappropriation or fraudulent activities were 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 and C of Appendix "A".

The results of the audit are presented in three parts in a formal audit report (2011-08). Part A contains recommendations completed since the 2010-05 audit report. Part B contains recommendations that were not completed with Audit Comments regarding the status of the implementation of prior recommendations. Part C contains new recommendations for which management has provided action plans. The Report and Addendum are attached as Appendix "A" to Report AUD11033.

***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 the second half of 2011. The Audit Division was to target transactions from January to June of 2011.

This review was included in the 2011 Internal Audit work plan. The audit fieldwork was completed in October, 2011. The results of this audit are attached as Appendix "A" of Report AUD11033.

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**

By-law No. 09-230, Purchasing Policy #15 – Policy for Procurement Cards, Section 4.15.

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, City Manager's Office and Senior Management Team (SMT).

**ANALYSIS / RATIONALE FOR RECOMMENDATION**

(include Performance Measurement/Benchmarking Data, if applicable)

The number of cardholders had been reduced from 526 cardholders in 2009 to 441 cardholders in August 2011. During the first six months of 2011, there were \$1.43 million of goods and services purchased on procurement cards (P-card). As per Council direction, staff revised the P-card policies and procedures and has taken very positive steps in improving P-card processes. There is still opportunity to strengthen controls and processing, especially management oversight.

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.

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

A formal audit report containing observations, recommendations and management action plans was issued and is attached as Appendix "A" of Report AUD11033.

Of the 13 recommendations that management agreed to in the original Report and Addendum (2010-05), three have been completed (detailed in Part A of Appendix "A"), eight are in progress and two have been initiated. These 10 recommendations that were not completed are included in Appendix "A" as Part B with Internal Audit's Comments and Management's Responses. There are eight additional new recommendations as a result of this audit. Management Action Plans have been provided in Appendix "A" - Part C.

Part A

Part A of Appendix "A" details three completed recommendations from the 2010-05 audit report. The completed recommendations include:

- Developing an Employee Property Checklist to be used with the separation of service to trigger the collection of the P-card upon employee termination; and
- Increasing cardholder awareness regarding items covered under a contract or rebate program.

Part B

Part B of Appendix "A" contains eight recommendations from the previous report on P-card usage that are in progress and two that are initiated. The first three columns are as originally noted in Report 2010-05 along with an added fourth column containing Internal Audit's Comments and Management's Responses as a result of the audit work. The main areas still requiring further action for completion are:

- Tracking and identifying cardholder delinquencies or infractions (i.e. non-submission of supporting P-card documentation by established deadlines; use of P-card for personal expenses or when a corporate contract is in effect; incorrect HST allocations) and documenting and taking appropriate action;
- Ensuring the adequacy and completeness of supporting documentation;
- Reviewing P-card activity by the General Managers to justify continued eligibility for a P-card; and
- Monitoring and quarterly clearing of P-card expenses from clearing accounts.

### Part C

Eight new recommendations were included in Part C of the report. Management Action Plans have been provided in the third column of the standard three-column audit report. The areas identified for improvement are as follows:

- Allocating transactions to their correct expense accounts before the month end deadline of PeopleSoft transaction transfer;
- Determining the amount of desired Information Services oversight for hardware and software purchases by other departments using P-cards; and
- Updating, distributing and ensuring compliance with updated policies and procedures.

Management and staff have agreed to all of the recommendations except #11 (for HECFI). Specific action plans can be found in the attached audit report for all others.

### **ALTERNATIVES FOR CONSIDERATION**

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

Not applicable.

### **CORPORATE STRATEGIC PLAN (Linkage to Desired End Results)**

Focus Areas: 1. Skilled, Innovative and Respectful Organization, 2. Financial Sustainability, 3. Intergovernmental Relationships, 4. Growing Our Economy, 5. Social Development, 6. Environmental Stewardship, 7. Healthy Community

#### ***Financial Sustainability***

- Delivery of municipal services and management of capital assets/liabilities in a sustainable, innovative and cost effective manner.

### **APPENDICES / SCHEDULES**

Appendix "A" (Parts A, B and C) to Report AUD11033: Audit Report 2011-08

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**CITY OF HAMILTON  
 INTERNAL AUDIT REPORT 2011-08  
 PROCUREMENT CARD USAGE  
 PART A – COMPLETED PRIOR RECOMMENDATIONS**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2011)
1.	<p><u>Card Cancellations</u>                      Cancellation of procurement cards (P-cards) is not always performed on a timely basis for cardholders leaving the employment of the City. Approximately 58% of maintenance forms tested were received by the Procurement Card Administrator (PCA) on average 39 days after the employee's termination date. Upon receipt of cancellation notices, the PCA cancelled cards with the Bank on a timely basis.</p> <p>The risk of fraudulent use increases if cards are not cancelled prior to or immediately following termination. 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 the Bank is not promptly notified of cancellations.</p>	<p>That Human Resources (HR) develop a detailed corporate property checklist to be completed in conjunction with the Termination of Service checklist which would include the P-card to be retrieved and cancelled. The checklist would trigger the collection of the P-card from the employee and require it to be sent to the PCA for cancellation at the time the checklist and other termination documents are sent to HR.</p>	<p>Agreed. The corporate property checklist will be part of the "Separation of Service Procedure" pursuant to the "Separation of Service Policy", a corporate Human Resources policy. The revised "Separation of Service Procedure" will be completed by September 30, 2010.</p>	<p>Completed. The Employee Property Checklist attached to the "Separation of Service: Return of Property Procedure" specifically lists the P-card as an item to be collected upon an employee's departure.</p> <p>The PCA received maintenance forms on average 11 days after the employee's termination date. This is a marked improvement over the 39 day average observed in 2010.</p>

**PROCUREMENT CARD USAGE  
 PART A – COMPLETED PRIOR RECOMMENDATIONS  
 OCTOBER 2011**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2011)
2.	<p><u>Contracted Goods and Services</u>                      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.</p>	<p>That Purchasing develop a means to increase awareness of items covered under a contract and ensure all cardholders and Department Card Co-ordinators (DCCs) are informed.</p>	<p>Agreed. Purchasing currently provides awareness to staff through outreach programs including eNet broadcasts, in person meetings, rollout meetings with client departments, quarterly Purchasing Newsletters and a corporate contract listing on the Purchasing Resource page on the eNet (which includes a quick reference guide on how to procure from the contract).</p>	<p>Completed. Reminders with respect to the list of corporate contracts and contract changes are advertised on the eNet and quarterly Procurement Newsletters located on the Purchasing Resource Centre site. Inappropriate purchases identified by management are discussed with cardholders as part of the revised monthly review procedures.</p>

**PROCUREMENT CARD USAGE  
 PART A – COMPLETED PRIOR RECOMMENDATIONS  
 OCTOBER 2011**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2011)
3.	<p><u>Rebate Program</u>                      The City has been offered a supplier's rebate program based on yearly purchases referenced to the City's trade account number. It could not be determined whether the trade account number was referenced to realize the rebate on P-card purchases totaling approximately \$24,000 in 2009. Also, purchases approximating \$308,000 from other vendors offering similar products were incurred using P-cards. Additional rebates may be realized if:</p> <ul style="list-style-type: none"> <li>• The City's trade account number is referenced for each purchase; and</li> <li>• Employees are encouraged to purchase items from this vendor rather than other stores not offering similar rebates.</li> </ul>	<p>That Purchasing inform all appropriate cardholders and DCCs of the details of this rebate offer and encourage cardholders to purchase items from this supplier to fully realize the available rebate.</p>	<p>This vendor's Rebate Program places the onus on employees to know the City account number and to present the number each time they make a purchase; otherwise, there is no rebate given. Staff who make infrequent purchases at this supplier may not remember the details of the program or may misplace the account number and thus the rebate is lost. Purchasing will contact the vendor in the fourth quarter of 2010 to see if the Rebate Program can be amended such that the onus doesn't fall on the individual staff to remember the Rebate Program details. One alternative to be discussed would be a process whereby the City of Hamilton presents a listing of their P-card purchases with the supplier at year end to be included in the calculation of the annual rebate.</p>	<p>Completed. Approximately \$24,000 in P-card purchases were made from this supplier in the first six months of 2011. Rebate program awareness has resulted in a 111% increase in supplier purchases as compared to 2009 purchases prorated for a six month period. Measures have been taken by each store's service desk to increase the likelihood that purchases are captured under the rebate program.</p>

**CITY OF HAMILTON  
INTERNAL AUDIT REPORT 2011-08  
PROCUREMENT CARD USAGE  
PART B – PRIOR RECOMMENDATIONS NOT COMPLETED**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2011)
4.	<p><u>Delinquencies and Policy Infractions</u></p> <p>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.</p>	<p>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.</p>	<p>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.</p>	<p>In Progress. DCCs record cardholder delinquencies and policy infractions on monthly and yearly compliance summaries. These summaries are reviewed on a monthly basis by the Business Administrator and Director, and are to be reviewed by the GM at the end of the year. Although processes are in place to track delinquencies and policy infractions, management does not document what action was taken or the rationale for inaction, which questions the effectiveness of the review process.</p>

**PROCUREMENT CARD USAGE  
 PART B – PRIOR RECOMMENDATIONS NOT COMPLETED  
 OCTOBER 2011**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2011)
4.	<p><u>Delinquencies and Policy Infractions (Continued)</u></p> <p>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.</p>			<p>MANAGEMENT RESPONSE: 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.</p>

**PROCUREMENT CARD USAGE  
 PART B – PRIOR RECOMMENDATIONS NOT COMPLETED  
 OCTOBER 2011**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2011)
4.	<p><u>Delinquencies and Policy Infractions (Continued)</u></p> <p>b) 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.</p>	<p>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.</p>	<p>Agreed. A communication will be sent by the AP section in the 4<sup>th</sup> quarter of 2010 to all cardholders and approvers reminding them of the policy.</p>	<p>In Progress. Internal Audit identified one cardholder who incurred two personal transactions in one month. These purchases were identified by the BA, brought to the attention of the cardholder and were reimbursed. Although processes are in place to detect personal transactions, personal purchases are still occurring.</p> <p>MANAGEMENT RESPONSE:                      The communication referred to under the original Management Action Plan was issued November 10, 2011.</p>

**PROCUREMENT CARD USAGE  
 PART B – PRIOR RECOMMENDATIONS NOT COMPLETED  
 OCTOBER 2011**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2011)
4.	<p><u>Delinquencies and Policy Infractions (Continued)</u></p> <p>c) 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.</p> <p>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.</p> <p>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.</p>	<p>That when GMs (or designates) and DCCs review and process P-card transactions, they ensure that:</p> <ul style="list-style-type: none"> <li>• Adequate information is provided to allow for a complete understanding of the nature and purpose of the expenditure; and</li> <li>• Entertainment expense information required under the P-card procedures is documented.</li> </ul>	<p>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.</p>	<p>In Progress. Although improvement was observed, inadequate documentation still persists. Management has not communicated documentation requirements to staff and cardholders as outlined in their action plan. In the current testing, inadequate documentation was noted for 17 of the 226 transactions sampled.</p> <ul style="list-style-type: none"> <li>• In eight instances, additional information was requested by Internal Audit in order to understand the nature of the expenditure and determine its validity.</li> <li>• In three instances, entertainment transactions did not note the purpose, nature and/or date of the event and/or attendees.</li> <li>• In six instances, documentation provided was not adequate.</li> </ul>

**PROCUREMENT CARD USAGE  
 PART B – PRIOR RECOMMENDATIONS NOT COMPLETED  
 OCTOBER 2011**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2011)
4.	<p><u>Delinquencies and Policy Infractions</u>  <u>(Continued)</u></p>			<p>These deficiencies were not detected by the P-card approver, DCC, BA or Director as part of the monthly review process.</p> <p>MANAGEMENT RESPONSE:                      The communication referred to under the original Management Action Plan was issued November 10, 2011.</p>

**PROCUREMENT CARD USAGE  
PART B – PRIOR RECOMMENDATIONS NOT COMPLETED  
OCTOBER 2011**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2011)
5.	<p><u>Contracted Goods and Services</u> 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.</p>	<p>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 4. a) above.</p>	<p>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&amp;A Managers by end of 2010.</p>	<p>In Progress. Although a process is in place to identify instances of non-compliance, purchases circumventing corporate contracts with no evidence of pre-approval by Procurement are still not detected by the P-card approver, DCC, BA or Director as part of the monthly review process.</p> <p>Of the 226 transactions tested, four transactions were identified as products available under a corporate contract for which cardholders did not obtain approval and three of these transactions were not identified by management as part of the review process.</p> <p>MANAGEMENT RESPONSE: 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.</p>

**PROCUREMENT CARD USAGE  
PART B – PRIOR RECOMMENDATIONS NOT COMPLETED  
OCTOBER 2011**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2011)
6.	<p><u>Infrequently Used Cards</u>  Before granting P-card privileges to employees, department management should evaluate the employee's 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 sends usage reports to departments on a monthly basis to provide information to analyze cardholder activity. However, there are no requirements to analyze the reports provided or to cancel infrequently used cards.</p> <p>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.</p>	<p>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.</p>	<p>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.</p>	<p>In Progress. Although a process is in place to identify cardholders with no usage, management does not document their justification to keep unused cards active.</p> <p>The number of low usage cards remains comparable to the prior year. Fifty-five cardholders did not incur any transactions in the first six months of 2011 and 31 of these cardholders were still active as at August 15, 2011.</p> <p>Another 69 cardholders used their cards less than three times in the first six months of 2011, spending a total of only \$20,555. Approximately 55% (38) of these cardholders were still active and remained below the three transaction low-use threshold as at August 19, 2011.</p>

**PROCUREMENT CARD USAGE  
PART B – PRIOR RECOMMENDATIONS NOT COMPLETED  
OCTOBER 2011**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2011)
6.	<p><u>Infrequently Used Cards (Continued)</u>  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.</p> <p>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.</p>	<p>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.</p>	<p>Agreed. The report noted above and an explanation letter will be sent out in February 2011 for the 2010 year by the PCA.</p>	<p>MANAGEMENT RESPONSE:  The Management Action Plan indicates that this will be done annually. A year has not yet passed. It is management's intention to follow through at the conclusion of year end or quarterly, if time permits.</p> <p>In Progress. Although the PCA created a yearly report to identify active cardholders with no usage for the 2010 calendar year, the revised P-card procedures now place emphasis on the GM conducting an annual review of the yearly compliance summary prepared at the department level. As a year has not yet transpired under the revised procedures, the GM's annual review has not yet occurred.</p> <p>MANAGEMENT RESPONSE:  This review will be done at year end.</p>

**PROCUREMENT CARD USAGE  
 PART B – PRIOR RECOMMENDATIONS NOT COMPLETED  
 OCTOBER 2011**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2011)
7.	<p><u>Procedures Discrepancies</u></p> <p>Discrepancies exist between the documented Procedure for Procurement Card Section 5 Procedure #PR-15, approved on May 26, 2004 and actual practices.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>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.</p>	<p>Agreed. Accounts Payable will make appropriate changes to the procedure to reflect the current practices. This will be done by the end of 2010.</p>	<p>In Progress. Revised P-card procedures were created and approved by Council on April 13, 2011. However, the discrepancies identified in the original observations were not addressed in those procedures. Department Co-ordinator Procedures are still in draft form. As a result, it could not be verified if the discrepancies will be addressed in the detailed DCC procedures.</p> <p>MANAGEMENT RESPONSE:                      The procedures referred to above are now complete.</p>

**PROCUREMENT CARD USAGE  
 PART B – PRIOR RECOMMENDATIONS NOT COMPLETED  
 OCTOBER 2011**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2011)
8.	<p><u>Policy Infractions</u>                      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:</p> <ul style="list-style-type: none"> <li>• 11 instances where additional information was required to assess the nature or validity of the expenditure;</li> <li>• nine instances where GST was recorded incorrectly;</li> <li>• eight instances where the purpose of an entertainment expense or the attendees were not recorded;</li> <li>• six instances where an inappropriate account number was used;</li> <li>• four instances where no receipts were present to support credit card charges; and</li> <li>• two instances where pre-approval in writing was not sought by the cardholder to purchase items for which a corporate contract existed.</li> </ul>	<p>That consistent cardholder policy non-compliance be addressed as noted in recommendation 4. a) above.</p>	<p>See management response to #4. a) above. The City employee referenced no longer has P-card privileges.</p>	<p>In Progress. As described in recommendation 4. a) above, a process is now in place to track cardholder delinquencies and policy infractions each month and cumulatively over the year. Although an area is available on the summary to describe the non-compliance and the action taken by management, there were no such indications noted as to the action taken to correct recurring infractions or the rationale for inaction.</p> <p><b>MANAGEMENT RESPONSE:</b>                      See response for #4. a).</p>

**PROCUREMENT CARD USAGE  
 PART B – PRIOR RECOMMENDATIONS NOT COMPLETED  
 OCTOBER 2011**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2011)
8.	<p><u>Policy Infractions (Continued)</u>                      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.</p>			

**PROCUREMENT CARD USAGE  
 PART B – PRIOR RECOMMENDATIONS NOT COMPLETED  
 OCTOBER 2011**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2011)
9.	<p><u>GST Allocation</u>                      In the detailed testing of 174 individual transactions, the following was identified:</p> <ul style="list-style-type: none"> <li>In 11 cases, receipts were not present or there was not enough information on the receipt provided to assess whether GST was recorded accurately.</li> <li>In 11 cases, enough information was present to calculate the correct amount of GST and errors were noted.</li> <li>In two cases, GST was incorrectly allocated when clearing items from clearing accounts.</li> </ul> <p>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.</p>	<p>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.</p>	<p>See management response to #5. above.</p>	<p>Initiated. Internal Audit continued to identify HST misallocations in the current review. Incorrect HST amounts were recorded for 16 of the 226 transactions tested in detail. In 8 cases, enough information was present to calculate the correct HST amount and in eight cases, inadequate information was present to assess whether HST was recorded accurately.</p> <p>A DCC procedures document is in draft form but has not been distributed to staff. The procedures include a Procurement Card Approval Form, which will obligate cardholders to analyze and write the amount of HST shown on supporting receipts, providing a foundation to improve the accuracy of recording HST.</p>

**PROCUREMENT CARD USAGE  
PART B – PRIOR RECOMMENDATIONS NOT COMPLETED  
OCTOBER 2011**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2011)
9.	<p><u>GST 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.</p>			<p>MANAGEMENT RESPONSE: The procedures noted above are now finalized and will be distributed as suggested.</p>
10.	<p><u>Clearing Accounts</u> 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.</p>	<p>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.</p>	<p>See management response to #5. above.</p>	<p>Initiated. The detailed DCC procedures outline how DCCs should clear transactions from the clearing accounts. However, these detailed procedures are currently in draft form and do not indicate how often clearing accounts should be reviewed.</p> <p>Based on testing performed, on average, it took 4-5 months to clear transactions examined with approximately 20% of the items cleared within 5-12 months. Therefore, the length of time to clear transactions has not improved compared to the prior review.</p>

**PROCUREMENT CARD USAGE  
 PART B – PRIOR RECOMMENDATIONS NOT COMPLETED  
 OCTOBER 2011**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	COMMENTS (OCTOBER 2011)
10.	<u>Clearing Accounts (Continued)</u>			<p>MANAGEMENT RESPONSE: Clearing accounts are cleared as the information is made available. The monthly reports noted in #4. 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.</p>

**CITY OF HAMILTON  
INTERNAL AUDIT REPORT 2011-08  
PROCUREMENT CARD USAGE  
PART C – NEW RECOMMENDATIONS**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
11.	<p><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.</p> <p>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.</p>	<p>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.</p>	<p>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.</p> <p>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.</p>

**PROCUREMENT CARD USAGE  
PART C – NEW RECOMMENDATIONS  
OCTOBER 2011**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
11.	<p><u>Account and Department ID Allocations (Continued)</u> This practice also occurred for a period of time at the Library.</p> <p>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.</p>		
12.	<p><u>Computer Hardware and Software Purchases</u> 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.</p>	<p>That P-card approvers ensure written approvals from Information Services are attached to the P-card statements for computer hardware and software purchases.</p>	<p>Agreed. Staff will be informed by the Manager of Accounts Payable by the end of 2011.</p>

**PROCUREMENT CARD USAGE  
PART C – NEW RECOMMENDATIONS  
OCTOBER 2011**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
12.	<p><u>Computer Hardware and Software Purchases (Continued)</u> 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.</p>	<p>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.</p>	<p>Agreed. The Manager of Accounts Payable will complete this task by the end of the 1<sup>st</sup> quarter, 2012.</p>
13.	<p><u>Procedures Discrepancies</u> 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.</p>	<p>That management verify that BAs and Directors are preparing and reviewing the six reports each month as per the procedure.</p>	<p>Agreed. The Finance and Administration (FA) Managers will ensure that there is compliance with what is outlined.</p>

**PROCUREMENT CARD USAGE  
PART C – NEW RECOMMENDATIONS  
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#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
13.	<p><u>Procedures Discrepancies (Continued)</u></p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>That the P-card procedures stipulate all the information that is required on the Approval Form.</p> <p>That incomplete Procurement Card Approval Forms be returned to cardholders.</p> <p>That management finalize the Department Co-ordinator Procedures and distribute the document to all DCCs.</p>	<p>Agreed. Policies and procedures will be reviewed for inconsistencies by the Manager of Accounts Payable by the end of the 1<sup>st</sup> quarter, 2012.</p> <p>Agreed. The FA Manager (Corporate) will review this by the end of the 1<sup>st</sup> quarter, 2012.</p> <p>Agreed. See above.</p> <p>Agreed. See above.</p>