Purchasing Card Program Review

January 2005

Audit Department

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Executive summary

The Audit Department identified the Purchasing Card Program as a potentially high-risk procurement process due to the significant increase in the number of cards issued and the increased usage of the cards. The total value of goods and services purchased with the cards went from $6 million in 2001 to $16.5 million in 2003.

The objectives of the audit were:

- To evaluate the administration of the program at the corporate and department levels.
- To determine whether the controls were reasonable and adequate to prevent or detect misuse or abuse of the cards.
- To assess compliance of a sample of purchasing card transactions with the City's Purchasing Card Program Procedures.

While purchasing cards offer significant benefits such as increased purchasing flexibility and reduction in the administrative burden, there are also associated risks of abuse by the cardholders. Although our audit revealed that there was general compliance with the intent of the program, we noted considerable inconsistency in the implementation of controls across departments. Departmental compliance with the various tested criteria ranged from a low of 4.5% to a high of 100%. For the organization as a whole, of the tested transactions,

- 9.4% did not have appropriate supporting documentation attached;
- 47.6% did not have any evidence of cardholder or supervisory review; and
- 22.8% had either a non-existent or insufficient description entered in the Visa software system.

We also observed several instances of split transactions and transactions that exceeded the transaction limits set by Corporate Finance.

There are inherent risks associated with the implementation of a purchasing card system. When the controls are not functioning as intended, the risks related to the program increase, thereby increasing the risk exposure of the City.

We also noted gaps in the oversight and administration of the Purchasing Card Program. Best practice indicates that although the daily administration of the program may be decentralized, there should be a central organization that has the overall responsibility to ensure that the program is functioning as intended and that the appropriate controls have been implemented. In this regard, we recommended that Corporate Finance enhance their oversight of the program by conducting an annual control review.

We have also recommended the creation of an administrative directive to provide better guidance on card issuance and on the appropriate business use of the purchasing cards to ensure consistency across the organization. The current *Purchasing Card Program Procedures* do not provide sufficient guidance for users, lack clarity in many areas and are not comprehensive.

Through the previous bank provider, while there were a limited number of management reports available that contained relevant information, these were not fully utilized. Through the new provider, departments now have access to an increased number and variety of reports with an internet- based reporting and information management system. We recommended that Corporate Finance ensure all departments have access to, and are using, the appropriate management reports.

Improvement is also needed in the departmental administration of the purchasing card program. While some departments provided good oversight of their cardholders, many require improvement in their monitoring activities. Utilizing the above-mentioned reports will enable departments to improve the monitoring of their cardholders' activity.

We have also recommended control improvements in the area of supervisory review to mitigate purchasing card program risks. Supervisors are in the best position to determine the legitimacy of purchases and identify potential misuse of the purchasing card.

The purchasing card program remains an effective tool to reduce administrative costs associated with low-dollar purchases. It is important, however, that there is an adequate control system that incorporates both management and financial controls to support this process. We believe that the implementation of our recommendations will improve the overall control environment and reduce the risk associated with the process.

Background

The Audit Department identified the Purchasing Card Program as a potentially high-risk procurement process due to the significant increase in the number of cards issued and the increased usage of the cards.

Audit objectives

The objectives of the audit of the Purchasing Card Program were:

- To evaluate the appropriateness and performance of responsibilities at the corporate and department levels.
- To determine whether the controls over the Purchasing Card system are reasonable and adequate to prevent or detect misuse or abuse of the cards.
- To assess compliance of a sample of purchasing card transactions with the City's procedures.

Audit scope and approach

The audit has been conducted in accordance with generally accepted auditing standards. In preparing our report, we have relied upon extensive interviews with key personnel and information, data, and other documentary evidence provided to us. The conclusions reached in this report are based upon information available at the time. In the event that significant information is brought to our attention after completion of the audit, we reserve the right to amend the conclusions reached.

The audit covered all transactions for the period January to December 2003.

We approached our audit in three phases:

- Preliminary survey phase
- Fieldwork phase
- Reporting phase

In conducting our audit, we employed a variety of methods:

- We conducted interviews and discussions with the Purchasing Card Program Manager, Corporate Finance staff, Department Purchasing Card Representatives and the Department Controllers.

- We reviewed and analyzed relevant background information and documentation, operating information and processes, policies and procedures, and audit reports from other jurisdictions.

- We audited a sample of purchasing card transactions and performed other tests to identify potentially fraudulent or improper transactions.

- We communicated the results of our audit on an on-going basis and presented a formal report to the Corporate Controller, the Chief Financial Officer, the Chief Administrative Officer, Audit Committee and Council at the end of the audit.

Audit conclusions

Based on the audit work completed, we concluded that

- Opportunities exist to strengthen the role played by Corporate Finance and the Departments in overseeing the purchasing card program.
- We have identified some areas for improvement in the controls documented in the *Purchasing Card Program Procedures*. We also observed an inconsistent implementation of controls across departments and a lack of monitoring of both controls and cardholder activity.
- A breakdown of controls in some critical areas resulted in our inability to positively conclude that all purchases were made for appropriate business purposes. Although most purchases did appear to comply with the intent of the City's *Employee Code of Conduct* and the *Purchasing Card Procedures*, we did find some purchases that we believe are inappropriate.

Acknowledgements

The Audit Department wants to extend its appreciation to the many individuals who participated in the audit. Their comments and insights assisted us in completing our analysis and provided the foundation for many of the report recommendations.

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City Auditor

January, 2005
Date

Description of purchasing card program

The Purchasing Card Program was instituted in October 1996 to establish an alternative method of payment for small dollar transactions where a contract in the form of a purchase order is not necessary. An agreement was then established with the Canadian Imperial Bank of Commerce (CIBC) to provide the City of Winnipeg with CIBC Visa purchasing cards. This agreement was in effect until October 31, 2004 when the National Bank of Canada was awarded the contract to provide the City's purchasing cards effective November 1, 2004.

The benefits to be gained through the use of a Purchasing Card Program include:

- **reduce the use of departmental purchase orders;**
- **reduce the administrative burden;**
- **increase efficiency in acquiring goods and services; and**
- **streamline payment procedures.**

The purchasing card is an effective tool to manage purchasing and accounting resources and to make the process for low-dollar purchases more efficient. The use of the purchasing card is limited to direct purchases of goods and services under $3,000 (unless otherwise authorized). The *City of Winnipeg Purchasing Card Program Procedures* ('the *Procedures*"), which were revised in September 2004, outline various basic procedures that are critical to the efficient and effective administration of the program. The key features of the program are as follows:

- Within Corporate Finance, the Program Manager communicates with the bank regarding Department Purchasing Card Representative changes, procedure changes and unresolved disputes.
- The Contract Administrator, also in Corporate Finance, is responsible for dealing with issues relating to the purchasing card contract between the City and the bank.
- Department Purchasing Card Representative(s) in each City Department is (are) responsible for administering the program for cardholders in their area.
- Immediate supervisors of cardholders are responsible for the appropriate use of purchasing cards by their subordinates.
- All potential cardholders must read and sign an application and "*Employee Acknowledgement of Purchasing Card Program Responsibilities*" form (See Appendix 1 for the process to obtain a purchasing card).
- Transaction logs must be reconciled to monthly purchasing card statements by all cardholders.

In order to improve the efficiency of the reconciliation and approval processes, a Visa card software program was developed in-house and implemented in the fall of 2001. With the implementation of this system, the monthly Visa statements were no longer sent in paper format, but were downloaded from the CIBC website. This software program has now been redesigned to accommodate the National Bank of Canada MasterCard data.

Elements of good internal controls for a P-Card Program

- **clear policies and procedures;**
- **adequate documentation and receipt**
- **proper procedures for authorization**
- **adequate segregation of duties**
- **monitoring and supervisory review of transactions, receipts etc.**

The effectiveness of any purchasing card program is largely dependent on the internal controls that have been implemented. Certain controls have been established to reduce the likelihood of abuse or misuse of the City's purchasing cards. The controls include the following:

- single transaction limits for individual cardholders to a maximum of $3,000, unless otherwise authorized by the Department Controller and the Corporate Controller;
- monthly charge limits for individual cardholders to a maximum of $30,000 unless otherwise authorized by the Department Controller and the Corporate Controller;
- cash advances disallowed; and
- restricted merchant categories.

As most merchants accept the cards as a method of payment, the purchasing cards provide the City's staff with significant flexibility in choosing where to buy items and supplies. At December 2003, there were 697 purchasing cards issued to staff in the various departments: a breakdown is provided in Table 1. The cards are issued primarily to staff based on operational needs, and therefore it is expected that there would be a higher number in those departments with more field staff.

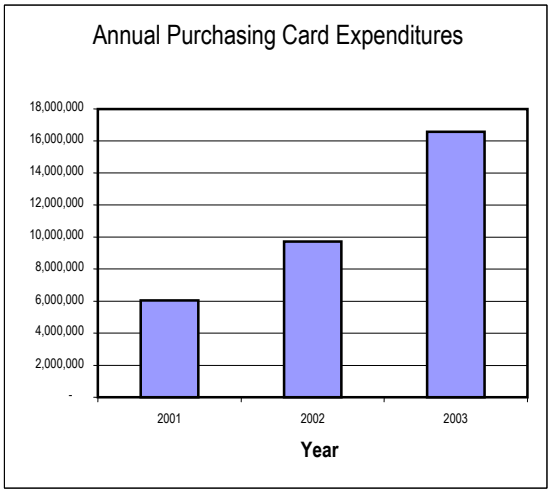
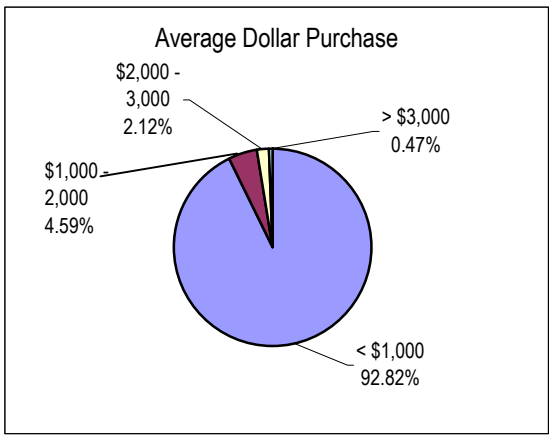


Table 1 – Overview of number of departmental cards and usage

Department	# of Cards	# of purchases	$
Audit	4	97	23,453
CAO	9	424	90,550
City Clerk's	11	1,060	147,714
Community Services	144	5,819	1,051,357
Corporate Finance	21	865	192,681
Corporate Information Technology	9	640	319,843
Corporate Services	2	1,693	605,402
Council	15	1,142	137,218
EPC Secretariat	1	133	25,262
Fire Paramedic Services	51	4,150	1,105,602
Planning, Property & Development	39	2,111	445,601
Property Assessment	6	468	103,611
Public Works	259	27,730	7,465,683
Transit	17	2,339	457,327
Winnipeg Police Service	84	6,495	2,688,351
Water & Waste	25	5,045	1,722,534
TOTAL	**697**	**60,211**	**16,582,189**



The annual volume of purchases using the purchasing cards has progressively increased over the years from 2001 to 2003. In 2003, the cardholders purchased $16.5 million of goods and services, which represents an increase of 71% over 2002. In total, there were 60,211 transactions, for an average purchase of $275.

The goods and services that were purchased using the purchasing card included office supplies, airline tickets, building materials and vehicle repairs. Purchases were made from approximately 3,550 vendors, of which 1,345 had only one transaction each.

The vendor with the highest dollar sales was Lyreco, followed by Fountain Tire (see Table 2).

Table 2 – Top 10 vendors by amount

Vendor	Amount
1. Lyreco Canada Inc.	$513, 856
2. Fountain Tire	$456,085
3. Pitney Bowes Canada	$205,435
4. Gordon Contract Sales	$195,689
5. Acklands-Grainger Inc.	$182,068
6. Fast Parts +	$178,568
7. Wolseley	$175,320
8. Air Canada	$167,412
9. Rental Experts	$161,752
10. Wes-T-Rans	$141,974

Lyreco Canada Inc. was also the vendor with the highest number of transactions (see Table 3).

Table 3 – Top 10 vendors by volume of transactions

Vendor	Transactions
1. Lyreco Canada Inc.	3,098
2. Home Depot	1,347
3. Canadian Tire	1,261
4. Acklands-Grainger Inc.	1,067
5. Fast Parts +	1,052
6. Mobile Valve Grinders	915
7. Rona Home & Garden	876
8. Fountain Tire	834
9. Central Transport Refrigeration	783
10. Staples	770

With regards to the merchant category, stationery and office supply stores, furniture stores and industrial supplies were among the top ten categories by purchase volume (see Table 4).

Table 4 – Top 10 merchant categories

Category	$ Amount
Stationery/Office Supplies	906,265
Furniture, Home Furnishings & Equipment	723,694
Industrial Supplies	658,146
Business Services	608,008
Equipment Tool Rental & Leasing	606,272
Automotive Parts & Accessories	547,561
Car & Truck Dealers	520,039
Automotive Tire Stores	501,456
Hardware Stores	478,178
Automotive Repair Shops (Non-Dealer)	458,744

Risk assessment

We used a risk-based approach to perform this audit. This approach involved looking at all the processes in the Purchasing Card Program and documenting the potential risks that could lead to a financial loss for the City of Winnipeg or impact the efficient operation of the program.

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

In conjunction with the Program Manager, we developed a listing of potential risks and documented the controls used to mitigate each risk. We reviewed the information and this preliminary risk assessment was used to focus our resources on specific areas for the audit.

We recognized that there could be variations in the control procedures in each department and therefore our fieldwork was structured to obtain information on the adequacy of such controls.

The potentially significant risks involved in a Purchasing Card Program are:

Risk	Consequence
• Persons who do not have purchasing responsibilities are issued purchasing cards	• Abuse and misuse of cards • Financial loss to the City of Winnipeg • Increased financial exposure
• Unauthorized and inappropriate purchases by cardholders	• Financial loss to the City of Winnipeg
• Use of card by unauthorized individuals	• Financial loss to City of Winnipeg
• Splitting of transactions	• Circumvention of purchasing procedures • Abuse and misuse of cards • Financial loss as a result of not using contract process
• Cardholders can approve their own purchases	• Possibility of purchases being for personal use • Financial loss to City of Winnipeg
• Spending limitations can be exceeded at point of sale	• Abuse and misuse of cards • Financial loss to the City of Winnipeg
• Purchase cards not deactivated in a timely manner	• Could result in fraudulent use of the card

The recommendations contained in the report are intended to provide management with actions that will assist in the mitigation of the significant risks or take advantage of opportunities identified during the audit.

Report on Compliance

Having determined that it would not be feasible to obtain the database of transactions directly from the purchasing card bank provider, we obtained the database of transactions for the period January to December 2003 from Corporate Finance. In order to verify the completeness of the database, we compared the monthly totals per the accumulated database to the totals per the monthly Treasury reports on the Visa System. We noted differences for the months of January, February, March and September and we obtained satisfactory explanations from the Program Manager. The overall difference of $109.14 was considered insignificant.

We used IDEA analysis software to conduct a high level analysis to identify overall exceptions that were not compliant with the procedures. We then utilized the software to select a sample of transactions for detailed analysis against specific criteria.

POPULATION STATISTICS JANUARY – DECEMBER 2003	
Total # of transactions	60,211
# of debits	58,317
# of credits	1,894
Total $ value	$16,582,189.02
Maximum $ value	$19,774.95
Largest # of transactions by user	3,229
Largest # of transactions by Department	27,730
Month with highest # of transactions	June

High level analysis

We analyzed the total population to determine whether there were instances of the following exceptions:

- authorized limits exceeded,
- split transactions,
- inappropriate purchases,
- purchases in restricted Merchant Category Codes (MCC), and
- purchases at vendors with standing contracts.

(i) Authorized limits exceeded

Authorization controls are a feature built into the *Purchasing Card Program*. During 2003, however, we observed numerous instances where transaction limits were exceeded. The single transaction limit was exceeded by a maximum of $1,600 and the monthly transaction limit was exceeded by a maximum of $10,773.

Limitations with the previous bank provider's system prevented them from providing detailed explanations for most accounts where the limits were exceeded. They did state that if the bank is notified within 30 days after the statement is received, then more detailed information can be provided, as the authorization would still be available on the file. At the time of the review, Corporate Finance was

not actively monitoring why the bank provider was allowing the limits to be exceeded.

For example, one cardholder was able to make 86 transactions for a total dollar value of $16,821, while their card was set at a zero transaction limit. We noted that there was no documentation available from the department or the bank provider to support this request. Departments did have access to a monthly report that would have identified this control breakdown and allowed them to take corrective action; however, this report was typically not utilized.

(ii) Split transactions

The Corporate Finance Department sets the single transaction and monthly limits based upon their assessment of users' needs and what is an acceptable level of risk exposure. To circumvent the authorization limit control, purchasing card users may split a single transaction by dividing a single purchase with a vendor into two or more smaller amounts.

SPLIT TRANSACTIONS		
	January to December	# of sets of transactions (excluding April to July 2003)
TOTAL	421	245
$ Value	1,914,021	1,098,471

Our analysis revealed a total of 421 sets of transactions that could be potentially split purchases. However, we recognized that problems were experienced during the implementation of Peoplesoft, and the Visa card was used excessively to ensure that there were no business interruptions. Accordingly, we excluded 176 transaction sets from the list that occurred from April to July 2003, after which we would have expected that the purchase order system would have been used if the transaction would be over the cardholder's single transaction limit. The remaining 245 sets of potentially split transactions purchases resulted in $402,370 in excess of the single transaction limit.

Some departments indicated that they had authorized the specific vendor to split the charges on the Visa; however, this is a breach of the *Procedures*. We notified Corporate Finance of our observations and they are monitoring the situation.

(iii) Appropriateness of purchases

"It is a best practice to provide cardholders with clear instructions regarding hospitality expenses."

"It is a best practice to ensure consistent interpretation of allowable purchases in decentralized agencies and campuses."

A Review - State Purchasing Cards – Department of Administration, July 2003
State of Wisconsin, Legislative Audit Bureau

Unauthorized or inappropriate purchases, such as those for personal use, represent a significant risk in any purchasing card program. The *Procedures* do not provide adequate and clear guidelines with regards to items that are inappropriate. As a result, we noted inconsistencies among departments in terms of what was considered allowable. Examples of transactions that we believe are inappropriate to be charged to the purchasing card include:

(i) sympathy cards for work colleagues,
(ii) subscription to magazines not related to cardholder's job functions,
(iii) Christmas party/barbecue for staff,
(iv) flowers for staff, and
(v) alcoholic beverages for a management retreat.

The purchase card "may be used only for purchases that are otherwise authorized by law or regulations." Thus the purchase of personal items, such as flowers or food for employees is only lawful if it would be lawful using conventional procurement methods."

A Practical Guide for Reviewing Government Purchase Card Program – United States Department of Commerce, The Inspection General, Inspection and Evaluation Committee, June 2002

The City's *Employee Code of Conduct* states, "No employee shall use, or request the use of any City property, including surplus material, for personal convenience or profit, unless the property is available for use by the public generally and the employee is receiving no special preference in its use…."

We believe transactions such as those noted above are inappropriate; however, clearer purchasing card program guidelines are required to support the *Employee Code of Conduct* and ensure consistent interpretation of appropriate business transactions across the organization.

(iv) Restricted Merchant Category Codes

All vendors are assigned a Merchant Category Code (MCC), which is a four-digit, numeric identifier of merchant business types. Newly issued purchasing cards are encoded with specific MCC exclusions. This action does not restrict what is purchased but rather restricts purchases from merchants who have identified themselves within certain codes. This is an effective method of restricting those purchases not reasonably related to the cardholder's business needs.

When a new purchasing card is requested, the Department Purchasing Card Representative determines whether the card should be encoded as a "Standard" or "Traveller" default. The "Standard Default" excludes airlines, car rental agencies, hotels and financial services while the "Traveller" default excludes financial services only. We noted that these definitions were not included in the *Procedures*, which only indicates that the following

purchasing card transaction types will be denied (Standard Default):

i) cash advances,
ii) alcoholic beverages,
iii) personal services,
iv) hotels, and
v) restaurants.

However, when we reviewed the *Detailed Account Listing* report from the bank provider, for accounts encoded as "Standard" default the MCC's related to alcoholic beverages, personal services and restaurants were not consistently excluded in all Departments. System limitations prevented us from determining the total volume of transactions that should have been denied; however, Corporate Finance should have been monitoring this control to ensure it was functioning as intended.

(v) Vendors with standing contracts

The City has established standing contracts with various vendors, but only three of these vendors, namely Lyreco, Ace Courier and Dr. Hook Towing are authorized for payment with the purchasing card. In these cases the City receives a standard percentage off all purchases. With other vendors the application of a standard discount percentage may not be appropriate and therefore requires more sophisticated systems to apply different discounts to different products.

We extracted the top 100 purchasing card vendors by dollar volume and noted that Fountain Tire had the second highest dollar volume of $456,085, but the City did not have a standing contract with this vendor. The Manager of Materials Management advised that a review is underway to determine where it is appropriate to negotiate additional standing contracts.

The City does have standing contracts with 36 of these top 100 vendors. Excluding Lyreco and Dr. Hook Towing, there were 8,784 transactions, totaling $2,842,235 (17% of the total dollar volume of purchasing card activity). A lack of information contained within the Visa system prevented us from determining whether the items purchased from these vendors were covered by the existing standing contracts.

We believe that this is an area of concern and poses both a risk and an opportunity for the City. The use of the purchasing card to make purchases at vendors that the City has a standing contract with may result in increased

costs to the City if the cardholder does not obtain the contract price. However, expanding the number of standing contracts where a purchasing card may be used would reduce the administrative cost to process purchase orders.

Sample selection and detailed testing

(***i) Sample selection***

SUMMARY OF COMPLIANCE TESTING		
Criteria	**Overall**	**Department High/Low**
Original, detailed receipt or invoice attached to statement	90.6%	100/33.3
Statement signed by cardholder and supervisor	52.4%	100/4.5
Description of transaction entered in Visa system	77.7%	100/33.3
Taxes appropriately allocated	93.3%	100/40

Using the population database from 2003, we selected a statistically valid sample of transactions to verify. Critical deviations were defined as transactions that did not comply with the intent of the *Purchasing Card Procedures*. Non-compliance with any of the designated controls was followed-up with the appropriate departmental staff. We also informed the Corporate Controller on areas where controls were inadequately implemented.

(ii) Controls tested

We obtained and reviewed the supporting documentation for the sample of transactions, to determine compliance with the following controls:

- original, detailed receipt or invoice attached to monthly statement;
- statement signed by the cardholder and supervisor;
- description of the transaction entered into the Visa system;
- taxes appropriately allocated;
- vendor does not have a standing contract with City; and
- item purchased was not restricted.

We followed up with the Department Purchasing Card Representatives to obtain further information as was considered necessary.

(iii) Results

Appendix 2 provides a breakdown by department of the overall compliance with the tested controls. We observed that in 90.6% of tested transactions there was documentation supporting the transactions.

However, there was a serious breakdown in the controls with respect to the signing of the statements by the cardholders and the supervisors. In this case, only 52.4% of tested transactions were compliant with the *Purchasing Card Procedures*. The cardholder must sign to

acknowledge they made these purchases and the supervisor signs to confirm that these purchases were for business purposes.

We also observed that there was inconsistency with regards to the description of the transaction being entered into the Visa electronic system. In 22.3% of tested transactions, either the description was not entered at all or, if it was, the information was insufficient to accurately describe the purchase.

The result is that when a statement is approved for payment, a staff person, who often is not the cardholder's supervisor but who has the authority to approve the purchasing card transactions, will not have sufficient information to ensure all purchases were for legitimate business purposes. In some departments, a mitigating control is that the person approving the electronic statement is diligent in following-up on what they determine to be questionable purchases. However, the diverse business needs of staff within a department reduce the effectiveness of this control.

Overall conclusion on Report on Compliance

The breakdown of controls in some critical areas resulted in our inability to positively conclude that all purchases were made for appropriate business purposes. Although most purchases did appear to comply with the intent of the City's *Employee Code of Conduct* and the *Purchasing Card Procedures*, we did find some purchases that we believe are inappropriate.

We also observed significant inconsistency between departments in the implementation of documented controls and in the level of monitoring of cardholder activity. We found that some controls were rendered ineffective due to limitations with the bank provider's system, but this was not identified due to the absence of a comprehensive control review being performed by Corporate Finance.

Overall, we believe that improvements are required in the *Purchasing Card Procedures* to improve the control environment.

Observations and recommendations

The deviations noted in the Report on Compliance resulted from either a lack of preventative or detective controls. This section will discuss specific recommendations that should be implemented to strengthen the control environment of the purchasing card program.

To organize our observations and recommendations, we have used a control framework called the ***Criteria of Control (CoCo) Model***. The framework provides a way of understanding the important elements of control and puts in place a system that people within an organization can use to develop, assess and maintain control. This develops a common understanding of the important elements of control and the relationships between them. The framework employs twenty criteria and groups these into four essential components of control – *purpose, commitment, capability*, and *monitoring and learning*.

In the context of the *Purchasing Card Program*, the key elements of control include

- a policy designed to support the achievement of the program's objectives;
- clearly defined roles and responsibilities and communication channels defined to support the ongoing evaluation of the program;
- providing staff with the necessary knowledge tools and skills to use and administer the program; and
- ongoing monitoring of the program and initiating appropriate actions when necessary.

Purpose

Clear objectives are essential to providing overall direction. Policies should support the achievement of objectives and the management of risks and be communicated to all relevant individuals.

With 700 purchasing cards distributed throughout the organization, staff require guidance on appropriate business usage.

An administrative directive to govern the program should be created.

A review of the Purchasing Card Program was conducted in November 2001 by eComm Strategies, Inc. It was noted in the report that "successful Pcard programs require senior management sponsorship." The report further stated that "senior sponsorship for the City of Winnipeg Purchasing Card Program needs to be codified and reasserted." We concur with this observation, based on the results of our review of the program.

Administrative Directives define authorities, responsibilities and/or processes in areas that affect the organization as a whole, but not limited to, financial, human resource, information technology and physical asset management.

City of Winnipeg
Administrative Directives Framework
June 7, 2002

The creation of an administrative directive by Corporate Finance would reinforce their role in providing oversight of the purchasing card program. The administrative directive would also provide guidance for cardholders while emphasizing the importance of the process and the risks associated with the provision of approximately 700 purchasing cards. Additional guidance on appropriate usage of the purchasing cards is required to

- ensure clear and consistent direction across departments;
- minimize organizational risk; and
- assist staff to do their jobs efficiently and effectively.

The *Procedures* developed by Corporate Finance do contain many of the controls identified as best practice (see Appendix 3 for an overview of best practice controls). Areas where the *Procedures* do not provide sufficient information include

- guidance on acceptable use of the purchasing card; and
- the consequences of card misuse.

Consequences of Purchasing Card Misuse

- **cancellation of purchase card**
- **notation in employee performance evaluation**
- **reprimand**
- **suspension of employment**
- **termination of employment**
- **criminal prosecution**
- **counseling**

GSA Smart Pay
Blueprint for Success: Purchase Card Oversight, U.S. General Services Administration

As an example, some departments allow staff to charge restaurant expenses if they are discussing business matters, while others do not. For the departments that do allow this, some require the cardholders to provide details on the purpose of the business meeting and the names of the participants, while others do not. Other examples of potentially inappropriate purchases were discussed in our *Report on Compliance*. Additional guidance on the appropriate business use of the purchasing card would eliminate this type of inconsistency within the City.

We believe that clearer guidelines regarding participants' and management's responsibilities, acceptable use of the purchasing card and the consequences of inappropriate

behaviour would significantly contribute to the effective and efficient operation of the program.

Recommendation 1

Corporate Finance should create an administrative directive for the Purchasing Card Program with a reference to the *Purchasing Card Program Procedures*.

Management response

The purchasing card program procedures developed in 1996 provide a comprehensive set of criteria to guide departments in using the purchasing cards. However, we acknowledge that these procedures should be revisited and updated where required and reference to the purchasing card program could be made in a directive. In this regard, the City has adopted Administrative Directive FM 002 relating to the Materials Management Policy with respect to purchasing in the City. By the end of 2005, we will review the potential of amending this Directive to include an Appendix relating to the purchasing card program.

Commitment

All control ultimately rests on people assuming responsibility for their decisions and actions. An effective organization clearly defines and communicates people's roles, responsibilities, authority and accountability. The extent to which people believe they will be held accountable influences their decisions and actions.

Improvement in control implementation is required to ensure a strong control environment across the entire organization.

Supervisors have an intimate knowledge of the employees' work needs and therefore are in the best position to evaluate the legitimacy of the purchases. The immediate supervisors of the cardholders are responsible for performing the first level of review and for monitoring the purchasing card transactions to ensure that they are appropriate and in accordance with the *Procedures*. A lack of compliance in this area is a serious control breakdown as the individual with the best knowledge of the cardholder's business needs is not reviewing the legitimacy of transactions.

"Supervisory review is important to ensure that purchases are necessary, appropriate, and at the best price."

"It is a best practice to require and properly document supervisory review."

A Review - State Purchasing Cards – Department of Administration, July 2003
State of Wisconsin, Legislative Audit Bureau

The first part of the supervisory review is ensuring that the appropriate documentation is submitted to support the transactions. In our sample of tested transactions, departmental compliance ranged from a low of 33% to a high of 100% in six departments. The second aspect of the control is the cardholder and supervisor signing the Visa statement. The cardholder signs as an acknowledgment that they incurred these expenses and the supervisor signs as evidence of their review. In this area, departmental compliance for the tested sample ranged from a low of 4.5% to a high of 100%.

Several departments were 100% in compliance with the controls defined in the *Procedures.* The departments that are not in compliance demonstrate a lack of commitment for supporting the control environment of the *Purchasing Card Program*.

As an example, in one department the Cardholder Administrator (person who ensures that the charges are supported by adequate receipts and that the account allocation on the Visa system is appropriate) is primarily responsible for performing this supervisory review function and monitoring the card usage for several dozen cardholders. Although this individual may be aware of some typical business expenses, it is difficult, in a diverse business environment, to have first-hand knowledge that all transactions are for legitimate business purposes.

Recommendation 2

Corporate Finance should reinforce the requirement that cardholders submit appropriate supporting documentation for all purchasing card transactions and sign their transaction statement.

Corporate Finance should also communicate the importance of supervisory review of the purchase documentation submitted by the cardholder prior to approving the transaction. The cardholder's transaction statement should be signed to provide evidence of supervisory review.

Management response

Corporate Finance has initiated changes to this process with its recent implementation of the new purchasing card software. We will ensure that the purchasing card procedures document is updated to include details with respect to this area by the end of 2005.

Capability

Capability is about ensuring that the organization has the right resources to get the job done. In order to administer the Purchasing Card program in a decentralized environment, the organization must provide staff with the appropriate knowledge, skills, and tools.

There must be a reasonable relationship between what is expected and the authority and resources available. The decisions and actions of different parts of the organization must be coordinated to the benefit of all.

The *Purchasing Card Program Procedures* should be updated.

Since June 30, 2002, the *Purchasing Card Program Procedures* were only revised in September 2004, and the revision was primarily related to the change in bank provider. We believe that a more extensive revision is required in order to provide clearer guidelines to the users.

The *Procedures* provide adequate guidance on various subjects, including the following:

- obtaining a purchasing card,
- purchase and return procedures,
- disputing a purchase, and
- cancelling a card.

Areas where the *Procedures* should be improved include

- stating the unacceptability of split transactions;
- the definition of “Standard” and “Traveller” defaults; and
- definition of appropriate documentation for certain types of expenses.

Split transactions are understood to be an unacceptable means of procurement, but are not clearly defined in the current *Procedures*, which contain only a minor reference to such transactions. When we reviewed the Purchasing Card Manuals from other jurisdictions, we noted that the unacceptability of split transactions was clearly stated, thus minimizing the possibility of the information being overlooked.

Every cardholder’s purchasing card is assigned either a “Standard” or a “Traveller” default setting, which

determines the types of transactions that will be denied. The more restrictive default is the “Standard Default” with part of the intent being to deny travel related transactions. However, transactions related to airlines and car rental agencies are not included in the current listing. “Personal services” is included in the current list; however, there is no additional definition of personal services provided for the cardholders. Also, the “Traveller Default” is not clearly defined in the *Procedures*. The result is that one could interpret that the purchase of alcoholic beverages with the purchasing card would only be denied if the cardholder was assigned a “Standard Default”. Clearly, we do not believe this to be the intent of the *Procedures*, but the result is that interpretation of the rules is left to departments and the purchasing card users. The *Procedures* should clearly state that cash advances, alcoholic beverages and personal services will be denied under the “Traveller Default”.

For certain types of transactions, additional guidance is also required on the appropriate documentation to support the expenditure. Expenditures at restaurants account for nearly $140,000; however, there is no requirement to submit the purpose or names of the attendees as support for the transaction.

Corporate Finance also needs to ensure that revisions are communicated in a timely fashion to all applicable individuals. During our interview with the Program Manager, we indicated that there should be evidence of the Supervisor’s approval on the application form for a new card. Although the form was updated during the course of the audit to require the Supervisor’s signature, we noted that most of the Department Purchasing Card Representatives were not aware of this new requirement. Failure to effectively communicate procedural changes to the Department Purchasing Card Representatives will only result in the continued inconsistencies among the departments as well as a weakened control environment.

Recommendation 3

Corporate Finance should review and update the *Purchasing Card Program Procedures*.

All changes should be communicated in a timely manner.

Management response

Corporate Finance will review and update the purchasing card program procedures and discuss purchasing card processes with the departmental Controllers pursuant to the Controllership Model by the end of 2005.

Eligibility criteria should be established for card issuance.

Industry eligibility criteria should include:

- **frequency of anticipated use**
- **number of existing cards within the department or section;**
- **budget status and constraints; and**
- **demonstrated purchasing duties and responsibilities.**

Procurement Card Program: A Review of Internal Controls, November 2002 – Office of the City Auditor, Portland, Oregon

The *Procedures* do not contain any documented eligibility criteria, which could be provided to the departments as guidelines in the card issuance process. In discussions with the Corporate Controller, he stated that he had concerns with the number of purchasing cards issued in at least one area and had taken steps to reduce the number in that area.

As mentioned in previous sections, there is considerable inconsistency between departments in the implementation of documented controls. The absence of any guidelines increases the likelihood that cards may be issued indiscriminately. It must be recognized that the financial risk exposure of the City is affected as the number of cards issued is increased.

Recommendation 4

We recommend that Corporate Finance develop specific criteria that provide guidance for the issuance of a purchasing card. These criteria should be included in the *Purchasing Card Program Procedures*.

Management response

Corporate Finance agrees with this recommendation and we will initiate all required revisions to procedures by the end of 2005.

A standard training package should be developed for all cardholder administrators and users.

"Without sufficient training, cardholders, will be unaware of purchasing card program rules and documentation requirements, thus decreasing the likelihood of compliance."

A Review - State Purchasing Cards – Department of Administration, July 2003
State of Wisconsin, Legislative Audit Bureau

A lack of training increases the likelihood of non-compliance with the *Purchasing Card Program Procedures*. In its November 2001 report, eComm Strategies Inc. recommended that the departments should "provide a standard training package for all potential Card Coordinators and Controllers." The report further stated that "this package should contain all information regarding

best practices approaches to reporting and reconciliation, as well as cardholder information."

To date, Corporate Finance has suggested the *Purchasing Card Program Procedures* be provided to the cardholder and it becomes their responsibility to review and understand the program. However, there is no guarantee that it is read or understood.

"After agencies identify appropriate personnel to entrust with purchase card and approving official authority, the key to a successful program is educating all participants in the proper execution of the program."

Purchase Card: Best Practices for a Best in Class Program; Acquisition Solutions Advisory- June 2002

A standard training package would be a key factor in reducing the current inconsistencies that exist among departments in the definition of appropriate business use and in the implementation of controls. The training package could include

- the administrative directive that will define acceptable usage and roles and responsibilities;
- the purchasing card program procedures; and
- an overview of any applicable software packages.

Recommendation 5

We recommend that Corporate Finance develop a standard training package, which should be provided to all Departmental Controllers, Department Purchasing Card Representatives, cardholder's supervisors and cardholders.

Management response

Corporate Finance will undertake to review and provide training information to departments by the middle of 2005.

Monitoring and Learning

Monitoring and learning are critical to organizational improvement. This involves periodically challenging the assumptions behind the business objectives of a program, assessing information systems and needs, evaluating the effectiveness of control and reporting to those responsible in the organization to complete the loop.

Departments should maintain a current cardholder listing.

We observed that only five departments maintained a listing of the cardholders although the *Procedures* state that, "the Department Purchasing Card Representative will

control limits, maintain a listing of all cardholders, etc." This is a very important control to

- ensure the listing of cardholders obtained from the bank provider is accurate; and
- ensure cards are cancelled or transferred as staff move within the organization.

Recently, Corporate Finance had to request a listing of all the cardholders from the bank provider as one was not available internally. Each department should have been able to submit a listing of the cardholders to Corporate Finance in order to produce a master list.

Recommendation 6

Corporate Finance should periodically request a listing of cardholders from each Department Purchasing Card Representative for their respective area.

Management response

Corporate Finance will be able to determine all cardholder activations from the new purchasing card system currently in use. Periodic listings from the bank provide a control to ensure that the approval process for new cards has not been circumvented. Within the next month we will make certain that a process is developed reconciling our records to those of the bank.

Departments should have access to and utilize available management reports to monitor usage.

The September 2004 revision of the City of Winnipeg Purchasing Card Program Procedures states,

" The Department Purchasing Card Representatives may request reports for their respective areas at any time.

Department Purchasing Card Representative will have access to reports providing transaction details, summaries exceptions etc. These reports are designed for management to monitor purchases made with the Purchasing Card."

National Bank of Canada was awarded the contract for the provision of the purchasing card program, effective November 1, 2004. National Bank is offering the City of Winnipeg the use of Mastercard's Smart Data Online (an internet- based reporting and information management solution). Smart Data Online has the capability to produce 46 reports and provides information that is "relevant, timely, accurate and manageable." There are several reports available that would greatly enhance the monitoring process.

Prior to November 2004, the bank provider did supply a variety of electronic and paper reports. We noted that at the time of our audit, the Program Manager received the reports for the entire organization; however, only one department had requested to receive the reports for their specific area. For the other Department Purchasing Card

Representatives, they expressed surprise that they could have obtained various reports.

Reviewing relevant management reports is a critical detective control activity. It enables management to detect misuse or abuse of the purchasing card for items such as:

- cards with no activity;
- declined authorizations;
- accounts over the credit limit;
- purchases in restricted merchant categories;
- cash advances obtained; and
- inappropriate, unusual purchases.

In order to ensure that maximum use is made of the relevant reports, it is critical that appropriate training is provided to the various levels of users so they will know the type of reports that are available and those to which they will have access.

Recommendation 7

Corporate Finance must ensure that departments have access to and training on all relevant Smart Data Online reports to assist in their monitoring of purchasing card activity.

Corporate Finance should also make reasonable efforts to develop any "custom" reports requested by departments that will further assist in program monitoring.

Management response

The new purchasing card system was activated in October, 2004. Corporate Finance will initiate a training session within the next month to provide information regarding the use of the system and reports available.

Corporate Finance should conduct an annual control review.

Since the implementation of the Purchasing Card Program in 1996, Corporate Finance has performed only one review of the program. This review commenced in early 2004 and the purpose was to ensure that only active employees had cards, that the limits were appropriate and whether there were cardholders with more than one card. In order to ascertain whether the program is functioning effectively, it is essential that more frequent reviews of controls are

conducted. The results of our audit demonstrate the importance of such a review.

The mandate for the Corporate Finance Department is:

"To incorporate all of the strategy and policy oriented components and corporate functions of the City's financial-related departments and direct its primary attention to policy issues relating to debt and money management, insurance and overall budget development, tax collection, payroll and financial reporting. It will provide leadership for the effective functioning of the Controllership model."

The City of Winnipeg Organization By-Law No. 7100/97, amended 8162/2002

During our review, we observed that there were a significant number of cardholders, cardholder administrators and supervisors who could access the Visa system by using the same general password that was initially issued to them when they were set up on the system. This situation had existed since the software was implemented in 2001 and Corporate Finance staff immediately implemented changes after we notified them of the situation. The knowledge and usage of the same password by other persons increases the risk that unauthorized persons would approve the monthly statements. If the department had been conducting annual reviews, this control breakdown would have been detected and corrected in a timelier manner.

Corporate Finance must also be diligent in their reviews of the system to ensure controls on the bank provider's side, such as transactions limits, are functioning as intended. We acknowledge that the Corporate Controller's Division has been monitoring the visa purchases by department on a monthly basis as a result of the external auditor's comments regarding the excessive usage of the purchasing card. From our discussions with the Corporate Controller, we understand that they intend to conduct an annual review of the program. This review should include a periodic compliance review in light of the high risk areas in the program.

Recommendation 8

We recommend that Corporate Finance conduct an annual review of the Purchasing Card Program to ensure that the controls are working as intended and that the cards are used only for legitimate business purposes.

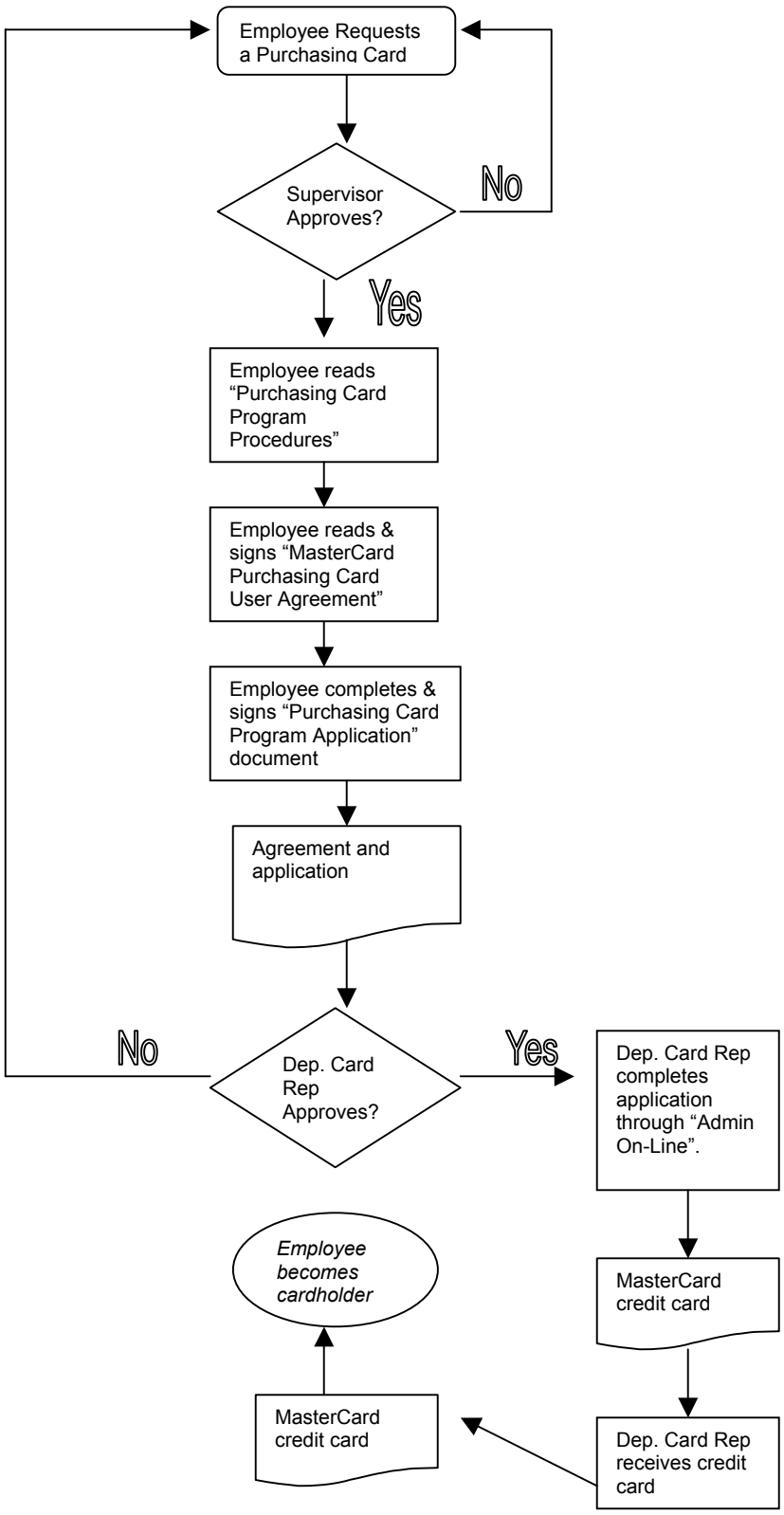
Management response

Corporate Finance agrees with this recommendation and has assigned this responsibility to one of its staff members.

Appendices

Appendix 1: Obtaining a purchasing card

Note: Flowchart provided by the Corporate Finance Department.



Appendix 2: Summary of compliance testing

Department	Sample Size	Original, detailed receipt or invoice attached to statement		Statement signed by Cardholder & Supervisor		Description of transaction entered in Visa system		Taxes appropriately allocated		Standing Order Vendor		Restricted Purchase	
		#	%	#	%	#	%	#	%	#	%	#	%
CAO	4	4/4	100.0%	3/4	75.0%	4/4	100.0%	4/4	100.0%	1/4	25.0%	0	-
City Clerk's	3	1/3	33.3%	3/3	100.0%	3/3	100.0%	2/2	100.0%	0/3	-	0	-
Community Services	20	19/20	95.0%	18/20	90.0%	20/20	100.0%	20/20	100.0%	1/20	5.0%	0	-
Corporate Finance	2	2/2	100.0%	2/2	100.0%	2/2	100.0%	2/2	100.0%	0/2	-	0	-
Corporate Services	4	4/4	100.0%	4/4	100.0%	4/4	100.0%	4/4	100.0%	3/4	75.0%	0	-
Council	5	3/5	60.0%	5/5	100.0%	5/5	100.0%	2/5	40.0%	0/5	-	0	-
Fire Paramedic	17	11/17	64.7%	14/17	82.4%	17/17	100.0%	17/17	100.0%	2/17	11.8%	0	-
Planning, Property & Development	7	7/7	100.0%	4/7	57.1%	4/7	57.1%	7/7	100.0%	0/7	-	0	-
Property Assessment	2	2/2	100.0%	2/2	100.0%	2/2	100.0%	2/2	100.0%	0/2	-	0	-
Public Works	106	98/106	92.5%	49/106	46.2%	79/106	74.5%	98/101	97.0%	10/106	0.9%	0	-
Transit	11	11/11	100.0%	11/11	100.0%	9/11	81.8%	10/10	100.0%	0/11	-	0	-
Water & Waste	22	21/22	95.5%	1/22	4.5%	22/22	100.0%	22/22	100.0%	3/22	13.6%	0	-
Winnipeg Police Service	30	28/30	93.3%	6/30	20.0%	10/30	33.3%	19/28	67.9%	2/30	6.7%	0	-
TOTALS	**233**	**211**	**90.6%**	**122**	**52.4%**	**181**	**77.7%**	**209/224**	**93.3%**	**22**	**9.4%**	**0**	**-**

Appendix 3: Comparison of controls

BEST PRACTICE	CITY OF WINNIPEG
• Central organization responsible to oversee and monitor the P-Card program	• Corporate Finance's role not clearly defined.
• Establish criteria for cardholder eligibility; be selective in issuing cards	• Criteria not documented; varies among departments
• Establish spending limits commensurate with needs	• Recently revised and formally documented, inconsistent implementation across departments.
• Cardholder required to sign P-Card agreement	• Same as best practice
• Ensure separation of duties; responsibilities of cardholders, reviewing officials and purchasing card coordinators should not overlap	• Same as best practice, where feasible
• Single purchase and monthly transaction limits; blocking of merchant category codes	• Formally documented, inconsistent implementation across departments.
• Clear guidelines regarding allowable and restricted purchases	• Area for improvement
• Mandatory training for coordinators and for cardholders and supervisors before card is issued	• None formally established or implemented
• Establish consequences for card misuse or abuse, and outline to cardholder prior to card issuance	• Consequences not formally documented and communicated
• Identify appropriate approving officials	• Not consistent; approvers may be cardholder's subordinate
• Approving officials should be responsible for reviewing a limited number of cardholders; contributes to adequate and timely reviews	• Inconsistent implementation across departments.
• Cardholder required to log a description of all items purchased	• Inconsistent implementation across departments.
• Cardholders not allowed to split purchases to circumvent purchase limits	• Formally documented, inconsistent implementation across departments.
• P-cards deactivated in a timely manner	• Same as best practice
• Purchases should be substantiated by appropriate documentation	• Formally documented, inconsistent implementation across departments.
• Allotted time for monthly reconciliation	• Formally documented, inconsistent implementation across departments.
• Periodic monitoring of purchases from bank reports (optimize use of bank internet management reporting tools)	• Inconsistent implementation across departments.
• Annual reviews to evaluate number of cardholders and cardholder limits	• Only one done since implementation of program