

Purchasing Cards

Follow-up to VFM Section 3.11, *2004 Annual Report*

Background

The government of Ontario first implemented purchasing cards (PCards) for its employees in 1996 to reduce the administrative cost of acquiring and paying for low-dollar-value purchases of goods and services. The PCard (which is a charge card) is not to be used for travel and travel-related expenses, payment of salary and wages (although PCards can now be used to pay temporary help agencies), or personal purposes. Management Board of Cabinet's Procurement Directive for Goods and Services sets out the operating procedures for using PCards. While each PCard is issued in the name of an employee, the government is liable for all PCard expenditures. During the 2005/06 fiscal year, an average of 14,800 PCards (14,600 in 2003/04) were held by government employees, and approximately 778,000 transactions (720,000 in 2003/04) totalling \$173 million (\$144 million in 2003/04) were processed.

We audited PCard transactions at four ministries—Community Safety and Correctional Services; Health and Long-Term Care; Natural Resources; and Transportation—which together accounted for about 60% of total annual PCard expenditures. We also conducted work at the Ministry of Government Services (at the time of our audit named Management Board Secretariat). In

conducting our audit, we used various computer-assisted auditing techniques to select the PCards to be audited at each ministry and to analyze PCard transaction data and statistics.

In our *2004 Annual Report*, we noted that the vast majority of PCard transactions we audited were in compliance with relevant government directives, policies, and procedures. Nevertheless, we did note a number of exceptions at each of the ministries we audited, including numerous instances where supporting documents for expenditures were either lacking or inadequate. We believed that many of the exceptions we found could have been prevented or appropriately addressed if there had been adequate managerial review and approval of the monthly PCard billing statements. Without this key control, a significant risk existed that any inappropriate PCard transactions would not be detected.

The exceptions noted during our 2004 audit included the following:

- Monthly statements were not always being reconciled with supporting receipts in a timely manner, resulting in instances where the government was not able to recover payments for purchases that were improperly charged to a card.
- A number of purchases lacked supporting receipts, making it impossible to determine what was purchased and whether the purchases were made for government purposes.

- Some purchases were supported only by faxed or photocopied receipts, increasing the risk of alterations and duplicate payments being made.
- Supporting receipts for some purchases would have raised questions if they had been properly reviewed by supervisors or managers. For example, we noted numerous purchases of a personal nature and travel-related expenditures, both of which were contrary to government directives.
- Some purchases that exceeded the maximum permitted dollar limit for a transaction were split into two or more transactions.

With respect to the selection of the current PCard provider, we found in 2004 that the Ministry of Government Services followed a fair, transparent, and competitive process.

We made a number of recommendations for improvement and received commitments from the Ministry that it would take action to address our concerns.

Current Status of Recommendations

Information obtained from the Ministry of Government Services indicates that progress has been made in addressing all of the recommendations made in our *2004 Annual Report*. However, until planned compliance audits have been completed, ministries cannot be fully assured that the improved control environment is working as intended. The current status of action taken on each of our recommendations is as follows.

VERIFICATION OF TRANSACTIONS

Recommendation

To help ensure that only valid expenditures are charged to purchasing cards (PCards) and that PCards are used in accordance with government policies, Management Board Secretariat should work with ministries to reinforce with PCard holders and their managers that:

- *proper detailed receipts must be submitted to support all PCard purchases on employees' monthly statements;*
- *billings should be reconciled with purchases on a monthly basis, and any discrepancies must be promptly followed up on;*
- *PCards from employees who habitually do not provide receipts for purchases should be cancelled; and*
- *all PCard statements and supporting receipts must be reviewed and approved monthly by the appropriate managers.*

To help ensure that all monthly statements are reviewed and approved, Management Board Secretariat should ensure that managers are provided with monthly reports that identify which of their employees have PCards and whether they have used their cards.

To help ensure that practices are consistent among ministries and are in accordance with government expectations, Management Board Secretariat should provide some guidance regarding the expenditure of public funds on employee recognition and gifts for official visitors and speakers at ministry events.

Current Status

According to the Ministry of Government Services, all ministry controllers were requested to regularly remind managers and cardholders of their obligations with respect to the use of PCards. In addition, the internal government online employee portal, MyOPS, now includes a tutorial for the current directives, with fact sheets relating to the PCard. According to the Ministry, this is to assist managers

and cardholders in meeting their obligations with respect to the proper and effective use of PCards.

In addition, in early 2006, more than 200 managers from across the Ontario Public Service participated in refresher training for managers. According to the Ministry, the training reinforced the need for proper receipts, monthly reconciliations, and monthly review and approval by managers. For managers who missed the training sessions, a course package is available online.

With respect to the need for guidelines in areas such as gifts, the Ministry informed us that:

- an Employee Recognition Policy and Guide-line for the Ontario Public Service was approved in August 2006; and
- a new Travel, Meal and Hospitality Expenses Directive issued in November 2004 provided guidance on the use of public funds for gifts of appreciation. For instance, according to this Directive, token gifts of appreciation, valued at up to \$30, may be given to persons who are not attached to government in exchange for pro bono services; an immediate supervisor must approve gifts valued at above \$30.

MANAGEMENT OF CARD ISSUANCE AND SPENDING LIMITS

Split Purchases

Recommendation

To help ensure that purchasing-card limits are properly adhered to and are functioning effectively as a key control, Management Board Secretariat should reinforce with ministries the need to:

- *flag and follow up on purchases that monthly statements or other documents indicate may have been split into multiple transactions; and*
- *remind employees that they must obtain a temporary exemption when transaction limits need to be exceeded.*

Current Status

The Ministry informed us that, to strengthen controllership of PCards, it developed and issued a PCard Self-Assessment Toolkit to assist management in ensuring proper and effective use of PCards. The Toolkit included online access to a suite of monthly reports to allow ministries to identify and review potential transgressions relating to the PCard. The reports included information on split payments, duplicate payments, limits that have been exceeded, and purchases of computer software.

Review of Card Utilization and Limits

Recommendation

To help limit the risk of inappropriate purchases being made on purchasing cards, Management Board Secretariat should require that all ministries regularly assess:

- *whether any cards should be cancelled;*
- *whether any card limits should be adjusted; and*
- *whether cards are being cancelled on a timely basis where cardholders have left the program.*

Current Status

According to the Ministry, the Self-Assessment Toolkit it has developed has helped the ministries manage PCard usage and determine if the cards were being used effectively, whether card limits required adjustment, and if cards needed to be cancelled.

Effectiveness of Card Limits

Recommendation

To help ensure that transaction limits are adhered to, Management Board Secretariat should, with the purchasing-card service provider, investigate why the system is processing purchases that exceed employees' transaction limits when employees have not obtained appropriate approvals.

Current Status

The Ministry informed us that it had reviewed the system with the PCard service provider to ensure that effective system controls are in place. We were advised that these controls are now embedded in the coding on every card. An online verification tool, implemented in June 2006, allows managers to confirm that the electronic statement used to pay PCard invoices matches the paper statement that cardholders provide to their manager for approval. The online verification is to be completed after the employee has reconciled his or her statement and attached the necessary receipts.

MINISTRY MONITORING OF PURCHASING-CARD TRANSACTIONS

Recommendation

To promote responsible and compliant purchasing-card usage and to identify weaknesses in controls, Management Board Secretariat should:

- *help ministries develop standardized procedures for periodically reviewing and reporting on purchasing-card transactions; and*
- *work with the purchasing-card service provider to make available to ministries the detailed information that would enhance the review process.*

Current Status

As mentioned earlier, the Ministry indicated that the PCard Self-Assessment Toolkit it developed was assisting Ontario Public Service managers ensure the proper and effective use of PCards. A component of the Toolkit is an online statement verification tool, which was made available to all ministries

in June 2006. According to the Ministry, this tool allows managers to view all the PCard transactions done by their staff. The Ministry also indicated it has followed up with ministry controllership offices to ensure a sound understanding of the available reports and widespread use of these reports. It also informed us that it intended to continue to follow up and communicate with the controllership offices to ensure that the reports are used for maximum benefit.

In addition, the Ministry advised us of the following:

- Subsequent to our audit, it had provided the four audited ministries with transgression reports identifying specific PCard infractions. The ministries were requested to take appropriate action to address identified infractions. The Ministry indicated that, as of December 31, 2005, the four ministries had confirmed that all identified infractions had been appropriately addressed.
- To confirm that ministries were taking the necessary steps to address the results of our audit, Ontario Internal Audit is reviewing PCard controls as part of its 2006/07 audit plan.
- The Ministry was initiating a procurement process to select a new PCard provider in 2006/07. It stated that one of the key requirements of the service to be provided would be online access to detailed reporting—including manager and cardholder access to a listing of transactions and alerts regarding potential transgressions in card usage.