

APPENDIX 1

City Purchasing Card (PCard) Program – Improving Controls Before Expanding the Program

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Auditor General's Office

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EXECUTIVE SUMMARY

City introduced the Purchasing Card (PCard) program in 2005 to provide a more efficient payment tool

The City of Toronto began phasing in its Purchasing Card (PCard) program in 2005 to provide a more efficient and cost-effective means of procuring small dollar goods and services. Since its inception the yearly PCard purchase dollars have been steadily increasing from \$2 million in 2006 to an estimated \$8.5 million in 2009.

The primary goal of the audit was to assess the adequacy of internal controls in the program

As the PCard program is becoming a more widely used procurement method by staff, so is the increasing importance of implementing adequate controls to prevent and detect error and misuse of City PCards. The Auditor General's 2009 Audit Work Plan included a review of the PCard program administered by the Accounting Services Division. The primary goal of the audit was to assess the adequacy of internal controls in the PCard program.

A number of gaps were noted in the control framework

While the PCard program has incorporated a number of best practices, our review noted a number of gaps in the control framework. These included the lack of consistent follow-up of transactions with outstanding supporting documents or supervisory approvals, and the lack of procedures to ensure timely cancellation of PCards upon employment termination or extended leave.

Additional procedures are necessary to accommodate staff's lack of access to the PCard system

To a certain extent, the effectiveness and efficiency of the PCard process is hampered by staff's lack of access to the PCard system. Additional procedures are therefore necessary to enable cardholders to reconcile their purchases with system records, and to facilitate management review of transaction records.

Instances of non-compliance with policies and procedures were noted

In reviewing a sample of PCard purchases, we noted instances of non-compliance with Corporate policies and procedures. In addition, the City's 1998 Expense Claim Policy needs to be reviewed, updated, and made accessible to staff through the City's website.

Compared to other methods of payment, the PCard program has the potential to consolidate paperwork, enable staff to acquire supplies more efficiently, and improve supplier relationships through immediate payment. Most importantly, studies have shown that PCards can significantly reduce administrative costs associated with processing small dollar purchases.

Program should be expanded to take advantage of volume rebates and lowering administrative costs

With yearly purchase dollars below \$10 million, PCard purchases currently represent less than 1 per cent of total City purchase dollars. There is room to expand the program such that the City can take advantage of volume rebates from the PCard provider. If the City targets increasing PCard usage to replace half of the small dollar purchases customarily acquired through Divisional Purchase Orders, the City could realize over \$100,000 in annual rebates.

The PCard program should be continued and expanded

Given its efficiency gains and financial benefits, the City's PCard program should be continued and expanded. A total of 20 recommendations are provided in the report to help improve the program's control framework, efficiency, and compliance with City policies and procedures. Prior to expanding the program it is imperative that the recommendations in the report are addressed.

BACKGROUND

City Council in 2003 adopted the Auditor General's report entitled "Procurement Processes Review – City of Toronto". Included in the report were a series of recommendations relating to the use of purchasing cards. The specific recommendations were:

"The Chief Financial Officer and Treasurer:

- (i) expedite the implementation of purchasing cards in City operations, using a phased-in approach;*
- (ii) develop the necessary policies and procedures with respect to the issuance, use and control of credit and purchasing cards, including consequences for misuse of the cards;*
- (iii) in consultation with Commissioners, ensure that necessary training is provided to all departmental staff responsible for the use and management of the purchasing cards."*

***City introduced
Purchasing
Card (PCard)
program in 2005***

The City's Purchasing Card (PCard) program was introduced two years later in June 2005 to establish a more efficient and cost-effective alternative for procuring small dollar goods and services. Purchasing cards have a number of benefits, principally relating to the reduction or elimination of the paperwork associated with purchase orders and invoices for thousands of small-dollar transactions, as well as making the payment of accounts more efficient and cost effective.

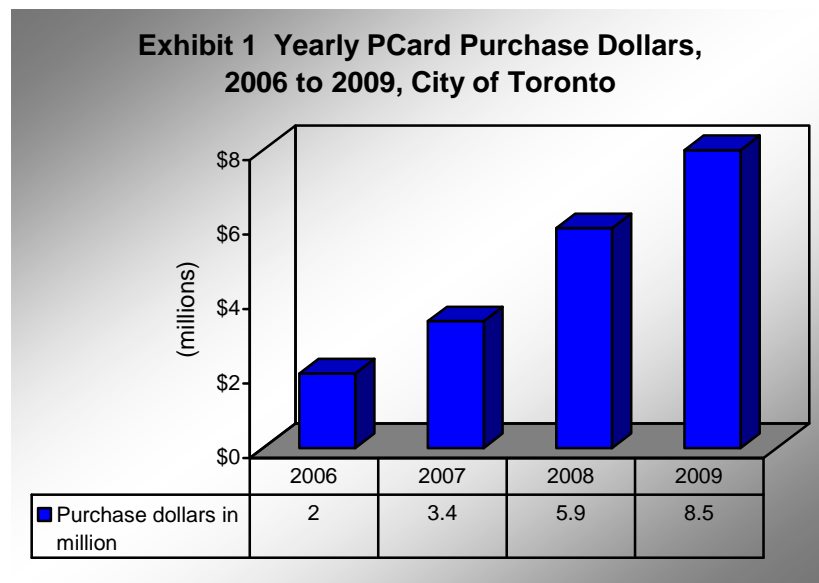
With any new program such as the PCard program it is important that an effective control framework is developed to manage and ensure the proper use of these cards.

Two reviews were conducted by Internal Audit

In order to ensure that controls were operating effectively, the Internal Audit Division within the City Manager’s Office conducted two PCard reviews in 2006 and 2007 respectively. The Division made a number of recommendations pertaining to PCard transactions. We have reviewed these reports and concur with the recommendations.

The City PCard is issued by the National Bank of Canada in the form of a MasterCard credit card. It works similarly to a personal credit card, except that the charges are billed directly to and paid for by the City.

Exhibit 1 shows that the use of PCards by staff as a procurement method has been steadily increasing since 2006. With the continued introduction of the PCard program, the annual purchase volume and dollars are likely to grow further.



As of August 2009, 1,254 PCards have been issued to 30 City divisions and offices. A considerable number of divisions have not yet implemented PCards.

PCards accounted for \$5.9 million purchase dollars in 2008, and an estimated \$8.5 million in 2009

In 2008 a total of 29,500 PCard transactions were made by staff to purchase goods and services totaling approximately \$5.9 million. Between January and August 2009, a total of 24,043 transactions were made to procure approximately \$5.7 million worth of goods and services. The total PCard purchase value by the end of 2009 is projected to be \$8.5 million.

Exhibit 2 lists the top five user divisions of PCards between January and August, 2009. The Parks, Forestry and Recreation Division was by far the largest user of PCards, with 550 cards in circulation and accounting for approximately 50 per cent of the City's total PCard purchase dollars in 2008 and 2009 (January to August).

Exhibit 2: Top Five PCard User Divisions by Purchase Dollars, January 1 to August 31, 2009, City of Toronto

Division	PCards in circulation	Number of transactions	Purchase dollars
Parks, Forestry and Recreation	550	13,023	\$2,936,787
Shelter, Support and Housing Administration	24	520	\$ 477,524
Toronto Water	203	2,969	\$ 453,935
Economic Development, Culture and Tourism	104	1,711	\$ 364,520
Emergency Medical Services	58	1,375	\$ 314,320
Top five division totals (percentage of program totals)	939 (75%)	19,598 (82%)	\$4,547,086 (79%)
PCard program totals	1,254	24,043	\$5,732,222

Accounting Services Division is the Corporate custodian of the PCard program

The Accounting Services Division is responsible for the Corporate administration of the PCard Program, including monitoring and overseeing the internal control system, liaising with the bank, issuing new cards, and revoking existing cards as directed by divisions.

Each division is responsible for authorizing its staff to make PCard purchases within pre-determined credit limits, ensuring cardholders adhere to divisional and Corporate policies and procedures, and monitoring and addressing non-compliance in PCard usage. Each division also assigns a PCard coordinator to liaise between divisional cardholders and the Accounting Services Division.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

Purpose of the audit was to assess adequacy of internal controls built into the PCard program

The Auditor General's 2009 Audit Work Plan included a review of the PCard program administered by the Accounting Services Division of the Office of the Treasurer. The primary goal of the audit was to assess the adequacy of internal controls in the PCard program.

The specific objectives of the audit were to determine:

- whether the City has designed a comprehensive and adequate internal control framework for the program
- whether internal controls were effective to prevent and detect error, misuse or abuse of City PCards
- whether the City has maximized financial and efficiency benefits associated with PCards, including volume rebate entitlements, reduced administrative costs, and other cost-saving opportunities.

Scope and Methodology

The audit covered the period from January 2008 to August 2009. The audit work included:

- A review of relevant policies, procedures and legislative requirements
- A review of purchasing card related guidelines and audit reports issued by government agencies in North America including:
 - Treasury Board of Canada Secretariat
 - Office of the Auditor General of Canada
 - Office of the Auditor General of Ontario
 - United States Office of Management and Budget
 - United States General Accounting Office
 - Office of Inspector General, U.S. National Labor Relations Board
 - Peace Corps, Office of Inspector General

- Maricopa County Internal Audit Department
 - City of Tallahassee Office of the City Auditor
 - Office of the City Auditor, Portland, Oregon
 - Office of State Procurement, State of Arkansas
 - City Auditor's Office, City of Kansas City, Missouri
- a review of relevant published articles in professional journals
 - a review of the PCard report and memorandums issued by the Internal Audit Division, City of Toronto
 - a review of electronically recorded PCard transactions
 - a detailed review of supporting documents (e.g. receipts and purchase logs) for selected transactions
 - interviews with relevant staff
 - site visits
 - other procedures where necessary.

Compliance with generally accepted government auditing standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence that provides a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT RESULTS

A. PCard Control Framework

A.1. Controls Built into the PCard Program and Process

The City's PCard program consists of a number of controls including:

- Policies and Procedures Manual
- Mandatory training
- PCard transaction limits
- System controls.

City has established PCard policies and procedures

The PCard Manual details specific requirements relating to:

- Corporate PCard policies and procedures
- Internal control requirements
- Issuing cards to individual employees in their names to ensure accountability
- Roles and responsibilities of Corporate and divisional staff.

Mandatory training for cardholders and approval supervisors or managers

According to the Manual, prior to being assigned a City PCard, staff are required to complete a cardholder application, attend a training session, and sign a user agreement. Supervisors or managers who are responsible for approving PCard purchases are also required to attend a training session.

Point-of-sale controls and transaction limits

In addition, certain control and authorization parameters are enforced at point-of-sale terminals when a cardholder makes a purchase. For example:

- Each card is pre-assigned a single transaction limit (up to \$3,000 in most cases) and monthly dollar limit (up to \$10,000 in most cases).
- Each card is restricted from obtaining cash advances, and blocked from acquiring certain types of merchandise such as gasoline/fuel.

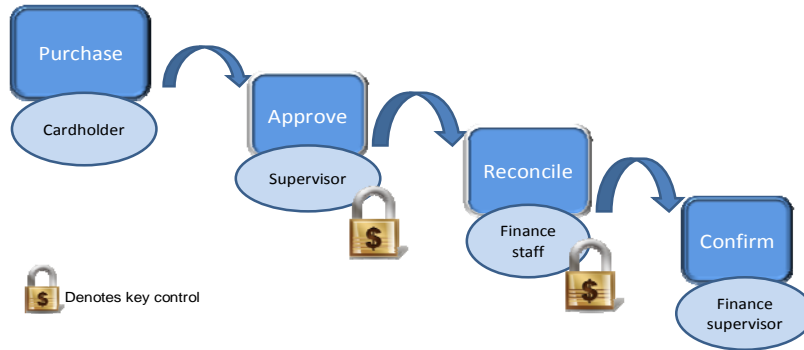
Transaction information is electronically captured and transmitted to the City's financial system

When PCards are used, the transaction information (e.g. merchant name, item purchased, cost, transaction date) is electronically captured and transmitted by MasterCard at point-of-sale terminals, to a PCard system embedded in the City's SAP financial system. The monthly payment is calculated based on the transactions recorded in the PCard system. The Accounting Services Division is responsible for reconciling Corporate statements and processing the monthly PCard payment.

Most cardholders and their supervisors do not have access to the PCard system

Many of the City PCards are assigned to staff located in district or field offices. The majority of these divisional cardholders and their supervisors do not have access to the PCard system. Consequently, purchase review and approval is primarily a manual paper-based process. Exhibit 3 illustrates the four main steps in a typical purchase review and approval process involving the cardholders, approval supervisors, and divisional finance staff.

Exhibit 3 Four Main Steps in a PCard Purchase Review and Approval Process, City of Toronto



	Major Step	Staff Responsible	Responsibilities
1	Purchase	Cardholder	Cardholders are required to record their monthly purchases on a log, attach purchasing documents such as receipts and packing slips, and reconcile their purchases with the system generated statement.
2	Approve	Immediate Supervisor	Immediate supervisors review the purchase logs and supporting documents, ensure correctness of information and validity of purchases, and approve the purchases by means of authorizing signatures on the purchase logs.
3	Reconcile	Divisional Finance Staff	Divisional finance staff are responsible for reconciling cardholders' purchase logs with transaction records in the PCard system, ensuring correctness of information on the logs, updating information in the system, and verifying signing authorities.
4	Confirm	Divisional Finance Supervisor	Divisional finance supervisors are responsible for confirming the accuracy and completeness of the accounting records and system information before approving the transactions in the system.

Supervisory approval and finance reconciliation are two key controls

Within the review and approval process, supervisory approval (Step 2) and reconciliation by finance staff (Step 3) are the two key control steps.

Each PCard transaction is required to be approved by the “immediate supervisor” who may be a supervisor, a manager, or a director depending on the cardholder’s position. This approval step is important because the cardholder’s immediate supervisor is the individual who has intimate knowledge of the operation and can determine whether the purchase is legitimate and necessary.

Since in most cases neither the cardholder nor the approval supervisor has access to the PCard system, divisional finance staff are the only persons who can reconcile cardholders’ purchase logs with system records. It is important to recognize that the City pays according to transaction records in the system, not the cardholders’ purchase logs. Therefore the reconciliation between cardholders’ purchase logs and system records is a key control.

A.2. Issues in the PCard Control Framework

A number of issues were identified in the PCard control framework that may compromise the City’s ability to prevent and detect error or misuse of PCards. These issues are as follows:

- (1) transactions without supporting documents or approvals
- (2) timely cancellation of PCards upon employment termination
- (3) compliance with PCard policies and procedures
- (4) clear appointment of cardholders and approval supervisors
- (5) risks arising from the manual approval process
- (6) cardholder reconciliation
- (7) management oversight
- (8) physical security of transaction records
- (9) training

Each of the above issues is discussed in the following:

(1) Transactions without supporting documents or approvals

Current policy is to pay for all transactions by the due date including those without supporting documents or approvals

Similar to personal credit cards, the City's PCards will incur significant interest charges if payment is not made by the monthly due date. To avoid this, the current PCard policy is to approve all transactions for payment before the monthly due date including those without supporting documents or supervisory approvals. We reviewed a sample of January to March 2009 transactions and noted that a number of these transactions continued to lack supporting documents as recently as October 1, 2009. All of these transactions have been reimbursed to the PCard provider.

Supporting documents have not been received for a number of transactions six months after payment

Based on the results of our review, an estimated two to three per cent of monthly PCard transactions for which supporting documents or supervisory approvals have not been received by the Accounting Services Division six months after payment. These transactions amount to approximately \$15,000 monthly payment. Certain of these transactions might have been approved by divisional supervisors but the supporting documents were not forwarded to the Accounting Services Division. Nonetheless, without the required documents, the City cannot validate the legitimacy or accuracy of these transactions.

In addition, the City is entitled to claim a rebate for the entire 5 per cent of GST charged to its purchases. Supporting documents such as receipts and invoices are required by law for claiming the GST rebate. The Accounting Services Division is responsible for recovering tax rebates available to the City. However, for the estimated \$15,000 monthly PCard purchases lacking supporting documents, the City could not claim its GST rebates, which are estimated to be less than \$1,000 per month.

Lack of consistent follow-up on non-compliance

According to the PCard Manual, both the Accounting Services Division and divisional staff are responsible for issuing letters to cardholders and supervisors based on non-compliance with policies and procedures. The PCard Manual further specifies that three non-compliance letters issued within a twelve month period for the same cardholder may result in that individual losing the card. Staff of the Accounting Services Division advised that it has limited resources to consistently follow up on all outstanding transactions each month, and has not initiated any cancellation of individual PCards due to non-compliance since the program was introduced in 2005. Of the several divisions we contacted, only one indicated that cards have been cancelled due to instances of non-compliance.

Recommendation:

- 1. The Treasurer, in conjunction with Heads of Divisions participating in the PCard program, develop and implement clear and effective procedures to:**
 - a. Reduce the number of monthly transactions with outstanding documents or approvals**
 - b. Follow up on transactions with outstanding documents or approvals in a consistent manner**
 - c. Recover the City's GST rebates from PCard purchases**
 - d. Ensure cancellation of individual PCards according to policy.**

(2) Timely Cancellation of PCards Upon Employment Termination

PCard should be cancelled promptly upon termination of employment or extended leave

To reduce the risk of unauthorized use, PCards should be cancelled promptly when a cardholder terminates employment with the City. We reviewed records of 24 selected cardholders, one of whom terminated employment in 2007, another in 2008, and a third employee has been on leave since August 2008. The PCards for these three individuals were still active as of October 2009. There have been no transactions made using these cards after the cardholders terminated their employment or began the extended leave. Nonetheless, failure to cancel PCards in a timely manner increases the risk of unauthorized use.

Procedure to notify Accounting Services was not consistently implemented

According to the PCard Manual, a cardholder's supervisor should notify the Accounting Services Division when a cardholder is terminating his/her employment. This procedure was not followed consistently by divisional staff.

Recommendation:

2. **The Treasurer validate employment status of all current cardholders. Further, in consultation with Heads of Divisions participating in the PCard program, the Treasurer develop and implement clear and effective procedures to address the timely cancellation of PCards upon employment termination or extended leave.**

(3) Compliance with PCard Policies and Procedures

A sample of transactions processed between January 2008 and May 2009 were reviewed in detail.

Instances of non-compliance with PCard policies and procedures were noted

The following non-compliance issues were noted:

- Instances of circumventing transaction dollar limit by splitting purchases or paying cash for the exceeded amount.
- Lack of adequate segregation of duties: In one instance the cardholder was also the finance supervisor who could approve his own purchases in the system. A review of a sample of the cardholder's purchases did not find any irregularity. Nonetheless, the lack of adequate segregation of duties should be rectified immediately.
- PCards were used to purchase janitorial items readily available from the City Stores.
- A number of transactions had no supporting documentation or supervisory approval.
- A number of purchase logs were submitted weeks or months after the due date.
- A number of purchase logs were missing information such as dates, description of the purchases, or names of the authorizing supervisors.

In addition, in a number of instances the purchases were incorrectly classified in the financial system, affecting the accuracy of accounting records.

Recommendation:

- 3. The Treasurer, in conjunction with Heads of Divisions participating in the PCard program, develop and implement effective review, monitoring, and follow-up procedures, at the divisional and Corporate levels, to ensure compliance with PCard policies and procedures.**

(4) Clear Appointment of Cardholders and Approval Supervisors

Supervisory review and approval is a key control

A key control in the PCard process is supervisory review and approval of cardholders' purchase logs. The PCard Manual requires that a cardholder's purchase log be approved by the immediate supervisor who can determine whether the purchase is legitimate and necessary. As such, divisions need to develop a list indicating the cardholder names and their respective approval supervisors.

Lack of clear appointment of cardholders and approval supervisors

None of the divisions we contacted has established a written or an electronic list of cardholders and their respective approval supervisors. Divisional staff were of the opinion that this was unnecessary as the divisional finance staff in general are familiar with names of staff and their supervisors/managers. While this may be sufficient in most cases, a clearly defined approval list is important in ensuring that PCard purchases are routinely approved by the appropriate supervisors.

Furthermore, in developing the list of cardholders and their respective approval supervisors, divisions should ensure that the extent of review responsibilities placed on an approval supervisor is appropriate. According to the United States General Accounting Office, a guideline for this "span of control" is not to exceed one supervisor to seven cardholders.

In one instance purchases by two supervisors were approved by a manager in charge of another unit

We noted that in one field office, purchases by two supervisors were routinely approved by a manager in charge of another unit. Also a number of staff we interviewed incorrectly understood that purchase logs must be approved by staff in a manager position. Consequently, the purchase logs from several frontline staff were approved by managers instead of the immediate supervisors who would have better knowledge of frontline operations and purchase needs.

Recommendation:

- 4. Heads of Divisions participating in the PCard program ensure that a divisional approval list outlining cardholders and their respective approval supervisors is developed and routinely reviewed for appropriateness.**

(5) Risks Arising from the Manual Approval Process

Manual approval increases risk of inappropriate authorization and alterations to purchase logs

As the majority of cardholders and their approval supervisors do not have system access, transactions are manually approved by supervisors on hard copies of cardholders' purchase logs. Any system that is based on manual approval faces the risk of inappropriate authorization and alterations to information on hand written documents.

Certain finance staff are responsible for processing over 100 cardholders' monthly transactions

a. Controls to detect inappropriate authorization

The current PCard process relies on divisional finance staff to verify authorization of cardholders' logs. However, certain finance staff are responsible for reviewing and processing monthly transactions from over 100 cardholders making it difficult to conduct an adequate level of verification in each case.

The review process by Accounting Services is unlikely to detect inappropriate authorization

After the purchase logs have been reviewed and processed by divisional finance staff, the documents are submitted to the Accounting Services Division for a further review and record keeping. However, this review process by the Accounting Services Division is not likely to detect inappropriate authorization due to the large volume of purchase logs received each month. To test this, we submitted a PCard purchase log from our own office, and purposely provided a fictitious supervisor name and signature on the log. Both were undetected by staff of the Accounting Services Division.

An additional control is needed to ensure that the City has an effective means of detecting potentially inappropriate authorization. This can be accomplished by requiring approval supervisors to review and validate periodic payment reports outlining approved transactions by cardholder.

b. Controls to minimize unauthorized alterations to purchase logs

A cardholder can potentially alter the purchase log after supervisory approval

Since purchase logs are prepared by cardholders, they can potentially make a personal purchase using their PCards, purposely omit the record on their purchase log to avoid detection by the supervisor, and then add the record to the logs after supervisory approval. The unauthorized alteration is unlikely to be detected during the subsequent review and processing by divisional finance staff.

Purchase logs should not be returned to cardholders after approval

To minimize the risk of unauthorized alterations to purchase logs, supervisors need to make sure the logs, once they have been approved, are not returned to the cardholders. We noted that this procedure was not specified in the PCard Manual. A number of cardholders and finance staff we interviewed were not aware of the importance of this control step. In one office, the approved logs were routinely returned to the cardholders who then mailed the forms to finance staff.

Recommendation

- 5. The Treasurer, in consultation with Heads of Divisions participating in the PCard Program, ensure adequate controls are incorporated into the PCard approval process to detect inappropriate authorization and minimize the risk of unauthorized alterations to purchase logs.**

City pays according to transaction records in the system, not the cardholders' logs

(6) Cardholder Reconciliation

Since the monthly PCard payment is made by the City according to transaction records in the system (not the cardholders' logs), discrepancies between the cardholders' logs and system records must be identified and properly resolved.

Certain cardholders had no means of reconciling their purchases with system records

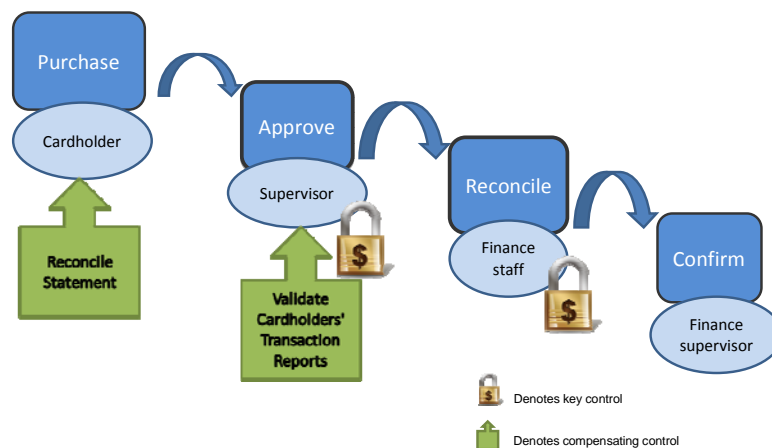
The PCard Manual requires that cardholders be provided with a printed copy of their monthly transaction statements for reconciliation. Citing staff shortage and administrative difficulty as the reasons, a number of divisions, including the Parks, Forestry and Recreation Division which was the largest PCard user division in 2008 and 2009, did not carry out this procedure. As a result, it was not possible for these cardholders to verify the accuracy of the transaction records in the system.

Consistency and accuracy of finance reconciliation can vary from time to time and from staff to staff

Divisional finance staff are responsible for reconciling purchase logs with transaction records in the system. Nonetheless, the consistency and accuracy of the reconciliation vary from time to time and from staff to staff. For instance, we noted in our sample that in two instances the finance staff and supervisors missed discrepancies between the purchase logs and system records. While the reconciliation by finance staff serves as a key control in the PCard process, cardholder reconciliation is an important compensating control that should be consistently applied.

Exhibit 4 illustrates the two compensating controls – cardholder reconciliation and periodic supervisory reviews of cardholders’ transaction reports by supervisors (discussed in the previous section), that should be implemented in the current PCard approval process.

Exhibit 4 Recommended Compensating Controls for the PCard Review and Approval Process, City of Toronto



Recommendation:

- 6. The Treasurer, in consultation with Heads of Divisions participating in the PCard Program, ensure that cardholder reconciliation of purchase logs with PCard system records is consistently implemented.**

(7) Management Oversight

Management staff need to have a means of reviewing the total number and types of purchases

In offices or units where there are multiple cardholders and approval supervisors, management staff may not have a clear picture of the total number and types of PCard purchases made for their office/unit over a period of time. To overcome this, management staff should have a means of regularly reviewing a summary of PCard purchases. However, none of the divisional managers or directors we interviewed has received summary reports of PCard purchases for their offices or units.

For instance we identified one case where a total of ten cameras were purchased within 18 months for six staff in one field office who may occasionally require the use of a camera. Prior to our enquiry, the manager was unaware of the number of cameras purchased as they were approved by his two supervisors and another manager. Management staff subsequently verified that all of the cameras were for City operation; several were for spare, staff on alternate rates, and replacing cameras not returned to the unit when staff were transferred to other units. Nonetheless, this example underscores the importance of management oversight of the volume and types of PCard purchases to ensure that all purchases are legitimate and necessary.

Recommendation:

- 7. The Treasurer, in consultation with Heads of Divisions participating in the PCard program, develop procedures whereby management staff have regular access to information on the total number and types of PCard purchases made for their office/unit.**

(8) Physical security of transaction records

PCard documents were stored in open office area

Current procedures require divisions to submit all processed logs and supporting documents to the Accounting Services Division. During the course of our audit, we noted that these documents, many of which contained the full card numbers and expiry dates, were stored in an open office area accessible to staff and visitors to the Accounting Services Division. Although the entrance to the office is restricted to authorized personnel, PCard documents should be properly secured in the office.

Recommendation:

- 8. The Treasurer ensure that PCard documents, including purchase logs and receipts, are stored in a secure manner to prevent unauthorized access.**

(9) Training

Cardholders have received PCard training

The PCard policy requires that cardholders, approval supervisors, and divisional finance staff involved in the program attend a one-hour training session. Based on our review, we verified that the training has been consistently provided to cardholders prior to receiving their PCards.

The PCard training is provided as a standardized presentation with hands-on computer practice. The SAP trainers from Financial Accounting Systems and Policy, Accounting Services, are responsible for developing and delivering the training.

In our interviews with staff involved in the PCard program, we noted that a number of them were not clear on the current policy and procedure requirements even though they had received the mandatory PCard training. Certain divisional finance staff did not understand what data on the purchase logs needed to be entered into the system; certain divisional and finance staff misunderstood the requirement for being a designated approval supervisor.

Effectiveness of the training can be improved

We attended the training as part of our review, and noted that the effectiveness of the training could be improved by placing more emphasis on the importance of individual roles in the control framework.

Refresher training is recommended as a best practice

Currently refresher training is not part of the City PCard program. Provision of refresher training every three years is generally accepted as a best practice for government charge card programs. Refresher training is also necessary to update staff on revised policies and procedures.

Recommendation:

- 9. The Treasurer undertake the necessary steps to improve effectiveness of PCard training. Such steps should include, but not be limited to:**
 - a. Ensuring the training includes a review of the importance of individual roles and responsibilities in the control framework**
 - b. Providing refresher training where needed.**

A.3. Best Practice Comparison

As part of our audit, we reviewed government charge card policies and procedures issued by a number of authoritative bodies. Exhibit 5 lists the key controls recommended by the Treasury Board of Canada Secretariat, and the U.S. Office of Management and Budget.

Our audit provides nine recommendations to strengthen the City's PCard control framework. All of the audit recommendations are in keeping with current government charge card best practices.

Exhibit 5 also highlights the areas in the City's current PCard program where enhancements are needed when compared with best practices.

Exhibit 5 Comparison of Best Practices with the City PCard Program, City of Toronto

Recommended Key Controls	City PCard Program	Remarks
<ul style="list-style-type: none"> Written policies and procedures 	Yes	Recommend additional procedures
<ul style="list-style-type: none"> Designated coordinator to authorize and control issuance of cards 	Yes	
<ul style="list-style-type: none"> Training to cardholders and supervisors 	Yes	Effectiveness of training can be improved; provide refresher training
<ul style="list-style-type: none"> Appoint cardholders and approval officials 	No	A formal approval list to be developed
<ul style="list-style-type: none"> Transaction limits and purchase restrictions 	Yes	
<ul style="list-style-type: none"> Protect card information and related documents 	No	Improve physical security of PCard documents
<ul style="list-style-type: none"> Procedures for transfers, changed duties, termination of employment, or loss of card 	Yes	Ensure consistent implementation
<ul style="list-style-type: none"> Cardholders keep detailed purchase logs and retain proof of purchase 	Yes	Ensure consistent implementation
<ul style="list-style-type: none"> Reconcile statement with purchase log in a timely manner 	Yes	Ensure consistent cardholder reconciliation
<ul style="list-style-type: none"> Supervisory review and approval of transactions and supporting documents 	Yes	Ensure consistent implementation
<ul style="list-style-type: none"> Regular monitoring to detect misuse or abuse 	No	Additional compensating controls are needed
<ul style="list-style-type: none"> Regular monitoring to ensure cards not used for 90 consecutive days have not been misplaced or stolen 	No	Develop and implement monitoring procedures
<ul style="list-style-type: none"> Policy for administrative and/or disciplinary actions for misuse or abuse of PCards 	Yes	Ensure consistent implementation
<ul style="list-style-type: none"> Segregation of duties among purchases, authorizing purchases, certifying funding and reviewing and auditing 	Yes	Correct known problems and regular reviews to detect exceptions
<ul style="list-style-type: none"> Procedures for disputed items 	Yes	
<ul style="list-style-type: none"> Procedures to ensure all charges and payments are timely, accurate and appropriate 	Yes	Enhance follow-up procedures

B. Program Efficiency

The current PCard process is relatively labour intensive

The current PCard process is relatively labour intensive. Cardholders are required to provide information such as purchase date, a description of the purchased item, financial codes, and tax amounts in their monthly purchase logs. Divisional finance staff also spend a considerable amount of time reviewing and correcting errors on purchase logs. Most of the required information for the logs, however, has already been transmitted to the PCard system when purchases are made.

Efficiency can be improved by providing cardholders with a system generated log

Instead of requiring cardholders to duplicate certain information that has already been electronically captured in the system, staff should explore the feasibility of using the system to generate purchase logs for cardholders. Cardholders will still need to add further purchase details to the logs, and attach supporting documents.

The system generated log can also be used for cardholder reconciliation

This process will help improve efficiency of the program and reduce errors. Most importantly, the system generated logs can be used by cardholders to reconcile their purchases with transaction records in the PCard system, an important step that is currently missing in certain divisions as discussed in the previous section.

Furthermore, staff should re-assess what information is necessary for cardholders to provide in the purchase logs. For instance, cardholders are currently required to record in their monthly logs the tax amounts for each purchase, even though tax amounts are automatically calculated by the PCard system after divisional finance staff identify the appropriate tax codes.

Recommendation:

- 10. The Treasurer undertake the necessary steps to improve efficiency of the PCard process, including steps to explore the feasibility of using the PCard system to generate purchase logs for cardholders, and re-assess what information is necessary for cardholders to provide in the purchase logs.**

C. Compliance with Other City Policies

C.1. Compliance with Expense Related Policies

Many PCard purchases were classified as business meeting expenses

Many PCard purchases were classified as business meeting expenses. A sample of these purchases was reviewed to determine whether they were in compliance with the relevant Corporate expense policies and procedures.

While Corporate policies and guidelines are in general accessible to staff via the intranet, only two of the three relevant Corporate policies were accessible at the time of our audit. These two policies were:

- Business Related Expense Policy (last revised August 17, 2007) which covers only expenses related to alcohol consumption at business functions.
- Conference/Seminars and Business Travel Policy (revised October 25, 2006).

The Expense Claim Policy was not available on the intranet

The “Expense Claim Policy for Staff of the City of Toronto” (March 10, 1998) was not available on the intranet. Hard copies of this policy were available from certain City offices. The lack of access to this policy might have partly explained why a number of divisional staff we interviewed were not aware of such a policy.

Compared to the 2007 Business Related Expense Policy, the 1998 Expense Claim Policy is more comprehensive covering requirements with respect to: attendance at conferences/seminars, business trips, meterage claims for use of personal auto, meal allowances, business meetings, professional memberships, Corporate credit cards and the use of cellular phones and long distance telephone calls.

The 1998 Expense Claim Policy is dated and requires updates

The 1998 Expense Claim Policy is however dated and needs to be reviewed to ensure that it is consistent with other Corporate policies including the Policy for Attendance at Conferences/Seminars and Business Travel for Staff and Councillors, and the Wireless Communication Devices Policy. Many areas in the 1998 Expense Claim Policy such as position titles and division names should also be updated.

Documents required to support alcohol related expenses at City events

The 2007 Business Related Expense Policy requires the following documents to be provided in support of alcohol related expenses at City hosted or sponsored events:

- Receipt or invoice (original, signed)
- List or description of attendees (original, signed, legibly recorded/documented)
- Approved Pre-Authorization Form.

Requirements under the 1998 Expense Claim Policy

The 1998 Expense Claim Policy also prescribes specific requirements for claiming business meeting expenses at eating establishments and hotels. These include:

- “(i) The purpose of the meeting is related to the business of the municipality and is documented along with the names of all those in attendance;*
- (ii) The most senior staff person present pays the bill and an original receipt is submitted; and*
- (iii) The second removed supervisor reviews and approves the claim.”*

The City requirements for providing details in support of business expenses are consistent with recommendations from the Canada Revenue Agency in relation to meals and entertainment expense claims.

All of the sampled PCard purchases involving the consumption of alcohol while conducting City business complied with the requirement to obtain pre-approval from cardholders’ Deputy City Manager.

Instances of non-compliance with expense policies were noted

Instances of non-compliance with the policy requirements were noted in the following areas:

- Cardholders did not provide names of attendees or a description of the function on the back of receipts or on an attached document
- The expenses were not paid by the most senior duly authorized employee. Instead a staff member paid using a PCard and the purchase was then approved by the senior staff who also attended the meeting. The senior staff member has also been assigned a City PCard.

Certain PCard expenses are questionable

In addition, certain PCard purchases classified by cardholders as “business meeting expenses” are, in our opinion, questionable although they have been approved by management. In particular, the frequency at which business meeting expenses were claimed by certain cardholders, and the nature of certain business meeting expenses, in our opinion, should not have been approved unless there were compelling reasons to the contrary.

The City policy does not contain any provision for providing food and/or beverages at staff meetings or functions

The City Expense Claim Policy does not contain any provision for providing food and/or beverages at staff meetings or functions. We noted that a number of PCard purchases were for providing food and beverages at staff meetings and functions such as staff appreciation and meet and greet events. For instance, a PCard was used to cater a staff holiday lunch in 2009 for a group of City employees.

A Corporate policy or guideline relating to the supply of food and beverages at staff meetings and functions would help clarify and communicate Corporate standards for these types of activities.

Recommendations:

- 11. The City Manager ensure that the Expense Claim Policy for Staff of the City of Toronto (March 10, 1998) is reviewed, updated, and made accessible to staff.**
- 12. The Treasurer develop and implement measures to improve compliance with Corporate policies and procedures pertaining to business expenses.**
- 13. The Treasurer develop standards or guidelines for providing food and/or beverages at staff meetings and functions.**

C.2. Compliance with Corporate Purchasing Policies

Instances of non-compliance with Corporate purchasing policies were also noted in our sample of PCard purchases. These included:

- Purchase of a fax machine without consulting Corporate Information Technology
- Purchase of two chairs from a supplier when the City has an existing blanket contract for these items.

PCard has enabled staff with little or no purchasing background or experience to make purchases on behalf of the City

Through our interviews with staff, it appeared that certain cardholders were not familiar with Corporate purchasing policies or procedures. The PCard program has enabled staff with little or no purchasing background or experience to make purchases on behalf of the City. However, many cardholders are frontline staff who may not know where to locate various City policies and purchasing information. The current PCard training does not include specific information on Corporate purchasing policies and procedures.

We also noted that many PCard purchases were for repetitive items from the same suppliers. The accumulated total costs of these purchases may warrant the issuance of Corporate contracts whereby the City can benefit from volume purchases at lower prices.

According to the PCard Manual, the Purchasing and Materials Management Division (PMMD) is responsible for monitoring and analyzing PCard activities to “identify opportunities for blanket contracts and ensure compliance with policy”. As of September 2009, PMMD staff advised that they have drafted the first analysis report for distribution to divisions.

Recommendations:

- 14. The Treasurer undertake the necessary steps to improve cardholder compliance with Corporate purchasing policies and procedures. Such steps should include, but not be limited to:**
 - a. Ensuring cardholders receive adequate training in purchasing policies and procedures**
 - b. Monitoring PCard purchases to identify non-compliance with purchasing policies.**
- 15. The Treasurer ensure that PCard purchases are regularly monitored and analysed to identify opportunities for blanket contract.**

C.3. Sundry Expense Policy

City staff are entitled to \$65 sundry expense per day during out of town business trips

Under the City policy on conference attendance and business travel, staff can claim up to \$65 sundry expense per day for an overnight stay out of town. The sundry expense is intended to cover expenses including meals, telephone, entertainment, and local transportation incurred by staff during a business trip.

In certain instances staff do not need to pay for their meals during business trips

In reviewing the travel related expenses paid by PCards, we noted that in a number of instances staff used the PCard to pay for meals, or their meals were paid for by the City when they attended business related functions at eating establishments. The full \$65 daily sundry expense was also claimed by these staff. While this does not contradict the policy, in our opinion, it is not in keeping with the intent of the policy.

Deputy City Manager requires staff to deduct sundry expense claims when meals are provided

In a 2008 Administrative Procedural Bulletin to his Division Heads, a Deputy City Manager directed that staff should not claim the full \$65 if meals are provided at conferences or business meetings. Staff can either retain receipts and claim the actual expenses incurred up to \$65, or deduct an appropriate amount from their sundry expense claim based on suggested amount (i.e. \$10 for breakfast, \$15 for lunch, and \$25 for supper).

A number of Canadian cities, including the Cities of Vancouver, Edmonton, and Hamilton, have per diem policies that direct staff to deduct amounts for meals provided as part of a conference/function, or to claim the actual amount of expenditures up to a certain allowable amount.

Recommendation:

- 16. The City Manager review the current sundry expense policy and consider integrating the requirement to reduce the sundry expense claim when meals are provided at conferences or business meetings, or when meals are paid for by the City.**

D. Maximizing Benefits of PCards

D.1. Reducing Inactive and Low Usage Cards

City incurs a \$35 annual fee for every “inactive” PCard

The City incurs a \$35 annual fee for every PCard that has a yearly transaction amount below \$600. There is no fee attached to those cards with annual transaction amounts exceeding \$600.

Of the total 1,160 PCards in circulation in 2008, 15 per cent or 203 cards had transaction amounts below \$600. Consequently these cards incurred a fee of \$35 each which in total amounted to \$7,105 for the year. “Inactive” cards also pose a higher risk of being misplaced or stolen. The current PCard Manual does not contain specific procedures for monitoring and canceling inactive cards.

Recommendation:

- 17. The Treasurer, in conjunction with Heads of Divisions participating in the PCard program, develop and implement procedures to reduce the number of inactive or low usage cards, and cancel inactive cards where necessary.**

D.2. Efficiency Gains

PCards have the potential for saving time and money

Corporate purchasing cards are currently used by other jurisdictions, including the federal, provincial, and other municipal governments. Compared to other procurement methods, PCards are a more efficient and economical procurement tool. PCards have the potential for saving time and money by reducing or eliminating the paperwork associated with issuing purchase orders for small dollar transactions.

A cost benefit analysis comparing the City’s PCards with other procurement methods could not be performed because the data was not available at the time of our review. Published studies have shown that the average cost per purchasing card transaction was approximately \$70 lower than the cost associated with other purchasing methods.

PCards also have the benefit of reducing order fulfillment time and improving supplier relationship with the City. All of the cardholders we interviewed reported that PCards enabled them to expedite purchases for City operations thereby improving work efficiency.

D.3. Financial Incentives

City receives a rebate based on the annual PCard purchases

In addition to efficiency gains, the City can take advantage of the financial incentives offered by the Bank. Under the contract with the National Bank of Canada, the City receives a rebate based on the total annual purchases. The 2008 rebate was approximately \$18,500. The rebate percentage increases as the total purchase value increases.

D.4. Potential for Program Expansion

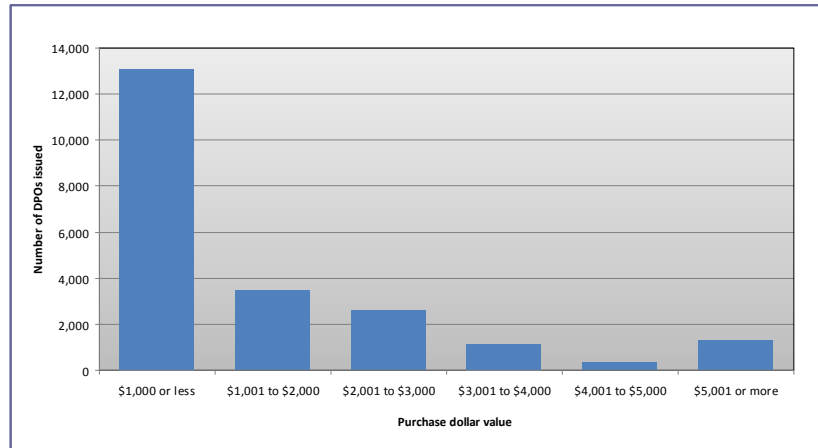
There is room to expand the PCard program to maximize efficiency gains and related financial benefits. As of August 2009, 22 of the 40 City divisions were participating in the PCard program. Efforts should be made to expand the program to the remaining City divisions.

PCard currently represents less than 1 per cent of total City purchase dollars

With yearly purchase volume at less than \$10 million, PCard transactions currently represent less than 1 per cent of total City purchase dollars. Divisional Purchase Orders (DPOs) continue to be the predominant means of acquiring small dollar items by staff.

For instance, between January and June 2009, the City issued over 20,000 DPOs to procure approximately \$40 million worth of goods and services. Exhibit 6 shows that more than 80 per cent of these DPOs were for purchases less than \$3,000. Many of these small dollar purchases could have been acquired using PCards.

Exhibit 6 Number of Divisional Purchase Orders (DPOs) issued by dollar value between January and June 2009, City of Toronto



City could potentially realize more than \$100,000 annual rebates by increasing PCard usage

If the City targets increasing PCard usage to replace half of the small dollar purchases customarily acquired through DPOs, the City could realize more than \$100,000 in annual rebates based on the current rebate percentage offered by the National Bank of Canada.

Recommendation:

18. **The Treasurer develop and implement strategies to promote and expand the use of PCards by City divisions. Such strategies should include, but not be limited to:**
 - a. **Analyzing divisional purchasing patterns to identify potential areas for expansion**
 - b. **Developing and implementing measures to increase the use of PCards by divisions**
 - c. **Setting performance goals for the City based on the number of participating divisions and yearly PCard purchase volume.**

E. Contract Management

Certain numbers were missing a zero in the purchase agreement with the bank

As part of our audit, we reviewed the contractual terms in the 2004 Purchasing Agreement with the National Bank of Canada. We noted that several numbers in the contract relating to the rebate rates and expense reimbursement were missing a zero and were clearly a mistake. Although the rebates received by the City have been in keeping with industry rates and verified as accurate by staff, this issue should have been identified by the City's internal contract evaluation process in 2004, and the contract should have been appropriately amended.

In addition, staff could not locate a copy of the final contract retained by the City. Retaining a final copy of the signed contract is fundamental to contract management.

Recommendation:

- 19. The Treasurer ensure adequate contract review and management practices for the PCard program including:**
 - a. A thorough review of the contractual terms and rebate rates and volume tiers**
 - b. Retaining a copy of the final contract.**

F. Continuous Program Improvement

A process to enable continuous review and improvement of the PCard program is needed

To ensure the PCard program is adequately maintained, staff need to develop a process to facilitate continuous review and improvement of the program. According to the PCard Manual, a review/update of the program will be conducted on an annual basis, and a PCard Program User Group, consisting of staff from different divisions, will be created.

Staff advised that such a Program User Group has not been established. As a result, divisional staff involved in the program have not had a formal venue to share and discuss issues encountered at the divisional level. A City-wide user group would be beneficial to the on-going review and improvement of the program.

As the Corporate custodian of the program, the Accounting Services Division should be responsible for leading the continuous improvement process, as well as periodic reviews and updates of the PCard Manual, which was last updated in April 2007.

Recommendation:

- 20. The Treasurer, in conjunction with Heads of Divisions participating in the PCard program, develop a long term strategy for continuous improvement of the PCard program including:**
 - a. Establishment of a City-wide User Group**
 - b. Regular reviews and updates of policies and procedures.**

CONCLUSION

Expansion of the PCard program must be preceded by improving controls in the approval and monitoring process

Our review of the PCard program identified a number of gaps in the control framework, opportunities to improve efficiency, as well as the need for increasing compliance with PCard and related City policies. Compared to other methods of acquiring small dollar goods and services, PCards are a more efficient and economical procurement tool. As such the City should expand its PCard program to more divisions and promote higher usage among the currently participating divisions. The expansion of the program must however be preceded by improving controls in the transaction approval and monitoring process.