

3.11–Purchasing Cards

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 goods and services. The Management Board of Cabinet generally defines these as purchases of \$5,000 or less. The PCard (which is a MasterCard) is not to be used for travel and travel-related expenses, payment of salary and wages, or personal purposes. The 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 a government employee, the government is liable for all expenditures made on the cards. A major Canadian bank is the current PCard service provider for the government of Ontario.

With respect to PCards, Management Board Secretariat (MBS) is primarily responsible for:

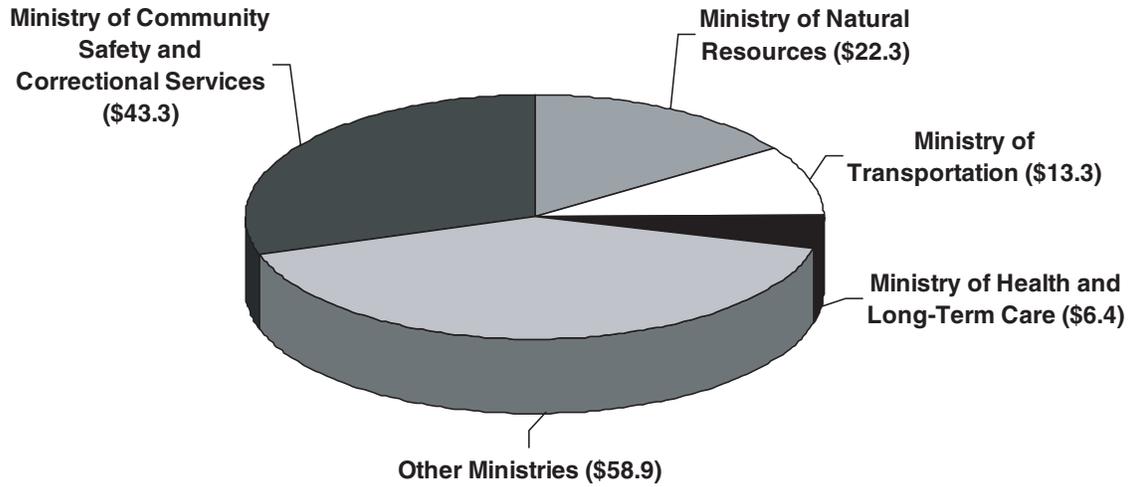
- negotiating, establishing, and maintaining the corporate contract with the PCard provider; and
- when requested, assisting ministries in the development of their administrative procedures in support of the Procurement Directive and PCard operating procedures.

Expected benefits from using the PCard include:

- reduced administrative costs in paying for low-dollar-value purchases—ministries can replace multiple cheque payments to numerous vendors with one payment to the PCard service provider;
- no GST charges (since each card has a GST exemption number);
- reduced use by employees of petty cash and accountable advances; and
- a simplified purchasing process for employees.

During the 2003/04 fiscal year, an average of 14,600 PCards were held by government employees. Approximately 720,000 transactions totalling \$144 million were processed. The four ministries we audited accounted for approximately 60% of the total amount spent, as shown in the following pie chart.

Purchasing Card Expenditures, 2003/04
(\$ million)



Source of data: PCard service provider

AUDIT OBJECTIVE AND SCOPE

The objective of our audit was to assess whether internal controls over the management and use of Ontario government purchasing cards (PCards) were functioning effectively to ensure that relevant government directives, policies, and procedures were complied with.

Our audit fieldwork was conducted at Management Board Secretariat (MBS) and the ministries of Community Safety and Correctional Services; Health and Long-Term Care; Natural Resources; and Transportation. Our audit fieldwork was substantially completed in June 2004 and focused on expenditures incurred from November 2002 to October 2003. Our audit fieldwork was conducted in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances. The criteria used to conclude on our audit objectives were discussed with and agreed to by senior management at MBS and each of the four ministries we audited. These criteria relate to systems, policies, and procedures that should be in place and operating effectively.

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

At the ministries of Community Safety and Correctional Services and Transportation, the Internal Audit branches had conducted recent audit work on PCard expenditures. We reviewed their work and took it into account in conducting our audit.

OVERALL AUDIT CONCLUSIONS

We found that the vast majority of purchasing-card (PCard) transactions were in compliance with relevant government directives, policies, and procedures. However, 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 believe 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 exists that any inappropriate PCard transactions would not be detected.

The exceptions noted during our 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 business 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 are contrary to government directives.

With respect to employees' spending limits, we found that some purchases that exceeded the maximum permitted dollar limit for a transaction were split into two or more transactions.

We also noted that neither Management Board Secretariat (MBS) nor the individual ministries at which we reviewed the PCard program had established any guidelines with respect to who should have a PCard.

We found that MBS had followed a fair and transparent competitive process in selecting the current PCard service provider.

DETAILED AUDIT OBSERVATIONS

CONTROLS ON PURCHASING CARDS

The use of the purchasing card (PCard) represents a significant change over traditional purchasing methods. Traditionally, purchases were approved in advance by an individual's manager. The PCard process, in contrast, allows the individual to make purchases using the card without formal pre-approval. Accordingly, it is essential with such a process to have in place appropriate approvals and monitoring to ensure that purchases are made properly and only for government purposes.

The Management Board of Cabinet's Procurement Directive for Goods and Services sets out the operating procedures for PCard management. Along with describing the process for using PCards, it outlines the responsibilities of different parties, including the following:

- Employees are to:
 - use their PCards for allowable purposes only;
 - ensure that all billings on their monthly statements reflect actual purchases made; and
 - maintain supporting documentation (especially original receipts) and submit such with their monthly statements to their manager for review and approval.
- Program managers are to:
 - authorize which employees are to receive PCards and set for each cardholder a maximum dollar limit per transaction and a credit limit per month;
 - implement proper record retention processes for receipts and statements;
 - verify the appropriateness of transactions;
 - monitor accounts to ensure that employees are adhering to card use requirements; and
 - cancel PCards for employees leaving their business unit.

In addition to the operating controls developed by Management Board Secretariat (MBS) and individual ministries, the PCard program has two overriding system controls. First, the system is to block employees from purchasing goods and services from specific merchants such as airlines, car rental companies, bars, taverns, health and beauty spas, financial institutions, and membership organizations such as golf courses. Second, each cardholder is assigned specific transaction and monthly dollar limits on their PCard. If an employee attempts to purchase goods or services that are from a blocked merchant or that exceed the employee's transaction or monthly limits, then approval is to be declined by the PCard service provider's system, and the PCard

cannot be used to complete the purchase. Employees may, after obtaining proper managerial approval, request a temporary exemption from these controls in order to make a specific purchase.

For financial reporting and cost control purposes, each PCard is assigned to a particular budget code or organizational unit for tracking costs. If an employee is authorized to purchase goods and services for two or more different organizational units, he or she is assigned a different PCard for each unit.

Although the following comments do point out a number of exceptions and areas where controls require strengthening, it should be noted that for the vast majority of PCard transactions reviewed, we found that government employees were following the Procurement Directive.

VERIFICATION OF TRANSACTIONS

After a cardholder makes a purchase, the vendor is paid by the PCard service provider within 48 hours. Each month, the PCard service provider electronically sends to each ministry a single bill that itemizes all purchases and other key data, such as the corresponding organizational unit. At the end of each month, the government electronically transfers to the PCard service provider an amount that covers the purchases made by all PCard holders during that month.

Reconciliation of Monthly Statements

Risks incurred in the use of any charge card include the erroneous posting of transactions to the card and duplicate charges being posted by a vendor. It is therefore crucial that the transactions on monthly statements are verified to ensure payment is not made for goods and services that were not received.

Each PCard holder is required to download his or her monthly statement from the PCard service provider and account for all purchases with supporting receipts from suppliers. The statement and supporting receipts are then to be submitted to the PCard holder's manager for approval. Timely and thorough reconciliations of statements are of critical importance to ensure that any disputed charges can be identified and corrected on a timely basis. For example, a cardholder promptly identified an incorrect charge exceeding \$8,000 on a PCard statement, and the charge was reversed by the PCard provider. However, we noted a number of examples of erroneous or duplicate charges that were not promptly identified by the cardholder. For example:

- An employee had not reconciled a PCard statement for more than two months, after which time the employee noticed a \$928 charge that should not have been on the statement. The card was then cancelled to prevent further risk to the Ministry, but we were advised the payment could not be recovered because too much time had elapsed.

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- Another employee failed to identify a duplicate charge of \$3,900 in April 2003 for the acquisition of four personal digital assistants (PDAs). We identified the duplicate charge during our review, but the government as yet has been unable to recover the \$3,900 because too much time had elapsed.

Submission of Supporting Documents

As mentioned, the Procurement Directive requires that cardholders maintain original, detailed supporting documents and submit them with their monthly statements to supervisors. Ideally, such documents clearly identify the name of the purchaser, what was purchased, and the name of the vendor.

We found many instances where no receipt at all was provided; the receipt provided lacked sufficient detail; or the receipt provided was photocopied or faxed. In such cases, there is an increased risk that improper use of PCards will go undetected. Some of the more significant examples we found were as follows:

- At three of the ministries we audited, we selected for review transactions from PCards issued to a staff member in each ministry's Minister's Office. During the period from November 2002 to October 2003, these three individuals incurred PCard expenditures totalling approximately \$133,000. The types of purchases on these cards included cell phone charges, courier services, and office-related items. When we asked for documentation to support the purchases made on these three cards, we were advised that no receipts were available. Ministry staff indicated that the receipts were likely destroyed after the October 2003 provincial election. Accordingly, we were unable to determine whether the charges on the PCards of these staff had ever been supported by proper receipts.
- One employee purchased \$20,000 worth of items from a retailer over a two-year period but submitted only charge card slips. There were no detailed receipts itemizing what was purchased. This same employee also accrued a significant number of loyalty points from the retailer, which contravenes government policy. We also noted that this employee submitted a number of receipts from two fuel vendors. The employee had altered the receipts to indicate that items of a different nature had been purchased. At the completion of our audit work, the Ministry was still investigating these matters.
- Another employee had 11 PCard expenditures from December 2002 to July 2003—totalling approximately \$9,400—with no supporting documents provided to support the purchases. Purchases were made from office suppliers, computer companies, and a ski resort. We understand that this employee retired in 2004, and no receipts have been obtained to support the 11 purchases.

We also noted numerous instances where photocopied or faxed receipts were submitted to support purchases that were often for thousands of dollars. This increases the risk of alterations or duplicate payments being made.

Review and Approval of Monthly Statements

Timely and thorough review and approval of purchases is an essential control over the use of PCards. The approving manager is responsible for ensuring that all purchases made by the cardholder are business related and are supported by appropriate detailed receipts. We found far too many instances where the required review had not been satisfactorily done. Such review by approving managers may have mitigated many of the problems identified in our report.

TIMELINESS OF APPROVALS

We found many instances where managers did not perform their approval function in a timely or otherwise satisfactory manner. For instance:

- A program manager did not approve one cardholder's monthly statements where receipts were missing. However, no further follow-up action was taken.
- The monthly statements for one employee covering December 2002 to June 2003 were all approved on April 19, 2004; furthermore, the November 2002 statement was never approved. We understand that it was not until we were conducting our audit work in 2004 that ministry staff noted an inappropriate charge of \$400. For another two ministry employees, statements for November 2002 to October 2003 were all approved on March 22, 2004. For another cardholder, the monthly reconciliations for the 11 months from December 2002 to October 2003 inclusive were all signed on January 29, 2004, shortly before they were provided to us for our audit.
- A number of managers had never approved several months' worth of their employees' monthly statements.
- Numerous managerial approvals throughout the ministries were not dated. As a result, it was impossible to determine if reviews had been completed on a timely basis.
- In one case where an employee's PCard statements for the 10-month period from January to October 2003 had never been approved, we were advised that the employee's supervisor was not even aware that the employee had a PCard. We found that a significant number of receipts were missing and could not be subsequently provided.

The last example demonstrates the need to ensure that managers are aware of which members of their staff have a PCard, whether or not the card has been used in the previous month, and the monthly activity. Recognizing this need, one of the ministries we audited has implemented a good practice whereby reports are provided to managers to enable them to determine which members of their staff have PCards, whether their PCards were used during the previous month, and the amounts spent on the cards.

DISALLOWED CARD USES

The Procurement Directive for Goods and Services states that PCards “must not be used for travel and travel-related expenses, payment of salary and wages or personal purposes” and requires that employees certify that all card charges are for goods and services that benefit the government.

Purchases of Personal Items

We noted a number of instances where employees used their PCards to acquire personal items that were subsequently paid for by their ministry. The most significant of these instances were as follows:

- Between November 2002 and June 2003, an employee made numerous purchases without providing receipts detailing what was purchased. We noted that the employee’s manager signed the statements for these months, indicating approval—even though the receipts were missing and the employee had signed only the statements for May and June 2003. When we brought this to the Ministry’s attention, the Ministry agreed that a number of the purchases should have been questioned based on the types of vendors listed in the statements, including a total of \$1,786 from one drugstore and approximately \$400 from other vendors.

As a result of our inquiry, the Ministry conducted an investigation and found that 53 purchases from this drugstore—made in the period from October 2000 to November 2003 and totalling \$5,000—were missing receipts. The Ministry obtained copies of the relevant receipts from the drugstore and found that the purchases included what appeared to be personal items. They included approximately \$2,700 worth of prescription drugs purchased from March 2002 to April 2003. Of this amount, the employee had been personally reimbursed \$2,500 from the government’s employee drug plan. In February 2004, after being advised of these issues, the employee repaid \$1,779. We understand that, as of June 2004, the Ministry was continuing to address these matters with the employee involved, although it had still not cancelled this employee’s PCard.

- In December 2003, an employee made two purchases totalling \$630 using a PCard. When we raised questions about the purchases in May 2004, the employee informed us that the PCard was used inadvertently and that these items should have been purchased using the employee’s personal credit card. While we were advised that the employee is repaying the \$630, it should be noted that this employee had also claimed approximately \$3,100 in personal expenses on travel claims. This issue is discussed in our audit report on travel and other related expenditures (see Section 3.12).
 - In September 2003, another employee used a PCard to make two payments to a dentist totalling \$1,168 and purchased clothing and shoes totalling \$391. None of the employee’s statements from April 2003 to October 2003 had been approved. We understand that the employee left the Ministry in early 2004.
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Purchases Relating to Travel

We found frequent instances where PCards were used for travel and travel-related expenses. Although these were generally business related, government policies do not permit the use of the PCard for such purposes. For example:

- Many employees at one ministry were using their PCards to pay for travel-related items such as meals, gas for rental cars or government vehicles, and accommodation. We also noted a case where two employees charged to their PCards approximately \$1,800 for 90 meals.
- Several employees at another ministry used their PCards to pay for travel-related items such as meals that included alcohol and accommodation. On one PCard, car service/limousine charges for two employees totalled \$12,400 in one year, while another card had \$5,600 in similar charges. These expenditures were generally for travel from Toronto to North Bay and totalled approximately \$450 each way. This example is also discussed in our report on travel and other related expenditures.

Permitting employees to use PCards to pay for travel-related expenditures increases the risk that an item may be paid for twice, once on the PCard and once as part of a travel claim.

Employee Recognition and Gift Purchases

While the Management Board of Cabinet directive on Travel Management and General Expenses clearly prohibits the use of public funds for social events—and specifies testimonial dinners and farewell functions as such—it is not always clear whether items purchased to recognize or reward employees are to be included in this prohibition.

We found that the practices followed in this regard varied between ministries and within ministries. It appears that the decision on whether or not to use public funds to pay for such items was generally left to the discretion of staff in each ministry program area or regional office. We noted numerous instances where PCards were used to pay for floral arrangements for staff or staff family members and staff appreciation and recognition events. The following are examples of such PCard uses noted at the ministries we audited:

- Approximately \$800 was spent on one PCard for flowers for various occasions from November 2002 to October 2003. At another ministry, \$850 on one PCard and \$780 on another PCard were spent for flowers during a one-year period.
- At one ministry, \$858 was spent in September 2003 on a golf tournament and meals for approximately 30 employees.
- At one ministry, \$503 was spent to purchase a gold chain and earrings as a gift for a retiring employee; at another ministry, \$360 was spent on food and retirement-party supplies.

- At one ministry, an employee was regularly purchasing items that we understood were to be given either to speakers at various events or to members of groups visiting from within and outside of the province. In February 2003, purchases totalling \$1,592 were made at one store; in March 2003, purchases were made at three other stores, totalling \$1,096. Similar types of purchases were also noted at another ministry: at one office, \$4,000 was spent for items such as blankets, clocks, and watches to give as gifts to visitors from other jurisdictions or to recognize employees; at another office, \$3,000 was spent on blankets, embroidered shirts, and sweatshirts for similar purposes; at a third office, \$1,300 was spent to purchase 10 coats, ranging in cost from \$90 to \$300 each, to be given to staff for special accomplishments.

We acknowledge that in some instances, purchases of this nature may well be justified. However, there is a need for guidance to ministries in this area, including what is a reasonable amount to spend on particular types of purchases.

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.

Management Board Response

Management Board Secretariat (MBS) agrees with the recommendation and is committed to ensuring that cost-effective controls are in place with respect to government spending and governing the use of the purchasing card (PCard).

In that context, MBS will work with the ministries to strengthen oversight procedures with respect to validation, documentation, review, and approval of PCard transactions. MBS is also working with the respective ministries on specific findings to ensure that action is taken to address all the exceptions to proper procedures noted in the report, including full repayment and other disciplinary actions as appropriate.

MBS will also undertake a comprehensive education and communication initiative for the PCard program to ensure that OPS staff reconcile and approve monthly purchases; that those purchases are supported with proper detailed receipts; and that the program promptly addresses any issues or discrepancies.

MBS is also working with the PCard service provider to ensure that tools are available to provide transaction details to cardholders and managers in a timely manner.

MBS, in consultation with Cabinet Office, will also develop guidelines regarding the use of public funds for employee recognition and gifts for official visitors and speakers at ministry events.

MANAGEMENT OF CARD ISSUANCE AND SPENDING LIMITS

The Procurement Directive requires that program managers set for each cardholder a maximum dollar limit per transaction and a credit limit per month. The dollar limit per transaction is a key system control placed on all PCards. Provided they have managerial approval, employees may obtain a temporary exemption from their transaction limit to purchase a specific item that exceeds the limit.

Split Purchases

We noted several instances where employees who did not obtain a transaction-limit exemption circumvented the dollar-limit control by splitting a purchase that exceeded the limit into two or more transactions. Such a practice increases the risk that a high-priced item may be interpreted by a supervisor reviewing a monthly statement as a number of lower-priced items. Our findings included the following:

- At one ministry, an employee who had a \$10,000 limit per transaction made a purchase of approximately \$43,000 from a supplier of scientific equipment and

split it into four transactions. In addition to our concern about the practice of splitting such a purchase into multiple transactions, we questioned whether using the PCard for a purchase of this magnitude is meeting the PCard's intent of reducing the cost of acquiring and paying for low-dollar-value goods and services. The practice of splitting such purchases could also lead to avoidance of prudent purchasing requirements such as obtaining competitive quotes.

- At another ministry, an employee whose dollar limit per transaction was \$5,000 purchased an item costing \$7,975. The employee split the purchase into two transactions of \$5,000 and \$2,975. In another case at the same ministry, an employee with a \$1,000 transaction limit split a purchase of \$5,219 into five separate transactions.
- At a third ministry, an employee bought a digital camera for \$4,622 and split the purchase into five separate transactions. Initially there was no receipt attached for this purchase (one was provided after our request). In addition to questioning the splitting of the invoice, we expressed concerns regarding the need for such an expensive camera.

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.**

Management Board Response

Management Board Secretariat (MBS) agrees with the recommendation and will work with the ministries to strengthen processes for ensuring that card limits are followed by all cardholders.

MBS is also undertaking a comprehensive review of the types of reports currently available through the PCard program to identify mechanisms for improving information on cardholders and their card activity, including information on whether a purchase has been split into multiple transactions.

MBS will undertake a comprehensive education and communication initiative around the PCard that emphasizes the requirement that employees must obtain a temporary exemption when transaction limits need to be exceeded. In addition, managers will be reminded of the need to reconcile and approve monthly purchases, ensure that those purchases are supported with proper detailed receipts, and promptly address any issues or discrepancies.

Review of Card Utilization and Limits

PCards can also be used improperly by employees who have no need for a PCard or whose card limits have been set unnecessarily high. It is therefore important to ensure that PCards are issued only to employees who need them to fulfill their duties and that the PCard limits set for those employees are consistent with the employees' spending needs.

We found that neither the Management Board of Cabinet nor the individual ministries at which we reviewed the PCard program had established any guidelines with respect to who should have a PCard. This decision is left up to managers' discretion, as is the decision of what credit limits to establish for staff.

Given that each PCard increases financial risk to the government, we expected that each ministry would periodically assess whether any PCards should be cancelled due to lack of use or whether any limits on cards should be adjusted. That is, continued lack of card activity should warrant a management review of a cardholder's need of a card.

In this regard, we found in our review of overall government purchasing-card data that no purchases had been made for a year on 644 PCards—representing 5% of the total number of government PCards—active for the period of November 1, 2002 to October 31, 2003. In addition, we noted that approximately 50% of PCard holders used less than 5% of the maximum credit available to them.

Early in 2004, one ministry conducted a review to determine whether any PCards should be cancelled due to low usage and whether the transaction and/or monthly limits on any cards should be adjusted. The Ministry determined that, of 2,316 cards issued, 270 cards should be cancelled, and the limits on 644 cards should be reduced. Accordingly, total monthly limits were reduced by approximately 33% (from a total of \$23.9 million to a total of \$16 million).

However, we did not observe this good practice being followed at the other three ministries we audited—none of the three ministries had completed recent reviews of their PCards with a view to cancelling cards or adjusting limits.

Managers are also responsible for ensuring that PCards held by staff who are leaving the government or moving to other units are cancelled on a timely basis. In some instances, it was not possible to determine when or if ministries requested that the PCard service provider cancel PCards, since, according to ministry staff, the PCard service provider was not providing confirmation of cancellations. We noted that PCards had yet to be cancelled for 43 staff at one ministry who had left anywhere from one to 17 months previously. At two other ministries, we noted lengthy delays between the date employees left and the date when cards were cancelled.

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.

Management Board Response

Management Board Secretariat (MBS) agrees with the recommendation and will work with the ministries to ensure that ministries regularly assess whether cards should be cancelled and whether card limits should be adjusted.

Controls will also be reviewed to ensure that cards are cancelled in a timely manner when cardholders leave a ministry.

MBS is also undertaking a comprehensive review of the types of reports currently available through the PCard program to identify mechanisms for improving information on cardholders and their card activity. MBS agrees that improved and more detailed reports will strengthen program managers' ability to control card issuance and usage.

Effectiveness of Card Limits

The PCard service provider's system is to decline approval at the point of purchase if an employee attempts to purchase goods or services that exceed transaction limits (keeping in mind that employees can, with managerial approval, obtain a temporary lift of their limits in the system and thereby not be hindered in making purchases exceeding the limit).

We found approximately 500 transactions where staff made purchases exceeding their transaction limits. We took a sample from among the transactions made at one ministry and found that staff had obtained temporary exemptions from their limits to make a specific purchase. However, at another ministry, with respect to a sample of 17 transactions that exceeded the limit, only three of the transactions involved a temporary limit increase; the 14 remaining transactions were nevertheless processed by the service provider and billed to the government. One of the employees involved in the latter group of transactions, who had a \$1,500 limit and had made a \$3,100 purchase, indicated that the merchant was able to process the transaction and the employee was unaware the transaction exceeded the allowable limit. We questioned how the system would allow such transactions to be processed and were advised that this issue would be followed up on with the service provider.

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.

Management Board Response

Management Board Secretariat (MBS) agrees with the recommendation and will work with the service provider to ensure that system controls on dollar limits for cardholder transactions, as well as controls on the types of transactions, are in place.

As part of its comprehensive education and communication initiative around the PCard, MBS will work with ministries to ensure that:

- *managers understand the requirements to review, report, and address transactions that exceed cardholder limits and report such transactions to the service provider; and*
- *cardholders and managers understand that card limits must be adhered to unless the employee has received prior approval to exceed the limit.*

MINISTRY MONITORING OF PURCHASING-CARD TRANSACTIONS

The various issues identified in our report illustrate the value of ministries periodically conducting reviews of PCard usage. Conducting such reviews can:

- serve as a deterrent to potential abusers of their PCards;
- promote more careful oversight and management on the part of managers of PCard holders; and
- identify control breaches and exceptions.

Two of the four ministries we audited have taken steps to undertake internal reviews of PCard expenditures. One started conducting reviews of PCard records in 2001 and completed a second review in 2003. In 2004, the other undertook an initial risk assessment of its PCard program, developed appropriate selection criteria, and reviewed a small sample of transactions.

We noted that the two ministries undertaking reviews were not consistent in their approaches and reporting processes. Providing ministries with some standardized tools could be beneficial. Such tools could include a standard set of factors to use in assessing risk and selecting samples for review, and a common set of procedures for analyzing transaction data, completing review work, and reporting on review results.

PCard reviews could also be made more effective if detailed information were acquired from the PCard service provider. Currently, the PCard service provider can provide only simple statistical information to ministries, such as the amount spent by PCard holders. Examples of the type of information that would assist management in overseeing PCard usage could include total purchases by vendor, all purchases over a maximum dollar amount, and which PCard holders are exceeding their PCard limits.

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.**

Management Board Response

Management Board Secretariat (MBS) agrees that strengthening of controls cost effectively will promote responsible and compliant PCard usage.

MBS will investigate the development of standardized procedures and tools for periodically reviewing and reporting on PCard transactions as recommended by the Provincial Auditor.

MBS is also undertaking a comprehensive review of the types of reports currently available through the PCard program to identify mechanisms for improving information on cardholders and their card activity. MBS agrees that improved and more detailed reports will strengthen program managers' ability to control card issuance and usage.

SELECTION OF PURCHASING-CARD SERVICE PROVIDER

The initial PCard service provider had originally been awarded the contract in 1996. A second contract was awarded in 1999. In order to comply with its practice of periodically retendering ongoing business, the Management Board of Cabinet issued a request for proposals in August 2001 for the provision of purchasing-card services to the government of Ontario. Four proposals were received by the required deadline, and each of the proposals was evaluated based on a number of criteria, including:

- experience;
- ease of card issuance;

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- the process for distributing and cancelling cards;
 - reporting and billing requirements; and
 - customer support services.

Evaluation of the proposals based on these criteria narrowed the bidders down to two, who were then assessed based on their prices/fees and the rebates they offered.

We reviewed the selection process for the new contract and found that it was transparent and that it allowed all bidders to have a fair and equal opportunity to obtain the contract. A three-year contract was awarded to a major Canadian bank, which was not the incumbent provider, to commence on November 1, 2002.