

The Corporation of the City of Windsor Purchase Card Program Review

Final Internal Audit Report

13 January 2016

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Summary of Internal Audit Results

The Purchasing Card (“P-Card”) program is designed to streamline the City of Windsor’s (“the City”) purchasing system for small dollar purchases (under \$1,200.00) to better support the organization’s operating needs. P-Cards are used when employees are making purchases of small, non-routine, unexpected or emergency goods or services and the use of petty cash is not an efficient or available mode of payment. The City has been administering its P-Card program with the Bank of Montreal (BMO) since 2014 and Scotiabank in 2013 and prior. Annually, the City receives a rebate from BMO based on the total spending on City P-Cards.

The Internal Audit methodology, in general, involved interviewing process owners to obtain an overall understanding of the process and inspecting relevant documentation to ensure controls were operating as intended.

Examples of internal audit’s specific approach are as follows:

1. Obtained a complete population of transactions processed for the period subject to testing; performed procedures to assess the completeness of the population;
2. Selected a sample of transactions and requested supporting documentation which demonstrate compliance with the established procedures and policies, such as:
 - Approval of the P-Card Request/Acknowledgement Form;
 - Supporting documentation is retained with the P-Card statement;
 - P-Card statement is reconciled and reviewed by someone independent of the cardholder; and
 - The nature of good or service purchased is eligible for payment via P-Card.

Internal Audit also obtained a listing of active cardholders and compared this to a list received from Human Resources (HR) showing personnel that had left the City during the period, to evaluate whether the P-Cards were deactivated in a timely manner.

The following requirements and responsibilities were described in the City’s Purchasing Card Policy, last updated in 2013, and considered during the course of the review:

- The Purchasing Card Coordinator for each user department reconciles their Purchasing Card receipts to a monthly total and must resolve all discrepancies;
- The Purchasing Department is responsible for reviewing individual transactions, departmental activities, and company- wide charges for compliance to policies and procedures;
- Cardholders' division signs receipt for payment approval, writes the chart field on the receipt and forwards to administrative area within user department; and
- Management reconciles and approves purchasing card transactions

The engagement has been performed in accordance with the scope of work per Appendix A.

Scope Limitation

Internal Audit was unable to assess the appropriateness of P-Card transactions due to the lack of a documented reason accompanying the detailed receipts/invoices selected for review. Accordingly, Internal Audit was unable to verify by inspection, whether a purchase was for a valid business or personal reasons. For additional information, refer to finding #3.

Summary of Transactions

The following table summarizes the breakdown of spending by City Department from January 1, 2014 to August 31, 2015 (20 months) and is for informational purposes only:

Department/Area	# of Transactions	Amount	Average \$ per Tnx	# of Cards
Facilities	4,447	\$ 689,474.08	\$ 155.04	27
Parks	4,565	\$ 949,181.42	\$ 207.93	45
Public Works	3,148	\$ 668,725.96	\$ 212.53	59
Recreation & Culture	3,192	\$ 742,829.88	\$ 232.72	33
Traffic	533	\$ 124,098.96	\$ 232.83	5
Traffic – Dedicated MTO Card	80	\$ 433,532.00	\$ 5,419.15	1
Building	16	\$ 3,394.53	\$ 212.16	1
City Clerk's Office	54	\$ 28,531.52	\$ 528.36	2
Huron Lodge	2	\$ 753.00	\$ 376.50	1
Legal-Property Agents	141	\$ 2,915.24	\$ 20.68	1
Mayor's Office	127	\$ 97,859.78	\$ 770.55	2
Planning Department	12	\$ 1,490.64	\$ 124.22	2
Social Services	208	\$ 38,993.55	\$ 187.47	4
Windsor Airport (YQG)	116	\$ 73,276.73	\$ 631.70	2
Windsor Public Library	312	\$ 47,602.19	\$ 152.57	9
Fire Department	1,808	\$ 323,460.32	\$ 178.91	16
Information Technology	661	\$ 246,567.25	\$ 373.02	5
Police Department	2,115	\$ 494,695.45	\$ 233.90	13
Transit Windsor	1,484	\$ 235,866.58	\$ 158.94	9
Other (payments to Services Ontario)	179	\$ 242,794.25	\$ 1,356.39	(various)
Total for 20 month period	23,200	\$ 5,446,043		
Total for 12 month period (July 2014 to June 2015)	13,681	\$ 3,200,517	** See note below	

As noted above, the City has one (1) dedicated card in use by its Traffic Department. A dedicated card is a credit card account number that is specific to the Traffic department but there is no physical card or associated card holder/employee. Purchases made on this card are limited to transactions with the Ministry of Transportation only. This limitation is managed by assigning one (1) unique Merchant Category Code ("MCC") to the dedicated card account within the BMO online portal.

*** Note: The above table represents transactions since the program was transitioned to BMO to the end of August 2015 and is provided for informational purposes only. It should be noted that the scope of this review was limited to a 12 month period, from July 2014 to June 2015. Controls such as monthly reconciliations, requests for P-Cards, cancellations etc. were only reviewed during this 12 month period and the report classification section represents the assessment for the same period.*

Report Classification

In general, for the scope period, July 1, 2014 to June 30, 2015, Management has designed controls in many areas to ensure that:

- Purchasing cards are issued to the appropriate employees based on necessity;
- Cardholders are aware of and understand the terms of use of the card;
- Use of purchasing cards is in line with policies and procedures or with approved exemptions;
- Sufficient documentation is obtained and retained to support amounts charged (i.e. receipts);
- Timely payment is made to the bank each month; and
- Cards are returned and cancelled when an employee leaves the City.

Overall, the risk of inappropriate use is partially managed by configuring each card with certain blocked or unblocked Merchant Category Codes. Merchant Category Codes are numbers assigned to credit cards and merchants (vendors) are assigned to specific MCC's. By the very nature of the automated controls, purchases can only be made to MCC's that have been deemed allowed by the City for particular cards. The ability to block specific Merchant Category Codes helps prevent cards from being used for unauthorized purchases. Furthermore, transaction limits are built into the cards to prevent and decline purchases exceeding the limit at the point of sale.



Although it is not a common practice amongst similar organizations to require supervisor/manager approval on every P-Card receipt, it was noted that a sign-off on individual receipts by Department Administration Managers is a current requirement at the City. However, a documented rationale/reason for purchases was only noted in 25% of the samples selected for review as this is not a required step outlined in the P-Card Policy. Without a documented reason for each purchase, there is an inherent limitation for an independent reviewer to validate whether purchases were for a legitimate business purpose.

Given the high volume of transactions across multiple departments, it may be difficult to effectively review all P-Card spending. Cardholders, department coordinators and supervisors do receive required training of Purchasing policies and procedures. Inherently, using P-Cards as a method of procuring goods and services means that certain preventative controls (such as vendor selection, approval of purchase requisitions, segregation of duties in receiving and payment approvals) are not applicable. As a result, more monitoring and detective controls are required to manage and oversee purchases/spending.

At least bi-monthly, the Purchasing department performs an independent review of BMO statements and flags any unusual transaction trends. It was noted that the accountability for reviewing appropriate use of P-Cards is on the individual department administration or managers reviewing/approving spending on a per transaction basis. The managers typically collect receipts from cardholders on a daily or weekly basis. It was observed in some departments that a manager would sign off (via stamp or some other measure) on each receipt and an administrator compiles a detailed transaction listing, which can be reconciled with the BMO statements. Management should work with BMO to ensure detailed transaction level information is available on a timely basis to enable departments to perform an efficient and effective reconciliation against physical receipts.

In addition, to ensure there is sufficient and appropriate monitoring of purchasing card use, Management may want to perform an analysis of usage by department, card holder or MCC and follow up on unusual patterns or trends. Based on the analysis, Management should perform spot checks of receipts to validate that the purchases are to the benefit of the corporation and not the individual making the purchase. To achieve this, Management should update its P-Card Policy to require card holders to provide a documented reason on all transaction receipts/invoices. Management may want to integrate data analytic software in the P-Card program with embedded alerts, to help prevent or detect potential fraudulent and noncompliant transactions. The results from these oversight activities may be used to train supervisors in fraud and abuse detection.

Based on the controls identified and tested as part of the Internal Audit of the City's P-Card process and controls, we have determined that there is reasonable evidence to indicate that:

	No or limited scope improvement	No Major Concerns Noted	Cause for Concern	Cause for Considerable Concern
Controls over the process are designed in such a manner that there is:				
Sample tests indicated that process controls were operating such that there is:				

See Appendix B for Basis of Finding Rating and Report Classification. Management has provided comprehensive action plans, which we believe will address the deficiencies noted.

Summary of Positive Themes

We noted the following positive themes as part of the review:

Purchase Card Administration

- Purchasing Department is responsible for managing the Purchasing Card system online (hosted by Bank of Montreal or BMO), including requests for new cards and requests for card cancellations;
- Blocking codes are assigned based on the pre-determined transaction limits required/approved for card holders;
- When the City transitioned from Scotiabank to BMO, Purchasing required new P-Card Acknowledgement Forms for existing and new cardholders; and
- The design of card request form encourages multiple levels of review, both from the cardholder's department and the purchasing department.

Purchase Card Usage and Compliance with Policies

- Merchant Category Codes are assigned to cards to ensure that certain types of vendors (i.e. Travel) are blocked;
- Overall receipt retention was strong (only one exception noted among 60 samples); and
- Training on how/when to use P-Cards is included as part of the City's Purchasing policies training and each time a new P-Card is issued.

Reconciliation and Payments

- All departments have designed processes for tracking receipts and performing a reconciliation against BMO statements; and
- Accounts Payable department will perform periodic reviews to monitor the P-Card clearing accounts to identify and communicate any outstanding amounts.

Monitoring

- Some periodic oversight activities by Purchasing and Finance over P-Card usage and compliance with P-Card Policies.

Summary of Findings

A summary of the six (6) internal audit findings, corresponding ratings and summary of agreed upon actions by Management are provided in the following table. The “Detailed Observations” section of this report provides additional information about each finding and proposed action plans. In addition to the findings noted below, two (2) considerations for improvement have also been noted on page 15 of the report.

Finding #	Topic	Rating ¹			Management Action
		Significant	Moderate	Low	
Purchase Card Administration					
P-Card Requests					
1	Request forms not signed			X	Make the required amendment to the Acknowledgement Form – Manager of Purchasing – 2016 Q1
P-Card Cancellations					
2	Untimely cancellations			X	Draft a procedure outlining how to ensure cards of departing employees are cancelled in a timely manner – Manager of Purchasing – 2016 Q2
Receipts and Reconciliation					
3	Receipts not signed	X			Revision of Purchasing Card policy to include procedures for review of receipts – Manager of Purchasing – 2016 Q3
4	Inconsistent/incomplete reconciliations	X			Create a standard reconciliation template and a shared secure folder – Manager of Purchasing – 2016 Q3
Policies and Procedures					
5	Policies and Procedures	X			Update of Purchasing Card policy to reflect current practices, including best practices concerning loyalty points – Manager of Purchasing – 2016 Q3
Transaction Monitoring					
Other					
6	Formal Monitoring and Exception Management Process		X		Current monitoring process will be included in the updated Purchasing card policies and procedures – Manager of Purchasing – 2016 Q3
Total		3	1	2	

Summary of Significant Findings

Internal audit has identified several deficiencies in the design or operating effectiveness of controls, three (3) of which has been classified as significant:

- Approval of transactions by Supervisor or Manager not always evident;
- A lack of documented independent review over monthly reconciliations against credit card statements; and
- The P-Card policies could be updated to align with current practices.

Management was cooperative with internal audit in providing supporting documentation and resources to facilitate an effective and efficient internal audit

Management Comments

The significant findings noted speak to the need to update the current Purchasing Card Policy and to create accompanying procedures that will establish and formalize clear methods for documentation and reconciliation of all transactions. Management will review and update the present policy and introduce a comprehensive procedure to address these issues and create a stronger framework for compliance.

Name: Alex Vucinic
Title: Manager of Purchasing
Date: 13/01/2016

Detailed Observations

Findings & Action Plans

Finding	Rating ¹	Recommendation & Action Plan
<p>1. Request forms not signed</p> <p>Observation In a sample of 12 new card issuances, the following exceptions were noted during a review of “Acknowledgement Forms” and “Request Forms”:</p> <ul style="list-style-type: none"> - Two (2) requests weren't signed by Purchasing Department Coordinator - One (1) request was approved by the card holder’s direct report - Two (2) requests were not signed by the departments’ P-Card Administrator/Coordinator - One (1) request form for the Dedicated P-Card was only signed by the Purchasing Manager and the acknowledgement form was not signed by a card holder. <p>Internal Audit was informed that although there are places on the form for four signatures (the cardholder, cardholder's supervisor, department coordinator, and P-Card program administrator), the signature of the department coordinator is not mandatory.</p> <p>Implication Perception that incomplete forms are acceptable.</p> <p>Root Cause The number and nature of ‘mandatory’ signatures of approval have not been defined or updated.</p>	<p>Overall Low</p> <p>Impact Low</p> <p>Likelihood Likely</p>	<p>Recommendation All staff with access to the Dedicated P-Card details should be required to sign the Acknowledgement Form.</p> <p>The acknowledgment form should be updated with the mandatory signatures (i.e. Purchasing Department and Manager of the requestor).</p> <p>Management Action Plan Management agrees with the finding and the recommendation. Management will amend the Acknowledgement Form.</p> <p>Responsibility Manager of Purchasing</p> <p>Due Date 2016 Q1</p>

¹ See Appendix B for Basis of Finding Rating and Report Classification

Finding	Rating	Recommendation & Action Plan
<p>2. Untimely Cancellations</p> <p>Observation In a sample of 16 P-Card cancellations, it was noted that in one (1) instance (6%), P-Cards were cancelled in the BMO system and physically destroyed after more than 20 days of the employee's effective last day of employment. In obtaining an understanding of the cancellation process, it was noted that City's Purchasing department can request from BMO that a card be cancelled but does not have the ability to de-activate themselves.</p> <p>Upon further review, no transactions occurred after the last day of employment for the exception(s) noted.</p>	<p>Overall Low</p> <hr/> <p>Impact Low</p>	<p>Recommendation All P-Cards should be acquired and deactivated on the day of termination, especially when the date of departure is known by the Purchasing department.</p> <p>Furthermore, Management should ensure the following steps occur consistently for cardholders that leave the City:</p> <ul style="list-style-type: none"> • Manager of Administration at the department level collects P-Cards upon exit; and • The cardholder's supervisor or HR sends purchasing a confirmation that the physical card has been destroyed. <p>Management should consider whether the BMO system allows a card to be deactivated by pre-entering the expected date of departure. Alternatively, Management may consider reducing the card limit to NIL upon being notified of a departure.</p>
<p>Implication Inactive employees may process unauthorized P-Card transactions after the date of departure.</p>	<p>Likelihood Likely</p>	<p>Management Action Plan Management agrees with the findings and the recommendations. Management will draft a procedure which will contain a process by which the Manager of Administration at the department level will inform the Purchasing department and HR immediately following the collection of the card. HR will notify Purchasing immediately of any staff departures or suspensions. Purchasing will immediately, following the notification, reduce that card limit to zero and notify BMO to cancel or suspend that card. Until the procedure is formalized, Management will communicate the process to the Managers of Administration and to Human Resources for immediate implementation</p>
<p>Root Cause The individual who requests P-Cards to be cancelled is not the same as the individual who receives daily termination listing or notification of a departure.</p>		<p>Responsibility Manager of Purchasing.</p> <p>Due Date 2016 Q2</p>

Finding	Rating	Recommendation & Action Plan
<p>3. Receipts not signed</p> <p>Observation As per the P-Card Policy, Cardholder’s supervisor signs receipt for payment approval, writes the chart-field on the receipt and forwards to administrative area within user department.</p> <p>i. Upon review of 60 receipts, 23 (38%) were noted to have no evidence of review (initials, stamp or otherwise) on actual receipts.</p> <p>Occasionally, it was noted that department managers approved purchases once on a monthly basis by signing a monthly summary of transactions as opposed to individual receipts. However, since the policy requires a supervisor to sign the actual receipt, the exceptions noted do not consider this approval method. Some departments signed/initialed receipts and recorded chart-field account number.</p> <p>ii. Upon review of 60 receipts, 45 (75%) receipts did not include a brief written description of the business reason for the purchase or the associated project/work order. This may limit the ability of the supervisor/ manager to determine if the purchase was made for a legitimate business reason.</p>	<p>Overall Significant</p> <hr/> <p>Impact High</p> <hr/> <p>Likelihood Highly Likely</p>	<p>Recommendation</p> <p>i. Training for new supervisors should be provided and there should be an acknowledgement by supervisors in regards to reading and understanding the P-Card Policy. Training should be clear on the monthly procedures whereby the Department Coordinator reconciles the total receipts to the BMO Statement and submits this along with all receipts to the Department Manager for review and approval.</p> <p>ii. Cardholders should ensure that receipts are submitted on-time with a documented reason for the purchase noted by the cardholder to allow the supervisor to consider the validity of the purchase during their review. At the end of the month, supervisors can then approve the overall monthly statement for each cardholder as opposed to signing/stamping each individual receipt (currently done as receipts are submitted or when the supervisor is available).</p> <p>If there were ever a need to investigate purchases, the reason supporting the supervisor’s approval would be more clear. <i>Also, refer to finding #4 below.</i></p> <p>The Purchasing Card Policy should be updated to require all cardholders to document the reason for the purchase prior to turning it in for review. The Department Coordinator should ensure that there is a documented reason (either on the receipt, a summary of transactions or on the BMO statement).</p>
<p>Implication Non-compliance with policies present the risk of reputational loss if:</p>		<p>Management Action Plan Management agrees with the findings and the recommendations and will implement them through the revision of the Policy and the creation of a procedure.</p>

Finding	Rating	Recommendation & Action Plan
i. An employee mistakenly uses the Corporate P-Card for personal reasons; ii. Patterns of misuse may not be identified or investigated; iii. Unauthorized purchases; and iv. Splitting may not be detected.		Responsibility Manager of Purchasing
Root Cause i. The current process relies on an independent review of transactions on a monthly basis to identify inappropriate transactions. In addition, receipts are submitted at various intervals and the supervisor/manager may not be available to perform a timely review. ii. A written description of the business reason for the purchase or the associated project/work order is currently not a requirement of P-Card Policy.		Due Date 2016 Q3

Finding	Rating	Recommendation & Action Plan
4. Inconsistent/incomplete reconciliations		
<p>Observation</p> <p>Departments perform a monthly reconciliation between receipts and the BMO statement amount, however, this control is applied in various ways across departments. It was also noted that the person preparing the reconciliation is the same as the person that resolves/explains discrepancies without an independent review of the results.</p> <p>This reconciliation is not documented or reviewed on a consistent basis across departments; however, credit card statements were being retained on a consistent basis.</p> <p>In four (4) out of eight (8) statements sampled, either a reconciliation was not explicitly shown/documentd (three (3) times) or the reconciliation did not appear to be reviewed (four (4) times). Where a review was performed, it was not clear if the review was timely (no date of review noted) in six (six) samples.</p> <p>In addition, the following inconsistencies were noted in how the Policy of performing monthly reconciliations are applied in practice:</p> <ul style="list-style-type: none"> • Across all departments, some sort of matching takes place between BMO statements and receipts, and includes a process for retention in monthly folders. However, not all departments use Excel for the reconciliation process. • Some of the departments would only document their reconciliation of total BMO payment for their respective P-Cards if discrepancies were noted. • Most departments download a .pdf statement from BMO online, however, some will retrieve an Excel download which is available online. <p>Finally, there appears to be unrestricted access to reconciliation or tracking spreadsheets that are stored on shared drives accessible to department staff (including cardholders).</p>	<p>Overall Significant</p>	<p>Recommendation</p> <ol style="list-style-type: none"> Consider setting up a shared folder to collect/store monthly reconciliation spreadsheets to allow restricted access and oversight by Purchasing or Finance that monthly reconciliations are being performed and reviewed (consistently and timely). Confirm with BMO whether default chart-field account numbers can be set up on each card. Standardize an Excel template to be used by departments for the matching/reconciliation of entries on BMO statements to receipts. Discrepancies from the reconciliation process should be explained and supported to allow an independent reviewer the ability to re-perform the reconciliation. In addition, the process should support a timely review (i.e. within 5 days of month end) by an independent party. Those employees involved in reviewing invoices or reconciling transactions should undergo training of any changes to processes as they are implemented. Purchasing or Finance Departments may want to perform a spot check of the reconciliations on a periodic basis. <i>Also, refer to finding #6 below.</i>
	<p>Impact Medium</p>	
	<p>Likelihood Highly Likely</p>	<p>Management Action Plan</p> <p>Management agrees with the findings and the recommendations and will implement the recommendations. Management will work with IT to create a shared folder and standardized template for all departments to use. Purchasing will provide training. It should be noted that Purchasing does review the reconciliation statements through a spot check on a monthly basis and will continue with the same process. All aspects will be captured in the revised policy and procedure.</p> <p>With respect to recommendation B, Purchasing has confirmed that BMO does not have the ability to utilize City chart fields in their system.</p>

Finding	Rating	Recommendation & Action Plan
<p>Implication Cardholders may become familiar with the inconsistencies or lack of monitoring in certain departments during certain periods.</p> <p>Increased risk in undetected or delayed detection of inappropriate transaction in the event of an unauthorized change to the tracking spreadsheets.</p> <p>Root Cause The current policy requires the Purchasing Card Coordinator for each user department to reconcile their Purchasing Card receipts to a monthly total and resolve all discrepancies. However, the policy does not stipulate how the reconciliations should be performed.</p>		<p>Responsibility Manager of Purchasing with input from all Managers of Administration at department level in regards to the standardized spreadsheet.</p> <p>Due Date 2016 Q3</p>

Finding	Rating	Recommendation & Action Plan
5. Policies and Procedures		
<p>Observation Upon review of the P-Card policy, certain policy exceptions/exemptions are applied in practice but not reflected in the policy. Some of the elements in regards to the current P-Card policy which could be enhanced include, but are not limited to, the following:</p> <ul style="list-style-type: none"> • The policy is silent on dedicated card processes and usage; • There does not appear to be a standard definition for the timeliness (i.e. five (5) business days) of when receipts must be returned; • The policy does not have a clear stance on loyalty points and process for identifying potential conflicts of interest or monitoring abuse; • There does not appear to be a standard defined for timeliness of reconciliation and review of statements; and • The policy or the P-Card acknowledgement form does not define how quickly P-Cards should be returned or deactivated. 	<p>Overall Significant</p>	<p>Recommendation P-Card policies should be updated to reflect current practices and exemptions (where possible). Exemptions to the policy should be clearly understood by Purchasing Card Administrators and Management rationale should be documented.</p>
	<p>Impact Medium</p>	<p>Training/refresh may be beneficial to reinforce policy requirements and related processes for exemptions. In addition to reinforcing policies and procedures, the City may also want to discuss best practices and usage statistics on a periodic basis with departmental administrators. Training should cover required procedures for handling transactions that are outside of the provisions of the P-Card policy.</p> <p>The City's stance on loyalty points should be documented and communicated in context with or in reference to the Conflict of Interest policy.</p>
<p>Implication Requirements or responsibilities may not be known or understood by those involved in the process. Insufficient training opportunities limit the ability for departments to share best practices or approaches to review/manage purchases.</p>	<p>Likelihood Highly Likely</p>	<p>Management Action Plan Management agrees with the findings and the recommendations. Management will update the P-Card Policy to reflect the current practices and exemptions as well as the City's stance on loyalty points. Purchasing department will include the P-Card Policy training with its formal Purchasing Bylaw training twice a year. Purchasing to review usage statistics periodically to ensure that where contracts may be beneficial it is explored.</p>
<p>Root Cause Generally, the procedures are straightforward and departments will tend to self-learn the processes, which include some required steps. There is acknowledgement of process steps each time a new card is issued.</p>		<p>Responsibility Manager of Purchasing</p> <p>Due Date 2016 Q3</p>

Finding	Rating	Recommendation & Action Plan
6. Formal Monitoring and Exception Management Process		
<p>Observation In obtaining an understanding for how the Purchasing Department monitors the P-Card program to ensure that usage is in accordance with policies and procedures, it was noted that detailed monitoring and reporting procedures have not been developed. Purchasing Card Coordinators can review credit card statements that come in from BMO on a departmental basis and look for unusual trends such as: transaction numbers that are in sequence on the same day with the same vendor (to catch transactions which could have been potentially split up) or vendor's names that are not typically used by the respective department. If required, receipts for any transactions that he has flagged are requested from the originating department coordinator.</p> <p>The monitoring of P-Card transactions (by Purchasing Dept.) is a manual process with little automation due to statements being received in paper form.</p> <p>During the period, the Finance Department performed thorough reviews of a sample of cardholders' monthly transactions where exceptions were identified across several categories, including, employee approved own transactions; approver not at higher level; no receipts and/or no approval; transaction splitting; and inappropriate purchases. The processes could be formally defined and structured to ensure appropriate coverage is obtained.</p>	<p>Overall Moderate</p> <hr/> <p>Impact Medium</p>	<p>Recommendation A formal/consistent/repeatable process for monitoring P-Card transactions should be performed on a monthly basis that considers transaction volume trends. For instance, X number of receipts from selected departments should be reviewed (on a rotational basis).</p> <p>Purchasing Department may want to perform a spot check of the reconciliations on a periodic basis. The person selecting the samples for spot checks should be different from the one carrying out the spot check. Monitoring efforts led by Purchasing should be coordinated with the monitoring efforts led by Finance. Purchasing should notify Finance of any specific exemptions granted to cardholders so that the spot checks do not yield false exceptions. Exceptions noted during these reviews should be formally tracked to allow management to identify patterns of non-compliance.</p> <p>In addition to performing spot checks at a card or transaction level, Purchasing or Finance should perform analysis (such as a review of invoices for a month) at a vendor/merchant level to identify opportunities for competitive purchasing.</p> <p><i>Also, refer to Consideration for Improvement #2 below.</i></p>
<p>Implication Issues, errors or abuse of P-Cards may go undetected or take a longer time to detect. Unidentified exceptions may result in cardholders retaining P-Card privileges instead of revoking privileges. Goods and services may not be purchased at the best price.</p>	<p>Likelihood Likely</p>	<p>Management Action Plan Management agrees with the findings and the recommendations. The reconciliation review currently conducted on a monthly basis will be captured in the amended policy and procedures.</p>
<p>Root Cause Formal monitoring and exception handling processes have not been defined and sufficient resources are not available to perform such monitoring activities. The focus has been on monitoring at the transaction/card level as opposed to program wide or vendor level.</p>		<p>Responsibility Purchasing department</p> <p>Due Date 2016 Q3</p>

Considerations for Improvement

The observations noted below are intended for Management's consideration to further improve or strengthen current controls or processes. These considerations were identified as opportunities to improve areas where the level of risk associated with achieving the control objective is lowered by controls already operating effectively.

1. Unused or Infrequently Used P Cards

Observation: During the course of the review, it was noted that approximately 11 active P-Cards were not used in the scope period. Furthermore, when reviewing a summary of cards and usage based on only those P-Cards activated before January 2015, it was noted that 69 cards were used less than 50 times, of which 29 cards were used less than 25 times and 12 cards were used less than 10 times. It may be more efficient to have fewer cards in use and have purchases that can be forecasted or predicted to be processed once per week on fewer cards (i.e. with pre-approval). The time requirement for multiple cardholders to make multiple purchases per day may not be the most efficient.

Recommendation: Management may want to consider alternatives with BMO whereby P-Cards that are not used for more than a specified number of months are automatically cancelled/deactivated. Where there are departments with more than ten (10) cards being used, consider cancelling the ones that are not used or rarely used. When determining which employees should be given a P-Card, trends in usage, necessity and/or past issues of misuse should be considered. Management should monitor P-Card usage and needs on a continuous basis and when P-Cards are expected to expire.

The following table summarizes the number of unused cards by department/area:

Department/Area	Unused Cards
FACILITIES	1
HURON LODGE	1
PARKS	3
PUBLIC WORKS	1
RECREATION & CULTURE	2
WINDSOR AIRPORT (YQG)	1
WINDSOR PUBLIC LIBRARY	2
Grand Total	11

2. Use of Data Analytics or Continuous Auditing

Observation: The City has not implemented continuous auditing tools to perform data analytics on a periodic basis. There may be certain alerts or indicators that are monitored by BMO that the City may not be considering.

Continued from Finding #6 above, there may be some opportunities to utilize continuous auditing tools/techniques and training additional staff from Purchasing and/or Finance to perform monitoring of transactions. The P-Card Policy should state required reasonable timeliness of review of exceptions by department managers, when necessary.

If transactions are tracked independently from the BMO online statement using Excel spreadsheets managed by department administrators, there could be an opportunity to create an automated reconciliation tool to compare transactions against electronic credit card transaction detail. Improvements to the monitoring process may also help identify routine transactions that could be made through the regular Purchasing Process (i.e. small purchase orders or Request for Quotations (“RFQ”).

Recommendations:

- a) Perform comparison of resource time required to monitor usage manually vs. using continuous data analytics.
- b) Consider how the processes for monitoring and managing fraud alerts or billing disputes identified with BMO will be performed and document these processes.
- c) If there is a fee associated with having BMO provide detailed transactions or monitoring alerts, the City should perform a cost benefit analysis of the additional fees.
- d) The exceptions from monitoring activities can serve as cause for consideration towards revoking P-Card usage privileges.
- e) Electronic monthly transaction listing from BMO should be obtained to facilitate reconciliation processes and potentially the journal entry import into PeopleSoft.
- f) Design continuous auditing techniques and associated tests to perform on a periodic basis for instance, vendors with high volume of purchases from P-Cards to ensure goods and services purchased routinely are at competitive prices.
- g) Communicate results of data analytic procedures with department managers and consider whether other means of procurement are more suitable for routine purchases.
- h) Where there are repeated exceptions from cardholders, take steps to train employees or revoke access to P-Card (if necessary).
- i) Place additional focus on cards with unusual trends/patterns when selecting sample for spot audits.

Appendix A: Background & Scope

Linkage to the internal audit plan

The Purchase Card (“P-Card”) audit is part of the risk based 2015-2016 City of Windsor Audit Plan approved by City Council on July 27, 2015. As part of the internal audit plan development, this business process area has processes and controls associated with mitigating and managing the corporate risk surrounding material resources.

Scope

As part of internal audit of the business processes and controls in effect, Internal Audit considered:

1. Card issuance
2. Compliance with P-card usage policies
3. Payments
4. Cancellation
5. Monitoring

Internal Audit worked with Management to identify the controls designed and implemented by Management to address the control objectives. Where the controls are sufficiently designed, Internal Audit tested the operating effectiveness (implementation over a period of time) thereof. Where gaps or issues were noted in either the sufficiency of the control’s design to address the risk or in the effective sustained implementation of the control, Internal Audit documented a finding for Management’s consideration.

The scope of this audit includes an assessment of P-Card programs and activities related to the most recent 12 month period (i.e. July 1, 2014 to June 30, 2015).

In addition to evaluating controls to prevent and detect inappropriate P-Card usage/payments, Internal Audit performed data analytics over a specified period.

Specific Scope Considerations

Consistent with commonly accepted practices, our work will be dependent on the following Management activities which are excluded from the scope of this review:

1. The effective design, implementation and operation of the Information and Technology (IT) environment and IT general controls.
2. The effective design, implementation and operation of business system and application controls related to the capture, processing, storage, reporting/presentation and exporting of information and data.
3. Controls over the completeness, accuracy, reliability and validity of the evidence, information and data provided by Management during the course of this review.

Appendix B: Basis of Finding Rating and Report Classification

Findings Rating Matrix

Audit Findings Rating		Impact		
		Low	Medium	High
Likelihood	Highly Likely	Moderate	Significant	Significant
	Likely	Low	Moderate	Significant
	Unlikely	Low	Low	Moderate

Likelihood Consideration

Rating	Description
Highly Likely	<ul style="list-style-type: none"> History of regular occurrence of the event. The event is expected to occur in most circumstances.
Likely	<ul style="list-style-type: none"> History of occasional occurrence of the event. The event could occur at some time.
Unlikely	<ul style="list-style-type: none"> History of no or seldom occurrence of the event. The event may occur only in exceptional circumstances.

Impact Consideration

Rating	Basis	Description
HIGH	Dollar Value ²	Financial impact likely to exceed \$250,000 in terms of direct loss or opportunity cost.
	Judgemental Assessment	<p>Internal Control Significant control weaknesses, which would lead to financial or fraud loss.</p> <p>An issue that requires a significant amount of senior management/Board effort to manage such as:</p> <ul style="list-style-type: none"> • Failure to meet key strategic objectives/major impact on strategy and objectives. • Loss of ability to sustain ongoing operations: <ul style="list-style-type: none"> - Loss of key competitive advantage / opportunity - Loss of supply of key process inputs • A major reputational sensitivity <p>Legal / Regulatory Large scale action, major breach of legislation with very significant financial or reputational consequences.</p>
MEDIUM	Dollar Value	Financial impact likely to be between \$75,000 to \$250,000 in terms of direct loss or opportunity cost.
	Judgemental Assessment	<p>Internal Control Control weaknesses, which could result in potential loss resulting from inefficiencies, wastage, and cumbersome workflow procedures.</p> <p>An issue that requires some amount of senior management/Board effort to manage such as:</p> <ul style="list-style-type: none"> • No material or moderate impact on strategy and objectives. • Disruption to normal operation with a limited effect on achievement of corporate strategy and objectives • Moderate reputational sensitivity. <p>Legal / Regulatory Regulatory breach with material financial consequences including fines.</p>
LOW	Dollar Value	Financial impact likely to be less than \$75,000 in terms of direct loss or opportunity cost.
	Judgemental Assessment	<p>Internal Control Control weaknesses, which could result in potential insignificant loss resulting from workflow and operational inefficiencies.</p> <p>An issue that requires no or minimal amount of senior management/Board effort to manage such as:</p> <ul style="list-style-type: none"> • Minimal impact on strategy • Disruption to normal operations with no effect on achievement of corporate strategy and objectives • Minimal reputational sensitivity. <p>Legal / Regulatory Regulatory breach with minimal consequences.</p>

² Dollar value amounts are agreed with the client prior to execution of fieldwork.

Audit Report Classification

Report Classification	The internal audit identified one or more of the following:
Cause for considerable concern	<ul style="list-style-type: none"> • Significant control design improvements identified to ensure that risk of material loss is minimized and functional objectives are met. • An unacceptable number of controls (including a selection of both significant and minor) identified as not operating for which sufficient mitigating back-up controls could not be identified. • Material losses have occurred as a result of control environment deficiencies. • Instances of fraud or significant contravention of corporate policy detected. • No action taken on previous significant audit findings to resolve the item on a timely basis.
Cause for concern	<ul style="list-style-type: none"> • Control design improvements identified to ensure that risk of material loss is minimized and functional objectives are met. • A number of significant controls identified as not operating for which sufficient mitigating back-up controls could not be identified. • Losses have occurred as a result of control environment deficiencies. • Little action taken on previous significant audit findings to resolve the item on a timely basis.
No major concerns noted	<ul style="list-style-type: none"> • Control design improvements identified, however, the risk of loss is immaterial. • Isolated or “one-off” significant controls identified as not operating for which sufficient mitigating back-up controls could not be identified. • Numerous instances of minor controls not operating for which sufficient mitigating back-up controls could not be identified. • Some previous significant audit action items have not been resolved on a timely basis.
No or limited scope for improvement	<ul style="list-style-type: none"> • No control design improvements identified. • Only minor instances of controls identified as not operating which have mitigating back-up controls, or the risk of loss is immaterial. • All previous significant audit action items have been closed.