

# AUDITOR GENERAL

Halifax Regional Municipality



## Purchasing Card Program Audit

May 2019

**May 10, 2019**

The following audit of the **Purchasing Card Program**, completed under section 50(2) of the Halifax Regional Municipality Charter, is hereby submitted to the Audit and Finance Standing Committee of Regional Council.

Respectfully,

*Original signed by*

Evangeline Colman-Sadd, CPA, CA  
Auditor General  
Halifax Regional Municipality

## Table of Contents

Summary.....	3
Conclusion .....	3
Key Take-aways .....	3
Audit Results.....	4
A Purchasing Card Used Inappropriately.....	4
Poor Monitoring and Enforcement .....	6
Other Control Weaknesses Found.....	10
Card access not appropriately managed.....	10
Data errors in monthly reporting to business units .....	11
Background.....	12
About the Audit.....	13
Appendix 1 – Recommendations and Management Responses.....	14
Contact Information .....	17

## Summary

### Conclusion

Procurement is not effectively managing HRM's purchasing card program. We identified many purchases which did not follow the Purchasing Card Policy. In some cases, Procurement did not pick these up as part of its monitoring. In other instances, Procurement was aware the purchase was not compliant but did not enforce the policy. When those responsible to oversee a policy do not enforce the requirements, it increases the risk staff throughout an organization will not see the policy as important or necessary to follow.

We found one purchasing card was used without appropriate regard for value-for-money. This was not identified and managed through Procurement's monitoring processes. We also found there was no process to inform Procurement when employees leave the organization so cards can be cancelled.

### Key Take-aways

- A purchasing card in the Transportation and Public Works Business Unit was used for purchases not allowed by policy and costly items when less expensive alternatives were available.
- Procurement's monitoring is missing many purchases not allowed by policy.
- For noncompliant purchases we identified through analysis and testing:
  - 29%: Procurement monitoring missed
  - 71%: Procurement decided not to enforce the policy
- Procurement does a poor job tracking repeat problems with cardholders not following policy.
  - Only track for a year and then reset
- Procurement not appropriately taking action when purchases do not follow policy
  - Managers and directors should be informed when cardholders have recurring issues.
- HRM has no process to notify Procurement when an employee moves, leaves HRM or takes a leave of absence.
  - Nine active purchasing cards assigned to employees who had left HRM
    - One card belonging to a former employee was used three times.
  - Three cards had transactions while the cardholders were on leave.

## Audit Results

### A Purchasing Card Used Inappropriately

We found an employee and manager in the Transportation and Public Works Business Unit used a purchasing card for items that either were not allowed by policy, or were costly and which we believe were not a reasonable use of taxpayer money. We reviewed all purchases made with this employee’s card between December 2015 and December 2018.

Over this 37-month period, we identified 48 purchases, totalling \$8,990, which were missing detailed receipts.

The following tables summarize some of the items purchased that were not allowed under the Purchasing Card Policy, or were allowed but are inappropriate because of the excessive cost of the item. These include items which should have been purchased through the Information, Communication, and Technology division.

<b>Table 1: Items Purchased that are not Allowed by the Purchasing Card Policy</b>		
<b>Items</b>	<b>Quantity</b>	<b>Cost</b>
Monitors	27	\$7,536
Tablets / laptops	3	\$1,771
Printers	5	\$1,357
Cell phone	1	\$100
Prepaid cell phone cards	26	\$1,541
Cables / adapters / chargers	335	\$13,900
Other computer accessories	67	\$5,721

<b>Table 2: Items Purchased that were Allowed by Policy, but Inappropriate</b>			
<b>Items</b>	<b>Quantity</b>	<b>Cost</b>	<b>Notes</b>
Bose brand Bluetooth speakers	2	\$476	
Apple Homepod	1	\$418	Management said this was purchased as a speaker for events and used 2-3 times, most recently at a staff BBQ.
Apple Airpod headphones	1	\$220	
Fossil brand bags	3	\$846	2 at \$358 and 1 at \$130
Cell phone cases over \$100	23	\$2,677	
Google Chromecast	1	\$91	

We attempted to verify the location of many items to confirm the purchases were not made for personal use. We are concerned about certain items we were told were broken or no longer in use, as no item was more than three years old. These included: a printer, a personalized leather phone case, a wireless touchpad, Google Chromecast, and two monitors.

Procurement staff noted issues with this employee's purchases in 16 monthly compliance reports over the 37 months we audited. Compliance issues noted:

- Eleven statements with missing receipt(s)
- One statement not submitted
- One statement submitted late
- One time not using preferred vendor
- One purchase split (to avoid card transaction limit)
- One local restaurant purchase – retirement function

Other than identifying issues in the monthly reports, Procurement took no further action on the use of this card.

We identified missing receipts in 26 monthly statements for this card, during the 37-month period we audited. Procurement staff did not note the missing receipts in 15 of the 26 monthly compliance reports. Additionally, they did not identify any of the noncompliant purchases listed in Table 1.

Supervisors are supposed to approve employee purchasing card statements. However, in this instance, the Manager did not sign several of the employee's statements. The Manager and employee told us there were months when the employee added the Manager's electronic signature and submitted the statement to Procurement without review and approval by the Manager. Relying on electronic copies of a signature, pasted onto a form, is problematic. Many administrative assistants have purchasing cards, and have access to their manager's electronic signature, which creates a risk a manager may not have approved purchases.

The Manager was aware many of the items we identified as inappropriate had been purchased. The Manager also knew manager responsibilities include approving monthly purchasing card statements from their staff. We confirmed this Manager was informed of compliance issues noted by Procurement on several occasions. While Procurement has oversight of the purchasing card program, business unit management is responsible to approve purchases, based on the Purchasing Card Policy.

We also noted the employee purchased items for the Manager. This is inappropriate, as purchases for an individual employee should be approved by that employee's superior.

#### **Recommendation 1**

Management in all business units should review and follow Purchasing Card Policy requirements for approval of monthly card statements.

**Management Response**

Agree. Directors and Managers will be educated on their accountability to personally review and approve monthly statements for their staff, as per policy, May 2019.

**Poor Monitoring and Enforcement**

We found Procurement staff missed purchases that did not follow the Purchasing Card Policy. They are responsible to review every purchasing card statement for compliance with Policy. Through analysis, we identified 32 purchases which did not follow the Policy. Of these, 22 were not recorded as noncompliant by Procurement staff. We also reviewed a sample of 29 purchasing card statements to see if all purchases complied with the Policy. We found an additional 35 noncompliant purchases. Twenty-three of these were not recorded as noncompliant by Procurement staff. The breakdown of these 45 noncompliant purchases is detailed in the following table.

<b>Table 3: Details Noncompliant Purchases</b>	
<b>Not allowed under HRM Purchasing Card Policy</b>	<b>Number of Purchases</b>
Single purchase split into more than one so each purchase is below purchase limit	10
Item should be obtained through HRM storerooms	9
Computer / computer accessories / software	8
Item should have been purchased using HRM standing offer	4
Taxi / shuttle services	4
Missing receipt details	3
Restaurant purchase without required director approval	3
Parking	1
Personal purchase	1
Alcohol purchase	1
PayPal purchase	1

Procurement staff told us they decided not to enforce the policy for 32 of the 45 (71%) noncompliant purchases we identified. They told us they missed the remaining 13 instances (29%) in which the Policy was not followed. Some of the noncompliant purchases which Procurement allowed were for out-of-town taxis. Management told us out-of-town taxis are not rejected as employees have no way to get from an airport to their destination. However, this is not compliant with the Purchasing Card Policy and the Employee Expense Reimbursement Policy, which both state these charges are paid by the employee and submitted for reimbursement. The Employee Expense Reimbursement Policy also allows for a cash advance to be granted prior to out-of-town travel.

Procurement staff have a list of items not allowed by the Purchasing Card Policy. They use this list to identify purchases which do not comply with the policy; however, the list is incomplete. Items missing included: computers, computer software and accessories, and items that can be obtained through HRM storerooms. Procurement management told us they do not check for items that may be available from HRM storerooms, as it is either not convenient for a business unit or the cardholder may not know which items are available through stores. This defeats the purpose of maintaining a storeroom of common items. Management also told us they do not include computers and computer accessories on the checklist because some computer accessories are not required to be purchased through the Information, Communication, and Technology division. Examples include cables and adapters.

### *Items not allowed on a Purchasing Card*

- Items normally considered to be an inappropriate use of public funds
- Computers, computer hardware, software and other accessories
- Cell phones
- Airline tickets
- Furniture
- Restaurant purchases unless pre-approved by a Director
- MacPasses, parking and taxi expenses
- Stock items available through HRM storerooms
- Gas purchases in personal vehicles
- University courses
- Alcohol purchases
- Donations
- Retirement functions
- PayPal purchases
- Items that can be purchased from standing offer, purchased elsewhere (not from standing offer)
- Splitting purchases for items above the transaction limit

#### **Recommendation 2**

Procurement should update the *Purchasing Card Policy* if required and enforce the Policy.

#### **Management Response**

*Agree. Procurement has already begun a jurisdictional review of other policies and will be consulting with business units over the summer with the objective of having a revised approved Purchasing Card Policy in the Fall of 2019.*

#### **Recommendation 3**

Procurement should update the supporting procedures for the *Purchasing Card Policy*, including checklists used by Procurement staff, to match Policy requirements.

#### **Management Response**

*Agree. Procurement will create a compliance process and matrix that is based upon the new policy referenced above and will provide training to staff on the use of the matrix in the Fall of 2019.*



Procurement does a poor job of collecting and maintaining detailed data on whether individual employees comply with the Purchasing Card Policy.

Procurement only tracks issues with Purchasing Card Policy compliance for one year. As a result, they lack the information to identify recurring issues or problematic cardholders.

Additionally, noncompliance issues are reported by month, not by individual purchase. Each of the following scenarios would be recorded as one compliance issue of the same severity.

- A cardholder missing one of 30 receipts for a monthly statement
- A cardholder missing nine of ten receipts for a monthly statement
- A cardholder who bought a laptop (not allowed by Policy) with a purchasing card

Procurement tracks the number of compliance issues by cardholder, but does not track what the compliance issues were. For example, if a cardholder has multiple incidents, the details of each incident are not kept in a single file. The only way for business units or Procurement to know the details is to review each monthly report. This makes it more difficult to identify problems over time.

#### **Recommendation 4**

Procurement should improve its tracking and reporting on individual employee compliance with the *Purchasing Card Policy* over time to better identify cardholders who repeatedly have issues following the Policy.

#### **Management Response**

*Agree and in progress. Procurement has revised the report to directors to be an ongoing rolling monthly report, so Directors will see all non-compliant issues with any of their cardholders at one time. Started May 2019.*

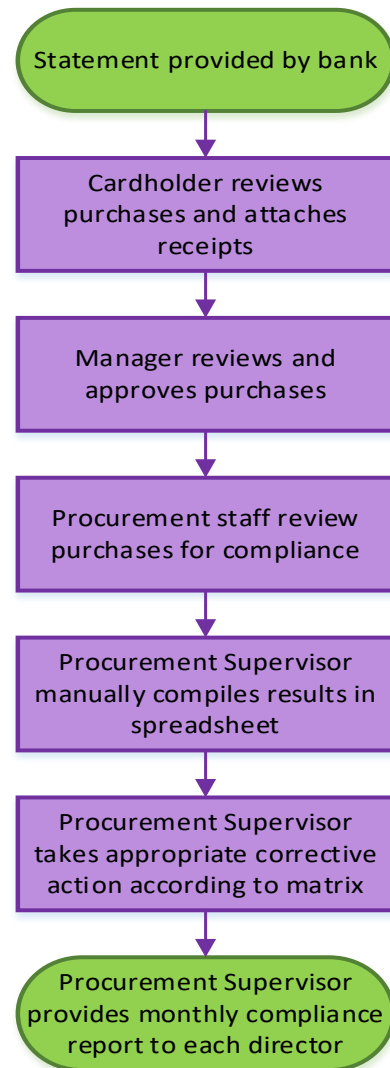
Procurement staff are not taking appropriate corrective action in cases where purchasing card use did not follow policy. For a sample of 30 issues Procurement noted, they only had evidence of corrective action taken for 11.

To support the Purchasing Card Policy, Procurement staff developed a matrix outlining corrective actions based on the severity or number of compliance issues by a cardholder. In the sample of 30 compliance issues we tested, Procurement did not escalate issues when compliance issues were more frequent or more severe. In five of the 11 samples with evidence action was taken, the business unit had concerns and contacted Procurement.

Procurement management use discretion in applying the matrix, including when to suspend or cancel cards. They outlined typical instances in which they would cancel a card, including repeat instances of breaking single purchases into more than one to fit under the limit for an individual purchase, two personal purchases, or a cardholder failing to submit two monthly statements. We identified two cardholders who did not submit two monthly statements, but neither of the cards were cancelled.

Procurement management told us they have verbal discussions about compliance issues with managers and cardholders which they may not document. Business unit directors receive monthly compliance reports for that unit’s cardholders. The Procurement Supervisor told us she believes this means the directors are aware of issues. However, the director may not realize the severity of some of the issues as the information is summarized. For example, the director’s report might state there was a missing receipt but does not provide details of the amount or what the receipt was for.

**Compliance testing process according to policy and procedures**



**Recommendation 5**

Procurement should take appropriate action when the *Purchasing Card Policy* is not followed, including notifying managers and business unit directors, and suspending or cancelling cards, depending on the severity of the incident.

**Management Response**

*Agree. Procurement will revise its current matrix (as noted above) and enhance the information being reported to include frequency, severity and content of non-compliant use of cards. This will form part of the policy revision.*

## Other Control Weaknesses Found

### ***Card access not appropriately managed***

We found nine purchasing cards assigned to employees who have left HRM, including three who left in 2016. One card belonging to a former employee was used three times after the employee left. We also identified three cards with a total of four transactions occurring while the cardholders were on leave from HRM.

Business unit management should notify Procurement when employees leave HRM or no longer require a purchasing card. This would allow Procurement to cancel cards and remove the possibility of a card being misused. Procurement staff told us there is no process to notify Procurement when an employee leaves or changes positions. They also said business units should inform Procurement staff of an employee's status change so that the card can be cancelled.

#### **Recommendation 6**

Business unit management should notify Procurement when employees leave HRM to limit procurement card access to current and active employees.

#### ***Management Response***

*Agree. As part of the Onboarding, Offboarding and Transfer process Managers will be required to notify Procurement of any staff with P cards who are leaving the organization or transferring out of their section, so the card can be cancelled. In addition, Procurement will be asking the Coordinators and Directors to review the employees listed on the monthly P card file to ensure all employees are current. Procurement will also utilize the daily report from ICT that contains employee changes, to identify staff with Pcards who have left HRM.*

We also found one cardholder with access to make changes to their own purchasing card limit (single purchase and monthly spending limits) and two cardholders who were responsible to conduct their own compliance testing for part of our audit period (April 2017 – September 2018). We found no issues with purchases made by these cardholders.

It is important that someone other than the cardholder approves credit limit changes and reviews purchases for compliance. This increases accountability and helps to ensure misuse is identified.

#### **Recommendation 7**

Procurement should prevent staff from performing their own compliance testing and from being able to change the limit on their own purchasing card.

#### ***Management Response***

*Agree. This has already been addressed. The administrators of the Pcard program will no longer be assigned a card. All cardholders now have their monthly statement reviewed by an objective person. Completed May 2019.*

We assessed Procurement's process to issue purchasing cards. We examined 30 cardholder files and found all had a completed application with appropriate business unit approval, and signed employee agreements on use of the card.

The Purchasing Card Policy requires that increases to credit limits be approved by appropriate business unit staff. In the sample of 30 cardholder files, we found two instances in which an unapproved credit limit change was made. In another case, an employee made a purchase at a hotel over the \$1,000 single purchase limit of the card. Management told us they instructed the bank to allow hotel charges above the single purchase limits as cardholders were forgetting to request a limit increase prior to travelling. We were told Procurement would still record these purchases as noncompliant; however, this purchase was recorded as compliant. This issue should be addressed in any policy change from Recommendation 2.

Throughout our audit, we identified instances in which business units did not follow the Purchasing Card Policy and Procurement did not enforce the Policy. Failure to consistently enforce Policy requirements could lead to a situation where the Policy is not taken seriously by HRM staff.

### ***Data errors in monthly reporting to business units***

We found errors in Procurement's monthly compliance reporting spreadsheets. These reports are manually compiled and therefore prone to error. Monthly reports are sent to business unit directors to provide information on whether their staff have followed the Purchasing Card Policy. These reports are also summarized for Procurement's Annual Report. For example, we found 50 of 583 compliance issues had the incorrect severity level of the issue recorded. We also found errors in the number of compliance issues per cardholder, and differences between the total number of compliance issues reported and the number included in supporting detail.

### **Recommendation 8**

Procurement should implement quality control checks on its purchasing card compliance reporting.

### ***Management Response***

*Agree. As noted, the development of the monthly report is a manual process. A process will be established whereby prior to distribution to directors, the monthly compliance report will have a 3rd person review.*

## Background

The purpose of HRM’s purchasing card program is to be an efficient, cost-effective method of purchasing and paying for small-dollar transactions (under \$1,000). As of September 2018, there were 585 active cardholders, across HRM business units, including Halifax Public Libraries. In 2017-18, HRM staff spent over \$5 million using purchasing cards (more than 28,000 transactions). The following table provides the breakdown by business unit.

Business Unit	Fiscal 2017/18	# Active Cards
Parks & Recreation	\$1,082,620	171
Corporate & Customer Services	\$946,540	58
Halifax Regional Fire and Emergency	\$635,025	74
Finance, Asset Management & ICT	\$595,131	35
Halifax Public Libraries	\$579,390	73
Transportation & Public Works	\$400,182	62
Halifax Regional Police	\$375,233	26
Halifax Transit	\$242,479	48
Chief Administrative Office (including OAG purchasing cards)	\$116,368	11
Planning & Development	\$109,966	12
Legal, Municipal Clerk & External Affairs	\$66,755	9
Human Resources	\$58,777	6

Procurement, a division of the Finance, Asset Management ICT Business Unit, administers the purchasing card program. The program is governed by the *Purchasing Card Policy and Procedures Guide Book*, which outlines guidelines, including restrictions on what can be purchased using a purchasing card. Procurement is responsible to review every purchase monthly for compliance and take appropriate action when noncompliance is discovered, such as notifying business unit directors, and suspending or cancelling cards.

## **About the Audit**

We completed a performance audit of HRM's purchasing card program.

The purpose of the audit was to determine whether HRM effectively manages its purchasing card program. Our role is to express an independent audit opinion of this area.

The objective of the audit was to assess whether HRM has policies and processes to effectively manage purchasing card activities.

We developed the criteria for this audit. These were discussed with, and accepted as appropriate by, management of the purchasing card program.

1. HRM should have documented guidance for the use, administration and safeguarding of purchasing cards.
2. Purchasing card activities should comply with policy.
3. Purchasing card program controls should be designed appropriately and operating effectively.
4. HRM should take appropriate corrective action in cases of noncompliance with its Purchasing Card Policy.

Our audit period was April 1, 2017 to September 31, 2018.

Our audit approach included: policy and process documentation review; data analysis; and review of card statements, compliance reports, and other relevant documentation on a sample basis.

This audit was conducted in accordance with the Canadian Standard for Assurance Engagements CSAE 3001 – direct engagements published by the Chartered Professional Accountants of Canada.

We apply the Canadian Standard on Quality Control 1, and our staff comply with the independence and ethical requirements of the Chartered Professional Accountants of Nova Scotia Code of Conduct.

## Appendix 1 – Recommendations and Management Responses

### **Recommendation 1**

Management in all business units should review and follow Purchasing Card Policy requirements for approval of monthly card statements.

### **Management Response**

*Agree. Directors and Managers will be educated on their accountability to personally review and approve monthly statements for their staff, as per policy, May 2019.*

### **Recommendation 2**

Procurement should update the *Purchasing Card Policy* if required and enforce the Policy.

### **Management Response**

*Agree. Procurement has already begun a jurisdictional review of other policies and will be consulting with business units over the summer with the objective of having a revised approved Purchasing Card Policy in the Fall of 2019.*

### **Recommendation 3**

Procurement should update the supporting procedures for the *Purchasing Card Policy*, including checklists used by Procurement staff, to match policy requirements.

### **Management Response**

*Agree. Procurement will create a compliance process and matrix that is based upon the new policy referenced above and will provide training to staff on the use of the matrix in the Fall of 2019.*

### **Recommendation 4**

Procurement should improve its tracking and reporting on individual employee compliance with the *Purchasing Card Policy* over time to better identify cardholders who repeatedly have issues following the Policy.

**Management Response**

*Agree and in progress. Procurement has revised the report to directors to be an ongoing rolling monthly report, so Directors will see all non-compliant issues with any of their cardholders at one time. Started May 2019.*

**Recommendation 5**

Procurement should take appropriate action when the *Purchasing Card Policy* is not followed, including notifying managers and business unit directors, and suspending or cancelling cards, depending on the severity of the incident.

**Management Response**

*Agree. Procurement will revise its current matrix (as noted above) and enhance the information being reported to include frequency, severity and content of non-compliant use of cards. This will form part of the policy revision.*

**Recommendation 6**

Business unit management should notify Procurement when employees leave HRM to limit procurement card access to current and active employees.

**Management Response**

*Agree. As part of the Onboarding, Offboarding and Transfer process Managers will be required to notify Procurement of any staff with P cards who are leaving the organization or transferring out of their section, so the card can be cancelled. In addition, Procurement will be asking the Coordinators and Directors to review the employees listed on the monthly P card file to ensure all employees are current. Procurement will also utilize the daily report from ICT that contains employee changes, to identify staff with Pcards who have left HRM.*

**Recommendation 7**

Procurement should prevent staff from performing their own compliance testing and from being able to change the limit on their own purchasing card.

**Management Response**

*Agree. This has already been addressed. The administrators of the Pcard program will no longer be assigned a card. All cardholders now have their monthly statement reviewed by an objective person. Completed May 2019.*



**Recommendation 8**

Procurement should implement quality control checks on its purchasing card compliance reporting.

***Management Response***

*Agree. As noted, the development of the monthly report is a manual process. A process will be established whereby prior to distribution to directors, the monthly compliance report will have a 3rd person review.*

## Contact Information

Office of the Auditor General  
Halifax Regional Municipality  
PO Box 1749  
Halifax NS B3J 3A5

Phone: 902 490 8407

Email: [auditorgeneral@halifax.ca](mailto:auditorgeneral@halifax.ca)

Website: [www.hrmauditorgeneral.ca](http://www.hrmauditorgeneral.ca)

Twitter: [@Halifax AG](https://twitter.com/HalifaxAG)