

**Department of Indian Affairs and Northern Development
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**Audit of the Use of
Acquisition Cards by Responsibility
Centre Managers for Purchases**

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Executive Summary

Purpose

The purpose of this report is to provide the results of the audit of the use of acquisition cards during fiscal year 1998-1999 in Indian and Northern Affairs Canada (INAC). The audit was conducted during May and June of 1999.

Background

INAC introduced its departmental acquisition card policy in August 1993. Acquisition cards have been in use since that time. As at March 31, 1999 there were over 500 cardholders. In fiscal 1998-1999, cardholders initiated over 17,000 transactions worth over \$5 Million.

An audit of the use of these cards was conducted at headquarters and three regional offices: British Columbia, Northwest Territories (NWT) and Yukon. Cardholders in these offices represent 80% of all cardholders in the department as at March 31, 1999 and made 76% of the total departmental acquisition card expenditures during fiscal 1998-1999. The objectives of the audit were to:

- examine the processes and procedures governing departmental acquisition card usage and existing control, monitoring and reporting mechanisms;
- determine the extent of compliance with Treasury Board and departmental policies and procedures; and
- assess the efficiency and effectiveness of the department's use, management and administration of acquisition cards.

Key stakeholders at headquarters were interviewed, policies and procedures were reviewed, and an initial review and test of the processes in place was conducted prior to visiting regional offices. At each regional office and then headquarters, the audit team conducted in-depth interviews with staff from Corporate Services Directorates and operational units involved with the management and use of the cards. Extensive file reviews, which covered 25% of the total dollar value of acquisition card transactions made in headquarters and the three regions visited, were conducted of payments and supporting documentation. Regional management representatives were fully debriefed on findings, conclusions and recommendations.

General Assessment

The department has been successful in implementing the acquisition card program to meet operational needs while complying with Treasury Board and departmental policies.

Summary of Findings

There is a high level of compliance with Treasury Board and departmental policies. Any negative findings were relatively infrequent taking into account the volume and value of transactions involved; the dollar amount of exposure to the department was minimal.

The financial risks involved in using acquisition cards is quite low. This fact is internally supported by both audit results, and existing monitoring practices and consequent findings, as well as externally through experiences reported by other government departments (OGDs) interviewed. Further, there is minimal exposure inherent in the current agreements established by the federal government with credit card companies.

Monitoring of acquisition card usage is being performed by Materiel Management and Financial units in an effective, although not necessarily efficient, manner. There are opportunities to reduce paper burden, improve monitoring practices, provide increased training and awareness, make better use of automated systems, and to further expand the effective and efficient use of acquisitions cards.

Recommendations

1. Revise administrative and monitoring activities to focus on more cost-effective practices.
2. Implement an ongoing training and awareness program for managers and cardholders.
3. Consider converting to a consolidated electronic billing and payment system to fully maximize processing cost savings associated with the acquisition card program and reduce or eliminate interest charges on late payments, which although not being currently charged by MasterCard to the federal government could result in significant costs in the future.
4. Continue to promote and expand the use of acquisition cards and reduce where possible the use of purchase orders, each of which involves processing costs of about \$150.

Section 1 - Introduction

Background

Acquisition cards are being used by federal government departments as a convenient and less burdensome method of procurement and payment for goods and services that meet eligibility conditions and that are within levels of delegated procurement authority. They are used as an alternative to other methods of contracting, such as purchase orders and call-ups against standing offer arrangements. The latter methods consume time and resources in the materiel management area, require additional expenditure initiation paperwork and require a requisition for payment for each purchase at a cost to the department, which is estimated at about \$150 per transaction as discussed in Section 9 of Findings and Recommendations in this report.

As at March 31, 1999, there were 509 cardholders in INAC. These cardholders made 17,163 acquisition card expenditures totalling \$ 5,036,455 for the 1998-1999 fiscal year.

Acquisition card transactions are governed by Treasury Board and departmental policies, the latter being recently updated May 1999. In addition to providing definitions of ineligible purchases using acquisition cards, these policies include the requirement for: departmental card coordinators; implementation of a departmental card program; economical, efficient and secure use of acquisition cards; effective financial controls; and, performance indicators, monitoring, and reporting on acquisition card activities.

The policies also identify the ability for departments to be flexible in applying Treasury Board policies, provided that there is accountability for any deviations, and for the ability to obtain electronic versions of monthly statements from credit card companies.

Credit card companies cannot hold cardholders liable for acquisition card transactions under any circumstances. The maximum government liability for unauthorized use of the card is \$50.

In the past few years, federal government departments, including INAC, have actively promoted the use of acquisition cards. Consequently, the number of cardholders and acquisition card transactions have dramatically increased and the number of low dollar purchase orders processed has declined.

A previous INAC audit of Materiel Management in fiscal year 1995-1996 included recommendations for the increased use of acquisition cards and an increase in the card transaction and balance limits. These recommendations were implemented, resulting in an increase in: the acquisition card transactions limits from \$1,000 to \$5,350, and an increase in the acquisition card balance limits from \$5,000 to \$20,000 and sometimes higher. This has had the effect of increasing acquisition card transaction volumes across the department from 6,001 during fiscal 1995-1996 to 17,163 during fiscal 1998-1999.

The Auditor General concluded in an April 1997 audit of acquisition cards in four federal government departments that room for improvement existed for: the modernization of the monitoring and analysis of acquisition card usage; the recording and matching of credit card charges; undertaking periodic audits; and, verification of acquisition card transactions.

The Audit of the Use of Acquisition Cards by Responsibility Centre Managers (RCMs) For Purchases was identified in the 1998-1999 Departmental Audit and Evaluation Plan and approved by the Departmental Audit and Evaluation Committee.

Objectives

The objectives of this audit were to:

- examine the processes and procedures governing departmental acquisition card usage and existing control, monitoring and reporting mechanisms;
- determine the extent of compliance with Treasury Board and departmental policies and procedures; and
- assess the efficiency and effectiveness of the department's use, management and administration of acquisition cards.

Scope

The audit was conducted using interviews and detailed file reviews to assess acquisition card activities at headquarters and the British Columbia, Yukon; and Northwest Territories regions. These four regions comprised 408 cardholders, representing 80 % of cardholders as at March 31, 1999. The cardholders in these four regions made 13,128 acquisition card expenditures using totalling \$ 3,845,393 for the fiscal 1998-1999 year, which represented 76% of total acquisition card expenditures for the department in fiscal 1998-1999.

In addition, the Quebec Region was included in the audit, but only from the perspective of following up with regional materiel management as to why there was very limited use made of acquisition cards.

Methodology

This audit was conducted in two phases excluding the reporting phase: the planning phase; and the fieldwork phase. During the planning phase, interviews were conducted with key headquarters stakeholders, policy and other relevant documentation were reviewed, and limited testing of acquisition card transactions was conducted to identify policies, processes and controls in place and to identify issues for examination in the fieldwork phase.

In the fieldwork phase:

- ☐ detailed testing of acquisition card files was performed using a refined audit program which included a checklist of critical compliance areas. Payment documents were selected judgmentally based on a review of transaction volume or value levels by cardholder as well as a preliminary scan of acquisition card reports generated by credit card companies to identify potentially ineligible purchases. Over 2,300 of the 13,128 acquisition card transactions made by the four offices reviewed were audited. This represented \$960,000, or about 25 %, of the \$3,845,393 in expenditures made by these offices using acquisition cards;
- ☐ purchase Registers were also selected at random, or based on high volume card users, to scan the nature or acquisitions and other relevant data of interest to the audit. The coverage depended on the manner in which the Registers were maintained, and ranged from 25% of available regional documentation to a full review of all transactions from Smart Data at headquarters;
- ☐ interviews were conducted with cardholders and/or RCM administrative officers and with materiel management officers; and
- ☐ interviews were conducted with materiel management and/or finance officers of five other government departments in order to obtain information on best practices and lessons learned.

Results of the testing of files were tabulated in order to provide input into our assessment of risks and exposure to the department related to acquisition card activities. Taking into consideration the risk assessment, we also identified areas where the department could streamline and/or automate processes to improve the efficiency and effectiveness of administrative and monitoring practices.

Section 2 - Findings and Recommendations

Compliance with Treasury Board and Departmental Policies

General

Overall, based on the results of our detailed transaction testing, there is a high level of compliance with Treasury Board and departmental policies when using acquisition cards in INAC. The detailed test results and interviews with cardholders and/or their administrative officers did indicate, however, that there are some compliance criteria which require greater awareness of, and respect by, RCMs and cardholders.

The findings and analyses which were derived from our detailed testing of acquisition card transactions are presented below for the compliance criteria which require greater attention. Appendix B provides observations on other compliance criteria of lesser significance respecting both materiality and frequency of observed occurrences during our detailed testing.

Payment Splitting

The department now has authorization to purchase goods up to \$25,000 per transaction. Currently, this authority rests with Materiel Management at headquarters. RCMs have authority to purchase goods up to \$5,350 per transaction, which includes the Goods and Services Tax (GST).

Our detailed testing found that 5% of the credit card statements reviewed involved the use of procurement methods which could be construed as payment splitting to circumvent the \$5,350 limit for individual acquisition card transactions. There were thirteen cases totaling 28 transactions where two or three payments were processed with a supplier, instead of one, for the acquisition of goods against one order. Each of the payments was under \$5,000. We note that if expenditure initiation authority for goods were increased to \$10,000 for RCMs, our testing would have resulted in only four transactions that could be construed as payment splitting. Further, the 28 transactions were only one percent of the 2,300 reviewed.

We were told by some individuals involved that the time for processing of purchase orders by Materiel Management or Public Works and Government Services Canada (PWGSC) would have delayed the purchase to the extent of affecting the ability of the RCM to meet its operational requirements. Others had simply split the transaction to meet the card limit conditions.

Eligibility of Acquisition Card Purchases

Treasury Board and departmental policies identify a number of items that are ineligible for purchase using acquisition cards.

Our detailed testing found that at least 98% of all transactions fully complied with all existing acquisition card policies. Regarding ineligible purchases, mainly commodities supplied by other government departments (OGDs) and vehicle fuel, we were told by cardholders involved that such instances may be unavoidable due to:

- merchants not accepting other forms of payment;
- the OGD is the only source of the commodity needed; and
- the time for processing other methods of procurement would have delayed the purchase to the extent of affecting the ability of the RCM to meet its operational requirements, e.g. firefighting activities in the Yukon region, vehicle rentals on field trips in the NWT.

Our review of Treasury Board and departmental acquisition card policies further indicates that deemed ineligible purchases of computers, furniture and equipment are categorized as such only by departmental policy.

Use of Acquisition Cards

Treasury Board and departmental policies state that only the cardholder whose name appears on an acquisition card may use it.

Our detailed testing found 15 instances of the 2,300 transactions which did not comply with the above acquisition card policies. This involved instances where cardholders either permitted other individuals to use their cards, or made orders by telephone securing the purchase by the acquisition card with another individual physically picking up the ordered items and signing the credit card slip. We were told by these individuals that they were often too busy to make the purchase or pick-up themselves and that Materiel Management was hesitant to issue additional acquisition cards to individuals where there are other cards in the same area.

Documentation Supporting Acquisition Card Purchases

Treasury Board and departmental policies require the retention of appropriate supporting documentation to provide an audit trail for all acquisition card purchases.

Our detailed testing found that only 12 of the over 2,300 transactions did not comply with the above acquisition card policies. The majority of these transactions were supported by work orders or other internal requisitions signed by INAC authorities, but the supplier invoice was missing.

Section 34 Certification of Goods Received

Treasury Board and departmental policies require Section 34 certification for goods received by acquisition card purchases.

Our detailed testing found that in all but one monthly credit card statement approved for payment, Section 34 was signed by appropriate staff when the card company statements were processed for payment. RCM staff with Section 34 signing authority always signed off the final document, either the monthly card statement or the Departmental Resources Management System (DRMS) input cover sheet.

Conclusion

INAC has been successful in implementing the acquisition card program to meet operational needs while complying with Treasury Board and departmental policies. We must note that negative findings related to the above compliance areas were relatively infrequent, taking into account the volume of transactions involved, and that the dollar amount of exposure to the department was minimal. In this light, following is an assessment of risk to frame degrees of exposure to INAC as a basis for audit recommendations.

Acquisition Cards and Risk Management

Risk management is a term in frequent use in the federal government where it forms a key part of the good governance and comptrollership framework. This section of our report looks at the issue of acquisition cards and risk management in INAC and will define acquisition card risk levels and measuring criteria.

The Treasury Board and Auditor General have outlined several instances that constitute risk in the use of acquisition cards. These include:

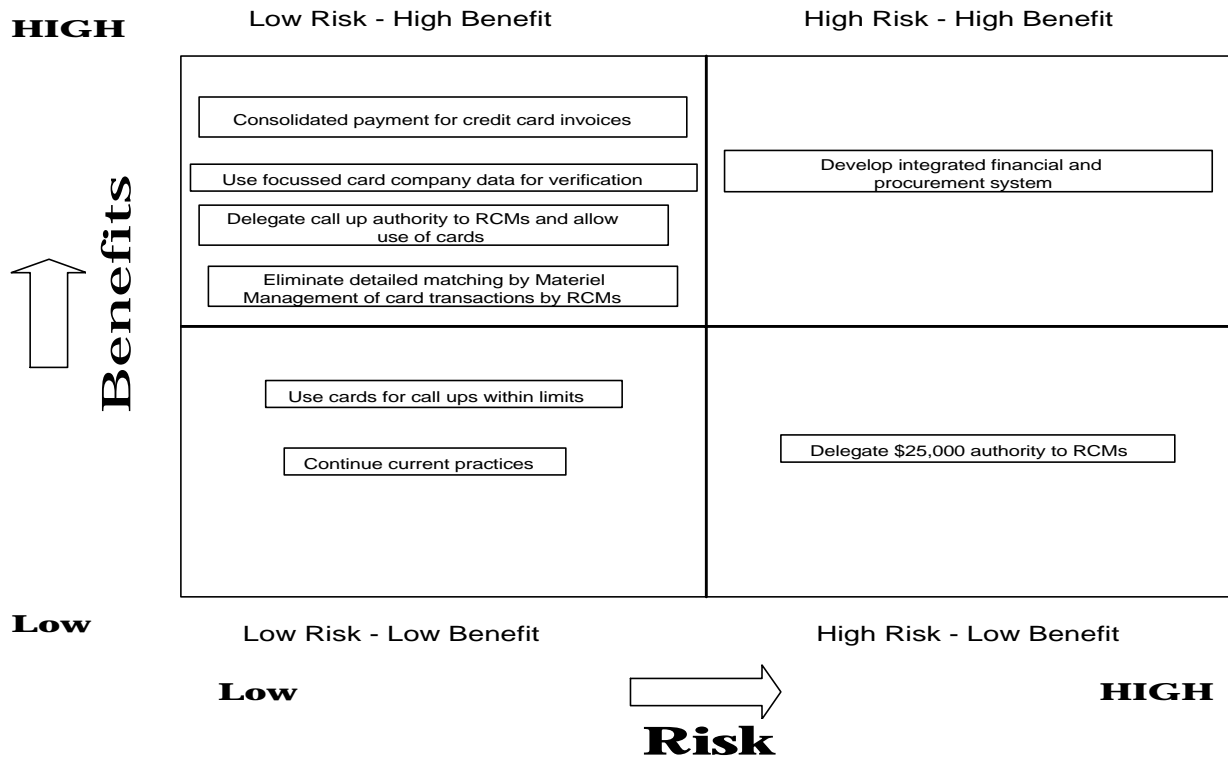
- use of a card for personal purchases;
- use of a card for unauthorized purchases e.g. travel, automobile supplies etc.;
- individual transactions that exceed the authorized limit per transaction; and
- use of a card to facilitate payment splitting.

In addition, we could add, from INAC's point of view, the failure to register accountable assets that are purchased using the card. We have used these five instances as criteria to examine departmental acquisition card practices and processes to assess the risk to INAC.

The degree of risk is implied by the potential negative effect on INAC should there be misuse of the card in one of these five areas. From our review of acquisition card activity records and the detailed audit testing carried out as part of this project, our assessment indicates that the departmental acquisition card practices and processes do not lead to any systemic or material

misuse of the card in any of the five areas. This assessed low level of risk is supported by observations obtained through our discussions with other departments using the cards who report that the incidence of misuse and problems is very low.

As an example in applying the risk assessment in INAC, there is a relatively comprehensive and extensive procedure for monitoring and reviewing card use that involves a significant amount of time and effort by materiel management staff. Given the costs involved, including salary dollars, and the opportunity cost of the diversion of time for questionable benefit, which could be otherwise redeployed, it would appear that the management of time and effort directed at acquisition card activities should be brought more into line with the actual degree of risk associated with acquisition card use.



We address means of improving INAC’s investment in managing acquisition cards in more detail in of the report. The chart above outlines the issue of potential risk that could arise and benefits that could be achieved compared to existing processes. The chart identifies examples of possible changes to acquisition card policies or practices and the assessment of their associated degree of risk and benefit are low or high. Risk is assessed based on the anticipated increase in likelihood and severity of acquisition card misuse associated with each of the examples

Opportunities for More Efficient and Effective Monitoring

Findings

Monitoring of acquisition card transactions is being performed by Materiel Management at headquarters and in the regions visited, in addition to post audits performed by Finance. At headquarters and the regions visited, monitoring activities performed by Materiel Management include:

- □ detailed matching of acquisition card purchases recorded by cardholders on Purchase Registers to reports provided by credit card companies; and
- □ focussed scanning of reports provided by credit card companies to identify non-eligible purchases, payment splitting and other areas of non-compliance.

We observed that the detailed matching of acquisition card purchases recorded by cardholders on Purchase Registers to reports provided by credit card companies did not uncover significant findings. This detailed matching duplicates work already performed by RCMs, and by Finance in their post audit procedures. These post audits are performed on a sampling basis with a targeted 10% coverage. The post audits include the implementation of detailed procedures using a post audit checklist that includes the review for proper supporting documentation, including matching of documents, and properly authorized Section 34 and expenditure initiation certifications

We were told by officials in OGDs which we benchmarked that their monitoring activities focus on post audit procedures, identification of ineligible acquisition card purchases and payment splitting. The identification of ineligible acquisition card purchases and payment splitting is generally performed by scanning transaction reports generated by credit card companies. We were told by OGDs that credit card companies can generate reports classified by supplier in order to focus on those who are most likely to be involved in ineligible purchases. For INAC, the generation of monthly transaction reports by cardholder, but grouped for each RCM, would improve the efficiency and effectiveness of monitoring for payment splitting.

In most OGDs which we benchmarked, Purchase Registers were not being used. The registers, where they were used, were solely retained by RCMs, and there was no detailed review by either Materiel Management or Finance to match Purchase Register information to reports generated by credit card companies.

Conclusions

In addition to post audits performed by Finance, the monitoring of acquisition card transactions by Materiel Management is an important control mechanism to detect potential areas of non-compliance. In light of the low risk associated with acquisition card transactions, it is critical that monitoring activities be performed efficiently and effectively. We view the detailed matching of acquisition card purchases recorded by cardholders on Purchase Registers to reports

provided by credit card companies performed by Materiel Management as providing little or no value to the acquisition card monitoring process. In our opinion, the scanning of acquisition card transaction reports generated by credit card companies provides the most efficient and effective means for Materiel Management to identify areas of non-compliance and to minimize risks to the department.

Recommendations

1. The Chief, Contracting and Purchasing Services should direct procurement officers at headquarters and in the regions to no longer perform detailed matching of acquisition card purchases recorded by cardholders on Purchase Registers to reports provided by credit card companies.
2. The Chief, Contracting and Purchasing Services and the Director General of the Finance Branch should meet to review post audit processes and procedures to ensure that non-compliance areas, and other items that would be most efficiently detected by post audit procedures, are included.
3. In order to measure the effectiveness of monitoring activities, the Chief, Contracting and Purchasing Services should establish a tracking and reporting system for findings in higher risk compliance areas identified above.

Opportunities for Increased Training and Awareness

Findings

The above findings from our compliance testing of acquisition card transactions identify the need for increased training for RCMs, cardholders and their administrative officers to increase their awareness and respect for acquisition card policies. Discussions with cardholders confirm the need for increased awareness of policies.

Currently, acquisition card policies and procedures, which were recently updated May 1999, are located on the department's Intranet site. Cardholders generally did not refer to the Intranet site for guidance, either because they were not aware of its existence or because of the length of the document. They expressed the need for brief and concise rules.

The elimination of ineffective and inefficient monitoring activities could free up resource time to improve training and awareness of acquisition card policies for RCMs, cardholders and their administrative officers.

Recommendation

4. The Chief, Contracting and Purchasing Services should implement an ongoing training program for RCMs, cardholders and their administrative officers, including periodic visits, with a focus on card users with high transaction volumes and a history of compliance issues.

Completion of Purchase Registers

Findings

We were told by administrative officers of RCMs that Purchase Registers are often prepared after credit card statements are received, with the information being copied from the statements after the supporting documentation is organized and matched. We were also told by Materiel Management staff that the registers are often submitted late by cardholders, thereby reducing the timeliness and hence the effectiveness of monitoring efforts.

Purchase Registers provide for the identification of inventory items and aboriginal suppliers by RCMs/cardholders; however, our detailed testing found that in many cases, they are not being identified by RCMs/cardholders. We were told by cardholders and Materiel Management staff that at times inventory items are being left for Materiel Management to identify them. As an alternative to Purchase Registers, the identification of inventory items can be made from specified information received from credit card companies. Aboriginal suppliers are able to be identified via the DRMS, with the vendor code as the identifier, since detailed information by vendor must be input for acquisition card transactions. It is critical that Aboriginal suppliers associated with acquisition card transactions continue to be identified and tracked to enable INAC to monitor its support of procurement from Aboriginal suppliers.

Officials interviewed in four out of five OGDs which we benchmarked told us that Purchase Registers are not required to be completed by RCMs. The fifth department provides RCMs with the option of whether or not and how (manual, spreadsheet, input into procurement system) to complete Purchase Registers, but they are retained by RCMs only for their audit trail.

Conclusion

We believe that the Purchase Registers provide little or no value to INAC's acquisition card program, particularly in light of the low risk associated with acquisition card transactions and that non-compliance with acquisition card policies would be detected from focussed scanning of acquisition card reports generated by credit card companies.

Recommendation

5. The Chief, Contracting and Purchasing Services should direct RCMs and cardholders to only use Purchase Registers at their discretion, where they provide value in assisting them in managing their resources, and to no longer submit the Registers to Materiel Management.

Documentation Supporting Acquisition Card Purchases

Findings

Treasury Board and departmental policies identify the reduction of paperwork and administrative burden as a primary objective for the introduction of acquisition cards. The policies do, however, require an appropriate audit trail supporting card transactions.

During our compliance testing, we noted instances of a large amount of paperwork supporting acquisition card transactions. For example, internal requisitions and other expenditure initiation and commitment control documents were being prepared. Other examples include Section 34 certifications and other approvals being provided more than once for the same transaction(s). We observed these inconsistent supporting documentation requirements from region to region, and within each region.

Most OGDs which we benchmarked allow RCMs the flexibility to establish the appropriate level of documentation to meet their financial budgeting and accounting requirements.

Conclusions

There appears to be a reluctance by some RCMs to eliminate paperwork related to acquisition card transactions. The need for paperwork due to budgetary control concerns or authorization support preferences may be valid but requires due consideration given the positive findings of this audit.

Recommendation

6. The Directors of Corporate Services of the regions should conduct their own review of the supporting documentation packages that are required to meet operational requirements. Potential changes should be discussed, shared between regions, and implemented in order to maximize the benefits from their respective internal paperwork reviews.

Payments of Monthly Credit Card Statements

Findings

Within INAC, requisitions are made by RCMs for the payment of monthly credit card statements for each cardholder. With 509 cards issued within the department, this could result in over 6,100 payment requests in a year.

We noted during our testing of acquisition card transactions that there are numerous instances of outstanding credit card balances being carried over. We were told that late payments can occur for a variety of reasons including:

- ☐ credit card statements are often received close to the due date;
- ☐ PWGSC can be slow in processing payments; and
- ☐ the verification and matching processes performed by RCMs, cardholders and/or their administrative officers can be time consuming.

In the fiscal year ended March 1999, MasterCard was not charging interest on late payments made within the federal government, thereby negating the effects of late payments. This also prevented us from obtaining information on the impact of deficient payments. In the future, late payments will result in increased costs to the department from interest charges which we anticipate as being significant.

In the five OGDs which we benchmarked, consolidated billings from credit card companies and consolidated payments are made each month either by: one payment for the entire department; or, one payment for headquarters and one for each region.

Where consolidated payments are made, the process would generally work as follows:

- Finance is initially provided with one financial coding from each RCM to cover acquisition card expenditures;
- once consolidated billings are received from the credit card company, they are immediately paid to avoid interest charges;
- the initial payment is coded to a suspense account;
- subsequently, payment is allocated to each RCM using the financial coding provided; and
- after this allocation and within a specified time period, verification and matching procedures are performed and any corrections are arranged with the credit card company, with adjustments being reflected in the next monthly statement.

We were told by officials in these OGDs that there has been substantial savings from lower payment processing costs and the avoidance of interest charges from credit card companies and that there has been no down side to paying credit card companies prior to the verification and matching procedures.

Recommendation

7. The Director General, Finance Branch should conduct a study to determine the costs, benefits and implementation steps associated with consolidated billing from, and payment to, credit card companies with the view to implement such.

Opportunities for Process Automation

Findings

Treasury Board policies for acquisition cards provide for the ability of departments to receive information from credit card companies electronically, as an alternative to receiving statements by mail.

All but one OGD which we benchmarked (the other department plans to implement such in the near future) have implemented the electronic transmission of monthly statements from credit card companies to Finance, the electronic matching of monthly statements to acquisition card transactions input by cardholders/administrative officers, and exception reporting with items to be investigated and cleared. From our discussions with officials of these departments, as well as a review of studies conducted on this subject, it is the implementation of these automated measures along with consolidated payments of monthly credit card billings that maximizes the benefits, efficiencies and cost savings, which has been estimated in other studies as \$150 per transaction, that can be derived from an acquisition card program.

In order to efficiently implement the above electronic transmission and matching of credit card transactional data, the OGDs created their own automated systems to:

- receive the data from credit card companies;
- provide for the one-time input of acquisition card transactional data by cardholders/administrative officers;
- perform the matching of transactions between data from the credit card companies and data input by cardholders/administrative officers;

- generate exception reports; and
- provide an interface with the department's financial system for commitment control and payment requisition purposes.

Discussions with officials from the Informatics Management Branch in INAC confirmed that the decision to “go ahead” must await the final decision on the department's financial system, i.e. whether or not the DRMS and DAS will be retained and modified or replaced, which is expected in August. Nevertheless, these officials believed that the implementation of these automation initiatives is feasible whether or not DRMS and DAS are retained. They suggested that a business case, including a feasibility and impact study with associated costing, would first have to be produced and that this does not have to await the financial system decision. They also pointed out that resources are an issue and that there are competing demands for other informatics projects.

Discussions with a MasterCard official also confirmed the feasibility of implementing the above initiatives.

Recommendation

8. The Director General, Finance Branch should prepare a business case to evaluate the impact and costs of implementing the electronic transmission of credit card transactional data and the electronic matching of this data.

Opportunities for More Effective Procurement

Findings

Acquisition Cards were first introduced in the federal government with the expressed aim of reducing the paper burden associated with procurement using Government Purchase Orders (GPO) and reducing associated accounts payable costs. Accordingly, one would expect to see a reduction in the use of GPOs, each of which brings an associated process cost of about \$150, in favour of acquisition cards with an estimated process cost of under \$ 20 per transaction. In the case of INAC, there has been progress to reduce GPOs for low dollar value purchases in favour of acquisition cards.

Our detailed analysis is contained at Appendix A and a summary of the findings is as follows:

- □ INAC has been successful in promoting an increasing number of cardholders and an increasing number of acquisition card transactions in terms of volume and dollar value;
- □ about 30% of procurement done in INAC for items valued under \$5,000 was effected through the cards. This means that some 70% of this low dollar value procurement is still being processed using the GPO or Call-up Against Standing Offer Arrangements;
- □ there appears to be a continuing opportunity to expand the use of acquisition cards in terms of the relative percentage of low dollar value procurement;
- □ there appears to be an opportunity to use cards for low dollar purchases using Call-ups Against Standing Offer Arrangements. OGDs allow this either within authority limits. They report very few problems and a further reduction in paper intensive transactions; and
- □ there is evidence of payment splitting to circumvent transaction limits, which indicates a need to increase transaction and card limits in some cases.

In the Quebec Region, there are only three acquisition cards issued and being used. These cards are held by officials in the Materiel Management area. We were provided information with analysis conducted by Materiel Management in Quebec in which they identified 243 purchases with a total value of \$59,423 made during fiscal 1998-1999 using GPOs that could have otherwise been made using acquisition cards.

We were told by Materiel Management staff at headquarters and in all regions included in this audit, including Quebec, that there may be a limited opportunity to reduce GPOs still being issued because either:

- Materiel Management has taken all necessary steps, including rejecting requisitions for purchase orders, to promote acquisition card use and that the use may be getting saturated;
- the items are ineligible for acquisition card use;
- some merchants do not take VISA or MasterCard; or
- some purchases, such as business cards or other stationary, are being controlled and therefore procured centrally to attempt to obtain more favourable prices or to maintain departmental standards and “look”.

Conclusion

The analysis in Appendix A indicates that there is potential to significantly decrease the use of GPOs for low dollar value purchases in favour of acquisition cards. In the future, all requisitions for GPOs raised in headquarters and all regions, particularly Quebec, should be reviewed by Materiel Management with purchases otherwise eligible for acquisition cards denied for processing. This would save the department an estimated \$150,000 for every 1,000 transactions processed using cards instead of GPOs.

Recommendations

9. The Chief, Contracting and Purchasing Services should continue the promotion and evolution of acquisition card usage, including expanding the usage to determinate employees where appropriate, and eliminating the negative perception regarding the provision of cards to operational units, particularly in Quebec.
10. The Chief, Contracting and Purchasing Services should consider using cards for Call-ups Against Standing Offers.
11. The Chief, Contracting and Purchasing Services should review departmental acquisition card policies and practices, particularly the list of ineligible purchases and the centralization of procurement of business cards, and consider changes where the risk to INAC would be low or they would not contravene Treasury Board acquisition policies.
12. The Chief, Contracting and Purchasing Services should instruct Card Coordinators to periodically monitor acquisition card transaction levels to ensure that transaction and card limits are appropriate and determine if increases on a case by case basis are warranted.

Terms of Reference

Terms of Reference

Audit of the Use of Acquisition Cards by RCMs for Purchases

Background: The overall objective of Treasury Board's Materiel Management Policy is to ensure that materiel meets departmental operational requirements for effective program delivery. Acquisition cards were consequently recognized as being an effective way to acquire low-dollar value purchases. Treasury Board's Policy on Acquisition Cards further clarifies acquisition cards as an approved way to provide a convenient and less burdensome method of procuring and paying for goods and services while ensuring effective financial control. Procurement and payments are to be within delegated departmental levels of procurement, where it is efficient, economical and operationally feasible to do so. Key policy requirements entail: designating a Departmental Co-ordinator; implementing a departmental acquisition card program, including policy and procedures; as well as monitoring designed to ensure reliable control over the use of acquisition cards.

The Department of Indian Affairs and Northern Development's (DIAND) Acquisition Card Policy was originally issued August 29, 1993 and last amended April 1, 1998. Acquisition cards have been used by departmental employees since 1993. DIAND took this initiative to realize efficiencies and reduce administrative workloads.

An audit of Material Management conducted during fiscal year 1995-1996 recommended, in part: the greater use of acquisition cards by RCMs; an increase in the transaction limit per purchase as well as an increase in the maximum credit line for acquisition cards; and consolidation of acquisition card billing/payment processes to improve administrative efficiencies. These recommendations are reported as having been acted upon.

The Auditor General concluded in an April 1997 audit of acquisition card use in four federal departments, that room for improvement existed respecting: modernized monitoring and analysis of acquisition card use; recording and matching of charges; undertaking periodic audits; and verification of card transactions. The Auditor General recommended departments individually assess their emerging risks with existing management controls.

Need: The Treasury Board (TB) Policy on Acquisition Cards requires that departments undertake periodic audits of the use of acquisition cards to determine compliance with TB policy requirements. It is important that an audit be conducted at this time to inform senior management as to the effectiveness of acquisition card use, related management of risks and

reliability of program controls. This was reflected in the Departmental Audit and Evaluation Committee's approval of this audit as part of the 1998-1999 Departmental Audit and Evaluation Plan.

Scope: The audit will include an examination of the processes and procedures governing departmental acquisition cards, tracking and reporting acquisition card use and current controls and monitoring mechanisms. The audit will determine the extent of compliance with departmental policy and procedures and an assessment of efficiency and effectiveness accruing from the department's use of acquisition cards. The audit scope will include headquarters, British Columbia, Yukon, and Northwest Territories. Quebec will also be included, but from an audit viewpoint focussed on following-up with management why acquisition cards are as little used as they are (3 cards issued as of August 1998); versus a fuller conduct phase approach to be used in the other four geographical areas.

Issues: Do procedures, requirements and directions governing acquisition card issuance, cardholder use and return comply with policy requirements and departmental interests?

Are reporting, monitoring and control processes and procedures in place relative to both policy requirements and current/anticipated acquisition card use and risk?

How is inappropriate cardholder use identified, reported and handled?

Is the use of acquisition cards being promoted and are steps in place to reduce less efficient methods of purchasing?

Is acquisition card use achieving economical and efficient purchases of goods and services?

Approach: The audit will be carried out in three main phases: planning; conduct; and reporting.

The planning phase will focus on describing the system in place, including: the allocation of acquisition cards to employees; cardholder use of acquisition cards and reporting of purchases; responsibility centre manager approval of expenditures; finance monitoring, approval of expenditures and reporting of transactions. In addition, acquisition card audits conducted by the Auditor General, including other federal department acquisition card programs, will be assessed to identify best practices and lessons learned. Conclusion of the planning phase will result in identifying specific audit objectives and associated lines of inquiry; which in turn will provide the audit program for the conduct phase of the audit.

Data will be collected mainly through interviews, file reviews and examination of financial information reporting systems, involving various headquarters and regional responsibility centres.

The principle party for this audit is the departmental Administrative Services Directorate, Contracting and Purchasing Services Division. The Chief, Contracting and Purchasing Services Division, will act as the representative for the Administrative Services Directorate, whose direction and opinion respecting audit methodology, observations and findings will be regularly solicited.

Resources: The audit will be performed using both DAEB and contracted resources. Overall management of the audit will be the responsibility of DAEB.

Timeframe: A draft final report should be issued end of June 1999.

Cost: A budget of \$50,000 has been established for contract audit work.

Approved by:

Brent DiBartolo
Assistant Deputy Minister
Corporate Services
March 8, 1999

Action Plan

PROJECT TITLE / TITRE DU PROJET :

Audit of the Use of Acquisition Cards by RCMs for Purchases/Vérification de l'utilisation des cartes d'achat par les GCR

REGION OR SECTOR / RÉGION OU SECTEUR :

Corporate Services/Services ministériels

(1) RECOMMENDATIONS / RECOMMANDATIONS	(2) REPORT / RAPPORT PAGE NO.	(3) ACTION PLAN / PLAN D'ACTION (If space provided is insufficient please continue on blank sheet. / Si vous manquez d'espace, veuillez continuer sur une page blanche.)	(4) RESPONSIBLE MANAGER / GESTIONNAIRE RESPONSABLE (TITLE / TITRE)	(5) PLANNED COMPLETION DATE / DATE PRÉVUE DE MISE EN OEUVRE
1. The Chief, Contracting and Purchasing Services should direct procurement officers at Headquarters and in the regions to no longer perform detailed matching of acquisition card purchases recorded by cardholders on Purchase Registers to reports provided by credit card companies.	9	Purchasing personnel and particularly acquisition card coordinators at headquarters and in the regions will be advised to no longer conduct detailed matching of purchases recorded on Purchase Registers against monthly reports from card companies. The implementation of these measures will be facilitated by amending the Acquisition Card Policy where the submission of purchase registers to card coordinators will no longer be required.	Chief Contracting and Purchasing Services	November 30, 1999
2. The Chief, Contracting and Purchasing Services and the Director General of the Finance Branch should meet to review post audit processes and procedures to ensure that non-compliance areas, and other items that would be most efficiently detected by post audit procedures, are included.	9	Detailed procedures to identify non-eligible purchases, contract splitting and late payments will be developed in cooperation and discussion with personnel of the Finance Branch with a view at enhancing the post-audit processes and procedures performed by the Finance Branch with respect to purchasing and payment actions with acquisition cards. The MAO, HQFS will consult with a representative from Contracting and Purchasing Services to review existing post audit processes for acquisition cards are adequate and implement corrective action into the procedures if necessary.	Chief Contracting and Purchasing Services Director General, Finance Branch	November 30, 1999

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3. In order to measure the effectiveness of monitoring activities, the Chief, Contracting and Purchasing Services should establish a tracking and reporting system for findings in higher risk compliance areas identified above.	9	A tracking and reporting mechanism will be developed to record details pertaining to higher risk compliance areas and remedial actions taken where non compliance has occurred.	Chief Contracting and Purchasing Services	November 30, 1999
4. The Chief, Contracting and Purchasing Services should implement an ongoing training program for RCMs, cardholders and their administrative officers, including periodic visits, with a focus on card users with high transaction volumes and a history of compliance issues.	10	Acquisition Card Coordinators will be requested to develop and maintain a training/information program within their respective regions in order to sustain the high degree of compliance achieved within the Acquisition Card Program.	Chief Contracting and Purchasing Services	November 30, 1999
5. The Chief, Contracting and Purchasing Services should direct RCMs and cardholders to only use Purchase Registers at their discretion, where they provide value in assisting them in managing their resources, and to no longer submit the Registers to Materiel Management.	11	The Acquisition Card Policy will be amended to make the use of the Purchase Register optional to RCMs and cardholders and to no longer submit the Register to acquisition card coordinators.	Chief Contracting and Purchasing Services	October 30, 1999

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<p>6. The Directors of Corporate Services of the regions should conduct their own review of the supporting documentation packages that are required to meet operational requirements. Potential changes should be discussed, shared between regions, and implemented in order to maximize the benefits from their respective internal paperwork reviews.</p>	<p>11</p>	<p>A survey will be conducted among all regions to determine the extent supporting documentation is required for the purchase and payment of goods with Acquisition Cards. Regional Directors of Corporate Services will be contacted in order to seek their support in reducing any unnecessary paper burden that may be associated with the use of Acquisition Cards in the regions.</p> <p>The Purchase Register will also be revised to delete the requirement for RCMs to certify on the Register that the goods have been received under Section 34 of the <i>Financial Administration Act</i> (FAA). This measure will streamline the payment process and require RCMs to only sign section 34 of the FAA either on the card company statement or on the DRMS expenditure statement.</p>	<p>Chief Contracting and Purchasing Services</p>	<p>December 15, 1999</p>

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<p>7. The Director General, Finance Branch should conduct a study to determine the costs, benefits and implementation steps associated with consolidated billing from, and payment to, credit card companies with the view to implement such.</p>	<p>13</p>	<p>This recommendation would definitely be an improvement to the actual process. As per a study made by Treasury Board of Canada Secretariat in January 1998 the acquisition card has the lowest average cost as only one payment requisition is raised instead of multiple cheques for individual transaction in the monthly credit card bill. Furthermore, if the department issues a single cheque monthly for each region the government average cost would be reduce considerably.</p> <p>However, with the implementation of the new Financial Information Strategy (FIS) and a new system of choice for April 1st, 2001, since the department has limited resources, it is unrealistic to include this new project in the near future.</p>	<p>Director General, Finance Branch</p>	<p>April 1, 2001</p>

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8. The Director General, Finance Branch should prepare a business case to evaluate the impact and costs of implementing the electronic transmission of credit card transactional data and the electronic matching of this data.	14	It is evident that significant savings can be made by implementing electronic transmission and matching of credit card transactional data. Under FIS, the department is moving towards replacing its current financial accounting system, the Departmental Accounting System, with Oracle Financials. We are told that there is a facility in the system to process acquisition card transactions. Because of limited resources of this department, our focus will be in implementing the basic Oracle system April 1, 2001. The progression to fully incorporating the electronic matching of transactions will be a primary consideration, soon after successful implementation.	Director General, Finance Branch	April 1, 2001
9. The Chief, Contracting and Purchasing Services should continue the promotion and evolution of acquisition card usage, including expanding the usage to determinate employees where appropriate, and eliminating the negative perception regarding the provision of cards to operational units, particularly in Quebec.	16	Tools and mechanisms will be developed and distributed to card coordinators and materiel management units to encourage departmental clients to acquire and use acquisition cards to buy low-value goods instead of requesting dedicated purchasing units to buy these goods on their behalf with Government Purchase Orders. Regional Directors of Corporate Services will also be requested to reduce the volume of purchasing made on behalf of clients by purchasing unit personnel using their own acquisition card. This measure will decentralize the acquisition process of low-value goods in some regions and put the cards in the hands of clients.	Chief Contracting and Purchasing Services	December 15, 1999
10. The Chief, Contracting and Purchasing Services should consider using cards for Call-ups Against Standing Offers.	16	Departmental card coordinators will be advised that Acquisition Cards may be used, within the financial limits of the Policy, for payments of call-ups for goods against PWGSC standing offer agreements.	Chief Contracting and Purchasing Services	October 30, 1999

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11. The Chief, Contracting and Purchasing Services should review departmental acquisition card policies and practices, particularly the list of ineligible purchases and the centralization of procurement of business cards, and consider changes where the risk to INAC would be low or they would not contravene Treasury Board acquisition policies.	16	The departmental Acquisition Card Policy will be reviewed and revised to limit purchases to only those restricted under the Treasury Board Acquisition Card Policy. As well, card coordinators will be advised that payment for the purchase of business cards can be made using Acquisition Cards.	Chief Contracting and Purchasing Services	October 30, 1999
12. The Chief, Contracting and Purchasing Services should instruct Card Coordinators to periodically monitor acquisition card transaction levels to ensure that transaction and card limits are appropriate and determine if increases on a case by case basis are warranted.	16	Card Coordinators will be advised to monitor card usage in their respective area to ensure the financial limits under the departmental policy meet operational needs. To that end, the current Policy already establishes the possibility for card coordinators to request increases in purchasing limits to respond more efficiently and effectively to operational requirements. Notwithstanding, the Policy will be further revised to increase the monthly card limit from \$20,000 to \$25,000.	Chief Contracting and Purchasing Services	October 30, 1999

Appendice A
Analysis of the Business
Case for Acquisition Cards

ANALYSIS OF THE BUSINESS CASE FOR ACQUISITION CARDS

Analysis of Purchasing Data

The following series of charts examines various perspectives of purchasing data for transactions involving Government Purchase Orders (GPO) and acquisition cards. The aims of such an analysis are:

- to determine if Acquisition Cards have replaced the GPO as the preferred method of low dollar value (LDV) procurement. The rationale behind the introduction of acquisition cards was to reduce the paper burden and time delays associated with the GPO. If this goal is being attained, one would expect to see a significant decline in the use of the GPO and a corresponding rise in the use of acquisition cards;
- to assess the level of transactional activity for both LDV instruments. If the average value per GPO transaction is relatively low compared to the allowable limit (\$5,000), then the practice will lead to a high level of administrative costs per transaction. The estimated cost of processing a GPO at \$150. This serves to illustrate an opportunity for further efficiencies through the use of acquisition cards.
- to use the analysis as substantiation for further recommendations based on the conclusions.

Analysis of GPO Activity

Chart 1 illustrates the use of GPOs from a transaction perspective for the last three fiscal years, 1996/97 to 1998/99. It shows there was an initial 23% drop in GPO use in 1997/98 and a slight (10%) increase in the last year. Overall there has been a decrease from 9,800 (1996/97) to 7,800 (1998/99) or about 20%. However, the last year saw a 10% increase in GPO usage, which can be attributed to one region, whereas most other offices showed a reduction during the third year. In general, the reduction in GPO usage appears to have levelled off, although the audit results indicate that there is room for further reduction in certain purchasing categories.

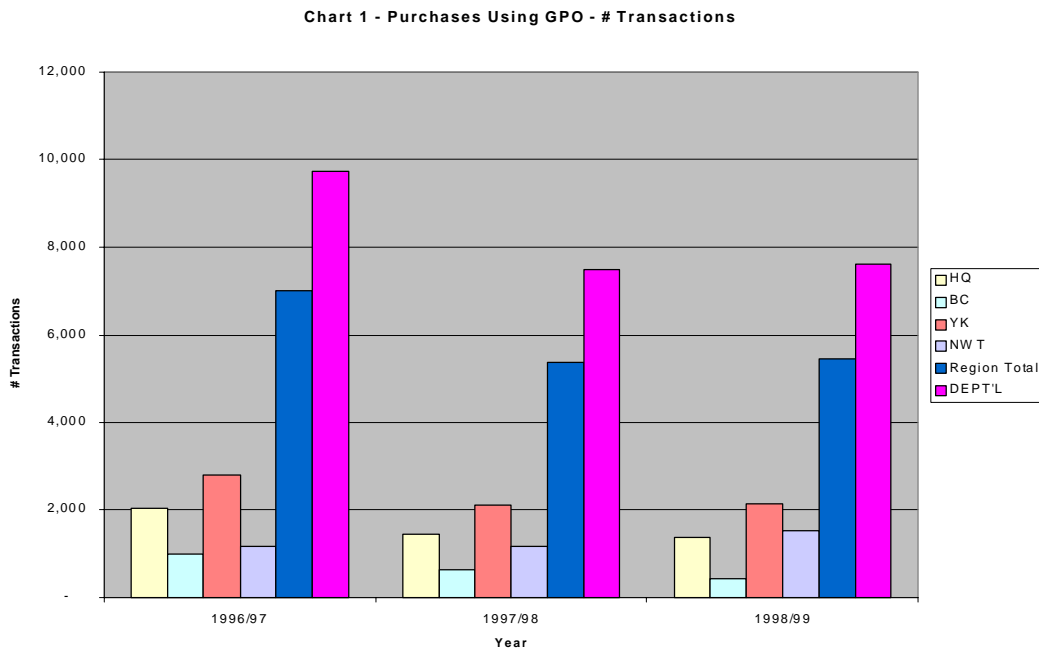


Chart 2 illustrates the use of GPOs from a dollar value perspective. It shows that there has actually been an increase in the total dollar value purchased using GPOs from \$9,000,000 (1996/97) to \$10,500,000 (1998/99). This amounts to about a 16.7% increase, and is attributed to three of the four regions reviewed, where the combined increase was close to \$2,000,000.

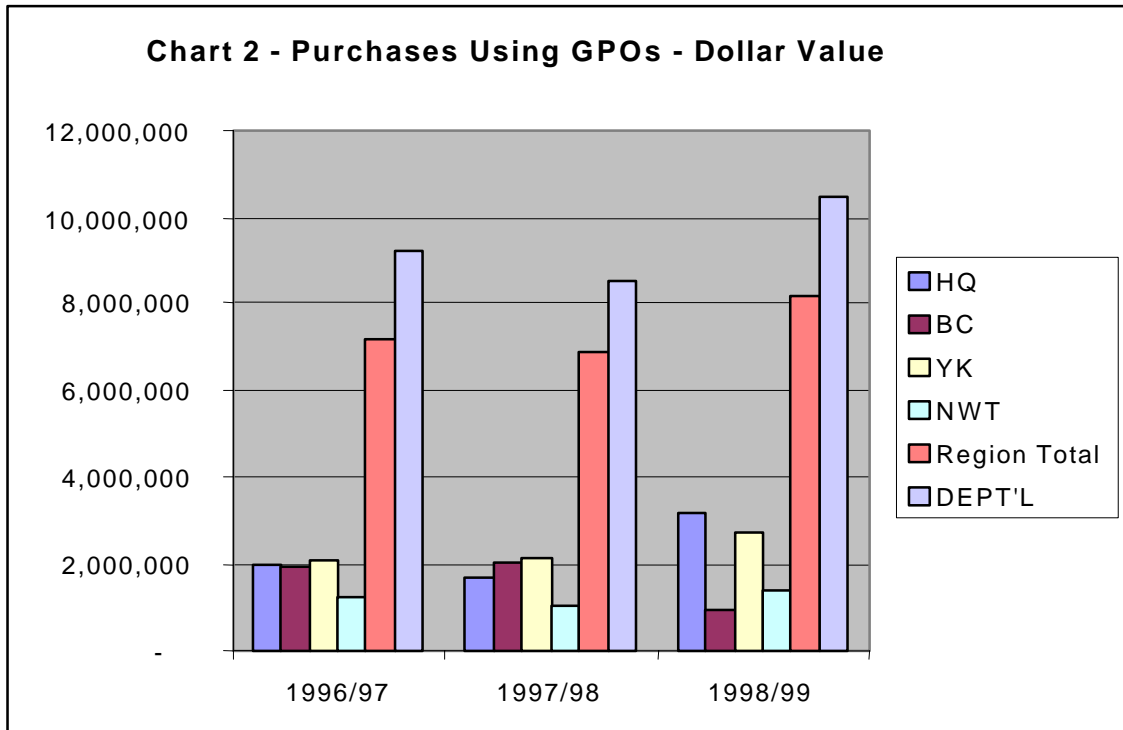
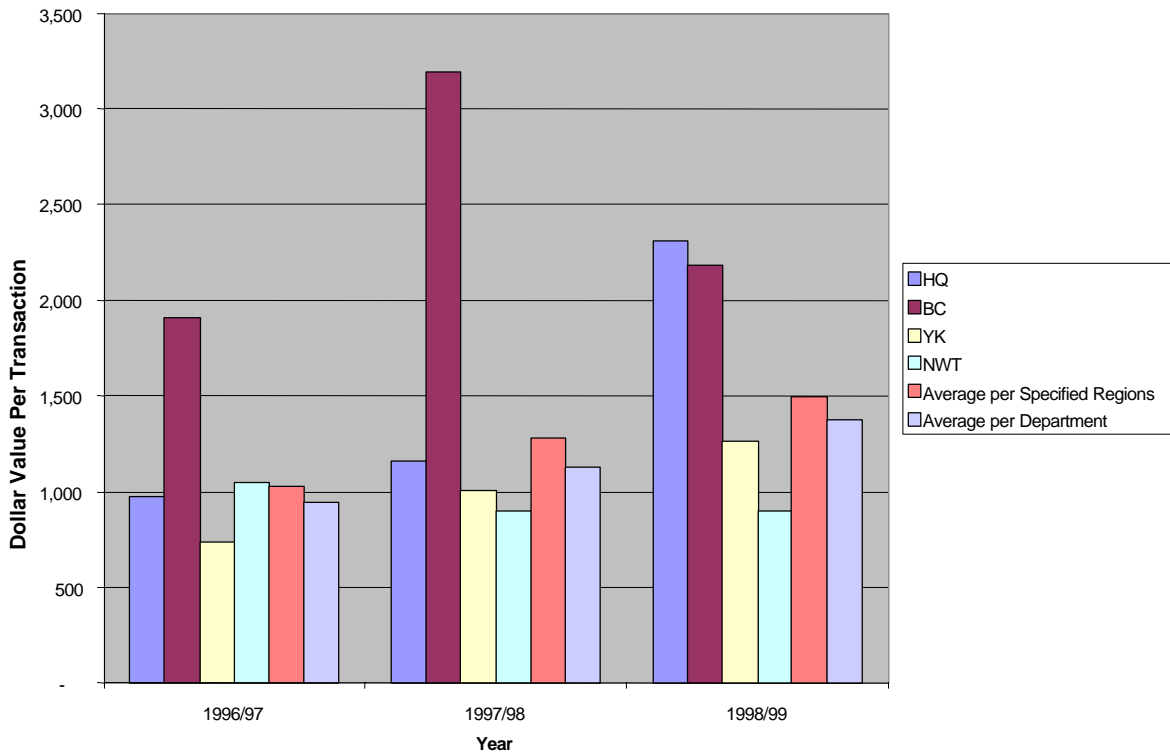


Chart 3 illustrates the average dollar value per GPO transaction. It shows that although per transaction values have increased slightly, the average per GPO is still under \$1,500. This means that INAC is spending \$150 to buy \$1,500 in goods or services or about 10% of the cost of the item. This is quite a high ratio for purchasing costs.

Chart 3 - Purchases Using GPO - Average Dollar Value Per Transaction



Summary of Observations for GPO usage:

- ! Little overall change over the past two years following a good drop in 1997
- ! Significant increase in usage and dollar values in three regions.
- ! High ratio of costs to buy to costs of items.

Analysis of Acquisition Card Activity

Chart 4 illustrates the number of purchases made using acquisition cards over the last three years. The chart shows that the number of purchases has risen significantly from about 7,800 (1996/97 – complete data not available) to 17,000 (1998/99), an increase of about 89%. There is about a 13% increase over the last two years. This data indicates that the use of acquisition cards is increasing in INAC.

Chart 4 - Purchases Using Acquisition Cards - #

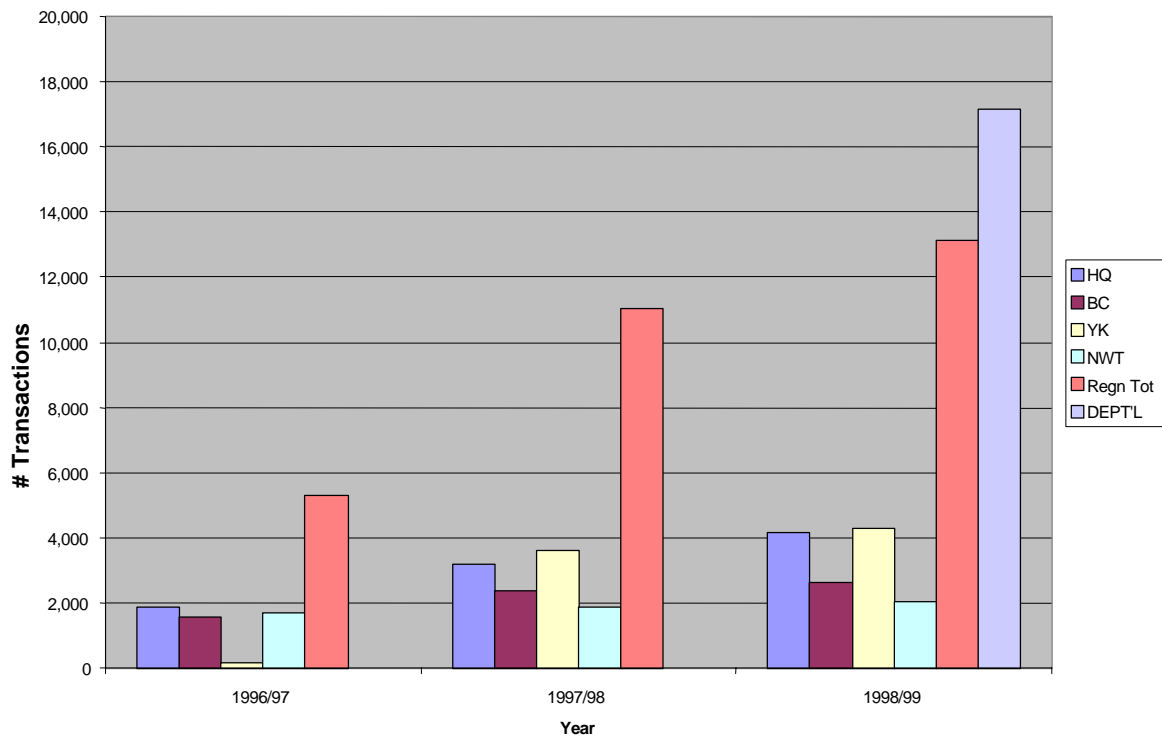


Chart 5 illustrates the dollar value of purchases using acquisition cards. It shows an increase from \$1,700,000 (1996/97) to \$5,000,000 (1998/99) or about 194%. This further substantiates the very significant increase in the use of cards over three years.

Chart 5 - Purchases Using Acquisition Cards - Dollar Value

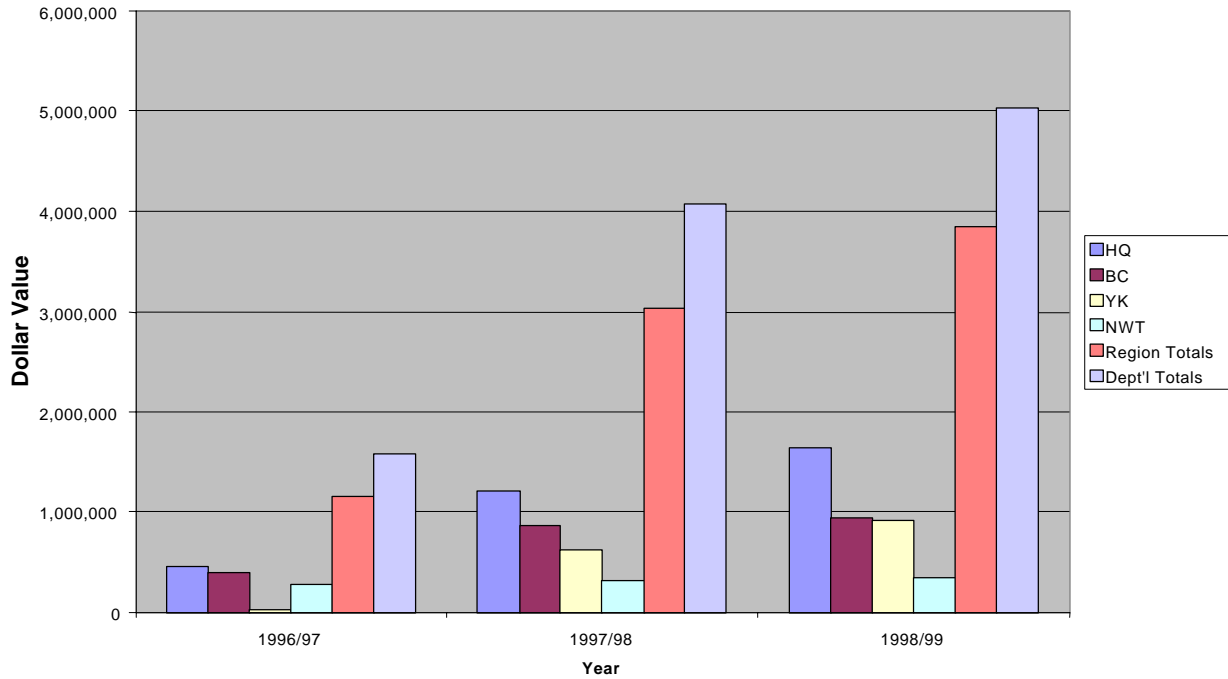
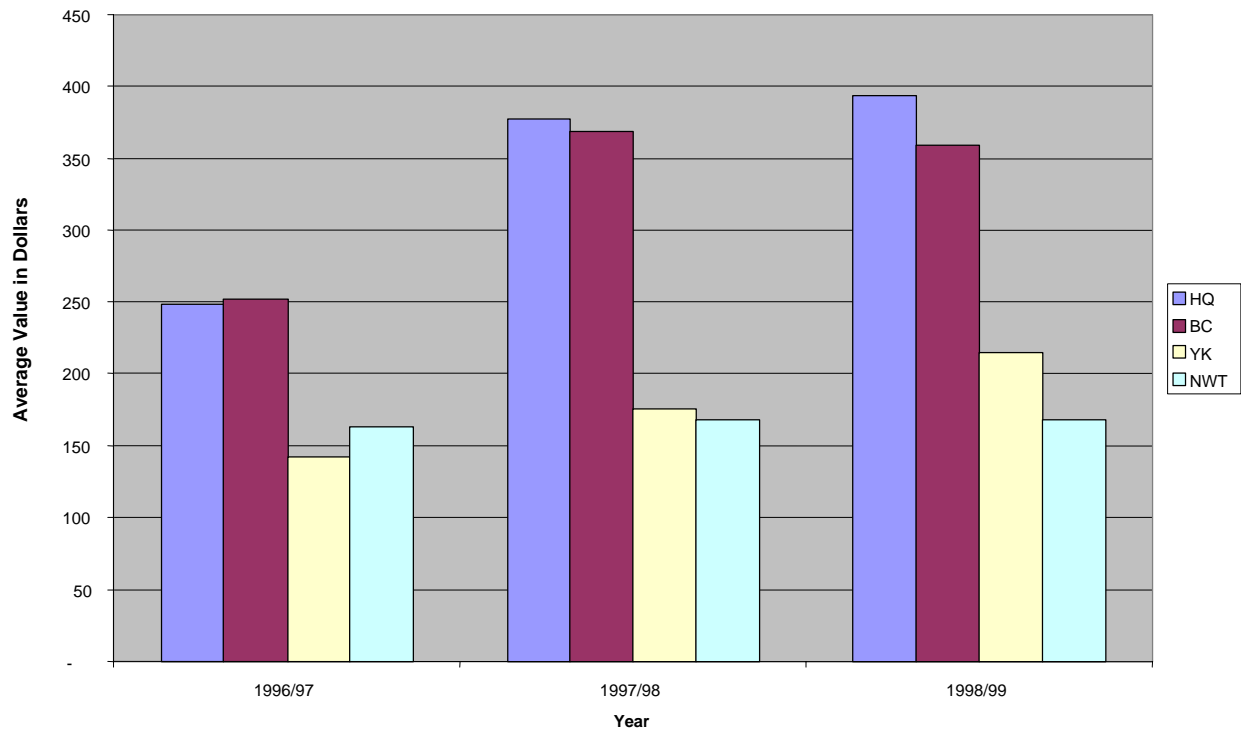


Chart 6 illustrates the average dollar value per acquisition card transaction. It shows that the average dollar value has risen somewhat but that the individual transaction average is still below \$400. This indicates that the cards are being used for very low dollar value items, which was one of the principal reasons to introduce the cards.

Chart 6 - Purchases Using Acquisition Cards - Average Value per Transaction



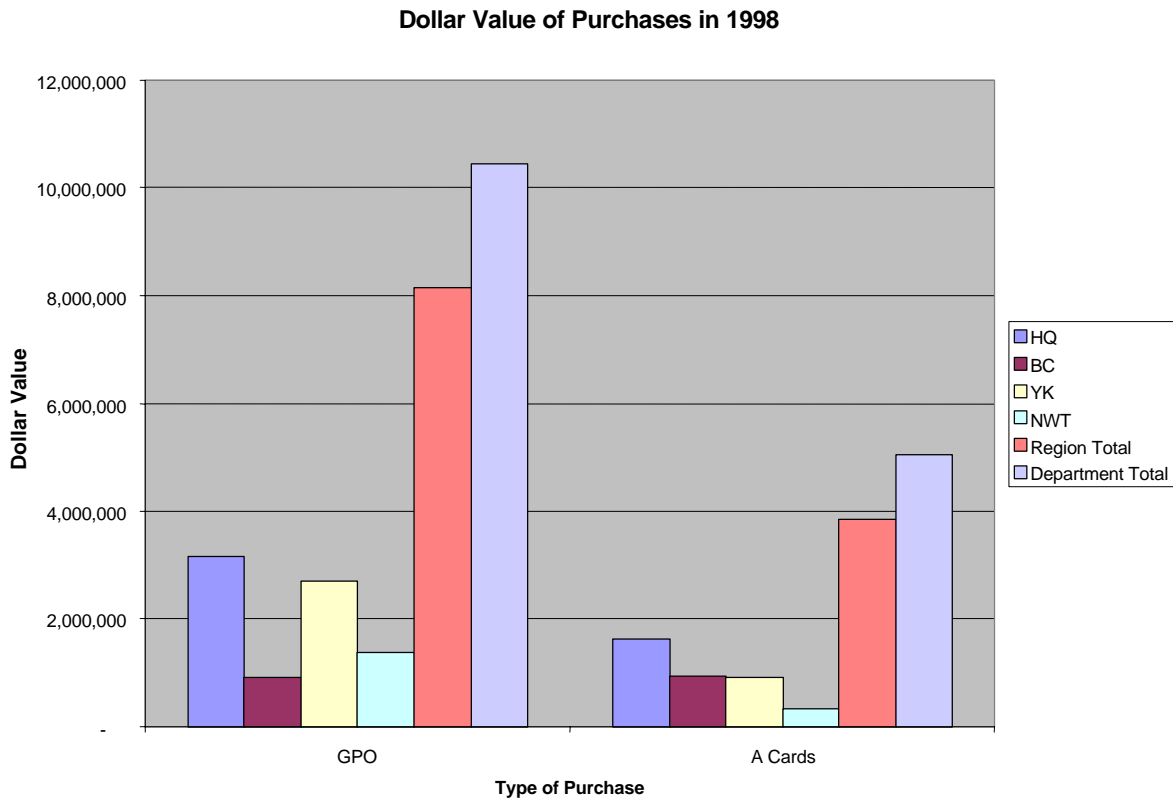
Summary of Observations for Acquisition Cards

- ! Use of the card is increasing in terms of both volume and dollar values.
- ! The card is being used for its intended purpose.

Combining the Two Assessments

Although INAC is expanding the use of the acquisition card and is focussing on the right purchase areas, an analysis that looks at the overall low dollar value situation may provide some perspective on opportunities for further improvement.

Chart 7 shows that, in 1998, GPOs were used for \$10,500,000 worth of purchases and acquisition cards were used for \$5,000,000 worth. Of INAC's total of about \$15,500,000 in purchases under \$5,000 per transaction (low dollar value), about 70% were processed using GPOs. This indicates that there is ample opportunity to continue to increase the use of acquisition cards. A good example is the procurement of business cards at HQ which is now being done centrally using GPOs. The value per transaction is about \$20 - \$25. Our previous data also shows that the average value per GPO transaction is still quite low (less than \$1,500 in 1998/99). This level of dollar value transactions is usually ideally suited for acquisition cards. The audit results have indicated commodities which meet these criteria.



Conclusion:

! INAC should continue its acquisition card promotion success and further expand card use and encourage the replacement of the GPO where possible.

Appendice B
Compliance Criteria of
Lesser Significance

COMPLIANCE CRITERIA OF LESSER SIGNIFICANCE

During our compliance testing and interviews with cardholders, we made the following observations related to compliance criteria which are of lesser significance respecting both materiality and frequency of observed occurrences during our detailed testing. These observations were localized and not indicators of systemic issues with which INAC should be concerned. We assess the risk to INAC associated with these observations as low; nevertheless, addressing the issues should improve understanding of the acquisition card program and related policies by RCMs and cardholders and should improve the efficiency and effectiveness of processes..

Safekeeping of Acquisition Cards

Treasury Board and departmental acquisition card policies require the safekeeping of cards in a secure location with controlled access when it is not being used.

Most cardholders keep the card with their personal credit cards, providing the same degree of security as their own. A few lock up the card in office cabinets until required.

Cardholders told us that they were not given direction as to how they were to keep the cards secure.

Identification of Inventory Items

Compliance was high in this regard, with few items reviewed having not been inventoried. RCMs and cardholders noted that they were unclear at times on whether or not certain items were to be inventoried. Others leave it to Materiel Management to identify inventory items.

Identification of Aboriginal Procurement

Departmental acquisition card policy requires card usage to support the government Procurement Strategy for Aboriginal Business (PSAB). The policy provides for cardholders to purchase eligible low-value goods from Aboriginal businesses where practical and feasible. Our tests found only 3% of transactions which were identified as Aboriginal suppliers, with many Purchase Registers excluding any reference of this fact or otherwise. Cardholders told us that other than the Mohawk Trading Company, there was little opportunity to use acquisition cards to support PSAB.

Exclusion of PST from Payments

Treasury Board and departmental policy requires that provincial sales taxes (PST) not be paid by the federal government for purchases. Our testing found less than ten transactions that included PST payments, which were not recovered.

Acquisition Card Limits

Two cases were found of transaction or card limits being exceeded but not having been stopped by the card company. As noted in the audit report, some cardholders engaged in payment splitting to circumvent acquisition card transaction limits. Generally, RCM unit staff were not aware that the card limits could be increased by Materiel Management if warranted.

Acknowledgment of Cardholder Responsibilities

All cardholders had signed at least the original acknowledgment of cardholder responsibilities. However, signed acknowledgments for changes in limits or revised card numbers were not in evidence in a variety of cases.