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**Credit Card Audit Report**

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## Summary

### Authority for the Project

This audit was approved by the Audit and Review Committee (ARC) at its meeting in January 1999. It was also done at the express request of the Director General, Finance.

### Objectives and Scope

- To identify the management and financial control framework (1. approval of the purchase - section 32; 2. accountability for and approval of payment - section 34; 3. issuance of payment requisitions - section 33 of the FAA) relating to the process of requesting, obtaining, storing and issuing cards and accountability for them;
- To determine the extent to which methods and procedures comply with central agency and PWGSC policies and directives;
- To establish the level of control that is exercised to ensure the reliability, authenticity and accuracy of data in transaction processing; and
- To list the roles and responsibilities of the various parties involved in carrying out procedures and controls.

During the preliminary survey phase, we examined all the credit cards used at PWGSC, namely: MasterCard, the ARI card (for fleet management), American Express (AMEX) and the Transac Card. The AMEX card was excluded from the work of the detailed examination phase since the controls that apply to it were deemed effective. The Transac Card, which was recently replaced by BP2K (an electronic commerce initiative), will be audited during the current fiscal year.

The scope of our work covered all aspects relating to the use of credit cards, namely management, transactions carried out using credit cards and the control exercised over established procedures.

The auditor performed tests on a random sample of transactions in the past fiscal year, i.e. 1998-99. The audit was conducted by means of interviews with MasterCard cardholders at Headquarters who are responsible for the acquisition of low-value goods and services. For the ARI card, we conducted a telephone survey of ARI card administrators at Headquarters and the fleet coordinators in four administrative regions of the Department. A sample comprising nearly 10 percent of the ARI cards was examined using an audit questionnaire developed at the end of the preliminary survey phase.

Finally, we should mention that an acquisition card audit was previously conducted in fiscal year 1995-96.

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## Background

The Treasury Board (TB) policy respecting the use of credit cards for departments has been in effect since 1992. Cards issued by financial institutions offer a practical method of payment for the acquisition of low-cost goods and services that otherwise would have been paid for by other conventional means, such as petty cash, journal voucher or cheque. The intent of the policy is to offer all employees and managers designated by this policy the privilege of purchasing low-cost goods and services and of effecting payment using this financial vehicle when they consider it appropriate and for reasons of efficiency and economy.

## Key Findings

### Acquisition Card Program (MasterCard)

**1.1 On the whole, the controls that are part of the management control framework are in place and are functioning. However, certain essential controls are not functioning as planned.**

- The rules concerning spending authority under section 32 of the FAA were not followed in most of the cases audited, a situation which weakens the management control framework for acquisition cards.
- Certification under section 34 of the FAA proved to be adequate with respect to manual payment (signature on paper) of transactions, while a deficiency was observed with respect to the certification process using the Milton application. Another department that uses this application has adopted controls which permit certification in accordance with the spirit and letter of the FAA.

**1.2 Sound practices are followed and lessons learned by the various cardholders when they use the acquisition card.**

- We were able to identify a training program developed and offered by the Materiel Management Directorate (MMD) for cardholders to inform them of the applicable practices and guidelines when using their acquisition card.
- Certification using the Milton application has made it possible to speed up the payment of monthly charges and, in the process, has enabled the Department to take advantage of discounts amounting to .05 percent of the total amount of purchases certified using the Milton application.
- The holders of acquisition cards confirmed that this payment method is efficient and especially very economical compared with conventional procurement mechanisms.
- The audit also found that the conduct of many holders of acquisition cards is exemplary. These cardholders use the card in accordance with the spirit and letter of the policy in effect at PWGSC.

- Use of the acquisition card has increased significantly since it was first introduced. Furthermore, according to the holders of acquisition cards with whom we met, there is still potential for growth, which would enable the Department to benefit from substantial savings in time and money during procurement.
- Despite the significant increase in the number of transactions made using acquisition cards, we found no indication that abuse of acquisition cards is on the rise.
- Since the last audit conducted in 1995-96, the MMD has set up an impressive program to monitor acquisition card transactions, which makes it possible to closely monitor the credit card use practices of the large number of cardholders.

**1.3 Many opportunities exist to increase the monitoring of purchases made using the acquisition card.**

- According to the information gathered during interviews, transactions paid by credit card are monitored by the Finance Branch using a statistical sampling model of departmental accounts payable, excluding payments certified with the Milton application. In addition, the current audit plan criteria may exclude manual purchases. A new sampling program including Milton has not yet been finalized but is to be implemented shortly by Financial Operations.
- The cardholders with whom we met indicated that, in the past, their acquisition card purchases had never been audited by the Finance Branch or the MMD.
- Our work revealed that the quarterly report concerning misuse and action taken to address trends identified as a result of monitoring of card use by the MMD was not submitted to the senior financial officer in accordance with the guideline provisions. In addition, the attestation of purchase registers is not submitted to Financial Operations.
- Implementation of additional and more rigorous monitoring mechanisms would reduce most of the non-complying activities uncovered during the audit work.

**ARI Credit Card Program (Fleet Management)**

**1.4 Issuing policies and directives pertaining to use of the ARI credit card would enable the Department to increase its efficiency and realize savings.**

Use of the ARI card is not covered in Deputy Minister Directive 034: *Acquisition Cards* (28-11-96). There are also no specific guidelines concerning ARI cards in the Treasury Board *Policy on Acquisition Cards* (1-01-98).

During the audit, 75 percent of the ARI card coordinators interviewed stressed the disadvantages caused by the lack of guidelines on the precise use of the ARI credit cards. The auditors will indicate below only the most serious disadvantages stemming from the lack of directives.

- **Better definition of the roles and responsibilities of the various parties involved would increase the efficiency and economy of the ARI credit card program for**

**fleet management** - There is some confusion concerning the roles and responsibilities of the various parties responsible for the ARI credit card management framework. PWGSC has contracted out responsibility for the management control framework to ARI Canada Inc. Our examination revealed that the management control process necessary for PWGSC to be able to fully assume its responsibility for monitoring the contractual clauses contained in the standing offer with ARI Canada should be communicated to the ARI card coordinators.

- **Development of procedures which the fleet coordinators could refer to would ensure uniform application of the controls contained in the control framework** - Management of the ARI cards and application of controls are exercised differently in the various PWGSC responsibility centres audited; this situation results in a number of inefficiencies.
- **Stricter application of the clauses in the standing offer between ARI Canada and PWGSC would increase the efficiency of the employees responsible for the program as well as the cost-effectiveness resulting from use of the ARI card** - A set of clauses in the standing offer between PWGSC and ARI Canada provide that ARI Canada will generate a series of exception reports in order to permit certification under section 34 of the FAA of the charges incurred by the fleet. However, our work revealed that the reports needed to apply this control are no longer produced by ARI on a uniform and ongoing basis. During the interviews, some of the fleet coordinators confirmed that they devoted considerable resources (between 20 percent and 50 percent of their time) to the control and monthly reconciliation of invoices under section 34 of the FAA. This situation therefore results in an obvious lack of efficiency and economy for all the fleet coordinators.
- **Authenticity, reliability and accuracy of information** - The scope of our tests revealed information errors contained in the ARI database for each of the responsibility centres in our sample: (1) several cases where the volume of fuel purchased, in litres, did not correspond to that indicated on the account statements; (2) many cases where the ARI service charges were not entered in the database; (3) a billing which is dated three or four months after the date of the transaction. Such late billing of purchases may be advantageous for management of departmental cash flows, but it is contrary to generally accepted accounting principles for matching charges and hinders implementation of the Financial Information Strategy. It is therefore difficult, if not impossible, for the MMD to accurately certify the annual report on consumption of alternative fuels submitted to the Treasury Board.

## Recommendations

*It is recommended that the Assistant Deputy Minister - Supply Operations Service in conjunction with the Assistant Deputy Minister - Government Operational Service, as required, ensure that:*

- *The MMD with the FS, make changes to Directive 034 to ensure that it corresponds to the operational needs of its users, bearing in mind the expenditure initiation controls. In addition, the roles and responsibilities of the managers and cardholders with respect to section 32 should also be clarified.*

- *The MMD, in conjunction with the FS, consider adopting a computer-assisted auditing tool in order to concentrate monitoring actions on areas with potential for abuse, chronic deficiencies and any trends observed.*
- *The MMD actively continue its efforts to remind employees responsible for procurement of the benefits and savings realized every time they use the acquisition card.*
- *The MMD ensure that fleet co-ordinators are properly informed of their monitoring roles and responsibilities, in accordance with the control mechanisms stipulated in the clauses of the contract between ARI and PWGSC.*
- *The FS, through the Financial Operations Directorate, (1) ensure that the responsibility centre managers are informed of their responsibilities concerning controls with respect to use of the acquisition card; (2) review who receives the monthly account statement; and (3) ensure that holders of acquisition cards do not approve their own statements for payment purposes.*
- *The FS incorporate transactions made by acquisition card in its statistical sampling program for payment purposes.*



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## 1. Introduction

### 1.1 Authority for the project

This audit was approved by the Audit and Review Committee (ARC) at its meeting in January 1999. It was also done at the express request of the Director General, Finance.

### 1.2 Objectives

The audit's main objective was to determine the adequacy of the management control framework in the use of credit cards at PWGSC. More specifically, we looked at the following issues in order to:

- identify the management and financial control framework relating to the request, approval, storage and issue of cards and accountability for them;
- evaluate the extent to which methods and procedures comply with central agency and PWGSC policies and directives;
- establish the level of control that is exercised to ensure reliability, authenticity and accuracy of data in transaction processing; and
- list the roles and responsibilities of the various parties involved in carrying out procedures and controls on a daily basis.

In addition to the control framework, the auditors paid special attention to the following:

- approval of purchases (section 32 of the FAA) - the nature and value of transactions; the degree of discretion given to acquisition cardholders; the keeping of receipts and the use of accounting registers; the monitoring of transactions by the various organizational levels; the reconciliation of monthly reports and accounting registers
- accountability for and approval of payments (section 34 of the FAA) - supported by an adequate audit trail between the supporting documentation and accounting control registers
- use of a register and inventory control, complete with procedures for assets with a significant dollar value, goods and the marking of items in terms of their materiality level
- issuance of requisitions for payment (section 33 of the FAA) authorized by the Finance Branch, and the questioning of all suspect or inappropriate cases
- the degree of user satisfaction was evaluated to identify effective practices, ensure that responsibilities are adequately discharged and well understood by the users
- adequacy of training received by users

### 1.3 Scope

The scope of this audit covered all aspects of credit card use, i.e. management, transactions carried out using credit cards and the control exercised over existing procedures.

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The auditors tested a random sample of transactions in the last fiscal year, 1998-99. They originated at headquarters and in the regions. Specifically, the audit dealt with means of acquisition that are commonly called plastic money, including American Express cards (travel cards issued to federal employees), MasterCard (acquisition card), ARI (credit card for the motor vehicle fleet) and the Transac Card (acquisition card for internal use at PWGSC).

It should be noted that the Audit and Review Branch examined the MasterCard acquisition cards during the 1995-96 fiscal year.

#### **1.4 Context**

The Treasury Board Policy on the use of credit cards for departments has been in effect since 1992. Cards issued by financial institutions offer a practical method of payment for the acquisition of low-cost goods that would otherwise have been paid for by other means such as petty cash, journal vouchers, etc.

The intent of the policy is to offer all employees and managers designated by this policy the privilege of paying for low-cost goods and services with this financial vehicle when they deem it appropriate for reasons of efficiency and economy.

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## 2. Issues Examined

During the detailed examination phase, we examined a number of aspects of the management control framework for the acquisition card (MasterCard) and the ARI credit card.

### 2.1 Acquisition Card Program (MasterCard)

Audit tests performed on the acquisition card (MasterCard) followed the following lines of enquiry: (1) **the degree of control exercised during the acquisition of attractive goods in order to verify the level of compliance with departmental directives;** (2) **the degree of uniformity with which instructions and procedures are followed by employees;** (3) **the sound management practices developed by the cardholders and the lessons learned from using MasterCard;** (4) **the potential growth in use of the acquisition card;** (5) **the delineation of roles and responsibilities and;** (6) **the electronic authorization process under section 34 of the *Financial Administration Act*.**

### 2.2 ARI card program for fleet management

As for the ARI credit card used for PWGSC fleet management, our tests were limited to the following lines of enquiry: (1) **honouring discounts to be applied by ARI with major oil companies that accept the ARI card;** (2) **the authenticity, reliability and accuracy of information about the transactions made;** (3) **the application of the various controls that must be used in an operation of this magnitude; and** (4) **the sound practices developed and lessons learned by the various ARI cardholders met during this review.**

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### 3. Findings and Recommendations - Acquisition Card Program

#### 3.1 The degree of uniformity in the application of directives by the staff should be tightened to strengthen the existing management control framework.

##### 3.1.1 For more than 80 percent of the transactions audited, the spending authority under section 32 of the FAA was not exercised with caution by the responsible manager.

The implementation of the acquisition card program brought about significant changes in the control framework. Previously, responsibility centre managers had to approve a requisition or order form on paper prior to purchasing. Under the acquisition card program, the cardholder has the authority to make purchases without the prior approval of his or her manager for each purchase. Given this new way of doing things, and as a compensatory control mechanism, it is understood that the managers must review their monthly statement, sent to them by e-mail for purchases made using the credit card during the month; those purchases will then be charged against their budget.

For the majority of the purchases audited during the detailed examination phase, we noted that the required approvals had not been documented according to the guidelines in Deputy Minister Directive DIR: 034. There were few purchase requisitions in the acquisition card file that were supported by source documents such as e-mails or personal notes. Some acquisition card users confirmed to us that approval was given orally by the manager without being documented subsequently.

In addition, certain transactions that were audited were for payments of more than \$5,000 for acquisitions made using form 942, Call-up Against a Standing Offer. Even though the scope of the audit did not include directives on standing offers, we noted that these payments were not supported by the necessary authorizations.

During interviews, some cardholders confirmed that they were under the impression that the purchasing privilege was granted to them when they became a cardholder. This privilege implied the freedom to use the acquisition card without the manager's prior approval. According to these same cardholders, they have a relationship of trust with their manager and that meant they did not have to obtain approval to initiate purchases or document the decision to purchase in the file.

However, our work allowed us to meet cardholders who carefully kept a pending file containing documentation but not, however, an acquisitions register. According to these same cardholders, the acquisitions register prescribed by DIR: 034 seems redundant since the file is much more efficient. One of the cardholders we met kept a personalized register of purchases to document acquisitions and reconcile them with the monthly statements for the acquisition card using Milton, and to help in the validation of transactions and the cost allocation.

Reference - *"An appropriate written form of expenditure initiation... must accompany the request for purchase. This provides the Cardholder with the necessary authority and*

*substantiates this authority in the case of audit, etc. An Acquisition Card Register must be maintained to record all acquisitions.” (Source DIR: 034 Annex B)*

## Recommendation

1. *It is recommended that the Assistant Deputy Minister - Supply Operations Service in conjunction with the Assistant Deputy Minister - Government Operational Service, as required, ensure that the MMD, in conjunction with the FB, make changes to Directive 034 to ensure that it corresponds to the operational needs of its users, bearing in mind the expenditure initiation controls. In addition, the roles and responsibilities of the managers and cardholders with respect to section 32 of the FAA should also be clarified.*
  
- 3.2 **Certification under section 34 of the FAA proved to be adequate with respect to manual payment of transactions (signature on paper) while a deficiency was observed with respect to the certification process using the Milton application.**

At the time of the audit, the electronic certification of the credit card statements using Milton worked in the following manner.

1) When the Milton application has automatically validated the account numbers, the transaction errors in the system have been purged and corrected, and the cost of purchases made has been allocated to the default expenditure account, as selected when the card was requested, monthly electronic statements for each user are then forwarded simultaneously, by e-mail, to the cardholder and the cardholder's manager.

2) The cardholder validates the transactions and verifies the financial coding. Most cardholders print out their statement (the others work on screen) and the invoices that correspond to the transactions are attached. When the reconciliation is finished, the documents are filed and held in the responsibility centre.

3) The manager opens the e-mail that has the statement with the purchases that have been made. This action sends an acknowledgement indicating to Materiel Management that the e-mail has been opened. This acknowledgement simultaneously confirms to the MMD officers and to Financial Operations that authorization under section 34 of the FAA has been given.

The auditors believe that electronic certification (via MILTON) under section 34 of the FAA entails certain risks. There is no control set up to confirm (with an audit trail) that the person who opened the e-mail of the manager who can certify the transaction is actually that manager. In fact, one acquisition cardholder confirmed to us that, as per the manager's instructions, the cardholder routinely opened the e-mail. It should be noted that this same cardholder was the one for which we found, during the audit tests, purchases initiated by the responsibility centres with no prior approval, for which payment was later made by the cardholder.

In addition, the audit tests showed that the Milton system does not meet Treasury Board requirements for validation and signature authentication. An interview with officials of the Department of National Defence responsible for the development of Milton allowed us to confirm that, in this application, the digital signature is essential for an adequate electronic certification and that this element was not present in the version of the Milton electronic certification system in use at PWGSC. According to information obtained from the Department of National Defence, there is a compensatory control mechanism designed to produce a printout of the monthly statement in the e-mail for audit purposes and to require the signature of the manager responsible for certifying the purchases made under section 34 of the FAA. However, we did not find this mechanism during our visits to the various responsibility centres selected for our audit.

However, in general the auditors are satisfied with the control measures in place for certifying expenses under section 34 of the FAA for payments done manually.

## Recommendation

2. *It is recommended that the Assistant Deputy Minister - Supply Operations Service in conjunction with the Assistant Deputy Minister - Government Operational Service, ensure that FS, through the Financial Operations Directorate, (1) ensure that the responsibility centre managers are informed of their responsibilities concerning controls with respect to use of the acquisition card; (2) review who receives the monthly account statement; (3) ensure that acquisition cardholders do not approve their own statements for payment purposes; and (4) ensure that the payment process via Milton be modified to take into account the Treasury Board requirements pertaining to electronic certification under section 34 of the FAA.*

### **3.3 During the audit it was not possible to validate the financial authority of the managers.**

The acquisition card coordinator for the National Capital Region verifies the financial authority of the manager through the Government Electronic Directory Services. The coordinator compares the classification of the manager identified on the Application for Acquisition Card to the level given according to the grid of financial authorities. In our opinion, this method does not ensure that the manager's financial authority corresponds to the authority delegated on the specimen signature card and to the grid of signing authorities held by Financial Operations.

For 60 percent of the transactions audited, the audit team was able to match specimen signature cards and the PWGSC Employee Acknowledgement of Responsibilities and Obligations (the form used in the process of issuing an acquisition card). The auditors were unable to complete the matching for the other transactions because Financial Operations could not produce the supporting documentation for the authority delegated. According to the information received, a project to update the specimen signature cards is under way.

For all the transactions audited, the auditors compared the monthly limits allowed according to the information available from the bank on SMARTDATA (monitoring tool used by the MMD), the Application for Acquisition Card and the PWGSC Employee Acknowledgement of Responsibilities and Obligations form. The results showed that for 20 percent of the cardholders audited, the monthly purchasing limit according to SMARTDATA was higher than what had been authorized by their manager.

Some data changes in the Milton system, such as the name of the cardholder's manager, are supported by the Milton - MasterCard Registration form (PWGSC 193), an e-mail or a verbal request.

The auditors believe there are risks regarding the reliability of the information. It is possible that changes made were not authorized by the manager with the delegated authority.

The auditors believe that Financial Operations should be involved in the process of issuing acquisition cards by validating the manager's financial authority before the MMD authorizes the issuance of the card. There could be a space reserved for Financial Operations on the PWGSC Employee Acknowledgement of Responsibilities and Obligations form so that they can confirm the manager's authority.

We also believe that the MMD should ensure that it has an amended Application for Acquisition Card and PWGSC Employee Acknowledgement of Responsibilities and Obligations and/or Milton - MasterCard Registration form (PWGSC 193) before data changes concerning cardholders are made in the Milton system and the bank is authorized to make changes to the new acquisition limits.

## Recommendation

3. *It is recommended that: (1) the financial authority delegated to the manager be confirmed using the signature cards; (2) any request for a change in the credit limit be accompanied by an amended Application for Acquisition Card and PWGSC Employee Acknowledgement of Responsibilities and Obligations form; and (3) any change in the data in the Milton system regarding cardholders be made using an amended Milton - MasterCard Registration form (PWGSC 193).*

### **3.4 The card is used by persons other than the cardholder; this situation puts the cardholder at risk.**

According to the results of the audit, almost 50 percent of the cardholders interviewed informed us that their card had been used by other employees. The reasons given included temporary absences of the cardholder, an excessive workload that prevented the cardholder from making purchases in person as well as purchases made by staff under the direct supervision of the cardholder. Needless to say, this practice is contrary to the PWGSC Employee Acknowledgement of Responsibilities and Obligations, the form completed when the card is requested, and to Deputy Minister's Directive 034. Finally, it is also contrary to the information given by the MMD in its information workshops.

Reference - *"Only the person whose name appears on the Card may use it; it is non-transferable."* (Source DIR: 034 Annex B)

## **Recommendation**

4. *It is recommended that the MMD continue its efforts to make cardholders aware that use of the card is reserved strictly for cardholders.*

### **3.5 The acquisition card is kept on the cardholder's person or with the cardholder's personal belongings.**

During the audit, the cardholders interviewed indicated that they kept the acquisition card in their handbags or their wallets. According to some of these cardholders, carrying the card is necessary to meet procurement needs of their organization and allows for considerable savings.

In fact, according to these cardholders, when they keep their acquisition card with their personal belongings, they can make necessary purchases while travelling during the course of the workday and take advantage of bargains on commonly used items.

Reference - *"The Departmental Acquisition Card Coordinator... is responsible for... providing direction for the safe and secure storage of active Cards."* (Source DIR: 034 Annex A)

*"It (the card) should not be carried on the Cardholder's person."* (Source DIR: 034 Annex B)

## **Recommendation**

5. *It is recommended that the Departmental Coordinator issue more specific and explicit directives on the safe places where acquisition cards may be kept.*

### **3.6 The various cardholders learned sound practices and lessons when they used the acquisition cards.**

#### **3.6.1 Ongoing training workshop**

As a pilot project, the MMD developed a training workshop on managing low-dollar-value procurement for cardholders, managers and staff in general. This workshop was



offered in the Pacific and Prairie regions to about 600 employees. The MMD plans to offer additional presentations during fiscal 1999-2000.

In addition, during the implementation of the electronic payment system using Milton, information workshops were offered to cardholders and their managers. This training was a prerequisite to using Milton. The cardholders interviewed said they were satisfied with the content, the training material and the delivery by the resource people giving the training.

Finally, it should be noted that, based on our observations, we conclude that in general the cardholders have adapted well to the procurement process using the acquisition card. This is partly due to the training workshops offered by the MMD and to the sound advice offered by MMD officials.

### **3.6.2 Milton is flexible and easy to use and it allows users to save by taking advantage of discounts.**

Certification using the Milton application made it possible to speed up the payment of monthly charges, and enabled the Department to take advantage of discounts amounting to .05 percent of the total amount of purchases certified using Milton.

During the audit, cardholders indicated that the Milton software used for electronic payments was flexible and easy to use. It allows the on-screen validation of transactions and facilitates the allocation of purchases by the appropriate financial code.

### **3.6.3 The acquisition card is an efficient and economical tool compared with the various traditional procurement mechanisms.**

The acquisition cardholders confirmed that this payment method is efficient and especially very economical compared with conventional procurement mechanisms. In fact, they were unanimous in praising the advantages of this way of procuring low-dollar-value goods and services. Specifically, they identified the following advantages:

- The procurement process is now much simpler with the acquisition card. The need to complete the paperwork formerly required for each individual purchase has been eliminated.
- Goods are delivered much more quickly than in the past.
- Because the procurement timeframes have become so short, many cardholders have reduced the inventories for certain items, which affects their cash management.

According to the information collected during the interviews, the acquisition card facilitates the procurement process for low-dollar-value goods and services. The cardholder receives the purchase requests, places the orders and authorizes the supplier to use the credit card as the method of payment. This purchasing and payment method is efficient and economical compared with traditional methods.

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**3.6.4 Some cardholders audited did their work carefully and in the spirit of the directives.**

The audit also found that the conduct of many cardholders was exemplary. These cardholders use the card in accordance with the spirit and letter of the policy in effect at PWGSC.

**3.6.5 There is potential for growth in the use of the acquisition card.**

The acquisition card is being used increasingly in the federal government. The number of cards in use throughout the federal government rose from about 2,000 in 1993 to 26,000 in 1998, a trend that has, however, seemed to level off over the last few years.

The trends in PWGSC are not as strong but along the same lines. Based on the information obtained, the number of cards in use has increased by 8 percent during the last two fiscal years; the total at the end of 1999 was 1,118 cards. The number of transactions, however, has decreased by 17 percent, from 39,266 to 32,776. The total cost of purchases, which was \$7,203 million in 1998-99, decreased by only 9 percent from the previous fiscal year. The average value of purchases per transaction stayed relatively low, at \$201 in 1997-98 and \$213 in 1998-99. That is well below the \$5,000 limit allowed per transaction.

According to the information collected, all the purchases and payments made using the acquisition card will be converted to the Milton electronic payment mode. One of the advantages of choosing this payment mode is the discounts on all purchases paid for using Milton. As an example, the discounts recorded for fiscal 1998-99 amounted to \$10,800.

At the time of the audit, 84 percent of the 1,118 cardholders made their payments using the manual mode. The upcoming conversion of cardholders to the electronic payment mode will allow the Department to benefit from additional discounts. According to the data obtained, the additional amount in discounts, based on expenditures for 1998-99, would reach about \$16,000.

In 1997-98, PWGSC paid \$21,000 in interest to the National Bank on balances owing. Since December 1997, no interest has been charged by the Bank; this is an argument in favour of using this purchasing tool over more traditional methods.

**3.6.6 During our audit we found no indication that abuse of acquisition cards is on the rise.**

As we stated earlier in the report, we must conclude that despite the increase in the use of acquisition cards, we found no indication that this procurement method was prone to abuse. In fact, use of the monitoring program implemented by the MMD and electronic monitoring of purchases by cardholders are elements of the control framework that reduce abuse and cases of fraud or misuse. In the opinion of the auditors, this is proof of an effective control framework aimed at protecting the interests of the Department and of Canadians.

### 3.7 Monitoring and audit mechanisms could be strengthened to improve their effectiveness.

Since the last audit in 1995-96, the MMD has set up an impressive program for monitoring transactions made using acquisition cards. The program allows close monitoring of the credit card use practices of the numerous cardholders.

Based on the information obtained during the interviews, except for payments made using Milton, the follow-up by Financial Operations of the FB on transactions made using the credit card is done from statistical samples of the Department's accounts payable. A new sampling program that includes Milton has not been finalized and should be implemented shortly by Financial Operations.

During the last fiscal year, the National Bank made a change in the reports produced in order to allow the MMD to do on-line follow-ups on PWGSC acquisition cards. At the time of the audit, the National Bank was producing the data related to the cards examined by the MMD in electronic form, using the SMARTDATA banking software.

Although SMARTDATA is an on-line search tool, it was developed to help departments allocate financial codes and not as a monitoring and control tool. At the time of the audit, the MMD was no longer in a position to perform its usual controls, including *audits* of the types of expenditures and the dollar limits of transactions. Reports are available, but only by card number. Since the identity of the cardholder is not easily accessible, there was a relaxation in the number of memos prepared and sent to offenders. Negotiations are currently under way with the National Bank to have the necessary changes made to the MMD's satisfaction.

During the interviews, most cardholders selected indicated that the purchases made were never investigated by Financial Operations and the regional coordinator. Despite the absence of rigorous monitoring, there are ongoing relationships with MMD staff on such diverse issues as the interpretation and application of directives, and the Milton system.

### Recommendation

6. *It is recommended that the Assistant Deputy Minister - Supply Operations Service in conjunction with the Assistant Deputy Minister - Government Operational Service, as required, ensure that:*

*the FB incorporate transactions made using acquisition cards in its statistical sampling program for payment purposes; and*

*the MMD, in conjunction with the FB, consider adopting a computer-assisted auditing tool in order to concentrate monitoring actions on areas with potential for abuse, chronic deficiencies and any trends observed.*

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### 3.7.1 Reports on the use of acquisition cards and purchase registers

According to the information obtained, no quarterly report is submitted by the departmental coordinator to the senior financial officer about card misuse and the corrective measures taken as a result of trends observed in the use of the cards. In addition, the MMD would benefit from distributing copies of its PWGSC regional monitoring reports to the senior financial officer.

In addition, the annual attestation confirming that the purchase registers have been examined and that there has been no case of misuse is not prepared and submitted to Financial Operations by the managers. Financial Operations is responsible for ensuring that managers submit this attestation.

Reference - *"The Departmental Acquisition Card Coordinator is responsible for... providing a quarterly report to the SFO on incidences of misuse, the actions taken, and usage trends; ...Financial Operations is responsible for... ensuring Cardholders' Managers prepare an annual attestation that Acquisition Card Registers have been reviewed and that misuse has not occurred."* (Source DIR: 034 Annex A)

#### Recommendation

7. *It is recommended that the Departmental Coordinator, jointly with Financial Operations, set up the controls required to ensure that the reports required under DIR: 034 be prepared and sent to the persons concerned.*

## 4. Findings and Recommendations - ARI Credit Card Program (Fleet Management)

### 4.1 Level of compliance for ARI cards

The management control framework for ARI credit cards is based on the contractual clauses with the fleet management company that require it to check the veracity of the data and produce valid reports.

Our review found a number of shortcomings in terms of the level of compliance for ARI cards. As an example, the exception reports are not produced, and these reports are necessary for certification under section 34 of the FAA. In addition, ARI Canada is responsible for maintaining a data verification system to ensure the veracity of all the information in the database. Furthermore, ARI is responsible for examining all invoices submitted for payment in order to verify that all expenditures are appropriate and in accordance with the service offers of accredited suppliers. However, we found deficiencies in this regard for the discounts granted by major oil companies and tax exemptions. There was even one invoice that was paid twice.

As for internal practices, our audit showed deficiencies in the reconciliation of accounts with the supporting documentation. Specifically, there were missing invoices and missing or incomplete log books.

This situation shows underuse of the services and resources that are offered by ARI Canada under the current contract. Although it outlines a range of services offered by ARI Canada, such as access to various free services on demand (training, ad hoc reports, etc.), only two consignees we met stated that they had used any of these services; this indicates underuse of the services that are available from ARI.

## Recommendation

8. *It is recommended that the Assistant Deputy Minister - Supply Operations Service in conjunction with the Assistant Deputy Minister - Government Operational Service, as required, ensure that the MMD ensure that fleet coordinators are properly and proactively informed of their monitoring roles and responsibilities, in accordance with the control mechanisms stipulated in the clauses of the contract between ARI and PWGSC.*

### 4.2 The MMD would reap significant operational benefits by formulating policies and directives concerning the use of the ARI card for the motor vehicle fleet.

We noted that there were no detailed policies and directives on the use of the ARI credit card. It is excluded from Deputy Minister Directive 034: *Acquisition Cards* (28-11-96).

In addition, we noted that the use of the ARI card is not covered by the Treasury Board's *Policy on Acquisition Cards* (1-01-98).

Directive 071: *PWGSC Motor Vehicle Fleet Management* (8-07-99) mentions the use of a credit card only briefly, indicating that a credit card must be issued by the fleet management company for each vehicle. The Treasury Board's *Motor Vehicle Policy* (19-06-96) emphasizes the role of credit cards as a key tool for managing data on the maintenance and operation of the vehicle fleet.

The absence of central agency and PWGSC policies and directives regarding ARI cards could lead to the implementation of various local procedures among card users. In such a situation, we can no longer speak of adequate financial controls and compliance. This deficiency did not go unnoticed during our audit. Among the consignees interviewed, 75 percent answered that to their knowledge there is no directive dealing specifically with the use of ARI credit cards.

At this stage, the only source of guidelines that make up the management control framework is the contract with the ARI company. In fact, the contract sets out the company's obligations in terms of reviewing the invoices and supporting documentation, examining the veracity of the data and producing valid management and exception reports. We should mention that the auditors are satisfied with the contract clauses developed by the purchasing personnel. They contain the essential elements of a good control framework. However, they are not subject to close monitoring by the stakeholders.

#### **4.3 It would be advantageous for all the stakeholders to be made aware of their roles and responsibilities.**

We detected a certain amount of confusion in the definition of the roles and responsibilities of the various parties involved in the management control framework for the ARI credit cards. Within the MMD, the control functions of ARI card coordinators are neither defined nor applied uniformly, and they have not been communicated sufficiently to all the other partners accountable for the management of the ARI credit card in terms of PWGSC's motor vehicle fleet management.

The same is true of the roles and responsibilities of the other stakeholders outside the MMD. According to the service offer, PWGSC is responsible for administering the contracts with the fleet management companies. However, our review showed that the management control processes required for PWGSC to assume the responsibility of monitoring the contractual clauses with ARI Canada have not been put into place. The Department is therefore vulnerable in terms of compliance issues.

#### **4.4 Consistency in practices and procedures would contribute to reducing the level of risk undertaken by the MMD.**

The management of ARI cards is handled differently in the various PWGSC responsibility centres we audited. We noted that the management practices followed by PWGSC employees depended on their understanding or interpretation of the Department's requirements in the management of the ARI credit card.

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Our review brought out three key factors that contribute to the absence of common management practices: the lack of detailed procedures for managing ARI cards, the lack of structured training programs on the use of ARI cards and the informal methods of distributing information, such as word of mouth.

**4.5 Increased and proactive distribution of information would improve the level of control over all the operations related to the ARI card.**

The information on ARI cards and on the services offered by the fleet management company does not flow freely. A survey revealed that the quantity and quality of information obtained by ARI card consignees depended largely on their network of contacts with colleagues and coworkers in the Department.

The results of our survey indicate that 75 percent of the cardholders are satisfied with the level of information available on the ARI cards for which they are responsible. However, when asked about the way information is circulated, ARI card consignees agreed that an Intranet site would provide on-line access to various types of information that they deem essential regarding ARI cards.

**4.6 Practices and procedures that would complement technology would improve the level of control.**

The absence of monitoring practices and procedures to complement high technology represents an impediment to the effectiveness of the existing management control framework. All ARI card consignees interviewed indicated that the reconciliation of invoices with monthly statements is the only means of control they can apply. However, they admitted that they did not have the resources or the specialized knowledge needed to implement such a control. As a result, reconciliation work is done in a cursory manner and the calculation of discounts obtained from the oil companies is deemed very arbitrary by the fleet coordinators we met. Others candidly told us that because of lack of time, they limit themselves solely to a quick visual scan of the monthly account statements produced by ARI before certifying the amounts. In the auditors' opinion, this results in inefficient use of the resources allocated to motor vehicle fleet management.

**4.7 The Department does not avail itself of all the benefits it is entitled to according to the contract clauses.**

The responsibility for applying the discounts offered by the major suppliers, as well as the tax exemptions, is part of the contract with ARI Canada. Whereas the activity reports and direct access to the ARI database allow the Department to closely monitor all the transactions for the motor vehicle fleet, our audit showed that no report on the application of the discounts granted by the suppliers and the tax exemptions was produced from this information. Our audit showed many cases where supplier discounts and tax exemptions were not applied against the expenses incurred. Even though the level of materiality of these discounts is low on a per unit basis, the total amount for all transactions for the PWGSC motor vehicle fleet is significant.

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In addition, we noted that some employees did not have the necessary information to allow the Department to benefit fully from the discounts offered by service suppliers. Despite the fact that ARI Canada has published a detailed brochure outlining the discounts offered each fiscal year, only half the consignees interviewed indicated that they were aware of the conditions and the rates set with the major gas companies and the manufacturers and distributors of automobile parts.

#### **4.8 Lack of information authenticity in the ARI database**

We found errors in the reliability of the information in the ARI database for each of the responsibility centres audited. Our review brought to light many situations where the volume of fuel purchased, in litres, did not correspond to what was indicated on the statements, except in the case of alternative fuels. In addition, we noted many cases where the ARI service charges were not entered in the database. This makes any decision-making process difficult, if not impossible, given the lack of accurate information on the management of the motor vehicle fleet.

In addition, our audit showed that in our selected sample no expense related to lubricant changing and filling was recorded in the ARI database. This is due to a weakness in the system because there is no field for this information in the database.

The accuracy of the data on operating and maintenance costs depends in part on the invoicing practices of the suppliers. During our audit we often noted billing done three or four months after the date of the transaction. On the one hand, late billing benefits the Department in terms of cash management. On the other hand, it is contrary to generally accepted accounting principles and practices on matching charges and hinders implementation of the Financial Information Strategy.