



Canadian Grain Commission  
Commission canadienne  
des grains

Canada

# **Canadian Grain Commission Acquisition Card Review**

**2005-2006**

## **TABLE OF CONTENTS**

### **1.0 Introduction**

- 1.1 Background
- 1.2 Review objectives
- 1.3 Review scope
- 1.4 Approach and methodology

### **2.0 Roles, policies and controls relevant to the acquisition card usage at CGC.**

### **3.0 Review findings and recommendations**

- 3.1 General
- 3.2 Approval of acquisition card transactions under Section 34 authority of the Financial Administration Act.
- 3.3 Monitoring and verification of acquisition card transactions
- 3.4 Cardholder access to acquisition card
- 3.5 Acquisition card security

### **4.0 Summary of recommendations**

## **1.0 Introduction**

The review of acquisition card usage at Canadian Grain Commission (CGC) was undertaken in accordance with the 2005-2006 Risk- Based Audit Plan approved by CGC's Executive Management Committee.

All acquisition card activities within the CGC head office as well as the regional offices were included in this review.

The review took place during the period of March 2006.

## **1.1 Background**

The acquisition cards (AC) have been approved for use in the government departments and agencies since 1991, in order to reduce the number of paper documents in the acquisition and payment processes, and to minimize the number of payments made to suppliers.

An AC allows a federal government employee to charge purchases for which full payment is made by the department to the applicable card provider. There is no fee for the card usage and conditional discounts can be obtained from the vendors for faster settlement of the outstanding account.

The card is issued in the name of the employee designated to do the purchasing. However, the liability for the transactions and payments rests with the sponsoring department. The employee is assigned a credit limit by the AC coordinator and receives a monthly statement of all transactions charged to the card. The department controls the monthly credit limit and has access to all card transactions to facilitate control functions. In an event of a fraudulent use of the card by parties other than the AC holder the department's maximum liability is fifty dollars.

## **1.2 Review objectives**

The objectives of this review were to:

- Identify the management and financial control of AC usage and verify compliance through:
  - Section 34 approval and payment
  - Review of compliance with policies, directives and procedures relevant to the AC usage at CGC
  - Review of roles and responsibilities of the various parties involved in the carrying out the procedures and controls
  - Identification of policies or guidelines on who should have the access to the AC

### 1.3 Review scope

The scope of this review covered all aspects related to the use of ACs at the CGC during the period from January 1, 2005 to December 31, 2005, specifically:

- Management of the ACs including the processes followed for the review and approval of the card holder; and, the monitoring and verification processes followed within the CGC for the use of the AC.
- The adequacy of controls exercised over the use of AC
- Review of 77 transactions from 11 card holders across the CGC.

The review focused on the transactions made with Master Card and VISA ACs. Neither travel card (AMEX) nor fuel card (ARI Financial Services) were included in this review. As well, no other procurement policies and/or practices currently followed by the CGC were reviewed.

### 1.4 Approach and methodology

The methodology followed in carrying out this review included the following:

- Review of the Treasury Board Secretariat (TBS) policies and directives as they relate to the use of the ACs
- Examination of the CGC's AC related policies and procedures
- Conducting interviews with selected CGC card holders and AC coordinator
- Reviewing and analyzing a selected number of CGC's AC transactions in order to ensure that adequate controls are exercised in the processing, reporting and monitoring of those transactions
- Documenting and analyzing the processes followed within the CGC for the distribution and use of the ACs
- Preparing a draft report
- Preparing a final report, after taking into account feedback received from the managers responsible for the AC program at CGC

## 2.0 Roles, policies and controls relevant to the AC usage at CGC.

The CGC is required to comply with the Treasury Board Secretariat *Policy on ACs (January 1, 1998)*. The CGC has developed formal procedures for the issue and payment of the ACs, however those procedures appear to be outdated and not known to Finance division accounts payable staff (last update performed on 11/02/1999).

The CGC Chief Commissioner is responsible for granting the access to the AC and has been delegated authority by the Minister to certify under the section 34 of the Financial Administration Act that, among other things, the work has been performed as required, that services and supplies have been satisfactorily provided. The Chief Commissioner has delegated this authority to the CGC management.

The AC usage at the CGC is controlled centrally at the head office in Winnipeg. The CGC's Chief Financial Officer (CFO) is responsible for the implementation of controls and monitoring of the ACs. The CFO has delegated this responsibility to the AC coordinator.

The AC coordinator is a department designated individual (Procurement and Contracts Officer) who is responsible for setting credit limits, issuing and monitoring of all ACs at CGC and liaising with the AC providers *AC Policy 5.a (January 1, 1998)*. In addition the AC coordinator is responsible for final payment approval for all ACs at the head office. The administrative officers are responsible for granting or obtaining payment approval at the regional offices.

The individual AC holders are responsible for the use and reconciliation of their AC statements and presentation for payment on a monthly basis or as required when the AC has been used.

At the head office, Finance division accounts payable section is responsible for the processing of submitted payment requests for ACs. At the regional offices the administrative officers perform similar function.

### **3.0 Review findings and recommendations**

#### **3.1 General**

The review of the CGC's AC processes indicated that CGC is following the Treasury Board Secretariat *Policy on ACs*.

An individual has been designated as the AC coordinator with the responsibility to authorize the issue of ACs to CGC employees and to control ACs currently in their possession.

The following is a brief summary of the use of ACs at the CGC:

- There are 19 ACs in use at the CGC.
- On average there were 148 AC transactions per month.
- Average monthly charges incurred using ACs were nearly \$ 41,884 or \$ 283.00 per transaction.
- 87% or 67 purchases in the sample of 77 transactions made using the ACs were supported by adequate documentation, were properly authorized and complied with the current policies, guidelines and limitations established by the Treasury Board Secretariat for the use of those cards.
- The CGC's AC transactions indicate that the card is predominantly used as a payment method that supplements rather than replaces the procurement of goods at the CGC.

There were approximately 1,770 unique transactions charged to 19 ACs during the period reviewed. Of the 1,770 transactions 1,387 or 78% transactions occurred at the head office in Winnipeg. Of the 1,770 transactions 1,249 or 71% were generated by two procurement officers. During the general review of all transactions, three charges were identified that did not comply with the provisions of the TBS policy.

Based on the above information most of the controls implemented by the CGC for the ACs are functioning as intended. However, some controls could be improved. Those controls are discussed further in this report.

The recommendations identified in this report are presented to the Chief Financial Officer who is responsible for the implementation and monitoring of the Treasury Board Secretariat's AC policy, processes and procedures at CGC, and developing the management action plan as a result of this report.

### **3.2 Approval of AC transactions under Section 34 authority of the Financial Administration Act.**

*The Treasury Board Secretariat ACs Program – Management Guide indicates that, although ACs are used for low-risk dollar transactions, the basic principle of segregation of duties must be recognized. The Financial Administration Act (FAA) also dictates that no person shall exercise authority (section 34 authority) with respect to payment from which he or she can benefit, directly or indirectly.*

This policy guideline becomes an issue when the AC holder also has section 34 authority. TBS has identified ways in which this issue can be addressed in the AC process. The first method suggests that any good purchased for the personal use of any employee be authorized by that individual's supervisor or manager. Although this method resolves the problem, it is not always practical and does require additional processing and authorization. Alternatively, another more popular method is to ensure that no manager with Section 34 authority is the card holder. This is more practical in that it is normally a subordinate who does the day-to-day purchasing for that section. Therefore, where the situation permits, card holders should not be individuals with signing authority under section 34 of the FAA.

The review of the ACs indicated that the section 34 authority delegation at CGC allows the manager in possession of AC to sign section 34 on his/her own AC invoice.

In other Federal Government Departments the AC holder has the ability to initiate the expenditure under the section 32 authority. The subsequent payment requires Manager's section 34 authority. In CGC's case, the section 32 authorities level have been set at the same level as section 34 authorities. Thus, in many cases for the CGC, the AC holder has both section 32 and section 34 authority. This rule is a direct contradiction of the FAA policy however, the management has deemed the risk of inappropriate transactions to the AC to be minimal and does not follow the suggested control identified in the ACs Program – Management Guide.

The review of AC holders noted that 16 of 19 AC holders at CGC had section 34 authority. Two procurement officers were only allowed to sign section 34 authority on behalf of others (blanket section 34 authority) for shipping, handling and delivery charges, telephone, communications and utility billings. Therefore, the procurement officers must have collator manager's section 34 authority signature prior to making a payment using the AC. Majority of other card holders (5 out of 6 who were interviewed) indicated that they follow similar section 34 authority rules in that the AC holder will not order or pay for goods unless he/she has the section 34 authority approval other than his/her own from the collator manager.

The review of sample number of invoices received by the CGC for the AC transactions indicated that 2 invoices or 3% were approved by for payment by the same individual (the card holder) who had made the original purchase.

**R.1 - It is recommended that the CGC review the policies and guidelines surrounding the section 34 authority approval for AC payments to ensure adequate controls exist to prevent inappropriate AC transactions.**

### **3.3 Monitoring and verification of AC transactions**

*Formal monitoring of compliance with TBS Policy on ACs would provide greater assurance that the policy is being respected.*

Through the review of transactions, three cases of noncompliance with the TBS *Policy on ACs 5(g)* restrictions were identified, that would have been highlighted by a formal monitoring program. The three identified cases were AC payments to other government departments.

The TBS *Policy on ACs 7(b)* states that: *Departments must undertake periodic reviews and audits of the use of the ACs to determine whether they are being used in accordance with this policy*".

Recognizing that ACs are used extensively within the CGC to acquire various types of goods and services, and in order to minimize the risk and to improve the controls over these transactions, there is a need to develop and implement procedures to review AC purchases for restricted items as per the TBS Policy.

**R.2 - It is recommended that a procedure to review AC purchases for items restricted by the TBS *Policy on ACs – ACs program – Management Guide C5* be developed and implemented.**

### 3.4 Card holder access to AC

In general the TBS *AC Program- Management Guide section 1* specifies who should be given the card.

- Cards should be given to those employees who are authorized to make purchases.
- The employee given the card should be under direct or indirect budget authority.
- The individual signing under section 34 authority should not be the card holder, whenever practical.
- Each card should have only one owner to eliminate confusion over source of charges, although a given employee might carry more than one card.

The Canadian Grain Commission does not have a separate policy governing the use of the ACs and follows the TBS policy and guide.

It was noted that all employees who are in possession of the AC are authorized to make purchases on behalf of CGC as well are under direct or indirect budget authority.

In addition all card holders were asked whether they share the card with others. Of the 19 card holders 4 (21%) indicated that others have the card number to use for purchases or have access to the card itself. The *Policy on ACs* section 5(g)(i) states that “*only the person whose name appears on the card may use it;*”, therefore the CGC does not comply with this policy.

The sub point “*the individual signing under section 34 authority should not be the card holder*” was discussed in section 3.2 of this report.

It was also noted that the AC coordinator is responsible for managing the procurement of goods and services for CGC. The two functions are incompatible and should not be performed by the same person. A potential risk to the CGC is that the AC could be used for purposes other than the intended purpose. The AC coordinator was issued an AC in 2001. No transactions have been charged to this card since it was issued.

**R.3 - It is recommended that AC holders be regularly advised that the card is for their explicit use and AC number and expiry date should be kept confidential and not shared with others. If there is a need for other parties to have access to the AC, consideration should be given to have those parties be issued their own cards.**

**R.4 - It is recommended that criteria and documentation be developed for issuance of ACs.**

**R.5 - It is recommended that the AC coordinator role should be allocated to individual who does not have procurement responsibilities.**



### 3.5 AC security

*The TBS Policy on AC guideline III states:*

*ACs must always be kept in a secure, controlled-access location.*

All card holders were asked where they keep their AC.

The responses were as follows:

- 12 or 63% of card holders keep their AC in a wallet
- 5 or 26% of card holders keep their AC in a secure location (strong box or safe)
- 1 or 5% of card holders keeps his/her AC in an unsecured location (daily diary)
- 1 or 5% of card holders did not respond

In general the physical security over the ACs appears to be adequate. The “in the wallet” response suggests that the card is restricted and the card is monitored on continuous basis. The card holder keeping the card in an unsecured location indicated that he/she will take steps to correct the situation as soon as possible.

**R.6 - It is recommended that all card holders be regularly informed of the requirement to keep AC in a secure, controlled-access location.**

**4.0 Summary of recommendations**

- R.1 It is recommended that the CGC review the policies and guidelines surrounding the section 34 authority approval for AC payments to ensure adequate controls exist to prevent inappropriate AC transactions.
- R.2 It is recommended that a procedure to review AC purchases for items restricted by the TBS *Policy on ACs – ACs program – Management Guide C5* be developed and implemented.
- R.3 It is recommended that AC holders be regularly advised that the card is for their explicit use and AC number and expiry date should be kept confidential and not shared with others. If there is a need for other parties to have access to the AC, consideration should be given to have those parties be issued their own cards.
- R.4 It is recommended that criteria and documentation be developed for issuance of ACs.
- R.5 It is recommended that the AC coordinator role should be allocated to individual who does not have procurement responsibilities.
- R.6 It is recommended that all card holders be regularly informed of the requirement to keep AC in a secure, controlled-access location.

This report was prepared by:

Tom Jankowski, CGA – Internal Auditor

Geoffrey Govia, CMA – Accounting Controls and Reporting Officer

CGC Acquisition Card Review

---

<b>Recommendations</b>	<b>Responsibility</b>	<b>Management response and action plan</b>
R.1 - It is recommended that the Chief Financial Officer for the CGC review the policies and guidelines surrounding the section 34 authority approval for AC payments to ensure adequate controls exist to prevent inappropriate AC transactions.		
R.2 - It is recommended that a procedure to review AC purchases for items restricted by the TBS <i>Policy on ACs – ACs program – Management Guide C5</i> be developed and implemented.		
R.3 - It is recommended that AC holders be regularly advised that the card is for their explicit use and AC number and expiry date should be kept confidential and not shared with others. If there is a need for other parties to have access to the AC, consideration should be given to have those parties be issued their own cards.		
R.4 - It is recommended that criteria and documentation be developed for issuance of ACs.		
R.5 - It is recommended that the AC coordinator role should be allocated to individual who does not have procurement responsibilities.		
R.6 - It is recommended that the AC coordinator regularly inform all card holders of the requirement to keep AC in a secure, controlled-access location.		