

City of Mississauga **Internal Audit Report**

CORPORATE SERVICES DEPARTMENT
FINANCE DIVISION
ACCOUNTS PAYABLE SECTION
PROCUREMENT CARDS AUDIT

February 2, 2021

City Manager's Department
Internal Audit Division

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**CORPORATE SERVICES DEPARTMENT
FINANCE DIVISION
ACCOUNTS PAYABLE SECTION
PROCUREMENT CARDS AUDIT**

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**Corporate Services Department
Finance Division
Accounts Payable Section
Procurement Cards Audit**

BACKGROUND

The Procurement Card (PCard) Program aims to streamline the process for low-value and some medium-value acquisitions (essentially legal fees) at the City of Mississauga. It provides staff with a simple and quick method of payment and consequently reduces the administrative burden on Purchasing and Accounts Payable. Procurement cards are akin to credit cards and accepted by any business establishment that allows Visa as a form of payment.

Similarly, the Visa Payables Automation (VPA) program also allows a simplified method of payment, which is only available to Accounts Payable and used for payment of invoices from registered vendors. These payments are not restricted to LVAs.

The chart below summarizes the volume of transactions, total dollars spent, number of active PCards/registered vendors and total rebate received through the PCard Program for 2019 and 2020. Please note that at the time of writing this report, the 2020 numbers were not finalized to provide an accurate dollar value of the rebate received.

	2019		2020	
	PCARD	VPA	PCARD	VPA
No. of Transactions	52K	1695	32K	1611
Total Expenditure (\$)	\$18.9M	\$8.8M	\$17.3M	\$8.8M
No of Active Cards/ Registered Vendors	1214	250	1072	317
Total Rebate	\$197K	\$93K	-	-

SCOPE

The audit focused on the business objectives of the PCard and VPA programs, including usage, adoption and governance. It also focused on the card's lifecycle; from issuance and use to reconciliation and review to final deactivation of the PCard. Where transactional testing was necessary, we reviewed transactions from January 2019 to October 2020.

Areas out-of-scope

This audit did not review the following:

- Expenditures made by Members of Council. Review of these expenses is monitored by Finance, and concerns, if any, are managed by the Integrity Commissioner.
- The opportunity and necessity of the purchases acquired through procurement cards; only, where applicable, their legitimacy and approval process. Opportunity and necessity are supposed to be evaluated by each approver and may be subject to specific audits in each unit.

- Processes involved with GST/HST rate reviews, tax filings, and collections. A full tax review would require specialization in the field of taxes.

OBJECTIVES

The audit was performed in accordance with the International Standards for the Professional Practice of Internal Auditing, and was guided by the risk assessment performed in August in conjunction with management. The audit focused on the review of the adequacy of internal controls that mitigate relevant risks related to the following business objectives:

- A) To facilitate the majority of payments of low-value acquisitions for the Corporation in a cost-effective manner (including process efficiencies, proper management of cards and review of expenses, and maximizing rebates);
- B) To ensure procurement card holders and approvers are aware of their roles and responsibilities; and
- C) To prevent instances of fraud or inappropriate use of City funds.

SUMMARY OF OBSERVATIONS

The audit noted several benefits that relate to the Procurement Card Program. The integration of the program with Accounts Payable and the ERP system streamlines the procure-to-pay process, ensures all expenses are approved by the appropriate level and supporting documentation is retained and readily accessible, and reduces the labour and time-intensive purchasing process. These benefits are further supported by a thorough and comprehensive Corporate Policy and Procedure for Procurement Cards, and an audit trail built into the system which improves the auditability of user access and activities.

Our main observations relate to communication of the program objectives, understanding of adequate supporting documentation and allowable business expenses, and monitoring and enforcement of non-compliant expenditures.

A comprehensive list of observations and recommendations was provided to Finance management and other relevant areas, along with a separate list of low-risk process improvement opportunities.

The most relevant observations and recommendations are summarized below. Appendix A outlines all detailed recommendations and the corresponding action plans proposed by management.

Develop an Effective Training and Communication Program

Many of the recurring errors found in the review of a sample of transactions, such as inadequate supporting documentation, transaction splitting, expensing of non-allowable expenditures and sharing of PCards, stem from the lack of knowledge by both the cardholders and approvers regarding the rules and requirements of the program.

Although the existing e-Learning module provides PCard users with a general understanding of the applicable Corporate Policies and Procedures on spending, it is only required at the time the

card is first issued, without regular refreshers or updates. Furthermore, the existing training program is not detailed enough to effectively prevent common errors, is not regularly updated and does not support staff who exhibit repeated non-compliance with Corporate Policies and Procedures. In addition, the training is not supported by a robust communication plan, aimed at reinforcing its key messages and ensuring increased awareness among staff.

The lack of thorough understanding of requirements by users and approvers increases the risk that incorrect or wrongful purchases will be accepted and processed, and reduces the City's ability to hold them accountable should such a problem occur. In particular, approvers are the first line of defense within the PCard process. Therefore, if they are not educated on what to look for on an invoice, what to do when an ineligible expense is put through, or actions to take when an alert/warning appears, it may result in non-compliance with regulatory bodies, financial loss or negative public scrutiny over the City's expenses.

Strengthen the Audit Programs for Concur and Accounts Payable

All PCard transactions undergo a "receipt audit" by Concur Auditors, an external service provider, which is expected to validate the receipt attached against the date, amount and expense type designated by the originator in the Concur Expense system. Our review noted instances where Concur audits did not effectively flag simple errors. As well, the workflow in the system allows approvers to override certain alerts and approve the transactions twice without additional scrutiny (which we suggest should be performed by Accounts Payable (AP) staff). This resulted in some instances of payments of expenses that were not compliant with the applicable requirements.

While the errors were not material, nor were they indicative of wrongdoing, additional levels of scrutiny, such as the ones provided by Concur Audit and the AP review, are intended to provide the organization with a stronger ability to avoid wrongful or erroneous transactions being paid. The errors identified in our review demonstrate that there needs to be more rigor in those reviews, to fully achieve this objective.

Review and Amend Tier Levels on an Annual Basis

Tier levels determine the transactional and monthly spending limits on a specific procurement card. These are established and approved by the PCard holder's supervisor, manager or director at the time of first issuance of the card or when a change to tier level is requested.

A review of the current tier level assignments showed an absence of regular review of the approved amounts by the business unit, resulting, on one hand, employees with tier levels well above their business needs, while on the other, missed opportunities of using a PCard for many low-value acquisition transactions due to the employee not having transactional limits that were aligned with their operational needs.

Ensure Individual Accountability of PCard Holders

It has been common practice in certain business areas that administrative staff's PCards are used to process expenses for other team members such as professional dues, training courses, etc. Although the intention of these transactions is permissible, the accountability of the transactions affected in this manner is shifted from the actual user to the administrative staff. There is also a concern that this might allow for undue influence when administrative staff are put in a position to charge transactions that should otherwise be placed on a direct report's card.

In particular, our review found three instances in which a supervisor/approver was the recipient of the goods and/or services purchased. Although the expense appeared to be a legitimate business expense in these cases, an approver should not approve expenses in which he or she has a direct benefit.

Timely Deactivation of PCards

PCards are expected to be deactivated or placed on hold when an employee is terminated, retired and/or on a leave of absence. During the period of the review, 35 PCards in those situations were still active, some since 2018 (with 19 of those cases occurring in 2020). No further transactions transpired after the employee's last day of work and, upon being informed, management promptly deactivated these cards.

Timely Reconciliation of Clearing Account

Clearing accounts are used as temporary accounts to facilitate PCard and Visa Payables Automation (VPA) transactions until the reconciliation process is settled. We noted that both clearing accounts had outstanding transactions from the following years:

Year	PCard	VPA
2017	\$0	\$8.1K
2018	\$110K	\$3.1K
2019	\$63K	\$3.7K
Total	\$173K	\$14.9K

Accounts Payable is working with the business units and vendors to rectify these transactions, and going forward committed to clear the accounts on a monthly basis. By the end of December 2020, the cumulative balance for the PCard and VPA clearing accounts were \$16.6K and \$34, respectively.

CONCLUSION

The program needs to strengthen its support to the user areas and their staff, in order to improve their awareness and capabilities related to their roles and responsibilities, as well as enforcing rules over allowable expenditures.

Fraud has not been observed in the limited sample analyzed; however, our observations will also reduce the potential risk of fraud going unnoticed by increasing the City's ability to detect and contain any suspicious situation.

The control environment over the Procurement Card Program is generally effective and relatively few errors were observed. The program has been effective in streamlining the procurement of low-value acquisitions, which has lead to efficiencies and cost savings. However, the program needs to strengthen its support to the user areas and their staff through development of a communication plan to increase utilization of PCards and reinforce knowledge of the process and its requirements. Ongoing training for users and approvers to align purchases with Corporate Policies and Procedures is also needed, as well as reinforcing the expense audit process and timely reconciliation of clearing accounts, among others.

A total of 10 recommendations resulted from this audit. Details of the audit recommendations and management comments can be found in Appendix A.

Management has agreed to all 10 recommendations, which should be completed by the end of 2021.

Internal Audit would like to thank the Director, Finance and Treasurer, the Manager, Financial and Treasury Services, as well as the Accounts Payable team who provided their time, support and assistance during the audit.



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Director, Internal Audit

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Senior Internal Auditor

Rec	Recommendation	Priority (H/M/L)	Comments/Status	Classification
1	That the Procurement Card training program be enhanced to better support the needs of the PCard holders and approvers, including effective monitoring of common errors, regular updates of the content and refresher training as required on a periodic basis and ad-hoc for cases of repeated non-compliance with Corporate Policies and Procedures. This does not relate to the technical use of the system.	H	Finance agrees with the recommendation. The PCard training program will be enhanced to better support the needs of PCard holders and approvers, along with partnering with Human Resources to make PCard approver training mandatory. To be completed by December 31, 2021	Compliance with and Clarification of Corporate Requirements
2	That audit rules in Concur Expense be reviewed and updated to ensure Accounts Payable is able to scrutinize expenses that have been flagged with a possible error.	M	Finance agrees with the recommendation. All Concur Expense audit rules will be reviewed to provide additional levels of scrutiny where warranted. To be completed by June 30, 2021	Operational Control and Financial Reporting
3	That Accounts Payable develop an audit program to assist with the performance of their sampling of transactions.	M	Finance agrees with the recommendation. A more comprehensive audit process for Accounts Payable to review transactions and new supporting technology will be implemented in 2021, following the completion of the SAP upgrade. To be completed by December 31, 2021	Operational Control and Financial Reporting
4	That an exceptions report be developed and provided to management annually for approval which identifies recommended changes in tier levels.	M	Finance agrees with the recommendation. Accounts Payable will develop a standard operating procedure to recommend and re-assign tier assignments where appropriate on an	Efficiency and Effectiveness

			annual basis, along with collaborating with Human Resources to be notified following staff position changes. To be completed by March 31, 2021	
5	That on a quarterly basis, Accounts Payable identify divisions who are submitting low value invoices to vendors who accept Visa as a form of payment. This should be included in the communication plan discussed in recommendation 6.	M	Finance agrees with the recommendation. Accounts Payable will develop a standard operating procedure to identify low value invoices that accept payment by Visa and notify divisions to encourage payment by PCard. To be completed by March 31, 2021	Efficiency and Effectiveness
6	That the communication plan be enhanced (e.g. increase frequency, methods of communication) to promote the PCard Program, including identifying employees who make low-value purchases.	M	Finance agrees with the recommendation, and will enhance its communication tactics in partnership with Materiel Management on promoting PCard use and identifying low value purchases on a more frequent basis. To be completed by June 30, 2021	Efficiency and Effectiveness
7	That all PCard holders be informed that the practice of sharing cards is to be discontinued.	M	Finance agrees with the recommendation, and will include communication on the sharing of PCards in the communication plan. To be completed by March 31, 2021	Operational Control and Financial Reporting
8	That periodic review of active PCards against employees' work status be conducted.	H	Finance agrees with the recommendation. Active PCards will be reviewed quarterly against employee status. To be completed by June 30, 2021	Operational Control and Financial Reporting

9	That allowances be reimbursed through Concur Expense and a limit be established for the cost element related to the allowance.	M	<p>Finance agrees with the recommendation. All employee reimbursements, including safety footwear, will be processed in SAP Concur Expense.</p> <p>To be completed by June 30, 2021</p>	Efficiency and Effectiveness
10	That variances more than two months old be actioned and going forward adequate supporting documentation be included for items that are not reconciled timely.	M	<p>Finance agrees with the recommendation. Variances and reconciling items from the PCard and VPA clearing accounts will be actioned monthly. At the end of 2020, the balance of the PCard clearing account was \$16.6K, and the balance of the VPA clearing account was \$34.</p> <p>To be completed by March 31, 2021</p>	Operational Control and Financial Reporting