RECOMMENDATION:
That Report CM07013 respecting the follow up of Audit Report 2005-09, Procurement Card Review, be received.

Ann Pekaruk
Director, Audit Services
City Manager's Office

EXECUTIVE SUMMARY:
Audit report 2005-09, Procurement Card Review, was originally issued in November, 2005 and management action plans with implementation dates were included in the report. In January, 2007, Internal Audit followed up the report to determine that appropriate and timely actions had been taken. Regarding the implementation of the ten (10) recommendations made in the original report, five (5) have been fully implemented (completed); four (4) are in progress and one (1) remains incomplete.

BACKGROUND:
Audit report 2005-09, Procurement Card Review, was originally issued in November, 2005. The report indicated several recommendations providing opportunities for savings, review and control of card privileges and timely clearing of procurement card charges.

It is normal practice for Internal Audit to conduct follow up reviews within a 12-18 month period following issuance of the original report in order to determine whether actions plans committed to by departmental management have been implemented. In January, 2007, Internal Audit followed up the report to confirm appropriate and timely actions had been taken.
ANALYSIS/RATIONALE:
The report attached as Appendix “A” to Report CM07013 contains the first three (3) columns as originally reported in Audit Report 2005-09 along with an added fourth column indicating Internal Audit’s follow up comments.

Five (5) of the ten (10) individual recommendations have been full implemented. The five (5) completed recommendations are in regard to review and control of card privileges, including cancellation.

Four (4) of the recommendations remain in progress. They include: the completion of an exercise to recognize and identify areas for potential savings through volume discounts and tendering; a further opportunity for reviewing the procurement card activity by General Managers in September 2007 at the time of renewal; completion of revisions to the procedure for signing Card Agreements upon each card renewal; and more timely clearing of procurement card clearing accounts.

The recommendation concerning the tendering for small tools remains incomplete. The process of putting together a tender for small tools is complex and time consuming and requires the involvement from multiple users. Purchasing is endeavouring to complete the tender by the end of the 3rd quarter 2007.

ALTERNATIVES FOR CONSIDERATION:
Not applicable.

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:
Financial
Recognizing and identifying areas for potential savings through volume discounts and tendering may result in cost savings to the City.

Staffing
None.

Legal
None.

POLICIES AFFECTING PROPOSAL:
None.

RELEVANT CONSULTATION:
The results of the follow up were discussed with the staff responsible for the administration of procurement cards (Financial Services and the Budgets and Finance divisions of the Corporate Services Department).
CITY STRATEGIC COMMITMENT:

By evaluating the “Triple Bottom Line”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

Community Well-Being is enhanced. □ Yes ☒ No

Environmental Well-Being is enhanced. □ Yes ☒ No

Economic Well-Being is enhanced. ☒ Yes □ No

City Council’s strategic commitment to “Best Practices – Best Value” under “A City That Spends Wisely and Invests Strategically” is addressed through audits and reviews and their subsequent follow up to ensure controls are in place to protect the assets of the City and promote efficient, effective and economic services and programs.

Does the option you are recommending create value across all three bottom lines? □ Yes ☒ No

Do the options you are recommending make Hamilton a City of choice for high performance public servants? □ Yes ☒ No

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Attachment
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<th>#</th>
<th>OBSERVATIONS OF EXISTING SYSTEM</th>
<th>RECOMMENDATION FOR STRENGTHENING SYSTEM</th>
<th>MANAGEMENT ACTION PLAN</th>
<th>FOLLOW UP (JANUARY 2007)</th>
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<td>1.</td>
<td>Four vendors accounted for $404,771 or 17% of 2004’s procurement card purchases. More than 80% of these purchases were by one department through the purchase of small tools, gloves and building materials. Without purchasing contracts for the majority of the items purchased, the City could be paying uncompetitive prices and losing opportunities for volume discounts. In 2003, Purchasing committed to reviewing procurement card purchases semi-annually to identify opportunities to tender for additional goods or services based on dollar values. While semi-annual procurement card vendor activity reports have been distributed to the Purchasing Division, there is no evidence that an attempt was made to explore the possibility of negotiating contracts for items such as small tools, gloves and building materials.</td>
<td>That, where applicable, the Purchasing Division lead operational management through comprehensive reviews of procurement card purchases with a view to identifying opportunities for achieving cost savings and operational efficiencies through the establishment of purchasing contracts.</td>
<td>Agreed. Reports were created and distributed on a semi annual basis to be used by the buyers and Manager of Purchasing to identify opportunities to tender for additional goods or services based on dollar values. Several opportunities were identified but there was no follow up done. Starting with the report for the second half of 2005 procurement card purchases, an action plan will be developed by the Manager of Purchasing to ensure all opportunities identified are investigated and savings realized, where possible, either through direct negotiations or by issuing RFPs and Tenders. This action plan will be shared with operational management.</td>
<td>In progress. Although a report of 2005 procurement card (p-card) purchases was distributed to buyers in the fall of 2005 for analysis, lack of staff resources resulted in no follow up. In April, 2006, another similar report was run. Purchasing staff are reviewing details and expect this to be complete by the end of February, 2007. An action plan to recognize areas for potential savings through volume discounts and tendering are expected by the end of the 1st quarter 2007.</td>
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2. | During 2004, the City purchased $232,350 worth of small tools, 55% ($127,353) of which were purchased through procurement cards. The balance was purchased through the Purchasing Division’s order system. In last year’s review, the Purchasing Division committed to including small tools in the list of RFP’s and tenders for 2004/2005. Small tools have not been tendered. | That, in conjunction with the review suggested in (1) above, the Purchasing Department consider tendering the majority of small tools with a view to achieving pricing efficiencies. | Agreed. Purchasing will work with operational management to assess the feasibility of issuing an RFP or Tender for small tools. This will be added to the 2006 work plan for Purchasing and will be completed sometime in 2006. | Incomplete. Putting together a tender of such goods as small tools is complex and time consuming with involvement from multiple users. Purchasing is endeavouring to complete the tender for small tools by the end of the 3rd quarter 2007. |
## OBSERVATIONS OF EXISTING SYSTEM | RECOMMENDATION FOR STRENGTHENING SYSTEM | MANAGEMENT ACTION PLAN | FOLLOW UP (JANUARY 2007)
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3. | Thirty-nine (39) cardholders used their cards less than three times in 2004, spending a total of only $10,165. A review of their 2003 usage revealed a similar level of card usage. A significant number did not use their cards at all during the year. | That the US Bank be contacted to determine if report writing in the Access Direct software could be modified to include exception reporting for frequency of card usage. | Agreed. The Procurement Card Administrator worked with the US Bank to create a report which showed number of purchases, dollar value spent and last date used by procurement cardholder. This report was sent to the GMs for review and the GMs were asked to identify cards that should be cancelled. | Completed. A report indicating frequency and degree of the use of p-cards by individual cardholders was sent to General Managers for review in November, 2005 which resulted in the cancellation of a few cards. As part of the 2006 year-end activities, staff were to send out the report again to the General Managers for their review. |

Before granting procurement card privileges to an employee, departmental management is supposed to evaluate the employees' responsibilities to determine whether they require the use of procurement cards. Following the 2003 procurement card review, General Managers were to re-assess employees' cards usage to determine if continued card privileges were still warranted. Although several staff cancelled their cards in 2004 (many voluntarily), there are still approximately 10% of all cardholders with no or very infrequent card use.

The administrative cost of issuing and monitoring under-utilized cards can be avoided if cards are only issued to employees whose duties and usage warrant them.

That General Managers regularly review employees' continued eligibility for procurement cards based on the level of use. | This report was only sent once in 2004 when all procurement cards were due for renewal. This report will now be run and forwarded to GMs on an annual basis with the intent of their review for continued card privileges. | In progress. Cards are scheduled for renewal in September 2007 which would present an ideal time to reassess card privileges. (Also see comments above.)
4. The Procurement Card Policy requires Departmental Card Co-ordinators to issue copies of policies and procedures to cardholders and ensure that they read and sign a Procurement Card Agreement. The signing of the agreement serves as a reminder to the cardholders of their responsibilities and the restrictions regarding the use of the procurement card.

The City's procurement cards expired in 2004 necessitating that new cards be issued in September 2004 to all 424 approved procurement cardholders. As part of the card replacement process, management committed that all cardholders would be asked to read the latest procurement card policy and procedures and to sign a new Procurement Card Agreement that would be kept on file with the Procurement Card Administrator.

A review of the Procurement Card Administrator’s files showed that there were signed 2004 agreements for 72% (305) of the cardholders. The remaining 28% (119) of the cardholders had either not signed a new agreement or the new signed agreement was not in possession of the Procurement Card Administrator, according to the policy. Many of these 119 cardholders had signed agreements in the previous distribution of cards in 2001 which were on file. However, the Procurement Card Policy had undergone changes since that time and, by not signing a new agreement, these cardholders may not necessarily be familiar with the new policy and their responsibilities.

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<td>The Procurement Card Policy requires Departmental Card Co-ordinators to issue copies of policies and procedures to cardholders and ensure that they read and sign a Procurement Card Agreement. The signing of the agreement serves as a reminder to the cardholders of their responsibilities and the restrictions regarding the use of the procurement card.</td>
<td>That the Procurement Card Administrator consider sending reminders for delinquent card agreements to Departmental Card Co-ordinators more frequently and submit a report of non complying departments to management.</td>
<td>Agreed. The process of signing the Card Agreement each time the card is renewed is not clearly outlined in the policy and supporting procedures. This will be clarified with all staff and the policy/procedures will be changed to reflect this requirement.</td>
<td>In progress. The procedure noted under the Management Action Plan will be incorporated into the revisions currently being made and expected to be completed by the end of February 2007.</td>
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<td>That, prior to issuing new cards, Departmental Card Co-ordinators ensure that cardholders read and sign Procurement Card Agreements. The signed agreements should be submitted to the Procurement Card Administrator within a reasonable time.</td>
<td>The procedure will be revised to reflect that a new Card Agreement must be completed and received by the Procurement Card Administrator prior to the expiry of the card. Only when the Card Agreement is signed and forwarded to the Procurement Card Administrator will the card be released to the cardholder by the Procurement Card Administrator. The BAs will facilitate the process by requesting the agreements and forwarding them to the Procurement Card Administrator at which point the cards will be released to the BA for distribution.</td>
<td>Completed. Based on a sampling of new cardholders, it appears that, in practice, no new cards have been released until the Procurement Card Administrator had received a signed agreement.</td>
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<td>5.</td>
<td>Cancellation of procurement cards is not always performed on a timely basis for cardholders leaving the employment of the City. One former senior City employee’s card remained active 33 days after his termination and was only cancelled following the Procurement Card Administrator’s inquiry. Another card was cancelled 75 days after the employee’s resignation. The risk of fraudulent use of cards is increased if cards are not cancelled prior to or immediately following the termination of a person’s employment. The City may not be able to recover charges arising from the misuse of cards if the bank is not promptly notified of card cancellations. Also, procurement cards are not always destroyed and submitted with Procurement Card Maintenance Forms when departments apply for card cancellations. Not submitting destroyed cards to the Procurement Card Administrator further increases the risk of fraudulent card use.</td>
<td>That Departmental Card Co-ordinators be reminded to submit completed Procurement Card Maintenance Forms prior to or immediately following a cardholder’s separation with the City. That Human Resources, in conjunction with General Managers or their designates, ensure that, whenever possible, Employee Property Checklists are completed and processed prior to an employee’s departure.</td>
<td>Agreed. Staff will be directed to ensure that this takes place immediately upon being notified of a staff termination. Agreed. Currently, termination forms and Personal Change Notification (PCN) forms prompt the manager to recover all City property, although Procurement Cards are not specifically referenced on the PCN. Human Resources will review if there are any other initiatives which will help to ensure Procurement Cards are recovered as people leave the organization.</td>
<td>Completed. A sample of recently resigned/terminated employees who were cardholders indicated maintenance forms dated and cards cancelled in a timely manner. Completed. Although the recently revised Termination of Service Form (to be filed with each employee’s departure) does not specifically make mention of procurement cards, it does prompt the employee’s supervisor to inquire into and sign for the return of all City owned property.</td>
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<td>Procurement card clearing accounts are not being cleared to expenses on a regular basis, with some departments only clearing the accounts at the end of the year. Following the review of 2003 procurement card transactions, the Finance and Administration Division committed to review and allocate items from the clearing account(s) to their appropriate expense accounts on a quarterly basis. Unallocated expenses in clearing accounts distort individual line expenses in the budget. Not charging expenses on a timely basis could lead to over-expenditures in some expense lines when amounts are eventually cleared to the accounts.</td>
<td>That Business Administrators (BA’s) review procurement card clearing accounts for their departments and ensure that amounts are cleared to the appropriate expense accounts at least on a quarterly basis.</td>
<td>Agreed. Accounts will be “reconciled” at least quarterly. There still may be some outstanding issues with charges that do not allow the amounts to be cleared on each quarter ending date but these will be identified for follow up.</td>
<td>In progress. A review of the clearing accounts as at January 8, 2007 indicated an accumulated unallocated balance of over $57,000. A sample selected from these accounts noted several transactions were older than 90 days (i.e. beyond one quarter as per the Management Action Plan). Subsequent to Internal Audit’s inquiry into the reasons for such delay, staff cleared all but two of the sampled transactions. Further diligence is required to clear outstanding transactions on a more timely basis.</td>
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