



Continuous Audit of Key Controls - Acquisition Cards

Internal Audit Division

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Recommended for approval by the Audit Committee.

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A. Executive Summary

1. An acquisition card is a credit card used for the procurement and the payment of goods and services that are authorized official government business transactions. The use of acquisition cards is governed by the *Financial Administration Act* as well as the *Directive on Payments* and the *Directive on Delegation of Spending and Financial Authorities* of the Treasury Board. As per the 2018–2019 Public Accounts, acquisition card transactions made up 3.4% of the \$27.1 million in operating expenditures before salaries (\$50 million) of the Courts Administration Service (CAS), that is, \$922,194.
2. The objective of this audit was to provide management with an independent, objective assessment of the implementation and effectiveness of key controls over acquisition cards.
3. Overall, CAS's control framework for acquisition cards ensures that the transactions paid to the financial institution that issued the acquisition cards are approved and reconciled. The Finance and Contracting & Materiel Management Services (hereinafter referred to as the Finance Section) regularly follows up on each cardholder by obtaining a monthly transaction summary, and the balances owing are paid on time to avoid fees. CAS's control framework could be improved by developing controls to issue and cancel acquisition cards and by implementing the specific departmental directive that is currently being developed.
4. This continuous audit is a first for CAS. In addition to the recommendations to improve controls over acquisition cards, lessons learned for the Internal Audit Division were identified, including increased use of data. It will be appropriate to develop a continuous audit framework to better structure this work. This will make it possible to identify CAS's various control frameworks and to plan continuous audits according to their maturity.

B. Statement of Assurance

5. This continuous audit was carried out in conformance with the *International Standards for the Professional Practice of Internal Auditing*.
6. I would like to thank the officials from CAS for their collaboration and support provided to the audit team.

Sophie Frenette, CIA CRMA
Chief Audit Executive

C. Introduction

a) Background

7. The acquisition card is a credit card used for the procurement and the payment of goods and services that are authorized official government business transactions. Acquisition cards facilitate transactions because they can be used quickly.
8. It is therefore particularly important to have sufficient controls over these transactions. Therefore, the *Financial Administration Act* (FAA) requires the implementation of three key controls when an expenditure is incurred, whether or not it is incurred with an acquisition card:
 - Section 32 is carried out by the delegated manager and represents commitment authority. It includes confirming that there is a sufficient unencumbered balance available in the budget to cover all applicable costs, considering related policies, and recording commitments (individually or in bulk).
 - Section 34 is carried out by the delegated manager and represents certification authority. It includes verifying that the work has been performed, the goods supplied, or the services rendered; certifying, prior to making a payment, that the contract or agreement terms and conditions have been met; and confirming that the payee is entitled to or eligible for the payment.
 - Section 33 is carried out by the Finance Section and represents payment authority. It includes verifying that sufficient auditable evidence exists in accordance with s. 34, which includes reviewing high-risk transactions and a sample of medium- and low-risk transactions, and verifying that the payment does not represent an unlawful charge and will not result in the appropriation being exceeded. Since s. 33 represents quality assurance, in the event of questions, the transaction is returned to the delegated manager for corrective actions when required.
9. In addition, there are two Treasury Board directives that must be implemented and that govern persons with delegated spending and financial authorities under ss. 32, 34 and 33 of the FAA.
 - The *Directive on Payments* sets out requirements to issue, use and cancel acquisition cards and the Chief Financial Officer's responsibilities, including with respect to the use of acquisition cards and controls to govern their use.
 - The *Directive on Delegation* sets out the principles related to individuals' spending (commitment), certification and payment authorities and the conditions to exercise those authorities. Among other conditions, delegated managers must complete training and revalidate their knowledge at least every five years.

10. Acquisition cards are issued to individuals in positions requiring the periodic purchase of goods and services. It is up to responsibility centre managers to recommend that the Finance Section (acquisition card coordinator) issue a card to an employee whose duties require it.
11. At CAS, there were 45 acquisition cardholders who made 2,089 transactions for a total amount of \$935,463 during the reference period used: October 4, 2018, to October 3, 2019. As per the 2018–2019 Public Accounts, acquisition card transactions made up 3.4% of the \$27.1 million in operating expenditures of CAS, that is, \$922,194.
12. The Internal Audit Division carried out this audit in accordance with the CAS 2019–2024 Risk-based Audit Plan, which was approved by the Chief Administrator in July 2019. This audit took place between September 2019 and January 2020.

b) *Objective, Scope and Methodology*

13. The objective of this audit was to provide management with an independent, objective assessment of the implementation and effectiveness of key controls over acquisition cards. This includes validation of controls over acquisition cards as designed, their effectiveness, the identification of opportunities for improvement, and the impacts of the problems identified.
14. This audit focused on the acquisition card transactions made between October 4, 2018, and October 3, 2019. The scope was initially defined over a shorter period but was adjusted during the audit to test a sample that was more representative of the organization's use of acquisition cards.
15. The audit methodology included an analysis of financial system data, a review of a sample of transactions, a review and analysis of documents, and interviews.

D. Observations and Recommendations

16. The Chief Financial Officer is responsible for establishing standards for the use of acquisition cards, in accordance with the Treasury Board *Directive on Payments*. This includes the following responsibilities:

- Identifying a departmental acquisition card coordinator;
- Communicating the responsibilities associated with acquisition cards to the departmental coordinator, responsibility centre managers and cardholders;
- Ensuring the provision of acquisition card documentation and training to cardholders;
- Defining and communicating the acquisition card payment terms, dollar limits and restrictions on types of purchases; and
- Ensuring that payment to the acquisition card issuer is made by the due date, or sooner, in order to take advantage of financial rebates paid to the government.

17. The departmental acquisition card coordinator is also responsible for overseeing certain key aspects of acquisition cards. Responsibilities include:

- Obtaining a written acknowledgement of responsibilities and obligations from the cardholder prior to issuing an acquisition card;
- Authorizing the issuance of an acquisition card; and
- Cancelling an acquisition card when an employee leaves the department (the responsibility centre manager being responsible for returning acquisition cards to the departmental coordinator when employees leave).

a) Control framework to issue and cancel acquisition cards

18. A departmental card coordinator had been appointed for CAS.

19. At the time of this audit, CAS did not have documented controls or a standard for the issuance, use and cancellation of acquisition cards; however, a directive is being developed by the Finance Section. To carry out this audit, an internal control document for payment general controls was used in addition to a description of acquisition card practices.

20. According to the Finance Section, the current practice in terms of issuing cards is based on prior authorizations obtained from responsibility centre managers when the need to issue a card to an employee is identified and approved. When the card is issued, an acknowledgement of receipt and a confirmation of the cardholder's commitment to his or her obligations for compliance with the rules for using the card (and notification in the event of departure or loss) is also obtained from the cardholder. The acknowledgement of receipt refers to the Receiver General for Canada Manual with respect to the rules, formalities and provisions associated with the use of acquisition cards.

21. As for the practices for cancelling acquisition cards, they are based on the receipt of a notification from the manager in the event of the employee's departure or a change in duties. CAS has a Departure Policy from 2009 that provides that a form must be completed upon termination of employment, according to which Finance confirms "that nothing is unaccounted for and that the formalities for termination of employment have been completed," with no mention of acquisition cards. The onus is on Finance to do a specific follow-up regarding acquisition cards. Moreover, the departure process does not apply to employees who change duties within CAS. It would therefore be appropriate to further reinforce cancellation practices, for example, by mentioning the return of acquisition cards on the form or by further clarifying the responsibilities of Finance and managers when there is a change in duties.

b) Results of tests on issuance and cancellation

22. A sample, selected at random, of three card issuance transactions and three cancellation transactions was reviewed. It was found that the departmental card coordinator's responsibilities are being fulfilled. This includes documenting the applications and approvals received from managers for the issuance of cards, ensuring the compliance of approvals received from the responsibility centre, and obtaining from new cardholders an acknowledgement of receipt and confirmation of their commitment to their compliance obligations.

23. However, the rules and provisions are not specifically reviewed with the cardholder regarding the issuance of the card; training would be an appropriate means to explain the rules and provisions to ensure proper understanding on the part of cardholders. Moreover, we did not observe any other means of control on the part of the Finance Section regarding the identification of cards to be cancelled, for example, a practice of periodically confirming cardholders with all CAS managers. We also observed that the responsibility centre manager sometimes does not advise the card coordinator immediately when an employee leaves.

Recommendation 1

The Deputy Chief Administrator, Corporate Management and Chief Financial Officer should document controls specific to acquisition cards, for integration with CAS's Internal Control over Financial Reporting Framework, relating to, among other things:

- 1.1. Sufficient knowledge on the part of cardholders of the provisions applicable to acquisition cards, as soon as they are issued;
- 1.2. Periodic confirmation of authorized acquisition cardholders with managers; and
- 1.3. Clarification of responsibilities related to the termination of employment process or a change in an employee's duties.

c) Control framework for the use of acquisition cards

24. In accordance with the generally recognized principle of segregation of incompatible duties, each level of delegated authority (ss. 32, 34 and 33) must assume responsibilities that complement those of other colleagues involved in a business process. The person with certification authority (s. 34), typically a responsibility centre manager, must ensure that expenditure initiation and spending authorities (s. 32) were performed appropriately. As a general rule, the centre manager also has spending authority (s. 32). The person with payment authority (s. 33) in the Finance Section has to ensure that the above-mentioned delegated authorities (ss. 32 and 34) were performed in accordance with the terms of the FAA and conduct a review.
25. One of the fundamental principles of the business process leading to payments is based on the authorization of any expenditure by the responsibility centre manager. To ensure that this principle is applied, the *Directive on Delegation* provides, as part of the exercise of s. 33, that the transaction is returned to the manager exercising s. 34 for corrective actions when required. This requirement can be met by providing regular feedback to persons with delegated authorities with respect to ss. 32 and 34, when the Finance Section exercises payment authority (s. 33). Such a practice is not currently in place at CAS and would help reinforce the principle of accountability.

d) Results of transactions testing

26. A second sample, selected on judgment, of 75 acquisition card transactions made between October 4, 2018, and October 3, 2019, was also reviewed. This test made it possible to test the effectiveness of controls for acquisition cards. Two general observations were made:
- In 2019–2020, the Finance Section implemented stricter verification practices. Generally, the test results presented in Appendix A confirm that these practices had positive results with respect to the compliance of transactions.
 - There was an approximate delay of one quarter in verifying transactions (s. 33). Since the Finance Section had not completed verification work for 12 of the 75 transactions selected (16%), they were excluded from the control testing of ss. 32, 33 and 34. The sample size for this audit is therefore 63 transactions.
27. Overall, the audit identified the following practices:
- Section 32: The expected documentation was on file for 44 approvals, including all the transactions reviewed for 2019–2020. This included, for example, a proper authorization for the types of transactions where a form already exists (for instance, a travel authorization form, or for training). Of the 44 approvals, 12 had been performed via email. This practice may comply with government requirements as long as CAS defines a maximum amount for this practice and complies with the other requirements, in relation to the authority to enter into contracts, for example. Therefore, there is an opportunity for CAS to formalize its approach and its risk tolerance for the exercise of s. 32 outside the existing forms.

- Section 34: Practices for certifying expenditures were more consistent; 61 certifications out of 63 had been performed by a delegated manager.
- Section 33: Practices for making payments were also more consistent; 60 verifications out of 63 had been duly performed by a financial officer.

28. The audit also identified an opportunity to monitor the use of acquisition cards. Trends were noted with respect to:

- Frequent purchases from certain suppliers (Moore's and FedEx) where it would be appropriate to determine whether there are more cost-effective means of procurement;
- Transactions by cost centre managers for goods whose purchases are centralized at CAS (for example, office supplies, furniture and computer equipment);
- Purchases of automotive accessories, where the use of acquisition cards may be allowed subject to certain criteria (for example, when suppliers do not accept the specific card that exists for the vehicle fleet); however, those criteria were not validated; and
- The payment of accommodation costs and purchases where the use of acquisition cards is not permitted because other cards exist for these transactions.

It would be appropriate to analyze all acquisition card usage data to proactively identify this type of trend. This would help to determine the support or training that managers need, and to identify potential savings.

29. In short, training should be provided to managers in order to prevent cases of non-compliance when ss. 32 and 34 are exercised, instead of correcting them when s. 33 is exercised. In addition, it would be appropriate to provide quick-reference guides or directives to guide practices, in order to support the exercise of ss. 32, 34 and 33.

30. We also identified the following best practices:

- The Finance Section regularly follows up on individuals in respect of whom the card balance was paid but for whom a duly completed summary of transactions for the period was not received from the cardholder; the cardholder is then notified.
- Regarding monthly payments of acquisition card statements, the balance owing is paid on time to avoid undue fees, and all purchases made using each of the cards issued are then reconciled with the monthly payment made, which is an important key control.
- For payments and the overall reconciliation of the transactions presented to the banking institution managing card transactions for CAS, the Finance Section regularly follows up on each cardholder with regard to the submission of a monthly summary of the transactions made. This control makes it possible to detect cases where a cardholder may not have submitted the transactions for a given period, to ensure a proper review of the approvals required and obtained in accordance with the terms of ss. 32, 34 and 33, and to make adjustments if applicable.
- A quick-reference guide with the steps completed prior to the s. 33 approval was used for two transactions that were verified in accordance with s. 33.

31. We were also informed that a CAS directive for acquisition cards was being developed that included the chronology and a description of the responsibilities associated with the exercise of ss. 32, 34 and 33. Once approved and communicated, the directive would be a key control in the application, by all staff, of the provisions related to acquisition cards. Moreover, no specific training in accordance with the *Directive on Payments* is provided to cardholders and their managers. The directive and training would enable the Chief Financial Officer to meet its obligations under the *Directive on Payments*.

Recommendation 2

The Deputy Chief Administrator, Corporate Management and Chief Financial Officer should include the following requirements in the directive being developed, and implement it:

- 2.1. Training measures that would help to ensure that cardholders appropriately apply the provisions related to the use of acquisition cards;
- 2.2. Quick-reference guides or checklists to help those with approval authority under ss. 32, 34 and 33 to assume their responsibilities regarding the use of acquisition cards;
- 2.3. A tolerance level to structure the exercise of s. 32, taking into account the related requirements from the *Guide to Delegating and Applying Spending and Financial Authorities*; and
- 2.4. A plan for monitoring the use of acquisition cards.

E. Conclusion

32. The Internal Audit Division assessed the effectiveness of key controls over acquisition cards as set out in the *Financial Administration Act* as well as the *Directive on Payments* and the *Directive on Delegation of Spending and Financial Authorities* of the Treasury Board. Overall, CAS has practices in place to manage acquisition cards, based on the generic controls for payments and work practices. The establishment of controls specific to acquisition cards, properly incorporated into the Internal Control over Financial Reporting Framework, would allow CAS to govern the use of acquisition cards more effectively and better ensure compliance with the various requirements.

33. In terms of accountability, the results of this audit suggest an opportunity to better oversee management of all the responsibilities vested in managers in terms of the initiation and approval of current expenditures (ss. 32 and 34).

F. Appendix A – Summary of approval practices

Test	Yes	No	2018-2019 Exceptions	2019-2020 Exceptions
A - Section 32 – Committing Funds				
Purchase pre-approval performed by a delegated manager	44	19	For 19 transactions, there was no documentation on file to support the exercise of s. 32.	All the cases processed during the 2019–2020 fiscal year included an approval for s. 32. However, 1 case had been pre-approved for a lower amount (meaning that the purchase amount exceeded the approved amount).
B - Section 34 – Certifying Expenditures				
Purchase approval performed by a delegated manager	61	2	There were 2 transactions for which the approval had not been performed by a delegated manager: <ul style="list-style-type: none"> ▪ 1 did not include a signature; and ▪ 1 case had been approved by the cardholder without a delegation. 	All the cases processed during the new fiscal year (2019–2020) included an approval for s. 34.
C - Section 33 – Making Payments				
Independent <i>a posteriori</i> verification of the expenditure approval by the responsible manager performed by the financial officer	60	3	2 unverified cases	There was one unverified case in 2019–2020 that predated the quarter awaiting processing by Finance (July to September 2019) and that dated back to May 2019.

G. Appendix B – Management Action Plan

Recommendations	Management Action Plan	Responsible Office	Completion Date
<p>1. The Deputy Chief Administrator, Corporate Management and Chief Financial Officer should document controls specific to acquisition cards, for integration with CAS's Internal Control over Financial Reporting Framework, relating to, among other things:</p> <p>1.1. Sufficient knowledge on the part of cardholders of the provisions applicable to acquisition cards, as soon as they are issued;</p> <p>1.2. Periodic confirmation of authorized acquisition cardholders with managers; and</p> <p>1.3. Clarification of responsibilities related to the termination of employment process or a change in an employee's duties.</p>	<p>The acquisition card process charts and the controls matrix will be documented.</p>	<p>Finance, Contracting Services and Materiel Management Section</p>	<p>November 30, 2020</p>
<p>2. The Deputy Chief Administrator, Corporate Management and Chief Financial Officer should include the following requirements in the directive being developed, and implement it:</p> <p>2.1. Training measures that would help to ensure that cardholders appropriately apply the provisions related to the use of acquisition cards;</p>	<p>Finalize the directive on acquisition cards by including measures to train acquisition cardholders.</p> <p>We also plan to put in place mandatory training following SAP implementation for acquisition cardholders and afterward for all new cardholders before they receive their cards.</p>	<p>Finance, Contracting Services and Materiel Management Section</p>	<p>Directive: July 31, 2020</p> <p>Training: December 31, 2020</p>

Recommendations	Management Action Plan	Responsible Office	Completion Date
<p>2.2. Quick-reference guides or checklists to help those with approval authority under ss. 32, 34 and 33 to assume their responsibilities regarding the use of acquisition cards;</p>	<p>A checklist related to section 33 is included in the account verification sampling plan and will be tested from June 15 to July 15, 2020. Quick-reference guides will be created following SAP implementation for the following roles:</p> <ul style="list-style-type: none"> ▪ Acquisition cardholders ▪ Manager with a delegation under section 32 and/or 34 	<p>Finance, Contracting Services and Materiel Management Section</p>	<p>Checklist: July 31, 2020</p> <p>Quick-reference guides: December 31, 2020</p>
<p>2.3. A tolerance level to structure the exercise of s. 32, taking into account the related requirements from the <i>Guide to Delegating and Applying Spending and Financial Authorities</i>; and</p>	<p>Following an analysis of the tolerance level, the decision and the required actions will be documented and undertaken to establish the general pre-approved commitments that will ensure the compliance of s. 32.</p>	<p>Finance, Contracting Services and Materiel Management Section</p>	<p>July 31, 2020</p>
<p>2.4. A plan for monitoring the use of acquisition cards.</p>	<p>The directive on acquisition cards will include a plan for monitoring the use of cards according to certain types of expenditures. This monitoring plan will be established following SAP implementation.</p>	<p>Finance, Contracting Services and Materiel Management Section</p>	<p>Directive: July 31, 2020</p> <p>Monitoring: December 31, 2020</p>