

Subject: Follow-Up Audit Report on Purchasing Card Program

Report to: Audit Committee

Report date: Monday, December 9, 2024

Recommendations

1. That this report **BE RECEIVED** for information.

Key Facts

- This report updates the Audit Committee on the outcomes of the follow-up audit conducted for the Purchasing Card (P-Card) program.
- The P-Card program, introduced in 2017, aims to simplify the purchase of low-value items. A previous audit by Internal Audit in 2020 identified key areas for improvement, including transaction controls, policy compliance, and monitoring practices.
- Internal Audit reviewed a sample of P-Card transactions from January 1, 2022, to June 30, 2024, focusing on adherence to program policies and assessing the implementation status of recommendations from the 2020 audit.
- The audit found enhanced internal controls, strengthened oversight, and compliance with transaction approval processes. Management has implemented improvements, such as comprehensive P-Card training, optimized vendor agreements, and streamlined processes in categories like fuel and travel.
- Ongoing enhancements, such as centralized purchasing and periodic spot-check reviews, are underway. These measures, combined with data analytics, will reinforce program effectiveness.

Financial Considerations

There are no direct financial effects arising from this report.

Analysis

The 2017-initiated P-Card program remains essential for efficiently handling low-value transactions. The 2020 audit highlighted the need for stricter controls over usage, enhanced documentation, and adherence to policy restrictions.

Key categories such as fuel, repairs, hotels, and office supplies represent significant spend through P-Cards. Management has developed detailed training materials to cover proper P-Card use, policy guidelines, and documentation requirements, with specific improvements made in the use of fuel cards to streamline spending.

Our audit selected a sample of transactions across different value thresholds to ensure that high-volume categories were adequately represented. Testing methodology included stratified sampling and data analytics to confirm compliance with transaction limits and documentation standards. We observed that internal controls, such as defined PeopleSoft workflows and automated compliance flags, have effectively improved the procurement process.

Recommendations

- Establish corporate accounts with key vendors and centralize procurement where feasible, enabling the Region to leverage volume discounts and streamline purchasing.
- Expand periodic spot-check reviews. Internal Audit recommends Procurement lead these, with collaborative reviews conducted by Internal Audit on a triennial basis.

Next Steps

- Internal Audit will continue to monitor the P-Card program and provide updates as appropriate.
- On a triennial basis, Internal Audit will conduct a comprehensive review of P-Card data to assess compliance with transaction and approval requirements.

Alternatives Reviewed

This memo was developed through a collaborative effort with Procurement to evaluate the implementation status of action plans established following the 2020 P-Card Audit. At this time, there are no additional alternatives for the Audit Committee to consider.

Relationship to Council Strategic Priorities

The current Council's Strategic Priority of *Effective Region* emphasizes continuous process improvement, optimized service delivery through shared services, fiscal responsibility, and investing in a skilled workforce for Niagara Region. The P-Card program's enhancement aligns with these priorities by supporting efficient, compliant procurement practices.

Other Pertinent Reports

N/A

Respectfully submitted and signed by

Hari Vemuri
Manager, Internal Audit

Appendices

Appendix 1 Follow-Up Audit Report on Purchasing Card Program



Internal Audit

Follow-Up Audit Report on Purchasing Card (P-Card) Program

Operating Unit: Regional Municipality of Niagara

Date of Audit: August – October 2024

Auditors: Hari Vemuri, Manager, Internal Audit

Distributed To: Niagara Region Audit Committee
Ron Tripp, Chief Administrative Officer
Dan Carnegie, Commissioner, Corporate Services
Bart Menage, Director, Procurement and Strategic Acquisitions
Jeffrey Mulligan, Manager, Purchasing Services

Date Issued: December 9, 2024

EXECUTIVE SUMMARY

Background

As part of the 2024-26 Audit Plan, Internal Audit conducted a follow-up review of the Purchasing Card (P-Card) program, focusing on transaction and payment processes across Niagara Region. The P-Card program, initially introduced in 2017, was designed to provide an efficient and streamlined purchasing method for low-value items. Typically, cardholders are limited to a \$5,000 transaction threshold, though this limit can be adjusted based on operational needs. The objective of this follow-up audit was to evaluate the extent to which previous audit recommendations (from the 2020 P-Card audit) had been implemented and to assess the effectiveness of the controls in place to mitigate risks associated with the P-Card program.

Scope and Testing Methodology

Using a risk-based approach, the audit focused on the following key areas:

- Assessing whether the current control environment can prevent or detect potentially fraudulent activity or misuse of organizational funds.
- Reviewing the potential for misuse or policy violations within the P-Card program.
- Identifying opportunities to improve procurement efficiencies and optimize financial resources.
- Following up on the implementation status of findings from the 2020 audit.

The audit approach included:

- Reviewing policies and procedures to evaluate controls designed to prevent or detect misuse.
- Analyzing vendor and employee spending patterns to explore procurement efficiencies and confirm compliance.
- Conducting interviews with key personnel to understand P-Card usage, training, and approval processes.
- Performing data analysis to identify trends, such as vendor usage, employee spending patterns, and potential violations of spending limits or purchase restrictions.

Audit Results

The audit identified continued improvement in the management of the P-Card program, with no major or high-risk issues found. Total spend through the P-Card program from 2022 to mid-2024 amounted to \$23.7 million, with \$8.9 million in 2022, \$9.6 million in 2023, and \$5.2 million through June 2024. These transactions were primarily concentrated in areas such as fuel, hotels, repairs and maintenance, and office supplies.

Key practices contributing to the program's success include:

- The organization developed detailed training materials for P-Card holders, covering appropriate usage, policy guidelines, and transaction documentation requirements.
- Management has taken steps to streamline certain expense categories, including fuel, hotel, and travel spending. Fuel cards were introduced to optimize fuel spending, while enhancements for hotel and travel were deferred due to lower-than-expected corporate spending volumes, reflecting a commitment to continuous improvement in spending optimization.
- Since the program's launch in 2017, noteworthy progress has been made, particularly in response to previous audit recommendations. All recommendations from the 2020 audit have been implemented, resulting in stronger internal controls and improved program oversight.

Staff engagement during the audit was positive, demonstrating a strong understanding of the policies and commitment to compliance.

Recommendations

While no major issues were identified, the audit provides the following recommendations to further enhance the program:

- Based on the high volume of spending with vendors, Procurement should establish corporate accounts and centralize purchasing where possible. This may enable the Region to leverage its buying power, negotiate better pricing, and streamline procurement processes. Implementation should be flexible, phased over time, and based on factors such as spending volume and vendor program availability.
- Expanding the current spot-check process is recommended. In addition to the periodic reviews by Procurement, Internal Audit should lead these reviews, with support from Procurement. This approach will enhance accountability and provide more robust oversight of the P-Card program.

Internal Audit acknowledges the support and cooperation from all members of the Procurement department during the audit.

BEST PRACTICES/ADVISORY OBSERVATIONS

# 1	Consolidating Purchases from Large Vendors
Rating	Low
Background	Niagara Region has engaged in spending with various large vendors over the past few years. Some of the highest spending categories include purchases from e-commerce sites (e.g., Amazon, BestBuy), big box stores (e.g., Home Depot, Walmart, and Staples) and hotel chains (e.g., Hilton, Marriott). However, there is currently no centralized process in place for establishing corporate accounts or consolidating purchases across these large vendors. The absence of a corporate procurement strategy for such major expenditures can result in missed opportunities for volume discounts, streamlined procurement, and enhanced vendor relationships.
Recommended Best Practice	Internal Audit observed that the Region could benefit from consolidating purchases across major vendors by establishing corporate accounts and negotiating centralized contracts. This practice would not only streamline procurement processes but also enable the Region to leverage better pricing, optimize vendor relationships, and improve efficiency in managing procurement activities. By consolidating vendors, the Region could benefit from bulk purchasing power and reduce administrative overhead associated with managing multiple vendor accounts.
Impact	Low
Likelihood	Moderate
Rationale	Given the significant spend with these large vendors, consolidating purchases presents a clear opportunity to secure cost savings and operational efficiencies. Implementing centralized corporate accounts would also provide better visibility and control over procurement activities, enabling the Region to track vendor performance and optimize spend.
Recommendations	<ul style="list-style-type: none"> • Procurement should establish corporate accounts with vendors based on factors such as spending volume, the availability of corporate account programs with the vendor, and other relevant considerations. A flexible, priority-based implementation over the upcoming years is recommended, allowing for the allocation of staff resources and phased adoption based on operational needs. • Develop a strategy to centralize procurement processes for large vendors providing supplies, potentially creating a preferred supplier list or contract for key categories.

# 1	Consolidating Purchases from Large Vendors
Management Action Plan	Procurement will utilize the review completed by Audit Department to identify two (2) potential vendors to develop and establish a trial corporate account and negotiating centralized contracts. If established communicate to previous client departments who have utilized and push this communication to departments who have not in the past.
Person Responsible:	Procurement Manager and Procurement Analyst
Planned Completion Date:	December 31, 2025

FOLLOW-UP REPORT

In 2021, Internal Audit conducted a review of internal controls surrounding P-Card. We performed follow-up procedures to assess whether the observations identified in the previous audit report were implemented.

# 1	Purchase splitting is still occurring, possibly due to increases in material and labor costs but can be avoided through proper limit increase procedures.
Rating	Low
Background	<p>Data analysis and detailed sample testing was done for time from January 2020 to July 2021, approximately an 18-month period that included approximately 56,000 transactions.</p> <p>The 2017 Internal Audit identified three main areas of concern that became the focus of testing for this follow-up audit:</p> <ul style="list-style-type: none"> • Purchase of restricted or personal items • No or incorrect documentation to justify purchase. • Purchase splitting or card sharing. <p>To mitigate these risks, Niagara Region relies upon cardholder adherence to the P-Card application and management oversight. It should be noted that P-Card transactions are committed once the payment is made, and management oversight is a post review to ensure that potential errors are identified and rectified for the future. In 2018 the P-Card policy and related procedures were updated to reflect planned updates.</p>
Observation	<p>Through Computer Assisted Auditing Techniques (CAATs) approximately twelve transactions out of the 56,000 were identified as potentially being purchase splitting. Purchase splitting can be defined as ‘subdividing, splitting or otherwise structuring procurement requirements or contracts in order to reduce the acquisition value or in any way circumvent the requirements or intent of the Procurement By-law which is not permissible.’ In other words, multiple purchases to the same vendor on the same day at lower levels that cumulatively exceed an individual’s transaction limit. Those transaction were tested and eight were confirmed as such. All cardholders selected had a \$5,000 transaction limit but exceeded that limit through multiple lower transactions. The cumulative total of these tested transactions ranges from \$5,005 to just over \$10,000.</p>
Implication	<p>Purchase splitting of transactions contravenes established transaction limits by cardholders, P-Card policy and competition requirements found in relevant directives including the Procurement By-law that states transactions may not be divided into two to avoid requirement of the by-law. Cardholders along with their approvers have the procedures in place to increase transaction limits to ensure compliance to procurement directives.</p>

<p># 1</p>	<p>Purchase splitting is still occurring, possibly due to increases in material and labor costs but can be avoided through proper limit increase procedures.</p>
<p>Recommendation</p>	<ol style="list-style-type: none"> 1. Procurement and Strategic Acquisitions should perform random spot checks and conduct data analysis of P-Card transactions to support ongoing communication, training, and policy updates. 2. CLT members, with accountability to appropriately manage non-compliant cardholders and approvers, should review the data analysis provided by Procurement and Strategic Acquisitions including reviewing transaction limits to ensure business needs are satisfied while not compromising competition and purchasing directives.
<p>Updated Recommendation</p>	<p>Aligned with the four lines of defense model in procurement policies, P-Card compliance requires layered accountability. First, cardholders are responsible for adhering to transaction limits and policies, with supervisors providing oversight and periodic reviews of team spending. Procurement conducts random checks and periodic reviews, while Internal Audit will support with a triennial review to address any non-compliance. Finally, CLT members review departmental spending to ensure alignment with procurement policies. This structured approach strengthens compliance, transparency, and efficiency in P-Card usage.</p> <ol style="list-style-type: none"> 1. P-Card holders must serve as the first line of defense in preventing purchase splitting by adhering to established transaction limits and P-Card policies. It is essential that cardholders, along with their direct supervisors, actively monitor for compliance and report any splitting incidents. This is aligned with Section 34 of the Procurement By-law, which emphasizes the cardholder's duty to maintain compliance and report any deviations. 2. Immediate supervisors should function as the second line of defense and should perform periodic reviews and oversight of their teams' P-Card usage to reinforce adherence to spending policies and prevent any circumvention of procurement guidelines. 3. Procurement conducts periodic reviews and random spot checks of P-Card transactions using PeopleSoft reports. Due to training and workload constraints, Internal Audit should undertake a comprehensive review of PeopleSoft data once every three years. Procurement will work closely with Internal Audit to identify any non-compliant transactions and take corrective actions as needed. Following the initial analysis for the period January 2022 to August 2024, results have been shared with Procurement, who will review the findings and provide feedback to Internal Audit to strengthen ongoing compliance monitoring efforts. 4. CLT members should proactively review departmental spending data, particularly P-Card activity, to ensure adherence to spending limits and prevent circumvention of procurement policies. While Procurement may face challenges in generating detailed departmental reports due to system

# 1	Purchase splitting is still occurring, possibly due to increases in material and labor costs but can be avoided through proper limit increase procedures.
	limitations, collaboration between departments and Procurement to ensure transparency and compliance is recommended.
Updated Management Action Plan	<ol style="list-style-type: none"> 1. In addition to the periodic reviews by Procurement, Internal Audit will lead triennial reviews, with support from Procurement. This approach will enhance accountability and provide more robust oversight of the P-Card program. 2. Procurement and Strategic Acquisitions will look in conjunction with the Procurement By-law updates to increase the current upper limit of transactions of \$10,000. This would align with the increases of costs of all commodities but still providing the fiscal responsibility and security of the P-Card program.
Status	Implemented. Further enhancements to control measures are recommended.
Implementation Timeframe	The first report was provided in October 2024. The next report is scheduled for Q4 2027.

Exhibit - Rating Scale

Each observation is ranked based on its impact on the Region and the likelihood.

Exhibit A: Likelihood Rating

Rating	Definition
Likely	<ul style="list-style-type: none"> History of regular occurrence of the event. The event is expected to occur in most circumstances.
Moderate	<ul style="list-style-type: none"> History of occasional occurrence of the event. The event could occur at some time.
Unlikely	<ul style="list-style-type: none"> History of no or seldom occurrence of the event. The event may occur only in exceptional circumstances.

Exhibit B: Impact Rating

Rating	Definition
CRITICAL	Requires immediate action by Senior Management to avert a severe/disastrous risk event in the near-term. Internal controls are deemed ineffective, absent, or poorly designed. Management Actions Plans (MAP's) are to be implemented immediately to mitigate risk of substantial financial losses, business interruption, loss of reputation and/or environmental, public health & safety risk.
HIGH	Requires prompt action by Management to avert, reduce or transfer a major risk event. Internal controls are deemed ineffective, absent, or poorly designed. MAPs should be implemented to mitigate the risk of financial losses, loss of reputation, address fraud issues or legal/regulatory non-compliance.
MEDIUM	Requires timely actions by Management to reduce risks to a low level. Internal controls are deemed ineffective or poorly designed. Management action is required but is not immediate. Moderate financial losses, temporary/minor reputational impairment, lesser potential for fraud or regulatory non-compliance may occur without timely MAP's.
LOW	Management actions are recommended to address the weaknesses identified. Internal controls are operating effectively or partially address the control objective; however, they may be poorly designed and/or operational inefficiencies exist which may result in an opportunity for improvement. Low risk events may cause operational inconvenience or minor financial losses.
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice. Management may or may not implement the suggested action plans.

Exhibit C: Overall Rating

Note that the impact illustrated vertically, and the likelihood is illustrated horizontally.

	Low	Medium	High	Critical
Likely	Medium	High	Critical	Critical
Moderate	Low	Medium	High	Critical
Unlikely	Advisory	Low	Medium	Medium