

REPORT OF THE

Auditor General of New Brunswick

Volume V

Performance Audit

2017

AUDITOR GENERAL
OF NEW BRUNSWICK



VÉRIFICATEUR GÉNÉRAL
DU NOUVEAU-BRUNSWICK

AUDITOR GENERAL
OF NEW BRUNSWICK



VÉRIFICATEUR GÉNÉRAL
DU NOUVEAU-BRUNSWICK

Speaker of the Legislative Assembly
Province of New Brunswick

Sir

As required under Section 15(1) of the *Auditor General Act* I am submitting Volume V of my 2017 Report to the Legislative Assembly.

Respectfully submitted,

A handwritten signature in black ink that reads "Kim MacPherson". The signature is written in a cursive, flowing style.

Kim MacPherson, CPA, CA, ICD.D
Auditor General

Fredericton, N. B.
November 2017

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Chapter 2

School District Purchase Cards

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School District Purchase Cards

Introduction

- 2.1** Government employees from departments, school districts and community colleges use credit cards to purchase goods of low value on behalf of the Province of New Brunswick. In 2003, the Province rolled out its Purchase Card Program, initially to departments, followed by school districts and community colleges. An agreement was signed with a major bank for the provision of credit card services.
- 2.2** The purpose of the program was to provide an alternative for the payment of high volume transactions and streamline administrative processes. Total purchases made through purchase cards were approximately \$20 million in 2004-05. They have increased since then with total purchases amounting between \$27 million and \$34 million per year. Despite this significant increase in purchases, other than developing a cardholder agreement, government had not finalized and approved a policy for the use of the cards until February 2017, 14 years after purchase cards had been introduced.
- 2.3** We have identified risks associated with the use of purchase cards through our financial audit work, which highlighted numerous control weaknesses in the purchase card procedures. *“Although they provide efficiency and savings to the government, Purchase Card Programs are high-risk because they allow the same individual to order, pay for, and receive goods and services. This offers the potential for fraud and abusive and improper transactions if*

not carefully monitored.”¹

2.4 Our performance audit focused on the use of purchase cards by school districts. Based on factors described later in this chapter, we selected the following three districts to audit purchase card processes and transactions:

- District scolaire francophone Sud;
- Anglophone West School District; and
- District scolaire francophone Nord-Est.

Why we did this audit

2.5 We believe this topic to be of interest to the public and legislators for the following reasons:

- Control weaknesses have been identified, through our office’s financial audit work, which increase the risk of fraud and errors;
- Issues have been found repeatedly in internal reviews carried out by the Office of the Comptroller;
- Purchase card processes in school districts are manual, decentralized and vary by district. This increases the risk of non-compliance with legislative and policy requirements; and
- School districts account for about two thirds of cardholders and total purchases made using purchase cards.

¹ United States Inspector General, *A Practical Guide for Reviewing Government Purchase Card Programs*, June 2002

Audit Objectives

2.6 The objectives of our audit were:

1. *To determine whether school district purchase card procedures comply with legislative and policy requirements.*
2. *To determine whether school districts monitor purchase card use and take corrective action to enforce compliance.*

Criteria we used to arrive at our conclusions on these objectives are presented in Appendix I.

Conclusions

2.7 Upon completion of our audit procedures, we concluded that:

- School district purchase card procedures did not always comply with legislative and policy requirements. Our testing identified many cases of non-compliance;
- School districts did not have clear documented guidelines for the use and administration of purchase cards. We found inconsistent practices between school districts; and
- School districts did not monitor purchase card use and take corrective action to enforce compliance in a consistent manner. While corrective actions were taken in some instances, this practice was not uniformly applied to all cases of non-compliance.

Results in Brief

2.8 Results in brief are presented in Exhibit 2.1.

Recommendations

2.9 A summary of our recommendations can be found in Exhibit 2.2. While the majority of our recommendations are addressed to the school districts, we also made recommendations to the following: The Department of Education and Early Childhood Development, Treasury Board and the Office of the Comptroller.

Exhibit 2.1 - Results in Brief

School District Purchase Cards

Why Is This Important?

- School districts spend around \$20 million per year using purchase cards and account for about two thirds of all cardholders and spending.
- Control weaknesses increase the risk of fraud and errors.
- 14 years after purchase cards were introduced, government approved a policy for their use in 2017.

What We Found

Overall Conclusions

- School districts did not monitor purchase card use and take corrective action in a consistent manner.
- School district purchase card procedures did not always comply with legislative and policy requirements.
- School districts did not have clear documented guidelines for the use and administration of purchase cards.

Cardholder Agreement & Government Policies Often Not Followed

- Instances of cardholders approving own purchases
- Split transactions used to circumvent *Procurement Act* and cardholder agreement
- Instances where purchases could not be explained
- Supporting documentation often not provided in timely manner for transaction processing

Inadequate Monitoring & Enforcement

- No regular review of active cards
- Cardholders allowed credit limit higher than purchasing needs (example: \$600,000 yearly limit for employee purchasing under \$50,000 per year)
- Repeated violations by same cardholders
- No documented process to ensure departing employees return their purchase card

Unclear Guidelines

- No online purchase guidance despite increasing spending in this area
- Different interpretations of government policy (example: business meeting expenses)
- Procedures for issuing and canceling cards inconsistent between school districts

Lack of Training

- School districts did not provide sufficient education to cardholders on appropriate use of cards
- School districts did not provide formal training to purchase card administrators and transaction approvers

Exhibit 2.2 - Summary of Recommendations

Recommendation	Department/school district's response	Target date for implementation
Audit Objective 1 – Procedures and guidelines		
2.36 We recommend school districts use the cardholder agreement in government policy AD-6405 Purchase Card and have cardholders sign the agreement before obtaining their purchase card and annually as required by the new policy.	Response from District scolaire francophone Nord-Est <i>[Translation] District scolaire francophone Nord-Est (DSF-NE) agrees. This practice is currently in place.</i>	<i>Fall 2017</i>
	Response from Anglophone West School District <i>We are presently using the new cardholder agreements and will have them completed annually.</i>	<i>Implemented</i>
	Response from District scolaire francophone Sud <i>[Translation] We are currently using the cardholder agreement since the start of the 2017-2018 school year. We propose the cardholder agreement be signed at the same time as the request for a new card.</i>	<i>Immediately</i>
2.39 We recommend Treasury Board issue guidance for the application of government policy AD-2801 Travel Policy in regards to business meeting expenses.	<i>The Office of the Comptroller has distributed guidance in regards to the appropriate use of the purchase card for travel related business meeting expenses.</i> <i>The Office of the Comptroller, in conjunction with the Office of the Chief Human Resources Officer, will assess the need for additional guidance related to the application of government policy AD-2801 Travel Policy in regards to business meeting expenses.</i>	<i>2018</i>

Exhibit 2.2 - Summary of Recommendations (continued)

Recommendation	Department/school district's response	Target date for implementation
<p>2.43 We recommend school districts use purchase cards only for purchases that are authorized under government policies.</p>	<p>Response from District scolaire francophone Nord-Est <i>[Translation] DSF-NE agrees with the recommendation, which is already in place. The District is taking action on infractions.</i></p>	<p><i>Fall 2017</i></p>
	<p>Response from Anglophone West School District <i>We will monitor purchases on a regular basis to ensure adherence to policy. We have been doing this prior to the audit.</i></p>	<p><i>Implemented</i></p>
	<p>Response from District scolaire francophone Sud <i>[Translation] We are currently working on improving this process.</i></p>	<p><i>March 2018</i></p>
<p>2.47 We recommend the Office of the Comptroller issue guidance for making online purchases, including the risks associated with online shopping and security precautions that should be taken.</p>	<p><i>The Office of the Comptroller agrees with this recommendation and will take measures to issue guidance for making purchases over the internet.</i></p>	<p><i>2018</i></p>

Exhibit 2.2 - Summary of Recommendations (continued)

Recommendation	Department/school district's response	Target date for implementation
2.49 We recommend school districts monitor and enforce adherence to guidelines in the cardholder agreement and policy AD-6405 Purchase Card.	Response from District scolaire francophone Nord-Est <i>[Translation] DSF-NE agrees with the implementation of this recommendation to the extent possible, with existing staff.</i>	<i>Fall 2017</i>
	Response from Anglophone West School District <i>We are working towards this and anticipate that all districts will align the way they monitor once meetings occur with EECD over the coming weeks. We certainly monitor spending now but understand we need some written procedures around this topic.</i>	<i>Estimate Winter 2018</i>
	Response from District scolaire francophone Sud <i>[Translation] We are currently verifying all the transaction notifications and flag infractions when found.</i>	<i>Immediately</i>

Exhibit 2.2 - Summary of Recommendations (continued)

Recommendation	Department/school district's response	Target date for implementation
<p>2.53 We recommend school districts provide education to cardholders on their responsibilities, the appropriate use of purchase cards, consequences for misuse, as well as transaction reconciliation procedures, before new cardholders begin to use their card and regularly for all cardholders.</p>	<p>Response from District scolaire francophone Nord-Est <i>[Translation] DSF-NE agrees with the implementation of this recommendation to the extent possible, with existing staff. There is a need for more staff.</i></p>	<p><i>Fall 2017</i></p>
	<p>Response from Anglophone West School District <i>Plan to work with EECD and other districts on aligning our practices so we will be uniform.</i></p>	<p><i>Unsure</i></p>
	<p>Response from District scolaire francophone Sud <i>[Translation] We recommend discussing user guidelines and procedures with school principals and division supervisors to ensure policy AD-6405 is followed. This is already in progress.</i></p>	<p><i>December 2018</i></p>

Exhibit 2.2 - Summary of Recommendations (continued)

Recommendation	Department/school district's response	Target date for implementation
2.54 We recommend school districts provide training to purchase card administrators and transaction approvers on the appropriate use of purchase cards and enforcement procedures.	Response from District scolaire francophone Nord-Est <i>[Translation] This recommendation should be made to EECD, as the training should be provided by the Department of Education and Early Childhood Development and the Office of the Comptroller.</i>	N/A
	Response from Anglophone West School District <i>We plan to review these procedures with our accounting staff and admin services staff to ensure they understand what the expectations are.</i>	Winter 2018
	Response from District scolaire francophone Sud <i>[Translation] We are sending reminders and emails with guidelines, we will elaborate guidelines et policies, we will meet with school principals, one by one, as well as in groups to ensure that all users and approvers are aware of rules and guidelines.</i>	<i>In progress, by January 2019 we hope to have better control over this recommendation</i>

Exhibit 2.2 - Summary of Recommendations (continued)

Recommendation	Department/school district's response	Target date for implementation
<p>2.60 We recommend school districts segregate incompatible user responsibilities and system accesses as required by government policies AD-6402 Approval of Payments and AD-6405 Purchase Card.</p>	<p>Response from District scolaire francophone Nord-Est <i>[Translation] DSF-NE agrees, taking into account existing staff with the addition of controls in the Oracle system for the accounting assistant.</i></p>	<p><i>Fall 2017</i></p>
	<p>Response from Anglophone West School District <i>I believe our district respects this recommendation.</i></p>	<p><i>Implemented</i></p>
	<p>Response from District scolaire francophone Sud <i>[Translation] We have added a resource to the accounting division, which will allow improved segregation of duties. We have explained to approvers (school principals) how to proceed for their own purchases, where another person must approve their purchases.</i></p>	<p><i>In progress, we hope to have this under control by end of March 2018</i></p>

Exhibit 2.2 - Summary of Recommendations (continued)

Recommendation	Department/school district's response	Target date for implementation
<p>2.65 We recommend school districts ensure sufficient documentation in support of purchase card transactions be provided by the cardholder, reviewed against applicable policies and guidelines and filed for future reference.</p>	<p>Response from District scolaire francophone Nord-Est <i>[Translation] DSF-NE agrees. This recommendation is already implemented and we are taking action on failures to comply with procedures.</i></p>	<p><i>Fall 2017</i></p>
	<p>Response from Anglophone West School District <i>We will reemphasize with admin staff to ensure when approvals are done we have proper information for the files.</i></p>	<p><i>Winter 2018</i></p>
	<p>Response from District scolaire francophone Sud <i>[Translation] We have already taken steps with cardholders to have as much detail as possible indicated on receipts.</i></p>	<p><i>Immediately</i></p>

Exhibit 2.2 - Summary of Recommendations (continued)

Recommendation	Department/school district's response	Target date for implementation
<p>2.69 We recommend school districts monitor and enforce compliance with the provisions of the cardholder agreement in relation to timely submission of supporting documentation.</p>	<p>Response from District scolaire francophone Nord-Est <i>[Translation] DSF-NE agrees with the monitoring, but this is difficult in the timeframe. As a result of DSF-NE's large geographical area, it is difficult to respect the timeframe.</i></p>	<p><i>Fall 2017</i></p>
	<p>Response from Anglophone West School District <i>We will work with EECD and other districts on this line item.</i></p>	<p><i>Unsure</i></p>
	<p>Response from District scolaire francophone Sud <i>[Translation] We are currently working on improving this process. The distance between schools, support centers and the district office are challenges that we are trying to improve. For this reason, we find that 30 days is difficult to achieve. We have always been able to be up to date at the end of the fiscal year.</i></p>	<p><i>We hope to see an improvement by the end of March 2018.</i></p>

Exhibit 2.2 - Summary of Recommendations (continued)

Recommendation	Department/school district's response	Target date for implementation
2.72 We recommend school districts review account coding and the amount of sales tax for each transaction entered into the financial system in order to provide accurate financial information.	Response from District scolaire francophone Nord-Est <i>[Translation] DSF-NE has already implemented this recommendation. However, as schools can no longer enter their transactions details to be automatically transferred to Oracle, there is an increased risk of errors.</i>	<i>Fall 2017</i>
	Response from Anglophone West School District <i>We will review procedures with staff.</i>	<i>Immediately</i>
	Response from District scolaire francophone Sud <i>[Translation] We are currently working on improving this process.</i>	<i>Immediately</i>
Audit Objective 2 – Monitoring and Enforcement		
2.85 We recommend school districts review cardholder listings regularly to ensure only active employees who purchase for the school districts have the appropriate type of purchase card with transaction and monthly limits that meet their purchasing needs.	Response from District scolaire francophone Nord-Est <i>[Translation] DSF-NE has started this review. An annual review with an analysis will be performed, as to increase the frequency of this review.</i>	<i>Fall 2017</i>
	Response from Anglophone West School District <i>We currently are reviewing and adjusting as necessary.</i>	<i>Immediate</i>
	Response from District scolaire francophone Sud <i>[Translation] We are currently working on improving this process.</i>	<i>September 2018</i>

Exhibit 2.2 – Summary of Recommendations (continued)

Recommendation	Department/school district’s response	Target date for implementation
<p>2.86 We recommend school districts add a formal step in the termination process in order to ensure departing employees’ cards are cancelled before their employment with the district ends.</p>	<p>Response from District scolaire francophone Nord-Est <i>[Translation] DSF-NE will implement this recommendation in collaboration with the human resources division.</i></p>	<p>Fall 2017</p>
	<p>Response from Anglophone West School District <i>We will discuss this with our Human Resources department to ensure this happens prior to termination.</i></p>	<p>Fall 2017</p>
	<p>Response from District scolaire francophone Sud <i>[Translation] In discussion with the human resources division.</i></p>	<p>March 2018</p>
<p>2.87 We recommend school districts develop, document and implement procedures for the issuance and cancellation of purchase cards in consultation with the other school districts, with guidance from the Office of the Comptroller as needed, to ensure consistency and efficiency.</p>	<p>Response from District scolaire francophone Nord-Est <i>[Translation] It is in DSF-NE’s opinion that this recommendation must be coordinated by the Department of Education and Early Childhood Development.</i></p>	<p>N/A</p>
	<p>Response from Anglophone West School District <i>We will work with EECD and other school districts on this.</i></p>	<p>Unsure</p>
	<p>Response from District scolaire francophone Sud <i>[Translation] We are currently working on improving this process.</i></p>	<p>September 2018</p>

Exhibit 2.2 - Summary of Recommendations (continued)

Recommendation	Department/school district's response	Target date for implementation
2.95 We recommend school districts document their regular monitoring of purchase card transactions to identify violations.	Response from District scolaire francophone Nord-Est <i>[Translation] DSF-NE has implemented a procedure for this recommendation which documents correspondence (emails, notices or notes) when there are violations. These correspondences are also attached to transaction notifications.</i>	<i>Fall 2017</i>
	Response from Anglophone West School District <i>We will work with EECD and other school districts on this.</i>	<i>Unsure</i>
	Response from District scolaire francophone Sud <i>[Translation] We have already taken steps with cardholders to have as much detail as possible indicated on receipts.</i>	<i>Immediately</i>

Exhibit 2.2 – Summary of Recommendations (continued)

Recommendation	Department/school district's response	Target date for implementation
2.96 We recommend school districts develop, document and implement consistent enforcement procedures for non-compliant cardholders to enforce guidelines in consultation with the other school districts, with guidance from the Office of the Comptroller as needed, to ensure consistency and efficiency.	Response from district scolaire francophone Nord-Est <i>[Translation] It is in DSF-NE's opinion that this recommendation must be coordinated by the Department of Education and Early Childhood Development.</i>	N/A
	Response from Anglophone West School District <i>We will work with EECD and other school districts on this.</i>	Unsure
	Response from district scolaire francophone Sud <i>[Translation] These procedures should fall under the Department of Education and Early Childhood Development, in collaboration with the school districts, so that all school districts follow the same guidelines.</i>	N/A
2.97 We recommend the Department of Education and Early Childhood Development coordinate work on the implementation of our recommendations by all school districts.	<i>The department agrees to act as a liaison to leverage best practices among the districts for implementation of the above recommendations.</i>	Fiscal 2018-19
2.98 We recommend the Department of Education and Early Childhood Development's internal audit function audit and report on school district purchase cards on a regular basis.	<i>The department agrees to monitor and report on school district purchase cards on a regular basis.</i>	Fiscal 2018-19

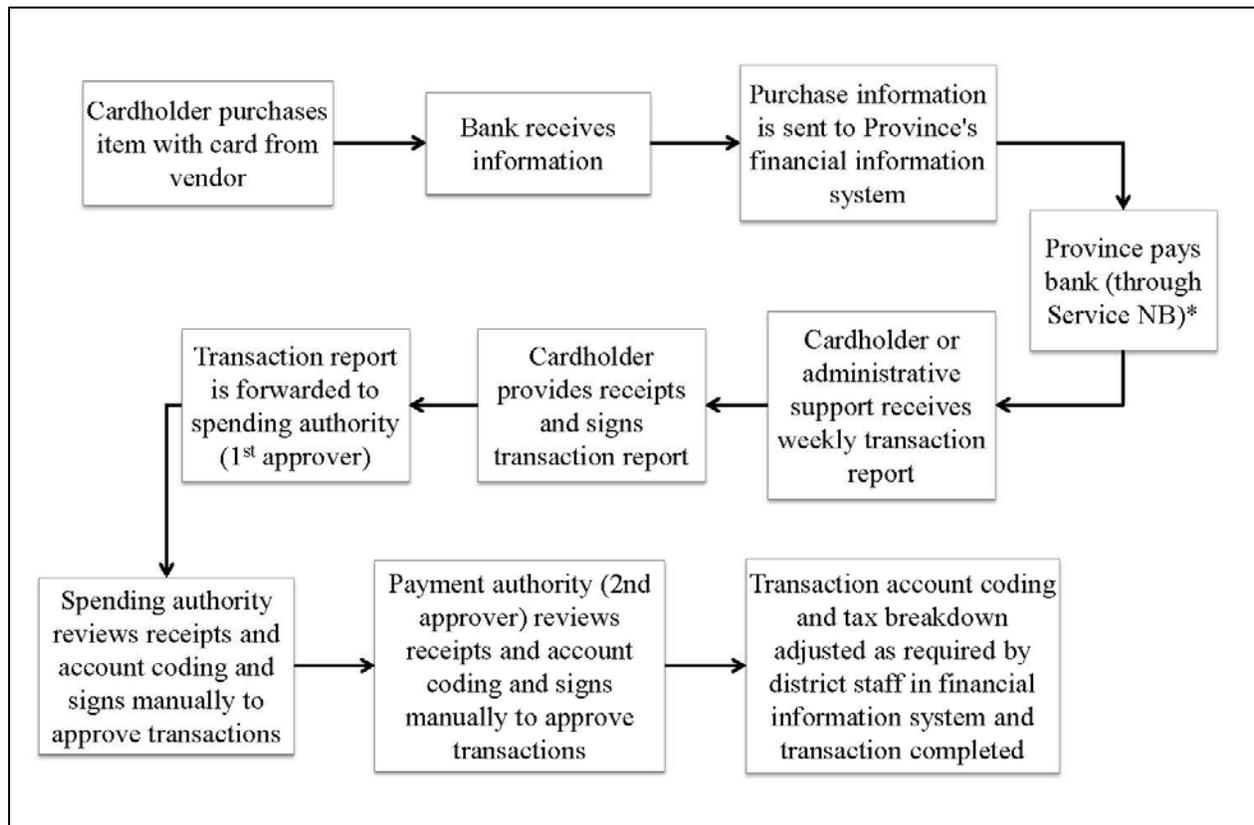
Background

2.10 The Province began rolling out its Purchase Card Program to departments, school district and community colleges in 2003. The purpose of the program was to provide an alternative way of paying for high volume transactions of low value to streamline administrative processes.

2.11 Purchase cards are intended to be used for purchases of goods up to \$1,500 plus tax (over this amount, tendering is required per Regulation 2014-93 under the *Procurement Act* unless an exemption applies). Cardholders can be provided purchase cards of different types, with varying transaction and monthly limits, depending on their purchasing needs.

2.12 Purchases are made by employees on behalf of the Province. Exhibit 2.3 shows the process that should be followed at school districts from the purchase to the completion of the transaction in accounting records.

Exhibit 2.3 - Purchase Card Transaction Process



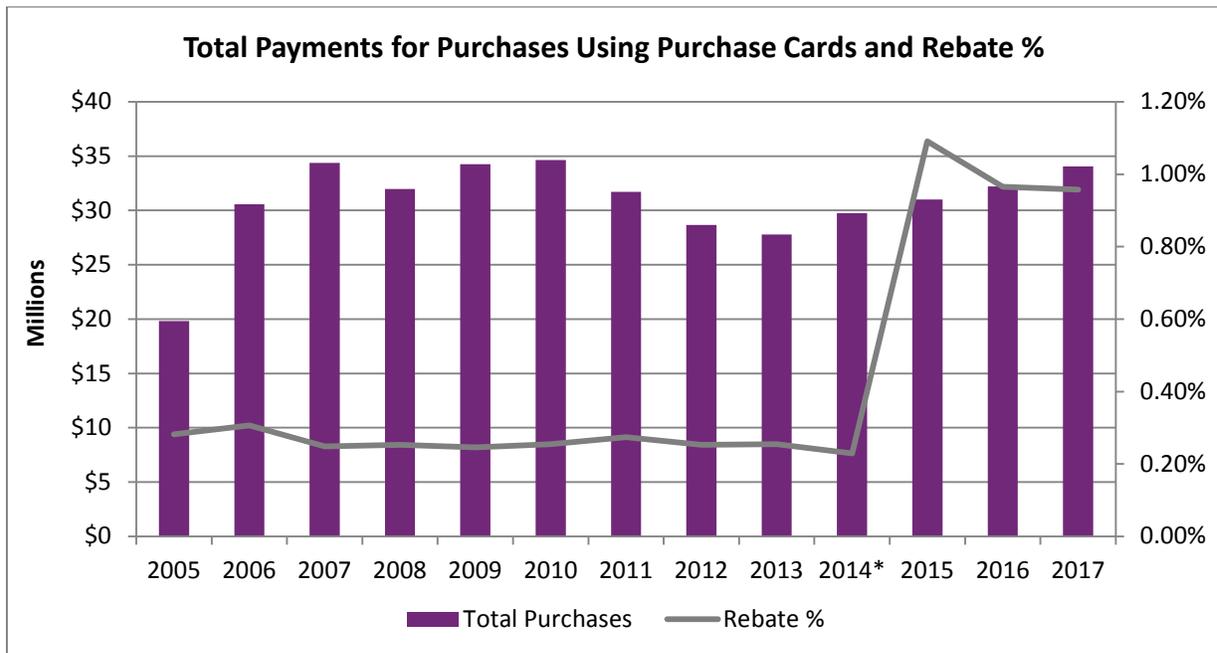
**Payment to bank made on a monthly billing cycle*

Source: Flowchart created by AGNB from process documentation and requirements of government policy AD-6402 Approval of Payments

2.13 The Province receives a rebate cheque from the credit card issuing bank for timely payment of transactions. The rebate is calculated based on the volume of payments.

2.14 Exhibit 2.4 presents total payments to the bank for purchases made using purchase cards and rebates received from the bank as a percentage of payments since the beginning of the program. Annual rebates went from \$55,820 in 2004-05 to \$326,097 in 2016-17.

Exhibit 2.4 - Total Payments for Purchases Using Purchase Cards and Rebate Percentage

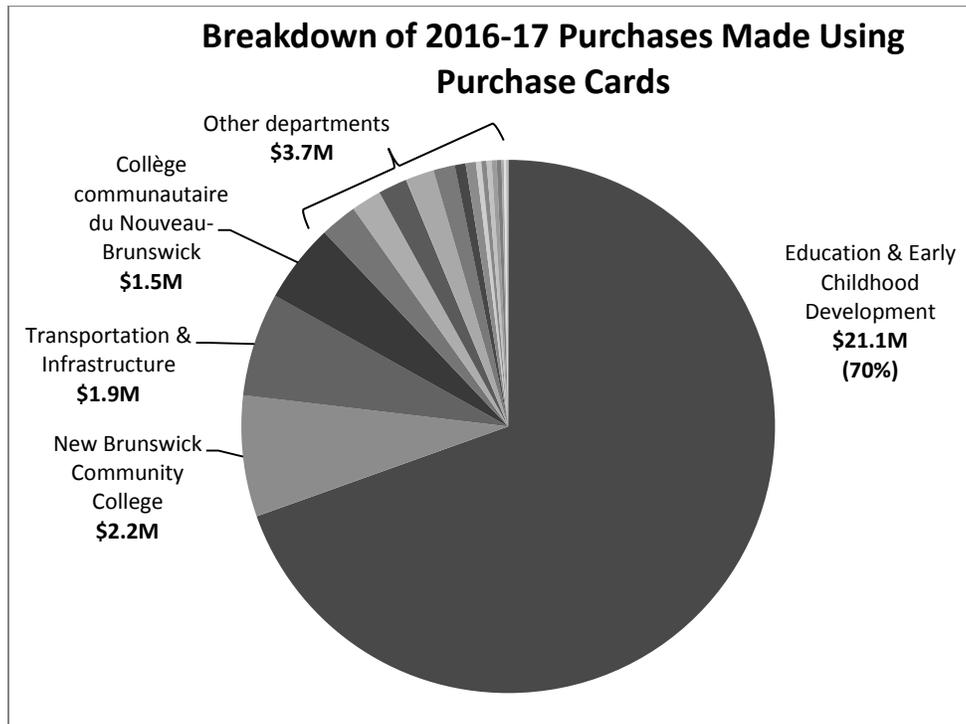


Source: Information compiled by AGNB from Oracle Financial System

**A new agreement with the bank was signed in 2014-15 that resulted in higher rebates.*

2.15 Exhibit 2.5 presents the breakdown of 2016-17 purchases made using purchase cards by government departments and community colleges. The Department of Education and Early Childhood Development accounted for 70% of all purchases.

Exhibit 2.5 - Breakdown of 2016-17 Purchases Made Using Purchase Cards



Source: Graph prepared by AGNB using information from Oracle Financial System
 Note: Purchases exclude harmonized sales tax.

2.16 Exhibit 2.6 presents the number of active purchase cards by school district, government department and community college at February 2017.

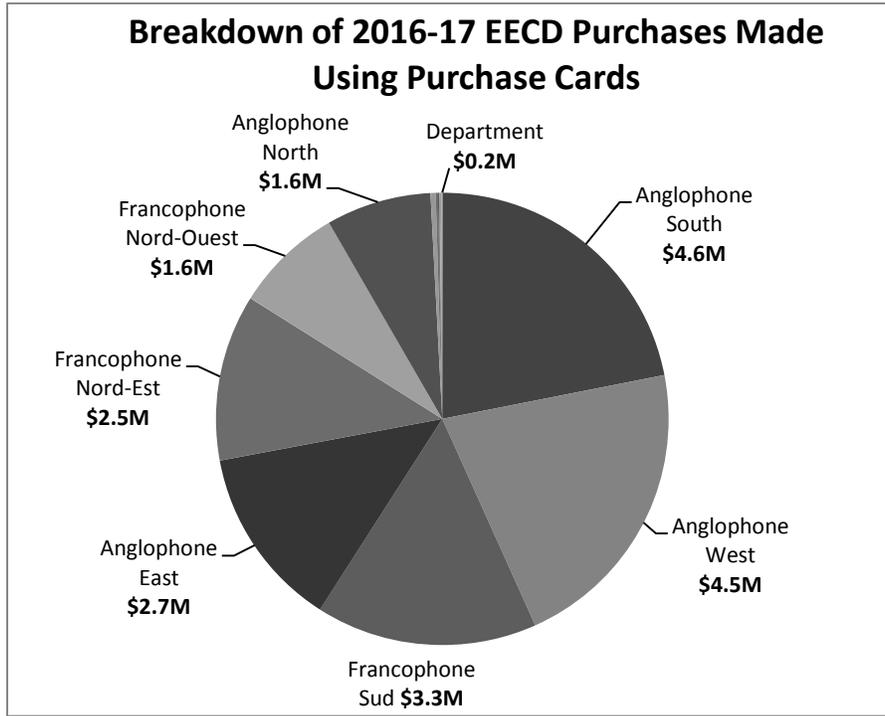
Exhibit 2.6 - Distribution of Cards at February 2017

Distribution of Cards at February 2017	
Organization	# of cards
District scolaire francophone Sud	755
Anglophone West School District	394
Anglophone South School District	348
District scolaire francophone Nord-Ouest	270
District scolaire francophone Nord-Est	245
Anglophone East School District	215
Transportation & Infrastructure	199
Justice & Public Safety	159
Energy & Resource Development	152
Anglophone North School District	122
New Brunswick Community College	100
Social Development	72
Post-Secondary Education, Training & Labour	66
Agriculture, Aquaculture & Fisheries	59
Tourism, Heritage & Culture	59
Environment & Local Government	56
13 other organizations (less than 50 cards each)	203
Total	3,474

Source: Information compiled by AGNB from bank card listing.

2.17 Exhibit 2.7 presents the breakdown of 2016-17 purchases by the Department of Education and Early Childhood Development (EECD).

Exhibit 2.7 - Breakdown of 2016-17 Department of Education and Early Childhood Development (EECD) Purchases Made Using Purchase Cards



Source: Graph prepared by AGNB using information from Oracle Financial System
 Note 1: EECD stands for Department of Education and Early Childhood Development
 Note 2: Purchases exclude harmonized sales tax.

2.18 Exhibit 2.8 shows the top ten vendors from which EECD made purchases in 2016-17, with purchase totals excluding harmonized sales tax (HST).

Exhibit 2.8 - Top 10 Vendors Used by Department of Education and Early Childhood Development (EECD) in 2016-17

Top 10 Vendors Used by Department of Education and Early Childhood Development (EECD) in 2016-17			
Vendor Name	Total Purchases	Vendor Name	Total Purchases
Denis Office Supplies	\$585,702	Guillevin International	\$183,123
Covey Basics	\$414,872	Librairie Pélagie	\$175,568
MCS Sanitation	\$311,856	Scholastic Canada Ltd	\$143,439
Amazon.ca	\$225,787	Graybar Canada	\$142,984
Amazon Marketplace	\$201,069	Staples.ca	\$133,202

Source: Information compiled by AGNB from Oracle Financial System

Scope

2.19 We audited three of the seven school districts of the Province:

- District scolaire francophone Sud;
- Anglophone West School District; and
- District scolaire francophone Nord-Est.

2.20 Our selection of these three districts was based on an analysis of risk and significance of each school district by considering the following factors:

- number of cardholders (school districts with high and low number of cardholders);
- total purchases (school districts with high and low total purchases);
- status of prior audit recommendations;
- issues identified through other AGNB audit work; and
- issues identified by other reviews by the Office of the Comptroller.

2.21 We performed data analytics to identify high-risk transactions from the most recent fiscal years (2015-16 and 2016-17) as they represent the current practices in the use of purchase cards. The transactions were selected to obtain sufficient evidence to confirm deficiencies in purchase card procedures, identified during the risk assessment phase of our audit.

2.22 Exhibit 2.9 presents information about the transactions we examined.

Exhibit 2.9 - Transactions Examined as Part of Our Testing

Transactions examined as part of our testing		
	2015-16	2016-17
Anglophone West	43	44
Francophone Sud	44	39
Francophone Nord-Est	30	33
Total # tested	117	116
Total \$ tested (incl. HST)	\$95,214	\$80,007
Total \$ population	\$10.15 million	\$10.37 million

2.23 Our work included the following:

- reviewing legislation and policies;
- analyzing purchasing data;
- selecting a sample of transactions for fiscal years 2015-16 and 2016-17 and examining supporting documentation;
- interviewing cardholders, approvers, administrative support, management and other staff members at the school districts, schools and the Department of Education and Early Childhood Development;
- documenting processes and controls; and
- performing other procedures as determined necessary.

2.24 We found that issues and control weaknesses in the purchase card procedures were common across the school districts we audited and are likely present in the other school districts. Therefore, the recommendations we made in this chapter apply to all school districts.

2.25 Our audit was performed in accordance with Canadian Standard for Assurance Engagements CSAE 3001 established by the Chartered Professional Accountants of Canada, and accordingly, we carried out such tests and other procedures as we considered necessary in the circumstances. Other information about the audit can be found in Appendix II.

2.26 We developed criteria to use as the basis for our work. The criteria were reviewed and agreed upon by the school districts we audited. They are listed in Appendix I.

Observations and Findings

2.27 Our first objective was:

To determine whether school district purchase card procedures comply with legislative and policy requirements.

Purchase Card Procedures

2.28 School districts are required to abide by the requirements laid out in the following documents, among others, when using purchase cards and processing transactions:

- *Procurement Act* and Regulation 2014-93
- *Education Act* and Regulation 2001-48
- *Financial Administration Act* and Regulation 83-227
- Government policies AD-6402 Approval of Payments and AD-2801 Travel Policy
- Department of Education and Early Childhood Development policy 113 - Remuneration and Reimbursement of Expenses

2.29 Government approved a policy governing the use of purchase cards, AD-6405, in February 2017. We did not test compliance with this policy when examining 2015-16 and 2016-17 transactions, as it was not effective until late 2016-17. New procedures and guidelines developed by school districts must abide by this new policy.

2.30 The Government Finance Officers Association of the United States and Canada identifies that having the following written policies and procedures for staff is best practice:

- clear guidelines on the appropriate uses of purchasing cards;
- guidelines for making purchases by telephone and fax or over the Internet; and
- instructions on employee responsibility and written acknowledgements signed by the employee.²

Outdated cardholder agreements

2.31 The cardholder agreement is the document cardholders are required to sign that outlines basic guidelines for the use of purchase cards. In absence of a policy, it was the primary means of communicating guidelines to cardholders. We

² Government Finance Officers Association of the United States and Canada, *GFOA Best Practice - Purchasing Card Programs*, February 2011

expected the school districts would require all cardholders to sign the agreement before using the card as it confirms they have agreed to the guidelines for its use.

2.32 The new purchase card policy (Government Policy AD-6405 Purchase Card) issued in February 2017 requires cardholders to sign the agreement prior to receiving a purchase card and annually thereafter.

2.33 Francophone Nord-Est school district required cardholders sign an agreement when they first receive a purchase card, then once a year, while Francophone Sud and Anglophone West district required the signature only once at the time of receiving the card. The cardholder agreement contained certain guidelines in relation to the transaction limit and prohibited purchases. However, each district used its own abbreviated version of the agreement in the previous draft policy.

2.34 We found new purchase cards were sent to cardholders before the cardholder agreement was signed.

2.35 Exhibit 2.10 presents our observations related to cardholder agreements we examined during our testing of purchase card transactions. We found the school districts did not have signed agreements on file for all cardholders and some agreements were signed over 10 years ago.

Exhibit 2.10 - Observations Related to Cardholder Agreements

Observations Related to Cardholder Agreements		
	2015-16	2016-17
Anglophone West		
# of cardholders for whom we examined transactions	33	36
# of cardholders with a signed agreement on file	26	32
# of agreements on file where only the signature page was filed	5	9
# of cardholders without a signed agreement on file	7	4
Francophone Sud		
# of cardholders for whom we examined transactions	37	28
# of cardholders with a signed agreement on file	36	28
# of agreements on file where only the signature page was filed	6	4
# of cardholders without a signed agreement on file	1	-
Francophone Nord-Est		
# of cardholders for whom we examined transactions	28	23
# of cardholders with a signed agreement on file	26	23
# of agreements on file that were not dated	17	14
# of cardholders without a signed agreement on file	2	-

Source: Information compiled by AGNB

Recommendation 2.36 We recommend school districts use the cardholder agreement in government policy AD-6405 Purchase Card and have cardholders sign the agreement before obtaining their purchase card and annually as required by the new policy.

Different interpretations and violations of Travel Policy

2.37 We found several instances in our testing of transactions where a purchase appeared excessive. We identified restaurant meals for meetings in each district we audited of amounts per person over \$30, \$40, and in one district up to \$80. Government policy AD-2801 Travel Policy allows for “reasonable expenses” for business meeting expenses, however, does not specify maximum amounts.

2.38 Government policy AD-2801 Travel Policy states, “Business meetings are considered to be entertainment when alcohol is purchased and claimed as an expense.” The policy requires the superintendent approve entertainment expenses. Two restaurant receipts we examined included the purchase of alcohol. The superintendent was not present at the meal where

one purchase was made in Anglophone West. He subsequently approved the purchase. The other purchase in francophone Sud was not approved by the superintendent and supporting documentation did not indicate who the meals were for. New policy AD-6405 Purchase Card now prohibits the payment of business meeting expenses using purchase cards; however a definition of this type of expense was not included.

Recommendation

2.39 We recommend Treasury Board issue guidance for the application of government policy AD-2801 Travel Policy in regards to business meeting expenses.

Purchases not consistent with government policy

2.40 We identified bereavement expenses such as flowers and donations for the passing of employees' relatives incurred on purchase cards by the districts. These expenses are not in compliance with government policy. While government policy AD-2503 Memorial Donations allows for memorial donations or flowers in Part I (government departments), it only applies to the passing of an employee. There is no such policy for Part II (school districts). The districts could not provide us internal guidelines.

2.41 We found purchases of gifts for staff, volunteers and sports team coaches paid with public funds. The districts did not have guidelines around such purchases, which included gift cards and other items. We did not find evidence the amounts were reimbursed from school-raised funds. Government policy only allows the purchase of gifts upon an employee's retirement. We noted that all three districts we audited no longer allow the purchase of gift cards on purchase cards as of fiscal year 2016-17. Gift cards can be used to circumvent controls as there are no restrictions around what is purchased. New policy AD-6405 Purchase Card also explicitly prohibits the purchase of gift cards.

2.42 We also identified purchases that appeared unusual, for example the purchase of a laptop bag at a high end athletic apparel store during a business trip and Netflix membership charges for a school during summer months.

Recommendation

2.43 We recommend school districts use purchase cards only for purchases that are authorized under government policies.

Growing volume of online purchases

2.44 We identified significant online purchases by school districts in the purchase card transactions data. Exhibit 2.11 shows increasing online purchases made by the three districts

from select online vendors over the last three fiscal years.

Exhibit 2.11 – Total Purchases from Select Online Vendors

Total Purchases from Select Online Vendors			
School District	2014-15	2015-16	2016-17
Anglophone West	\$174,505	\$274,032	\$345,071
Francophone Sud	\$111,136	\$163,715	\$230,216
Francophone Nord-Est	\$100,584	\$140,694	\$165,101
Total	\$386,225	\$578,441	\$740,388

Source: Information compiled by AGNB from Oracle Financial Systems.

Note: Selection of purchases based on known online vendors and vendor names containing Internet domain names. Amounts exclude harmonized sales tax (HST).

2.45 Online shopping exposes cardholders to identity theft, fraud and undisclosed fees. We expected the school districts to have guidelines for making online purchases, such as the type of documentation to provide to indicate an item ordered had been received, how to use certain websites and what security precautions should be taken when using purchase cards online.

2.46 We found the school districts had insufficient guidelines for making such purchases. Our testing identified cases of improper use. In one case, a cardholder's card had been linked to a payment website to which another employee had access and made a personal purchase. In two cases, a website membership fee was incurred in error.

Recommendation

2.47 We recommend the Office of the Comptroller issue guidance for making online purchases, including the risks associated with online shopping and security precautions that should be taken.

Undocumented exemptions to cardholder agreement Granted

2.48 We found several instances of violations to cardholder agreement guidelines (for example, travel-related purchases, payments for gasoline, and purchases over the allowable limit), where we were informed that exemptions were granted by management; however there was no documentation to support such exemptions. The school districts did not have guidelines around who could grant such exemptions. New government policy AD-6405 Purchase Card specifies a process to request exemptions to transactions prohibited by the policy.

- Recommendation** **2.49** We recommend school districts monitor and enforce adherence to guidelines in the cardholder agreement and policy AD-6405 Purchase Card.
- Insufficient training** **2.50** We interviewed cardholders as well as staff involved in the processing and approval of purchase card transactions to determine what type of instructions they received. We expected staff would be provided education on the appropriate use of cards and transaction processing steps.
- 2.51** Cardholders may receive verbal instructions at the school level when receiving a card. We found there was no comprehensive ongoing education from the school districts regarding the use of purchase cards. Through examination of correspondence between the school districts and cardholders concerning transactions, we found several instances where it appeared that staff were not aware of requirements and guidelines.
- 2.52** In several schools, administrative staff are responsible for reconciling transaction reports with receipts and sending the documents to the school district on behalf of the school's cardholders. This causes delays when administrative staff are on leave, such as during the summer months.
- Recommendations** **2.53** We recommend school districts provide education to cardholders on their responsibilities, the appropriate use of purchase cards, consequences for misuse, as well as transaction reconciliation procedures, before new cardholders begin to use their card and regularly for all cardholders.
- 2.54** We recommend school districts provide training to purchase card administrators and transaction approvers on the appropriate use of purchase cards and enforcement procedures.
- Inadequate segregation of duties** **2.55** Through our walkthroughs of transaction processing and examination of supporting documentation, we found there were staff with incompatible responsibilities or accesses.
- 2.56** We identified one cardholder who also had transaction approval access in the financial information system. This creates a risk that a cardholder could electronically approve their own purchases. The school district requested the employee's approval responsibility be removed following our inquiry.

2.57 Each transaction must receive separate spending and payment authority approval. We found evidence that cardholders who were principals or other members of management were allowed to manually approve their own transactions as spending authority in francophone Nord-Est. This violates government policy AD-6402 Approval of Payments, which states, “*No person shall exercise either spending or payment authority with respect to a payment from which he or she can personally benefit*”.

2.58 In many cases, the items purchased by a cardholder were used by the cardholder. For example, one item was a car starter for a government vehicle used by the cardholder. Other items included a tablet and a smartphone used by the cardholders and meals for meetings the cardholders took part in. New policy AD-6405 Purchase Card now clarifies that cardholders cannot sign as spending authority for their own purchases.

2.59 In addition, we identified instances where the same transaction approver signed as both spending and payment authority in francophone Sud. The transactions in question involved two employee travel-related purchases (which should not be paid by purchase card) and a website membership fee, for a total expenditure of \$460.06. This also violates policy AD-6402 which states, “*Spending and payment authority must not be exercised by the same person for the same expenditure*”.

Recommendation

2.60 We recommend school districts segregate incompatible user responsibilities and system accesses as required by government policies AD-6402 Approval of Payments and AD-6405 Purchase Card.

Insufficient supporting documentation

2.61 In our testing of transactions, we found many instances where supporting documentation for a purchase was lacking. Several of the cases related to meals for business meetings. Government travel policy AD-2801 states that claims for business meeting expenses “*must clearly state the purpose of the function; the number of persons involved, and must be accompanied by appropriate detailed receipts*”. In several cases in all three districts, the purpose of the meeting or the number of attendees was not indicated in supporting documentation.

2.62 We identified one case in francophone Sud where gift cards to NB Liquor were purchased using a purchase card. The supporting documentation indicated this was a personal purchase made accidentally; however the district could not

initially provide evidence that the cardholder had reimbursed the amount. The district obtained a reimbursement following our inquiry.

2.63 In ten cases in the three districts totalling over \$1,300, the lack of documentation prevented us from determining whether the purchase was legitimate. The items purchased in these cases included fruit arrangements, iced coffee purchased in Ottawa, and \$500 in chocolate.

2.64 Anglophone West was unable to provide any documentation for two purchases totalling \$130.

Recommendation

2.65 We recommend school districts ensure sufficient documentation in support of purchase card transactions be provided by the cardholder, reviewed against applicable policies and guidelines and filed for future reference.

Late submission of supporting documentation

2.66 Timely processing of transactions is important for reporting purposes and for identifying possible fraudulent purchases. The agreement with the bank allows government 60 days to dispute a fraudulent purchase.

2.67 Cardholders are responsible for reviewing their weekly transaction report and signing the report to indicate they made the purchases. Either the cardholder or administrative support staff sends the reports with related receipts to the school district for processing. We found this process was delayed in many cases, sometimes for more than 60 days, as shown in Exhibit 2.12.

Exhibit 2.12 - Observations Related to Late Submission of Supporting Documentation

Observations Related to Late Submission of Supporting Documentation		
	2015-16	2016-17
Anglophone West		
# of transactions we examined	43	44
# of transactions for which supporting documentation was outstanding over 30 days	4	8
# of transactions for which supporting documentation was outstanding over 60 days	2	6
# of transactions with no supporting documentation	2	-
Francophone Sud		
# of transactions we examined	44	39
# of transactions for which supporting documentation was outstanding over 30 days	11	11
# of transactions for which supporting documentation was outstanding over 60 days	6	6
Francophone Nord-Est		
# of transactions we examined	30	33
# of transactions for which supporting documentation was outstanding over 30 days	6	12
# of transactions for which supporting documentation was outstanding over 60 days	4	6

Source: Information compiled by AGNB

2.68 In our testing, we considered “timely basis” as 30 days from the day of purchase to allow time for spending authority approval, as the districts follow up on transactions outstanding over 30 days. The school district cardholder agreements have requirements that the cardholder submit their receipts either immediately after the purchase or within a week.

Recommendation

2.69 We recommend school districts monitor and enforce compliance with the provisions of the cardholder agreement in relation to timely submission of supporting documentation.

Inappropriate accounting

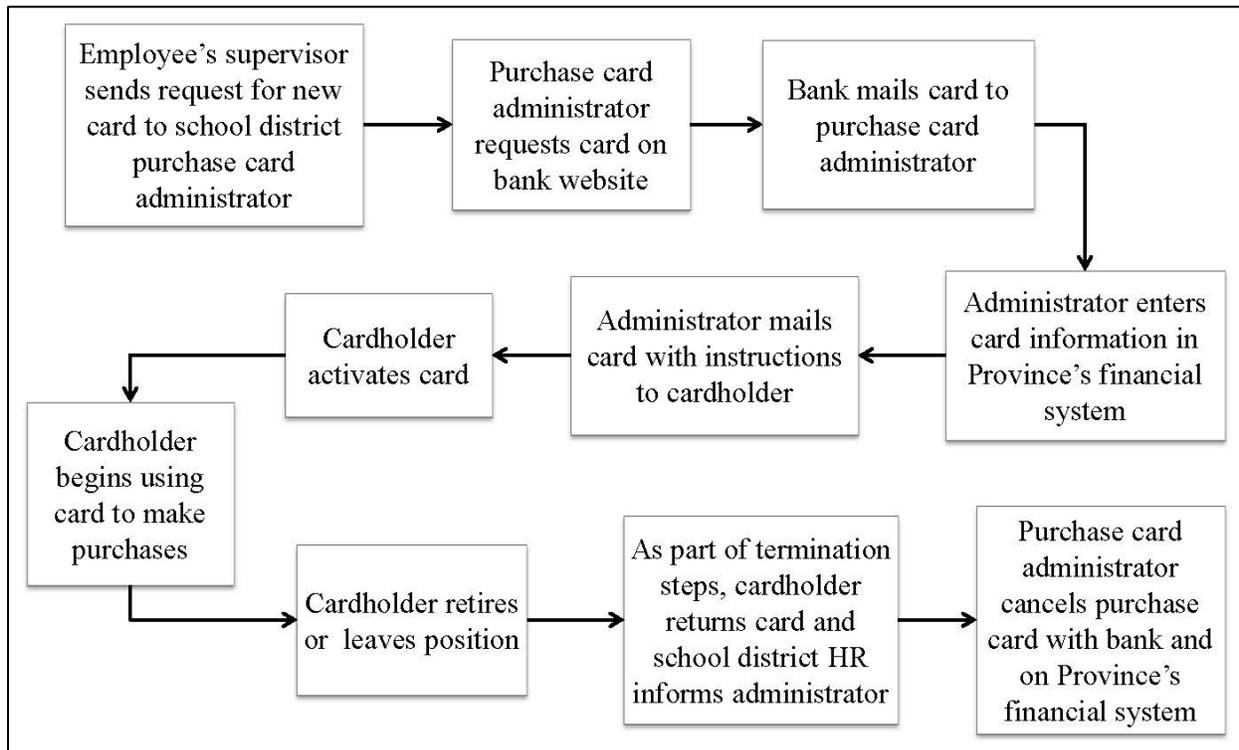
2.70 Transaction approvers are responsible for reviewing the expense account code to which a purchase will be coded in the financial information system. We performed data analytics to identify transactions that appeared to be coded to the incorrect expense account.

2.71 We identified 26 transactions totalling \$13,969 of the 116 transactions we tested for 2016-17 that were coded to an incorrect account. We also noted inconsistency in account codes for similar purchases. This decreases the quality of financial information for monitoring and reporting purposes.

We also noted transactions with a total value of \$1,398 for which the incorrect amount of sales tax was entered. This affects financial reporting and the amount of tax the Province can recover.

- Recommendation*** **2.72** We recommend school districts review account coding and the amount of sales tax for each transaction entered into the financial system in order to provide accurate financial information.
- Monitoring and Enforcement** **2.73** Our second objective was:
To determine whether school districts monitor purchase card use and take corrective action to enforce compliance.
- Lack of monitoring*** **2.74** We expected school districts to regularly monitor active cards issued to ensure only government employees who make purchases as part of their job had active cards.
- 2.75** Exhibit 2.13 shows the process that should be followed for issuing a new card to a school district employee, as well as cancelling a card.

Exhibit 2.13 - Card Issuance and Cancellation Process



Source: Flowchart created by AGNB from process documentation

Note 1: The purchase card administrator in each school district is responsible for overseeing the daily operations, management and monitoring of the purchase card program.

Note 2: Step relating to cardholder signing agreement not included. See paragraph 2.31 for findings related to cardholder agreements.

No documented procedures for issuing or cancelling cards

2.76 The school districts did not have documented procedures for issuing or canceling cards. We found inconsistent practices between school districts. Purchase card transaction and monthly limits were not monitored regularly.

2.77 We found reviews of cardholder listings were done at the beginning of the school year, however school districts did not monitor listings of cards issued in a regular consistent manner.

2.78 The school districts did not have documented procedures specifying who can request a new card. Francophone Sud and Nord-Est school districts had a form to complete for new cards, card changes and cancellations; however the form did not specify the card type to assign to the cardholder, which determines the transaction limit. Anglophone West did not use a form; requests for new cards were sent by email and did not specify transaction limits.

Cardholders with excessive purchasing limits

2.79 According to the Association of Certified Fraud Examiners, reasonable dollar limits are a preventive control that should be in place for any purchase card program in order to prevent card misuse and fraud. “*By tailoring the limits to each cardholder, the total dollars at risk can be reduced*”.³

2.80 We found five francophone Sud cardholders with card types allowing large dollar transaction limits for which the school district did not have an explanation. One cardholder had a card allowing \$6,000 per transaction, and \$50,000 per month, while two others had a card allowing \$10,000 per transaction. The card types were modified by the district following our identification of the issue. We did not identify transactions by these cardholders over \$1,850 (exemption amount per Regulation 2014-93 under the *Procurement Act* for school districts) in the years we examined.

2.81 We identified a transaction over \$3,200 in Anglophone West for 2016-17 for goods not exempt from being procured through a competitive bidding process under the *Procurement Act* and its regulations. The district informed us the cardholder had a higher transaction limit that was subsequently changed.

2.82 We identified in all three school districts cardholders with monthly purchasing limits higher than their entire purchases for one year. The school districts modified the monthly limits of the cardholders we identified following our inquiry.

No formal process to ensure departing employees’ cards are cancelled

2.83 We asked the districts to review a list of cardholders with active cards at May 2017 with no transactions or only one or two transactions during fiscal year 2016-17. Francophone Sud had the highest number of cards with no purchases in 2016-17, with a total of 106 cards. The district informed us its card listing was under review. Francophone Nord-Est had 13 cards with no transactions in 2016-17. It identified four cards that needed to be cancelled. One cardholder did not work for the district anymore, while the other three did but no longer needed their card. Anglophone West had 9 cards with no transactions. Upon our inquiry, it identified four cards that needed to be cancelled and informed us two of the employees were on leave,

³ Association of Certified Fraud Examiners, *Preventing, Detecting and Investigating Procurement Card Abuse*, accessed on November 18, 2016 on <http://www.acfe.com/article.aspx?id=4294970387>

one had retired and one no longer needed the card.

2.84 School districts were not always informed when a cardholder retires or leaves a position. There was no formalized process to ensure departing employees' cards were cancelled before they leave. This increases the risk of fraudulent transactions. Information regarding staff changes should be shared within the district between human resources and the purchase card administrator.

Recommendations

2.85 We recommend school districts review cardholder listings regularly to ensure only active employees who purchase for the school districts have the appropriate type of purchase card with transaction and monthly limits that meet their purchasing needs.

2.86 We recommend school districts add a formal step in the termination process in order to ensure departing employees' cards are cancelled before their employment with the district ends.

2.87 We recommend school districts develop, document and implement procedures for the issuance and cancellation of purchase cards in consultation with the other school districts, with guidance from the Office of the Comptroller as needed, to ensure consistency and efficiency.

Inconsistent enforcement

2.88 As part of our testing of purchase card transactions, we documented whether the transaction violated the requirements of a relevant piece of legislation, government policy, a school district guideline or the cardholder agreement, and whether the district had taken steps to enforce compliance.

2.89 Exhibit 2.14 presents our observations in regards to violations identified in our testing of transactions for all three districts.

Exhibit 2.14 - Observations Related to Violations

Observations Related to Violations				
Type of Violation	2015-16		2016-17	
	# of Violations	Total Dollar Value	# of Violations	Total Dollar Value
Violation of <i>Procurement Act</i>	8	\$28,072	4	\$23,457
Combined purchases exceed card transaction limit	7	\$28,563	5	\$19,305
Purchase exceeds card transaction limit	2	\$3,431	3	\$6,743
Donation (not allowed on card by district)	1	\$200	2	\$325
No government business purpose	1	\$89	3	\$178
Employee travel expense not allowed on card	-	-	3	\$327
Personal purchase	1	\$30	2	\$192
Gift cards (not allowed on card)	-	-	4	\$410
Total	20	\$60,385	26	\$50,937

Source: Information compiled by AGNB

2.90 Regulation 2014-93 under the *Procurement Act* exempts school districts from procuring through a competitive bidding process certain goods such as school textbooks and educational software up to \$25,000. The violations noted in Exhibit 2.14 related to purchases of goods not exempt under the Act. In most cases, the cardholders had circumvented the Act and the card transaction limit by purchasing goods the same day in multiple transactions that totalled over the allowable limit.

2.91 We expected the approvers to review transactions for compliance with relevant legislation, policies and guidelines, and to document steps taken when a purchase transaction violated one or more of these requirements.

2.92 We found there was insufficient documentation of enforcement actions taken. In several cases, we were unable to determine whether appropriate enforcement action was taken due to lack of documentation. We also found repeated violations by the same cardholders.

2.93 In addition, we found exemptions were granted to some cardholders, while the guideline was enforced for others for the same types of transactions, with no clear explanation from the school district.

2.94 We noted in 2016-17 the school districts have suspended cards for repeated violations and provided additional guidance

in relation to purchase card guidelines.

- Recommendations**
- 2.95** We recommend school districts document their regular monitoring of purchase card transactions to identify violations.
- 2.96** We recommend school districts develop, document and implement consistent enforcement procedures for non-compliant cardholders to enforce guidelines in consultation with the other school districts, with guidance from the Office of the Comptroller as needed, to ensure consistency and efficiency.
- 2.97** We recommend the Department of Education and Early Childhood Development coordinate work on the implementation of our recommendations by all school districts.
- 2.98** We recommend the Department of Education and Early Childhood Development’s internal audit function audit and report on school district purchase cards on a regular basis.

Appendix I: Criteria Used in our Audit

The audit criteria we used to evaluate our objectives are listed below.

Objective 1

To determine whether school district purchase card procedures comply with legislative and policy requirements.

Criterion 1: The school district should have clear documented guidelines in place for the use and administration of purchase cards.

Criterion 2: School district purchase card procedures should comply with legislative and policy requirements.

Objective 2

To determine whether school districts monitor purchase card use and take corrective action to enforce compliance.

Criterion 1: The school district should monitor purchase cards to prevent, detect and deter non-compliant use of purchase cards.

Criterion 2: The school district should take corrective action in cases of non-compliance to enforce compliance.

Source of criteria: Developed by AGNB based on review of guidelines in purchase cardholder agreement, related policies and legislation, best practices reports and reports by other jurisdictions' Auditors General.

Appendix II: About the Audit

This independent assurance report was prepared by the Office of the Auditor General of New Brunswick on school district purchase cards. Our responsibility was to provide objective information, advice, and assurance to assist the Legislative Assembly in its scrutiny of the government's management of resources and programs, and to conclude on whether school district purchase card procedures comply in all significant respects with the applicable criteria.

All work in this audit was performed to a reasonable level of assurance in accordance with the Canadian Standard on Assurance Engagements (CSAE) 3001 – Direct Engagements set out by the Chartered Professional Accountants of Canada (CPA Canada) in the CPA Canada Handbook – Assurance.

AGNB applies Canadian Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

In conducting the audit work, we have complied with the independence and other ethical requirements of the Rules of Professional Conduct of Chartered Professional Accountants of New Brunswick and the Code Professional Conduct of the Office of the Auditor General of New Brunswick. Both the Rules of Professional Conduct and the Code are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

In accordance with our regular audit process, we obtained the following from management:

- confirmation of management's responsibility for the subject under audit;
- acknowledgement of the suitability of the criteria used in the audit;
- confirmation that all known information that has been requested, or that could affect the findings or audit conclusion, has been provided; and
- confirmation that the findings in this report are factually based.

Period covered by the audit:

The audit covered the period between April 1, 2015 and March 31, 2017. This is the period to which the audit conclusion applies. However, to gain a more complete understanding of the subject matter of the audit, we also examined certain matters that preceded the starting date of the audit.