



NIAGARA REGIONAL POLICE SERVICE

Police Service Board Report

PUBLIC AGENDA

Subject: Purchasing Card Program Review for Years 2022 and 2023
Report To: Chair and Members, Niagara Police Service Board
Report Date: 2024-10-08

Recommendation(s)

That the Niagara Police Service Board (Board) receive this report for information.

Key Facts

- The purpose of the Purchasing Card (PCard) review is to determine whether the financial control framework is effective in ensuring that PCard transactions are properly processed, safeguarded, and compliant with relevant policy.
- The process to determine the effectiveness considered the following 3 approaches: 1) review the PCard process; 2) review the span of control; 3) select and test a random sample of transactions processed in 2022 and 2023.
- Although the results indicate that 28.9% of the sample size was found to be non-compliant, the review did not find any indication of fraud or misuse of funds; but rather a lack of general understanding on the proper usage of the PCard program.
- Recommendations to improve the effectiveness of the PCard program include reducing the number of cardholders, limiting the number of cards to 7 per PCard approver, revising the General Orders (GOs) associated with expenses and procurement, and lastly, implementing random monthly reviews of PCard transactions to monitor the effectiveness of these recommendations.

Financial Considerations

There are no financial implications relating to the recommendations contained within this report.

Analysis

The purpose of this report is to provide the Board with the results of a PCard program review performed for the years 2022 and 2023 and to advise of any recommended procedural changes made. This review was conducted by the Service's Finance Unit as part of its duty as per Board By-Law 412-2024.

Many organizations implement PCard programs to reduce the administrative burden on Accounts Payable for low valued purchases. However, this benefit must be balanced

against the inherent risks that are attributed to a credit card purchase; namely that purchases are completed before the formal approval process can take place. This can result in situations where the credit card use contradicts policy and, in some cases, collective agreements and where little recourse to contest the purchase is available for the approver.

The PCard program is administered through the Region's Corporate Purchasing Card Policy C-F-023 (Policy), which includes Agencies, Boards, and Commissions (ABCs). According to the Policy, credit card purchases are limited to low value and non-recurring purchases under \$10,000.00. Main uses are for registration of staff training events, related travel and accommodation expenses, and membership fees, in addition to any business expenses of low value. According to the Region's Corporate Procedure Section 1.2 Restrictions, a PCard must not be used when a competitive bid process is required, prohibits the purchase of computer hardware or telecommunications equipment and legal services, or when the total purchase price exceeds the single purchase limit on the card. For the Service, there are 2 General Order policies: GO 220.03 Purchasing/Procurement of Goods and Services, and GO 050.06 Expense Reimbursements, which provide users with guidelines for managing PCard usage.

Board By-Law 412-2024 section 11.5 directs the Chief of Police to designate Service staff who are authorized to use a PCard in accordance with the Region PCard program. The master list of all Service positions issued a PCard, and their limits are maintained and monitored by the Finance Manager.

In 2017, the Region's Internal Audit Unit conducted a credit card audit on region departments excluding ABCs, the audit findings result showed that 7.9% of the sampled transactions were non-compliant and this threshold was deemed acceptable by the Region's Internal Audit Unit. Following the publication of the audit, the Board requested a similar review be conducted on the Service PCard process to assess its effectiveness and recommend any changes.

The Service's Finance Unit conducted a review of credit card expenditures for the years 2022 and 2023.

The remainder of this report will focus on the review, its purpose, methodology, findings, and recommendations.

Review Purpose, Methodology and Scope:

The purpose of the PCard review is to determine whether the financial control framework is effective in ensuring that PCard transactions are properly processed, safeguarded, and compliant with relevant policy.

- Properly processed: to ensure all transactions have been recorded accurately to the correct accounts with the proper supporting documentation.

- Safeguarded: to ensure that PCard usage is appropriately controlled and restricted to authorized personnel.
- Compliant with relevant policy: to ensure transactions are in line with relevant policy to ensure no fraud, abuse, or misuse is occurring.

The review methodology included a review of relevant documentation and policies, analysis of purchasing transactions. The period covered by the review was January 1, 2022, to December 31, 2023. Detail statistics of the data set are available in Appendix 1 of this report.

The scope of this review included:

- Review of Board and Region By-Laws, Service policies and procedures, as well as other corporate purchase directives that impact the PCard purchasing process.
- Review of the current master list of positions issued credit cards.
- Review the total expenditures and types of purchases made on credit cards.
- Review and testing of randomly selected PCard transactions.
- Analytical review of PCard transactions.

The following items were out of scope of this review:

- Fuel PCards will be excluded, as they are reviewed separately.

Risk Assessment:

Potential risks that could lead to financial loss or non-compliance with policies and By-Laws include:

- Card Activity and Transactions (i.e., high number of cardholders, cards with no or low activity, insufficient supporting documentation, incorrect accounting details)
- Authorization limits and split transactions (i.e., purchases exceeding purchasing policy limits, multiple charges to circumvent limits)
- Appropriateness of transactions (i.e., fraud, abuse, misuse)

A total sample size of 10% has been selected based on the population size to ensure a sufficient number of transactions are reviewed. The sample size of 10% provides assurance that the sample size will properly represent the overall population.

Review Approach:

The basic premise of the review is to determine the effectiveness of the credit card program to achieve the principles of safeguarding of budgeted funds and compliance with relevant By-Laws and GOs. The process to determine the effectiveness considered the following three approaches:

- 1) Review the PCard process, usage against existing policies.
 - a. PCard process for card issuance, cancellation.
 - b. Types of usage aligned with program.
 - c. Existing policies used as reference documents.

- 2) Review the number of cardholders an approver is responsible to review (span of control).

- 3) Randomly select a sample size of transactions processed in 2022 and 2023 to test:
 - a. Proper documentation submitted to support credit card transaction.
 - b. Proper financial recording of transaction.
 - c. Compliance to existing policies.

A detail of findings and recommendations are provided in Appendix 2.

In summary, the purpose of the review was to determine the effectiveness of the PCard program in place to date. The sample audit outlined in observation 3 of Appendix 2 indicates a low compliance rate that requires corrective action. It is important to note, that although the review identified that 28.9% of sample transactions were found to be non-compliant (Region 2017 Audit 7.9%), the review did not find any indication of fraud or misuse of funds; but rather a lack of general understanding of the proper usage of the PCard program. This is mainly resulting from a lack of detailed descriptive policies outlining to the cardholder allowable expenditures under the PCard program. During the review, testing for compliance was challenging due to lack of clear language advising members of proper usage skewing the results of the audit. Following a Service level review conducted in 2021, the Service identified a resource and competency deficiency in public procurement and began to realign business processes under the leadership of the Materials Manager. The adoption of a formal procurement strategy was necessary to align with the Region procurement policies and procedures. This being a critical step for the Service to establish a Purchasing department (within the Quartermaster Unit) with competencies in public procurement. As the Service continues to develop a formal procurement process that will secure vendor contracts and assist the Programs with sourcing goods and services, dependency on purchases using credit cards should reduce over time.

As the Service transitions to a formal procurement process, the implementation of the following recommendations will improve the level of compliance amongst cardholders.

Recommendation	Action
Reduce the number of cardholders to reflect operational need and review appropriate dollar thresholds.	Complete – the number of cardholders has been reduced by 51 or 31.3%.
PCard approvers must be a Program (Budget) Manager or Delegate (assigned by the Program Manager to oversee the finances of a cost centre) and an approver should be assigned 7 or less cards to review and approve. (This was a recommendation put forward by Region Internal Audit department as a best practice).	Complete – except for 2 approvers (S/Sgt Special Investigative Unit (11) and Superintendent of District Operations (8)), the reduction in the number of cardholders has resulted in the implementation of the 7 cards per approver ratio recommended during the Region credit card audit process. There are 37 approvers in total.
Update GOs and provide guidelines to Cardholders and approvers on allowable expenditures and proper procurement options available.	In progress – a new GO Travel and Expense Policy is complete, the Purchasing/Procurement of Goods and Services GO 220.03 is under review with a target completion date of January 1, 2025.
Educate members on proper procurement practices and when using a credit card is appropriate at time of credit card issuance.	Complete - Director of Finance and Asset Management and Material Manager jointly prepared a procurement best practices document including credit card to the Service.
Implement Service wide best practices procurement strategy to reduce dependency on credit cards.	In progress – assigned to Director of Finance and Asset Management.
Finance to implement an on-going secondary review process that will sample 10% of monthly transactions and each cardholder bi-annually on their monthly transactions.	To be Implemented Jan 2025 by Finance Manager.
NRPS Finance to develop a contingency plan to ensure the credit card master list is	Back-up coverage will be supported by the Finance Coordinator during periods of

Recommendation	Action
kept up to date when the principal resource is not available.	extended absence or in the case a vacancy period.

Alternatives Reviewed

Not applicable.

Relationship to Police Service/Board Strategic Priorities

A review of the financial controls to test their effectiveness is fundamental to the fiscal responsibilities of the Board.

Relevant Policy Considerations

By-Law 412-2024 - Financial Reporting, Control and Procurement of Goods and Services in the Niagara Regional Police Service
GO 050.06 - Expense Reimbursements
GO 220.03 - Purchasing/Procurement of Good and Services
Niagara Region Corporate Purchasing Card Policy C-F-023

Other Pertinent Reports

Region Audit Committee, October 31, 2017, AC-C 19-2017 Purchasing Card Audit.

This report was prepared by Courtney Woods, Financial Planning Coordinator and Laura Rullo, Director Finance Asset Management, Finance Unit. Recommended by Luigi Greco, Deputy Chief, Support Services.



Submitted by:

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Chief of Police

Appendices

Appendix 1 Purchasing Card Statistics for Years 2022 and 2023
Appendix 2 Observation, Finding, Recommendation, and Action Plan

Appendix 1 Purchasing Card Program Statistics for Years 2022 and 2023

- As at March 2024, there are 163 cardholders; 55 are Program Managers or Department leads and 108 are staff with no financial portfolio responsibility.
- The number of credit card holders with purchases in 2023 was 141 (141 in 2024) with a total number of transactions 3,314 (3,104 in 2022), and 22 did not use their credit cards.
- The average number of transactions per cardholder in 2023 was 24 (22 in 2022).
- In 2023, 53 out of 141 cardholders or 38% (67 out of 141 in 2022; 48%) had 12 or less transactions in the year.
- The highest number of transactions by 1 card holder was 124 (monthly average of 10.3) in 2023 and 81 (monthly average of 6.8) in 2022.
- Credit card transactions (net of HST) totalled \$1,223,390.15 in 2023 and \$965,199.62 in 2022 against the Service Budget. An average of 7.5% of non-salary expenditures used a credit card to purchase goods and services for the Service.
- Approximately 65% of the total dollar value charged to a credit card were considered appropriate charges.
- A total of 641 transactions were pulled and tested which represents approximately 10% of the population.
- Table A below represents the total expenditure by merchant code.

Table A: credit card transactions by Merchant Group defined by credit card provider

Type of Merchant Group	2022 Year	2023 Year
Accommodation	\$242,731.54	\$317,779.46
Other Program Supply and Service Costs	235,192.32	280,945.26
Membership/Registration Fees	174,145.24	207,047.01
Travel	82,573.56	129,849.62
Electronics/Minor Equipment	95,199.62	135,788.31
Office Supplies & Services	72,615.06	82,290.24
Food Service Provider*	62,742.28	69,690.25
Total Credit Card Transactions	\$965,199.62	\$1,223,390.15

*includes food provided at events such as Recruit Graduation, and meals in lieu of receiving a meal per diem.

Appendix 2: Observation, Finding, Recommendation, and Status

1) Review of Purchasing Card (PCard) Program, Process, and Usage

Observation:

The PCard program is administered through the Region's Corporate Purchasing Card Policy C-F-023 (Policy), which includes Agencies, Boards and Commissions (ABCs). According to the Policy, credit card purchases are limited to low value and infrequent purchases under \$10,000.00.

Main uses are for registration of staff training events, related travel expenses, and membership fees, in addition to one-time (non-recurring) purchases. According to the Region Corporate Procedure, a PCard must not be used when a competitive bid is required under the Police Service Board By-Law 412-2024 Financial Reporting, Control and Procurement of Goods and Services, whereby an existing vendor contract has been established to purchase computer hardware or telecommunications equipment and legal services.

For the Niagara Regional Police Service (Service), there are 2 General Order policies: GO 220.03 Purchasing/Procurement of Goods and Services, and GO 050.06 Expense Reimbursements, provides users with guidelines for managing PCard usage.

The Service's Finance Unit has carriage over a master list of positions authorized to hold a credit card. The positions are approved by the Executive Leadership Team as delegated by the Chief of Police and limits are established by the Finance Manager. The Finance Unit monitors the incumbent assigned to the credit card authorized position to cancel cards for out-bound members and to activate new cards for new incumbents. Each member issued a new card is required to complete a mandatory on-line PCard training video and attest to a cardholder agreement to abide by the PCard guidelines.

All cardholders are required to reconcile their transactions monthly within 10 business days starting on the 25 day of the month. The user and approver are prompted by a system generated email alert and the reconciliation process is performed within the Financial System. Region staff monitor any late reconciliations and alerts the Service's Finance Unit for follow-up. Any non-compliance to the process will result in the cancellation of the card.

Findings:

The review considered the following three aspects of the process:

1. PCards issued, cancelled, and monthly reconciliation.
2. The usage of the credit card to purchase goods and services were in keeping with the PCard program; and
3. GOs as a reference document.

Appendix 2: Observation, Finding, Recommendation, and Status

1. *PCards issued, cancelled, and monthly reconciliation:*

A master list is kept within the Finance Unit under the carriage of the Finance Clerk. The Clerk monitors all personnel orders issued by Human Resources to identify members that have been transferred or leaving the organization to ensure the master list is kept up to date. When leaving an authorized position, members are notified to return their credit cards to the Finance Unit; for new incumbents a formal request is made to the Region authorized by the Finance Manager. Periodically, the Finance Clerk reviews the cardholder list maintained within the Financial System to ensure it is in line with the master list. Region PCard administration accepts only the authorization of the Finance Manager to increase limits; no individual can request an increase to their card limits. The Region monitors any delinquent monthly reconciliations and notifies the Service's Finance Unit for follow up; there have been no issues with members reconciling their monthly transactions, and no member has lost privileges to date.

RISK: The maintenance of this master list is manually intensive and requires constant monitoring by a dedicated resource; therefore, a risk exists to this process if the position is left vacant for any significant period.

2. *The usage of the credit card to purchase goods and services were in keeping with the PCard program:*

The main usage for a credit card is to reduce the administrative burden on Accounts Payable to process payment for low value and infrequent transactions. Acceptable uses are typically processed online such as training event registration fees, membership fees to professional associations, associated accommodations, and travel to training events are deemed to be acceptable expense types to be charged. For the purposes of this review the following 2 criteria were used on the total transactions processed in the 2022 and 2023 years:

- a) Although the PCard program has not established a low value; however, for this review a \$500.00 limit was considered as an acceptable dollar limit to test compliance; and
- b) Training event registration fees, membership fees to professional associations, associated accommodations, and travel costs.

According to the Merchant Code categorization listed in Table A in Appendix 1, approximately 65% of the credit card transactions met either of the 2 acceptable conditions. Of the remaining 35%, the merchant code type is not compliant with the usage terms as set out by the Region PCard program. Further testing of the non-compliance transactions is required to determine if these transactions do not meet the acceptable uses conditions as per the PCard program. Detailed testing of transactions was performed in Observation #3 and any compliance issues will be addressed in that section.

Appendix 2: Observation, Finding, Recommendation, and Status

3. *The effectiveness of GOs as a reference document.*

There are two GOs used as a reference guide for the PCard program:

1. GO 220.03 Purchasing/Procurement of Goods and Services; and
2. GO 050.06 Expense Reimbursements.

GO 220.03 is focused on the PCard process and has little to no information on proper usage or allowable expenses. GO 050.06 main purpose is to provide members with allowable expenses for reimbursement related to transportation, meals, accommodations, and extraordinary expenses. The GO did not provide a comprehensive guideline on allowable expenses, nor did it address the various procurement processes – expense claim, credit card, or by requisition (invoice).

The lack of detail and no clear guidance on which method of payment is most acceptable, increases the risk of non-compliance evident during the sample testing (Observation 3) portion of this review. This aspect of the PCard program is weak and this significantly impacts the effectiveness of the program. The Service has relied on the Region PCard policy as a guide, which is not available to all members and does not conform to the operational uniqueness and collective agreement language of the Service.

Recommendation	Status
<ul style="list-style-type: none">• Reduce the number of cardholders to reflect operational need and review appropriate dollar thresholds.	<ul style="list-style-type: none">• Complete – the number of cardholders has been reduced by 51 or 31.3%.
<ul style="list-style-type: none">• Service Finance Unit to develop a contingency plan to ensure the credit card master list is kept up to date when the principal resource is not available.	<ul style="list-style-type: none">• Back-up coverage will be supported by the Finance Coordinator during periods of extended absence or in the case a vacancy period.
<ul style="list-style-type: none">• Update GOs and provide guidelines to cardholders and approvers on allowable expenditures and proper procurement options available.	<ul style="list-style-type: none">• In Progress – a new GO Travel and Expense Policy is complete, the Purchasing /Procurement GO 220.03 is under review with a target completion date of Jan 1, 2025.

2) **Span of Control – opportunities to improve controls for PCard Approvers**

Observation:

Effective control mechanisms for PCard programs includes an adherence to clearly identified policies on usage as well as effective managerial oversight conducted during the approval process. An effective control requires the vigilance of the approver to each transaction for compliance and provide feedback to the PCard holder on processes that are not compliant. Therefore, the number of cardholders to

Appendix 2: Observation, Finding, Recommendation, and Status

approver ratio was evaluated to ensure the span of control is not so large to impede the ability of the approver to ensure proper oversight.

According to the Region PCard audit report A-C 19-2017, industry best practice recommends PCard approvers should not exceed 7 cardholders. Exceeding that limit diminishes the effectiveness of the intended control.

Findings:

There were 41 positions responsible for approving the 163 PCards issued throughout the Service. Except for two, 39 approvers are authorized as a Program Manager or department lead outlined in Finance By-Law 412-2024, thereby these positions have financial oversight of Service programs or cost centres.

Number of Approvers	Number of Cardholders
37	7 or less
1	8
1	10
1	11
1	33
Total 41	Total 163

Of the 41 positions, 37 approvers or 90% had 7 or less cardholders for whom they were responsible to approve transactions each month.

One PCard approver in Special Investigative Services was responsible to approve 33 cardholders monthly if all cards are used at one time.

With a decentralized PCard program whereby only one approver is assigned within the Financial System, increases the burden of responsibility to the one approver system, thereby weakening the ability to monitor compliance for each transaction.

Recommendation	Status
<ul style="list-style-type: none"> Reduce the number of cardholders to reflect operational need and review appropriate dollar thresholds. 	<ul style="list-style-type: none"> Complete – the number of cardholders has been reduced by 51 or 31.3%.
<ul style="list-style-type: none"> PCard approvers must be a Program (Budget) Manager or Delegate (assigned by the Program Manager to oversee the finances of a cost centre) and an approver should be assigned 7 or less cards to review and approve. 	<ul style="list-style-type: none"> Complete – except for 2 approvers (S/Sgt. Special Investigative Services (11) and Supt. of District Operations (8)), the reduction in the number of cardholders has resulted in the implementation of the 7 cards per approver ratio recommended during the Region credit card audit process. There are 37 approvers in total.

Appendix 2: Observation, Finding, Recommendation, and Status

Recommendation	Status
<ul style="list-style-type: none">Educate members on proper procurement practices and when using a credit card is appropriate at time of credit card issuance.	<ul style="list-style-type: none">Complete - Director of Finance and Asset Management and Material Manager jointly prepared a procurement best practices document including credit card to the Service.

3) Appropriate usage of Credit Card by the Holder

Observations:

This portion of the audit randomly sampled approximately 10% of the transactions posted in 2022 and 2023. In total 641 (310 for 2022 and 331 for 2023) transactions were tested on the following 3 criteria:

- Proper documentation submitted to support credit card transaction.
- Proper financial recording of transaction; and
- Compliance to existing policies.

The PCard program establishes 2-dollar limits: 1) monthly limit, and 2) single purchase limit. These limits are based on position level and determined by the Service's Finance Manager in consultation with the Operational Leaders of the Program. Since the purpose of the PCard program is to reduce the administrative burden of processing low value, 1 time ad-hoc purchases and not be a substitute for a formal procurement process, therefore no single purchases greater than \$10,000.00 are allowed.

Single purchase limits range from \$1,000.00 to \$10,000.00; the higher limits granted to senior administration.

Monthly limits range from \$3,000.00 to \$10,000.00 and a \$20,000.00 limit for the Chief of Police and \$15,000.00 for the Director of Information Technology. The higher limit of \$10,000.00 is issued only to Senior Officers or Senior Civilian Managers who manage portfolios. However, there were exceptions granted whereby members of the Training Unit, Fleet and Quartermasters have been issued higher monthly limits due to the nature of their duties within the organization.

Under the current PCard program, all cardholders are required to reconcile their monthly transactions within the Financial System and verify the expenditure is valid. An electronic copy of the receipt is required to be uploaded along with the transaction. In cases whereby a receipt was not available or provided the cardholder is required to provide an explanation in the comment box on the nature of the transaction and reason for no receipt.

Appendix 2: Observation, Finding, Recommendation, and Status

In addition, the cardholder is required to charge the transaction to the appropriate budget cost centre and expense account prior to the approval of the monthly transactions.

Approvers are notified by an automated email prompting to log into the Financial System and approve the monthly transactions of their subordinates. The approver can view the attached receipt, check the appropriate charge account, and marks the transaction as approved. The cardholder and approver can reference GO 050.06 Expense Reimbursements and GO 220.03 Purchasing/Procurement of Goods and Services.

Findings:

In total 49 cardholders with a total of 641 transactions were reviewed and of these transactions 186 or 28.9% were found to be non-compliant to 1 of the 3 criteria noted above.

Total Number of Transactions non-compliant	Insufficient/No Documentation Support	Incorrect Financial Posting	Non-Compliant to Existing Policies
186	60	51	75
28.9%	9.3%	7.9%	11.7%

1. Insufficient/No Documentation Support:

- 1.1. Among findings, often the credit card slip was submitted as the receipt, which provides the approver with no details of the transaction.
- 1.2. Occurrence of “frequent flyers” who had multiple occasions whereby no receipts or explanations were provided.
- 1.3. Risk includes the potential for fraudulent purchases for personal, inappropriate, or unauthorized transactions can occur.

2. Incorrect Financial Posting:

- 2.1. Incorrect posting of the charge to the correct cost centre and expense account.
- 2.2. Risk includes incorrect historical financial information, improper information for budgeting, and unauthorized expense not detected.

3. Non-Compliant to Existing Policies:

- 3.1. Majority of non-compliant transactions related to meals specifically individual meals purchased on credit card in place of per diems for out-of-town events.
- 3.2. Other non-compliance related to purchase of stationary, uniforms and other items whereby Service has secured contracts with vendors for the procurement of these items. Further, frequent usage for monthly subscription charges for software licensing or publications were paid on credit card instead of by annual invoice.
- 3.3. Risk to Service for non-compliance with policy include financial loss, and misuse of public funds.

Appendix 2: Observation, Finding, Recommendation, and Status

Recommendation	Status
<ul style="list-style-type: none"> Update GOs and provide guidelines to cardholders and approvers on allowable expenditures and proper procurement options available. 	<ul style="list-style-type: none"> In Progress – a new GO Travel and Expense Policy is complete, the Purchasing /Procurement GO 220.03 is under review with a target completion date of January 1, 2025.
<ul style="list-style-type: none"> Educate members on proper procurement practices and when using a credit card is appropriate at time of credit card issuance. 	<ul style="list-style-type: none"> Complete - Director of Finance and Asset Management and Material Manager jointly prepared a procurement best practices document including credit card to the Service.
<ul style="list-style-type: none"> Implement Service-wide best practices procurement strategy to reduce dependency on credit cards. 	<ul style="list-style-type: none"> In Progress – Assigned to Director of Finance and Asset Management
<ul style="list-style-type: none"> Finance to implement an on-going secondary review process that will sample 10% of monthly transactions and each cardholder bi-annually on their monthly transactions. 	<ul style="list-style-type: none"> To be implemented January 2025 by Finance Manager.