

Department of
Infrastructure, Transport,
Regional Development and
Local Government

Usage of Credit Cards –
Internal Audit

Final Report

June 2010

This final report contains 18 pages
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FINAL

Third Party Reliance

This Internal Audit report has been prepared at the request of Management of the Department of Infrastructure, Transport, Regional Development and Local Government in connection with our engagement to perform Internal Audit services as detailed in the contract dated 23 July 2007. Other than our responsibility to the Department, neither KPMG nor any member or employee of KPMG undertakes responsibility arising in any way from reliance placed by a third party on this report. Any reliance placed is that party's sole responsibility.

This report may be provided to the Auditor-General, the ANAO, the external auditor of the Department, for its own use. If the Auditor-General intends to rely on Internal Audit work it can only do so in the context of the professional requirement placed on it by the provisions of the Australian Auditing Standard ASA 610 (Considering the Work of Internal Audit).

We believe that the statements made in this report are accurate, but no warranty of accuracy or reliability is given in relation to information and documentation provided by the Department's Management and personnel.

Inherent Limitations of Internal Audit

Because of the inherent limitations of any internal control structure it is possible that errors or irregularities may occur and not be detected. An Internal Audit is not designed to detect all weaknesses in control procedures as it is not performed continuously throughout the period and the tests performed are on a sample basis. As such, except to the extent of sample testing performed, it is not possible to express an opinion on the effectiveness of the internal control structure. Any projection of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate. The Internal Audit findings expressed in this report have been formed on the above basis.



Contents

1	Executive Summary	1
1.1	Background	1
1.2	Objectives	1
1.3	Scope	1
1.4	Results and Recommendations	2
1.5	Recommendation	3
1.6	Management Response	3
1.7	Sign-Off	3
2	Detailed Findings and Recommendations	4
2.1	Finding 1: Insufficient Supporting Documentation of Credit Card Expenditure	4
2.2	Finding 2: Untimely Acquittal and Approval of Credit Card Expenditure	6
2.3	Finding 3: Incorrect Coding of Expenditure in Spendvision	8
3	Other Matters for Audit Committee Attention	9
A	Methodology	11
B	Process Maps	12
C	Ratings Criteria	14
D	Documents Considered	16
E	Classification of Findings	17

1 Executive Summary

1.1 Background

Staff are issued with corporate credit cards for travel and other Departmental related purchases. In past audits on corporate credit cards and their associated acquittals, a significant level of non-compliance by cardholders has been noted. In the 2008-09 audit, which specifically examined the cash withdrawals made on corporate credit cards, it was recommended that a future audit should focus on the activities of supervisors.

The Department is currently in the process of transitioning its credit card management system from a standalone product (Spendvision) to a model fully integrated with SAP, the Department's Financial Management Information System (FMIS). Findings identified in this audit may therefore be addressed prior to the finalisation of the transition project.

1.2 Objectives

The objectives of this internal audit were to:

- Thoroughly investigate a sample of credit card holders, including the actions of supervisors in checking and approving the transactions made on those credit cards.
- Assess the appropriateness and compliance of credit card expenditure with the Department's policies and procedures.

1.3 Scope

The internal audit examined credit card expenditure for a sample of 20 cardholders for the previous 12 months, that is, 1 February 2009 to 31 January 2010. Computer assisted audit techniques (CAATs) were utilised to select the sample of cardholders which included a combination of those that have a high and low dollar value; and a high and low volume of transactions.

For each cardholder, Internal Audit selected a monthly credit card statement and tested compliance with the Department's policies and procedures, in particular:

- *CEI 8.1 Credit Cards for Travel and Purchasing* (CEI 8.1); and
- *Practical Guide for CEI 8.1 Credit Cards for Travel and Purchasing* (Practical Guide).

Testing focused on the requirements around the:

- Credit card application process; and
- Monthly credit card acquittal, review and approval process.

The 20 monthly credit card statements consisted of a total of 497 transactions valued at \$302,182.

In order to conduct this engagement, we needed to thoroughly understand the credit card application process; and the monthly credit card acquittal, review and approval process. Whilst not a specific deliverable of this engagement, we have documented these processes and have included the process maps at Attachment B for your information.

1.4 Results and Recommendations

Overall Results

To enable comparison with past audits, we have rated¹ cardholder compliance. This rating is used for reporting purposes only and has not been conveyed to individual cardholders.

Rating	No. of Cardholders	% of Sample
Fully compliant	7	35%
Partially compliant	9	45%
Non-compliant / Referred	4	20%
Unable to audit	0	0%
Total	20	100%

Positive Findings

The following positive observations were noted while conducting this Internal Audit:

- For the sample of 20 cardholders, Internal Audit did not identify any issues in relation to the application process.
- For the sample of 20 monthly card statements, the expenses did not exceed the cardholder's monthly limit (as per the cardholder's undertaking).

Areas for Improvement

- **Insufficient Supporting Documentation of Credit Card Expenditure (CR3).** The 20 credit card statements sampled consisted of a total of 497 transactions. Of these, our testing identified 78 instances which totalled \$9,936 across five cardholders where there was insufficient documentation on the cardholders official registry file (that is, 16% of total volume of transactions and 3% of total value of transactions).
- **Untimely Acquittal and Approval of Credit Card Expenditure (CR3).** Testing of 20 credit card statements identified two instances where the employee did not sign the statement; and many instances where the credit card statement was not acquitted and approved within a reasonable timeframe.
- **Incorrect Coding of Expenditure in Spendvision (CR3).** Of the 497 transactions tested, six transactions were identified where food and beverage expenses incurred at hotels were charged as accommodation expenses; and 32 transactions where GST has been incorrectly coded in Spendvision.

¹ In accordance with the Rating Criteria at Attachment C. This is unchanged from past audits.

1.5 Recommendation

The Department should remind cardholders and supervisors their responsibilities and requirements in relation to:

- Retaining supporting documentation of credit card expenditure (refer to Recommendation 1a);
- The timely acquittal and approval of credit card expenditure (refer to Recommendation 1b); and
- Coding of expenditure in Spendvision (refer to Recommendation 1c).

1.6 Management Response

Agree / ~~Disagree~~

Responsible Officer: [redacted] CFO

Deadline for implementation: 31 July 2010

Description of action: Cardholders without supporting documentation identified in the report have been requested to bring their card files up to date. They have been given 30 days to obtain appropriate supporting documentation or provide relevant declarations. Recovery action will be taken if documentation or declarations cannot be provided.

The Department's new SAP credit card system, which goes live in July 2010, will provide enhanced information on late acquittals, more effective GST-coding and a better interface with the SAP Financial Management Information System. Once implemented it is intended that the Department would move to replace paper-based card files with online scanning and storage of receipts. It will then be possible to ensure that expenditure is fully supported on acquittal.

1.7 Sign-Off

I acknowledge recommendations within and have provided management comments.

Partner
KPMG

CFO
Department of Infrastructure, Transport,
Regional Development and Local
Government

Date

Date

2 Detailed Findings and Recommendations

2.1 Finding 1: Insufficient Supporting Documentation of Credit Card Expenditure

Category: CR3

Finding/Observation

In accordance with CEI 8.1, cardholders must substantiate all expenditure and place supporting documentation on the cardholders official registry file. The Practical Guide outlines that expenditure:

- Above \$82.50 (GST inclusive) must have a tax invoice on file to substantiate the expenditure; or a statutory declaration (where a tax invoice is not kept).
- Below \$82.50 (GST inclusive) must have a receipt or a tax invoice on file to substantiate the expenditure; or a note on file (where a tax invoice or receipt is not kept).

The 20 credit card statements sampled consisted of a total of 497 transactions. Of 497 transactions, our testing identified 78 instances where there was insufficient documentation on the cardholders official registry file. This represented five cardholders as follows:

- 26 instances (across the five cardholders) where expenditure above \$82.50 did not have sufficient supporting documentation; and
- 52 instances (for two of these cardholders) where expenditure below \$82.50 did not have sufficient supporting documentation.
- One of these cardholders had no supporting documentation on file which totalled \$6,834.

In addition, CEI 8.1 requires that supervisors ensure that cardholders retain all credit card statements and supporting documentation on file; and verify cardholders' statements and supporting documentation. Where supervisors have approved all expenditure made on the cardholders' credit card, and there is insufficient supporting documentation of credit card expenditure on the cardholders official registry file, this indicates that the supervisors may not be complying with the instructions set out in CEI 8.1.

Implication/Risk

Internal Audit have noted that credit card compliance is heavily dependent on the supervisors role of ensuring that all purchases made are in accordance with the Department's policies and procedures.

Failure of the cardholder to retain all sufficient supporting documentation (with the expenditure also approved by the supervisor), increases the risk that credit card purchases not in accordance with the Department's policies and procedures are approved.

Further, where the Department does not maintain sufficient appropriate evidence for expenditure and the price includes GST, the Department cannot claim the GST input tax credit for that supply (section 29.10(3) of *A New Tax System (Goods and Services Tax) Act 1999*).



Recommendation 1a

Internal Audit recommends that the Department should remind cardholders and supervisors their responsibilities in relation to retaining supporting documentation of credit card expenditure.

2.2 Finding 2: Untimely Acquittal and Approval of Credit Card Expenditure

Category: CR3

Finding/Observation

In accordance with CEI 8.1, cardholders must acquit expenditure and sign-off on the monthly card statements in a timely manner. The cardholders file, containing the cardholder-signed statement and all supporting documentation, should be provided to the cardholders' supervisor within 10 days after month end (12 days if interstate). Upon receipt of cardholders' files, supervisors must verify cardholders' statements and supporting documentation, and provide approval of expenditure within five working days of receiving the cardholders official registry file.

Cardholder sign-off on the monthly card statement

Cardholders are required to sign off on monthly expenditure, verifying that the expenditure is work-related. Our testing of 20 credit card statements identified two instances where the employee did not sign the statement.

Acquittal and approval of credit card expenditure

As Spendvision does not record the date that the cardholder marked the statement complete and there was no way to determine the date the supervisor received the cardholders registry file, Internal Audit could not test whether:

- The cardholder acquitted all expenditure within 10 days after month end (12 days if interstate); or
- The supervisor approved the expenditure within five working days of receiving the cardholders official registry file.

Testing was conducted based on the time period between month end (statement date) and the date the credit card statement was approved by the supervisor in Spendvision (as detailed in Table 1 below). The results of our testing are tabled below.

Table 1 Summary of time taken to approve a credit card statement

Sample No.	Card Statement Month End	Approval Date in Spendvision	Time Period (in days)
1	27/02/09	6/10/09	221
2	28/09/09	21/12/09	84
3	28/08/09	10/11/09	74
4	29/06/09	8/09/09	71
5	28/05/09	4/08/09	68
6	27/02/09	28/04/09	60
7	28/08/09	26/10/09	59
8	28/09/09	11/11/09	44
9	28/05/09	30/06/09	33
10	28/05/09	18/06/09	21



Sample No.	Card Statement Month End	Approval Date in Spendvision	Time Period (in days)
11	27/03/09	16/04/09	20
12	27/11/09	15/12/09	18
13	28/09/09	15/10/09	17
14	27/02/09	16/03/09	17
15	29/06/09	15/07/09	16
16	27/11/09	10/12/09	13
17	28/04/09	11/05/09	13
18	28/10/09	10/11/09	13
19	29/12/09	4/01/10	6
20	28/05/09	1/06/09	4

Implication/Risk

If credit card statements are not acquitted and approved in Spendvision within the specified time, the cardholder and/or the supervisor may breach their obligations under CEI 8.1 and its Practical Guide.

Further, delays in acquittals and approvals may restrict the ability of the Department to follow-up on inappropriate purchases.

Recommendation 1b

Internal Audit recommends that the Department should remind cardholders and supervisors their responsibilities in relation to the timely acquittal and approval of credit card expenditure.

2.3 Finding 3: Incorrect Coding of Expenditure in Spendvision

Category: CR3

Finding/Observation

Testing was conducted to determine if transactions were appropriately coded in Spendvision. Internal Audit sampled 20 credit card statements which consisted of a total of 497 transactions. Our testing identified:

- Six transactions where food and beverage expenses incurred at hotels were charged as accommodation expenses.
- 32 transactions where GST have been incorrectly coded in Spendvision. These consisted of:
 - 26 instances where 10 percent of the price of the non-taxable supply was coded to GST in Spendvision; however, GST was not applicable. This overstated the GST amount by \$411.
 - Six instances where 10 percent of the price of the taxable supply was not coded to GST in Spendvision; however, GST was applicable. This understated the GST amount by \$452.

Given supervisors should be verifying that the correct financial and tax codes have been appropriately assigned to transactions by the cardholder, it would appear that the occurrence of the incorrect coding was primarily due to an oversight by the cardholders and/or supervisors.

Implication/Risk

Where GST is incorrectly coded, there is an increased risk that the Department is claiming an incorrect amount of input tax credit. In addition, it will result in inaccurate reflections of expense totals for the Department.

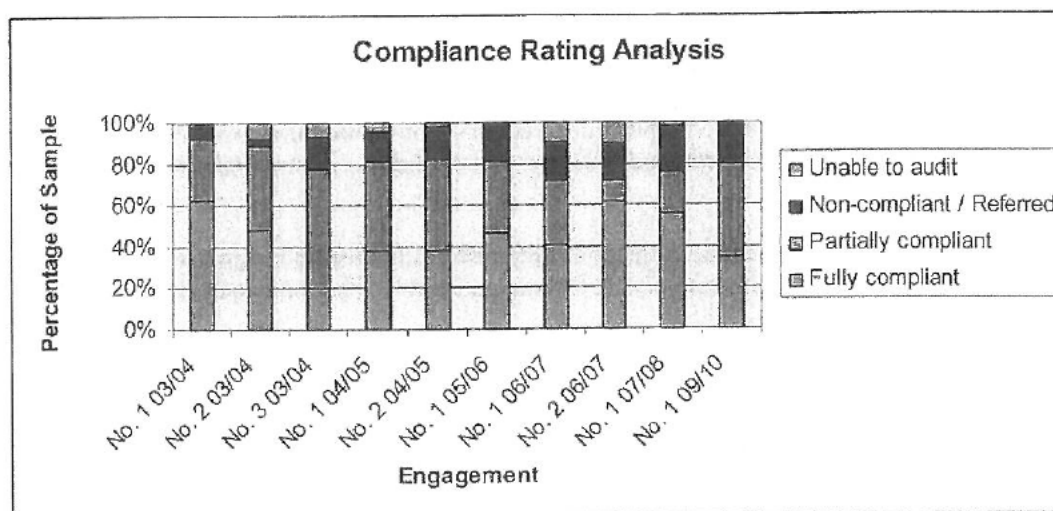
Recommendation 1c

Internal Audit recommends that the Department should remind cardholders and supervisors their responsibilities in relation to coding of expenditure in Spendvision.

3 Other Matters for Audit Committee Attention

Whilst outside the scope of our compliance audit, having undertaken 10 compliance audits over the last seven years we have noted that levels of administrative non-compliance have consistently been high over this period (refer below).

The percentage of cardholders in each compliance category, that is, complaint, non-compliant and partially compliant (consisting of minor issues or requiring improvement), is illustrated in the following graph²:



In comparing the compliance levels across the various reviews we note no obvious trend beyond the continued unacceptable levels of non-compliance. In comparing results, the following sample selection practices should be noted:

Section 47E

² Note that the above graph does not incorporate the internal audit of cash withdrawals conducted in 2008/09 as cardholders were not assessed under the same criteria.



Section 47E

A Methodology

In the conduct of this engagement, Internal Audit:

Familiarisation

- Considered Departmental policies and procedures in relation to corporate credit cards. Refer to Attached D.
- Held discussions with Departmental staff to obtain an understanding of the processes and controls around the use of corporate credit cards.

Evaluation and testing

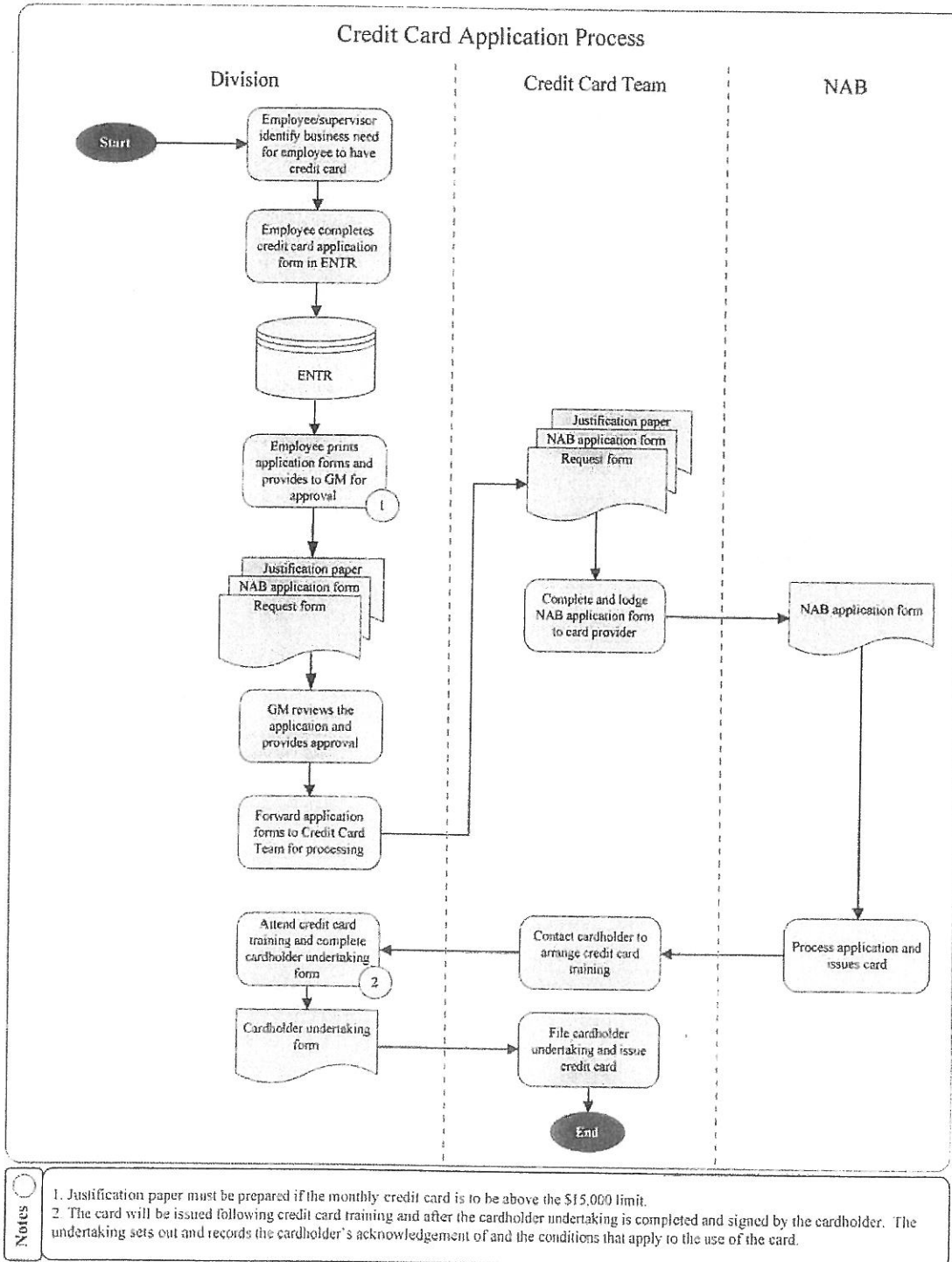
- Developed a conceptual process model of the processes and controls around the use of corporate credit cards and identify risks and control gaps.
- Obtained a list of corporate credit card holders and utilising computer assisted audit techniques (CAATs), selected a sample of credit card holders. This included a combination of those that had a high dollar value and/or a high volume of transactions, whilst a small number of low value, low transaction cardholders was also be included.
- Requested the files and supporting documentation for each of the card holders selected.
- Assessed the appropriateness and compliance of credit card expenditure with Departmental policies.
- Confirmed the potential findings with the respective card holders.

Reporting

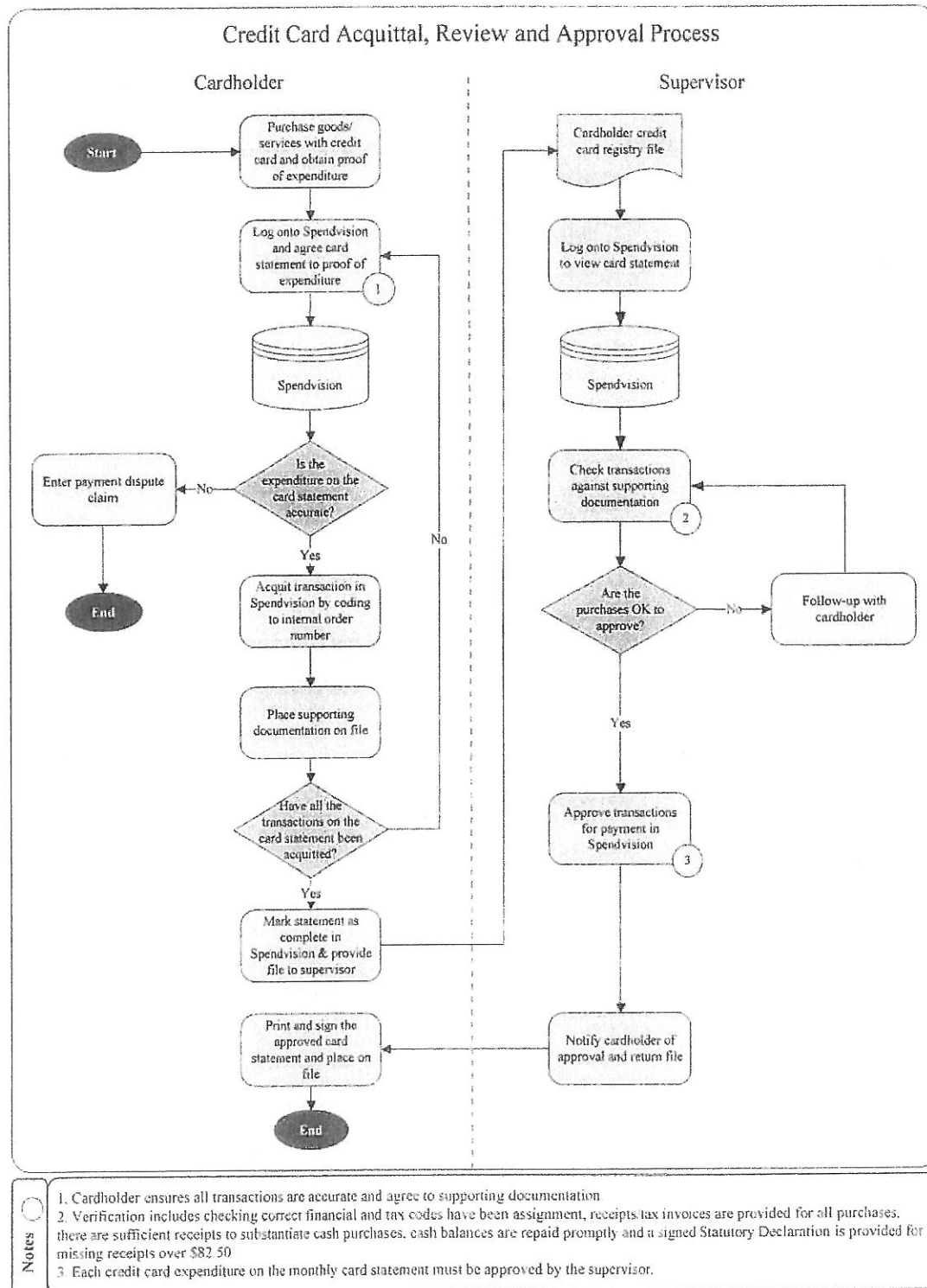
- Provided management with an Issues Paper detailing potential findings of the internal audit.
- Prepared a Draft Report with appropriate recommendations upon confirmation of identified issues.
- Reflected management's comments in the report and issued a Final Report.
- Conducted an exit interview with the Audit Sponsor and other relevant stakeholders.

B Process Maps

B.1 Credit Card Application Process



B.2 Credit Card Acquittal, Review and Approval Process





C Ratings Criteria

Rating	Criteria
Unable to audit	<ul style="list-style-type: none"> • Cardholder file cannot be supplied by Records Management for review. • Unable to contact cardholder once they have been notified of pending review. • Cardholder is away on leave at the time of review and registry file cannot be otherwise obtained.
Referred	<ul style="list-style-type: none"> • Assigned to cardholder who has been assessed non-compliant (see below) and requires immediate further investigation by the Credit Card Team.
Non-Compliant	<ul style="list-style-type: none"> • Significantly incomplete substantiation. <ul style="list-style-type: none"> - Failure to provide tax invoices (or statutory declaration) for expenditure over \$82.50 (> 10% of number of such transactions). - Failure to provide tax invoices/receipts (or notes on file for missing receipts) for expenditure under \$82.50 (> 20% of number of such transactions). - Frequent missing receipts. - Frequent unsubstantiated cash withdrawals. • Failure to acquit / sign-off statement / obtain supervisor signoff. <ul style="list-style-type: none"> - No cardholder acquittal / sign-off for month(s) within review period. - No supervisor sign-off for month(s) within review period. • No registry file established.

Rating	Criteria
Partially Compliant	<ul style="list-style-type: none"> • Incomplete substantiation. <ul style="list-style-type: none"> - Any unsubstantiated expenditure over \$82.50 not leading to non-compliant rating (i.e. $\leq 10\%$ of number of such transactions). - Any unsubstantiated expenditure under \$82.50 not leading to non-compliant rating (i.e. $\leq 20\%$ of number of such transactions). - Infrequent unsubstantiated cash withdrawals (less than \$82.50). • Untimely acquittal / sign-off of statement / supervisor signoff (i.e. >17 days). • Monthly Spendvision statement is missing from registry file and cannot be otherwise located. • Instances of overseas travel not supported by minute on file.
Compliant	<ul style="list-style-type: none"> • Complete substantiation. <ul style="list-style-type: none"> - All expenditure has been substantiated. - All cash withdrawals have been substantiated. • Complete and timely acquittal of statement / supervisor signoff. • All instances of overseas travel are supported by minute on file.



D Documents Considered

Document Title	Last Revised
CEI 8.1 Credit Cards for Travel and Purchasing	17 March 2008
Practical Guide for CEI 8.1: Credit cards for travel and purchasing	<i>Unable to determine</i>
Financial Operations Credit card team - How to acquit your credit card transactions	August 2009
Financial Operations Credit card team – How to dispute a transaction	October 2009
Spendvision – Supervisor Online Approval Guide	<i>Unable to determine</i>
Departmental Travel Policy	September 2008

E Classification of Findings

Assigning a category to an Internal Audit finding is one of professional judgement. There are various factors that will be considered when an internal auditor assigns a category classification.

The purpose of assigning a classification to a finding is to communicate the importance of that finding with the audit committee, management and staff of the Department of Infrastructure, Transport, Regional Development and Local Government. This communication plays an important part in interpreting the internal auditor's opinion with respect to what priority a finding and its associated recommendation should be given.

In the table below are a number of the factors an internal auditor considers when assigning category classifications. It is important to note that an internal auditor will assign a category classification with the best interests of the 'organisation as a whole' in mind.

Factors considered when categorising findings				CR1 Finding		CR2 Finding		CR3 Finding	
Priority of attention required (Who)	Executive Director	Branch Manager and below	Section Head						
Priority of attention required (timeliness of action required)	Immediate commencement of corrective action	As soon as practical within the next 3 – 6 months.	When resources permit at the discretion of the organisation.						
Likelihood or impact of the uncontrolled risk	Catastrophic / Major The likelihood/impact of the uncontrolled business or financial risk may threaten either the operation of DITRDLG or the effective function of a critical/significant project and/or have a severe impact on DITRDLG's reputation and credibility.	Moderate / Minor The likelihood/impact of the uncontrolled business or financial risk would threaten the efficiency or effectiveness of an aspect of operations.	Insignificant The likelihood/ impact of the uncontrolled business or financial risk is not considered of serious consequence.						
Suitability of the policies and/or procedures	No policies and/or procedures exist. Policies and/or procedures are not considered appropriate to manage a significant risk or function of the organisation.	No policies and/or procedures exist. Policies and/or procedures are not considered appropriate to manage a core business risk or routine function.	Policies and/or procedures are appropriate but out of date (the effect is not considered of serious consequence).						

Factors considered when categorising findings		CR1 Finding	CR2 Finding	CR3 Finding
Compliance with documented procedures and policies		Policies and/or procedures are not being complied with.	Policies and/or procedures are not being complied with consistently (frequency and quality). Documentation does not reflect proper compliance with procedures and policies	Infrequent instances of non-compliance with policies and procedures were identified.
	Breach of delegations (financial and non-financial)	Any one of the following individually or in combination. Dollar values: - Large Frequency of breaches: - Regular Documentation to support exercise of delegation: - Does not exist What/how: - Breach of delegation exercised by General Manager and/or above	Any one of the following individually or in combination. Dollar values: - Medium Frequency of breaches: - Periodic Documentation to support exercise of delegation: - Not adequate What/how: - Breach of delegation by middle management	Any one of the following individually or in combination: Dollar values: - Small Frequency of breaches: - Isolated Documentation to support exercise of delegation: - Could be improved What/how: - Breach of delegation reflecting ignorance
Fraud		All fraud or corrupt conduct identified is reported as CR1	N/A	N/A

BIR Business Improvement Recommendation - Arises where the internal auditor considers that the recommendation, if implemented, would result in a benefit accruing to the organisation (for example, through more efficient and/or cost effective processes, a reduction of expenditure or an increase in revenue).

