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Follow-up on Audit of Acquisition Card Use

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Caveat

The result of this work does not constitute an audit of acquisition card use. Rather, this report was prepared to follow up on the progress in implementing the Management Action Plan that resulted from the March 2006 Audit of Acquisition Card Use.



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Acronyms and Abbreviations

ADM(Fin CS)	Assistant Deputy Minister (Finance and Corporate Services)
ADM(Mat)	Assistant Deputy Minister (Materiel)
AERMS	Audit and Evaluation Recommendation Management System
CFSS	Canadian Forces Supply System
CRS	Chief Review Services
DG Fin Mgmt	Director General Financial Management
DND	Department of National Defence
DRMIS	Defence Resource Management Information System
EDI	Electronic Data Interchange
ERP	Enterprise Resource Planning
FAA	<i>Financial Administration Act</i>
FAM	Financial Administration Manual
FMAS	Financial Managerial Accounting System
FY	Fiscal Year
MAP	Management Action Plan
MASIS	Materiel and Acquisition Support Information System
OPI	Office of Primary Interest
PAM	Procurement Administration Manual
RC	Responsibility Centre



Introduction

In March 2006, Chief Review Services (CRS) completed an audit of acquisition card use. The objectives of the audit were as follows:

- Consider the potential to increase acquisition card use and identify enablers or impediments;
- Assess whether acquisition cards are used in compliance with Treasury Board and departmental policies; and
- Determine whether the existing internal control framework is sufficient to mitigate risk and whether there are opportunities for enhanced monitoring.

To address the recommendations, the Assistant Deputy Minister (Finance and Corporate Services) (ADM(Fin CS)) in consultation with the Assistant Deputy Minister (Materiel) (ADM(Mat)) developed a management action plan (MAP). CRS undertook this follow-up to assess the implementation of the MAP.

Treasury Board Secretariat considers the use of acquisition cards to be convenient and practical because they simplify the procurement and payment processes, thereby generating savings. Although the use of an acquisition card is not mandatory, it is strongly encouraged when the purchase is within delegated transaction authority and it is efficient, economical and operationally feasible to do so.¹

In fiscal year (FY) 2004/05, the target year of the original audit, 25 percent of departmental purchases under \$5,000 were made using acquisition cards. In FY 2009/10, 54 percent of the purchases under \$5,000 were made using acquisition cards, resulting in the Department achieving its goal of significantly reducing the number of cheques issued for low-dollar-value purchases.

Methodology

This audit follow-up is not another audit of the same issues, but rather an assessment of the progress made in implementing the MAP. The following methods were used to assess the progress:

- Analyzed updates reported in the CRS' Audit and Evaluation Recommendation Management System (AERMS);
- Interviewed procurement and finance staff involved in the procurement and payment processes;
- Analyzed departmental spending in the Defence Resource Management Information System (DRMIS) for FY 2008/09 to FY 2010/11; and
- Reviewed departmental policies and procedures and Treasury Board directives regarding acquisition card use.

¹ Treasury Board of Canada Secretariat, "Directive on Acquisition Cards," 1 October 2009.

Measurability, significance, continued relevance and level of effort were all considered when determining which recommendations warranted follow-up and review. Accordingly, it was determined that four of the seven recommendations would be reviewed in detail.

Overall Assessment

The Department has made progress in completing the MAP. Three of the four reviewed MAP items are substantially complete; however, their closure is contingent upon the release of Financial Administration Manual (FAM) Chapters governing acquisition card use.

During interviews, it was stated that the Director Financial Policy and Procedures organization, which is responsible for issuing FAM Chapters, has been short-staffed. A new Director has recently been appointed; however, an effective handover of outstanding projects was not possible. The new Director is taking a risk-based approach to workload prioritization. The FAM Chapters governing acquisition card use are expected to be completed by March 2012.

MAP Implementation Progress

MAP Item: Streamline Processes by Implementing Single Enterprise Resource Planning Initiative and by Developing Training Guide Packages

At the time of the original audit, the Department had established a target to reduce the number of cheques by 50 percent through the use of acquisition cards. While this could result in savings, CRS cautioned that increased acquisition card use would only increase the underlying objective of efficiency if current processes were streamlined. In some areas, procedures that could be eliminated for low-risk acquisition card payments were still being performed. To ensure efficiency gains were realized, it was recommended that streamlined processes be implemented, including modifying information system interfaces where appropriate.

In response, ADM(Fin CS) in consultation with ADM(Mat) indicated that a common acquisition card solution to replace the interfaces between Department of National Defence's (DND) Financial Managerial Accounting System (FMAS) and Materiel and Acquisition Support Information System (MASIS) was in development. This project was to be linked to DND's new enterprise resource planning (ERP) initiative, i.e., DRMIS. In addition, a standard procurement and payment instructional guide and training package was to be developed.

DRMIS was implemented in April 2010, but for the most part, it has not changed the process for procurement and payment by acquisition card except for non-expense items, such as inventory and spare parts. Although these transactions accounted for only 3 percent of acquisition card transactions in the first two quarters of FY 2010/11, it has been noted that the procurement and payment process for these transactions has, in certain instances, become more cumbersome. Minor discrepancies between the information entered in the procurement module and the information entered in the

financial module must be reconciled manually, making the process less efficient. It is recognized that these types of issues are not uncommon following the implementation of a complex system. The DRMIS team has indicated that it is working towards a solution for this issue.

While some improvements in efficiency are still to be realized through system enhancement, overall it appears that efficiency gains will need to be achieved through means other than changes to the information management system.

The second initiative to streamline acquisition card processes was the development of a procurement and payment instructional guide and training package. While some progress has been made on this initiative, the guide and the training package have not been finalized. Their content is dependent on issuance of the FAM Chapters governing acquisition card use.

While the Contracting Certification Course and the Expenditure Management Course provide information relating to acquisition card processes, these courses are not mandatory for cardholders who do not have contracting authority and their focus is on compliance with the Delegation of Authorities and not on the efficiencies to be gained by using an acquisition card. The Procurement Administration Manual (PAM) issued by ADM(Mat) does promote an efficient process for acquisition card purchases. The challenge is to inform all cardholders of its prescribed procedures.

MAP Item: Explore Alternative Means of Reducing Cheques

The original audit noted that there were certain categories of high-volume, low-dollar-value expenditures that could possibly benefit from a more efficient means of payment such as Electronic Data Interchange (EDI) or consolidated billing. It was recommended the Department explore alternative means of reducing cheques.

Management agreed and explored these options but found vendors were not willing to commit to EDI or consolidated billing at this time due to the significant investment required.

Management indicated that in the short term, the optimum method for cheque reduction remains increased acquisition card usage. To this end, management selected more than 200 vendors for which payment by acquisition card is mandatory. This has contributed to the increased levels of acquisition card usage.

MAP Item: Allow Other Section 34 Holders to Certify Acquisition Card Statements

At the time of the audit, CRS observed that policies had “not been sufficiently adjusted to reflect the low-risk nature of the majority of the acquisition card transactions.” It was recommended that the Department re-examine and clarify methods of meeting and documenting *Financial Administration Act* (FAA) Sections 32, 33 and 34.

In its MAP, management indicated that the policy requirements had been reviewed and an amendment would be made to clarify that any individual with proper delegated authority could perform the FAA Section 34 certification on monthly acquisition card statements.

The current draft version of FAM Chapter 1016-7-1 governing acquisition card use has not been issued but the draft policy has clarified that any individual with the appropriate delegated authority can perform the FAA Section 34 certification on behalf of a responsibility centre (RC) manager.

MAP Item: Designate the Delegation of Authorities Form as the Sole Method for Documenting Authorities

During the original audit, it was noted that acquisition cardholders' authority was being documented on acquisition card application forms as well as on the departmental Delegation of Authorities form. In some cases, the authorities for the same individual were different on each form, which could lead to confusion. It was recommended that the departmental Delegation of Authorities form be the exclusive method of recording assignment of these authorities.

Management agreed with the recommendation and indicated that the applicable FAM chapter would be amended.

The acquisition card application form is an annex of FAM Chapter 1016-7-1, which is currently in draft format. In the draft version of the policy, reference to the cardholder's contracting authority and purchasing limitations has been removed from the acquisition card application form. The draft application form also clarifies that a cardholder must be designated contracting authority through the appropriate Delegations of Authority form or have written permission from the RC manager to use the card.



Annex A—Summary of Management Action Plan Status

MAP Item: Streamline Processes by Implementing Single Enterprise Resource Planning Initiative and by Developing Training Guide Packages

CRS Recommendation

1. To ensure efficiency gains are realized through the use of acquisitions cards:
 - Ensure streamlined processes are implemented, including modifying information system interfaces where appropriate.

Management Action

The following two initiatives have been launched by ADM(Mat), with ADM(Fin CS) support, to streamline the acquisition and payment process:

- A common acquisition card solution is being investigated to replace the current complex interfaces between FMAS, MASIS and the Canadian Forces Supply System (CFSS). As this will need to be linked to the DND single ERP initiative, full implementation is not expected to occur until FY 2008/09 at the earliest.
- The Defence Oversight Committee on Contracting has directed the establishment of a team to develop a standard procurement and payment instructional guide and training package. The team will initially focus on local contract transactions under \$5,000. Promulgation is expected by March 2007.

OPI: ADM(Mat) in consultation with ADM(Fin CS)

First Target Date: 7 September 2007

Current Target Date: 31 March 2012

Status in AERMS as Reported by OPI: Under way

Actions Taken to Date

- A single ERP initiative has been implemented and as a result the MASIS and FMAS interface has been replaced.
- The CFSS interface is in process of being replaced.
- The procurement and payment instructional guide and training package are in draft format. Their content is dependent on the release of the FAM Chapters governing acquisition cards. Management is considering alternative methods to meet this objective.



Assessment of the Progress Made in the Management Action Plan

- The DRMIS implementation did not significantly impact acquisition card processes with the exception of procurement of inventory items, which has become less efficient under certain circumstances. The system interface will not be a solution to ensure efficiency gains are realized.
- The PAM promotes efficient procedures for acquisition card transactions. Management needs to select and implement an appropriate method to inform all cardholders of these procedures.
- Recommend keeping this item open until FAM is finalized.

MAP Status: Substantially Complete

MAP Item: Explore Alternative Means of Reducing Cheques

CRS Recommendation

2. To ensure efficiency gains are realized through the use of acquisitions cards:
 - Explore alternative means of reducing cheque volume in some cases.

Management Action

Adoption of EDI, currently in use in the private sector, offers the best potential for cheque reduction. While the number of EDI-enabled vendors is increasing, full implementation requires achievement of a single ERP environment. Consolidated billing may be possible for some commodities, especially in the information management/information technology area where resources are being transferred to a single Level 1. The optimum method for cheque reduction in the short term remains increased acquisition card use.

OPI: DG Fin Mgmt, ADM(Fin CS)

First Target Date: Unspecified

Current Target Date: 1 January 2012

Status in AERMS as Reported by OPI: Under way

Actions Taken to Date

Discussions held with vendors concerning adoption of EDI and consolidated billing; vendors are not willing to invest in these initiatives at this time.

Assessment of the Progress Made in the Management Action Plan

- The Department can continue to investigate opportunities for EDI or consolidated billing on a periodic basis.
- Recommend closing this item.

MAP Status: Complete

MAP Item: Allow Other Section 34 Holders to Certify Acquisition Card Statements**CRS Recommendation**

3. Policies and controls governing acquisition card use should be revisited to ensure they exploit the use of technology and are risk-appropriate. In particular:
 - Methods of meeting and documenting FAA Section 32, FAA Section 34, FAA Section 33, and Treasury Board contracting requirements should be re-examined and clarified.

Management Action

The FAA and Treasury Board policy requirements have been reviewed and only one DND policy change is recommended. The FAA Section 34 certification of monthly statements will be modified by ADM(Fin CS) to enable any Section 34 holder (other than the acquisition card holder) to certify the statement vice only the RC manager. This policy change will be implemented as part of the change to the DND FAM's focus from acquisition card to payment card and is expected to be promulgated by March 2007.

OPI: DG Fin Mgmt, ADM(Fin CS)

First Target Date: 15 March 2007

Status in AERMS as Reported by OPI: Complete

Actions Taken to Date

The policy has been updated but remains in draft format and has not been issued.

Assessment of the Progress Made in the Management Action Plan

Recommend keeping this item open until FAM is finalized.

MAP Status: Substantially Complete

MAP Item: Designate the Delegation of Authorities Form as the Sole Method for Documenting Authorities**CRS Recommendation**

4. Policies and controls governing acquisition card use should be revisited to ensure they exploit the use of technology and are risk-appropriate. In particular:
 - The departmental Delegation of Authorities form should be the exclusive method for recording assignment of these authorities.

Management Action

This recommendation is supported and is being implemented by ADM(Fin CS). A revised Delegation of Authorities form will be implemented prior to March 2007. In addition, a revised Request for a Standard Payment Card form will be implemented prior to March 2007 as part of the revised FAM chapters on payment cards.

OPI: DG Fin Mgmt, ADM(Fin CS)

First Target Date: 24 October 2008

Status in AERMS as Reported by OPI: Complete

Actions Taken to Date

Policy has been updated but remains in draft format and has not been issued.

Assessment of the Progress Made in the Management Action Plan

Recommend keeping this item open until FAM is finalized.

MAP Status: Substantially Complete