

Department of Infrastructure and Transportation

Northern Airports and Marine Operations

Web version

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Main points

What we found

On August 29, 2012, the Minister of Finance requested that the Office of the Auditor General (OAG) conduct a forensic review of the procurement card purchasing activity by staff in the Northern Airports office, under Section 16 of *The Auditor General Act*. This request was made after inappropriate procurement card purchasing activity was found by the Director of Northern Airports and Marine Operations (NAMO) in the Department of Infrastructure and Transportation. On August 30, 2012, we wrote a letter to the Minister of Finance accepting the request.

We completed our audit in December 2013 and will be sending our detailed audit findings to the Ministers of Finance, and Infrastructure and Transportation, as required by Section 16 (2) of our Act. We have prepared this summary in accordance with Section 16 (3) which allows us to submit a report to the Assembly “if it is in the public interest to do so”.

The objectives of our audit were to determine the extent of funds reimbursable to the government by 2 staff of the Northern Airports office and to determine why these inappropriate transactions occurred without detection. The 2 staff included in our audit were the former Financial Clerk (Clerk) and the former Manager of Northern Airports (Manager), who the Clerk reported to. These 2 staff have since resigned. The government is considering taking legal action, depending on the results of our audit.

We found financial irregularities of over \$80,000. We believe one of the staff incurred personal expenses of over \$39,000 on government purchasing cards, for the records we were able to audit. We classified these expenses as personal because in our view, they had no legitimate business purpose. For many of the personal expenses incurred, our findings indicated that the staff member misrepresented what was purchased on the purchasing card log. We found 3 instances where the receipts seemed to be tampered with so that the items purchased were not clear. In addition to making inappropriate purchases, the 2 staff did not follow the government’s purchasing card guidelines.

When we obtained the purchasing card records from the Department many receipts were missing. We contacted suppliers and obtained copies of some of the missing receipts. We were unable to audit about \$22,400 of receipts.

Because the Manager failed to exercise appropriate oversight and clerical checks were inadequate, the inappropriate transactions occurred without detection over several years.

We have recommended that the Minister of Finance forward our detailed audit findings to Civil Legal Services. In addition, we have recommended some changes to the government’s purchasing card guidelines to help strengthen the system.

Why it matters

Procurement card systems by their nature are vulnerable to financial loss. Non-compliance with established policies, procedures and inadequate internal control leaves an organization

susceptible to the risk of asset misappropriation and unauthorized use of public funds. This report illustrates the consequences to an organization where there was insufficient oversight by the Manager, and when established government guidelines are not followed.

Background

Northern Airports and Marine Operations

Northern Airports and Marine Operations (NAMO) is a branch within the Department of Infrastructure and Transportation (Department). NAMO staff members are located in Winnipeg, the Northern Airports office in Thompson, and at airport and ferry locations in northern Manitoba. NAMO's mandate is to provide safe and effective provincial airport and ferries in remote northern Manitoba communities to serve their transportation and emergency needs. NAMO operates and maintains 24 provincially owned airports and a number of ferries to provide vital transportation of passengers, freight and medical services to isolated communities.

The Department's Annual Report for 2012/13 indicates NAMO has 20 full-time equivalent staff at the head office with estimated expenditures of \$2,178,000, made up of salaries and benefits of \$1,533,000 and other expenditures of \$645,000.

Manitoba government purchasing cards

Government purchasing cards are a MasterCard credit card supplied by the National Bank of Canada. It is used to buy low dollar value goods and services directly from suppliers. The Procurement Services Branch of the Department prepared and issued purchasing card guidelines in December 2001 that outline roles and responsibilities, and policies and procedures to be followed for the use of purchasing cards. The purchasing card guidelines have not changed since that time.

Purchasing card guidelines state that individual purchases must be under \$2,500. The guidelines list items that are prohibited such as office furniture, information technology hardware or software, and communications equipment. The guidelines permit program managers to establish credit card limits. The guidelines state that cardholders must keep their expenditure receipts and maintain a purchasing card log of all their purchases. Each month, the following procedures are supposed to take place:

- The cardholders reconcile their purchase receipts and purchasing card log to their vendor statement from National Bank to account for all transactions.
- The cardholder signs their purchasing card log and then forwards the log and original receipts to their program manager for approval.
- The program manager must review the log and receipts for compliance with policy and guidelines, and approve the log.
- The program manager then forwards the log and receipts to a card co-ordinator. For control purposes, the log is not returned to the cardholder.
- The card co-ordinators ensure all logs are certified correct and signed by the cardholder and approved by the program manager. Card co-ordinators are expected to raise anomalies to the attention of the program manager.
- The card co-ordinator forwards the log and receipts to the departmental invoice processor to process the payment to National Bank.

- The departmental invoice processor is responsible for ensuring all the documents, including original source documents and receipts are saved and filed in the same branch of the department where other original invoices are stored in accordance with Records Retention policy and are available for post audit by management.

Cardholders sign a Cardholder Agreement which is an agreement between the Province of Manitoba and the cardholder. The agreement, an appendix to the purchasing card guidelines, outlines card use guidelines such as the cardholder will not authorize or permit others to use or possess their card and that the cardholder will not use the card for personal purchases. Cardholders sign the agreement acknowledging they are aware of the purchasing card guidelines and agree to follow those guidelines and abide by the terms of the agreement.

Audit approach

On August 29, 2012, the Minister of Finance requested the OAG conduct a forensic review of the procurement card purchasing activity of staff in the Northern Airports office. On August 30, 2012, we wrote a letter to the Minister of Finance accepting the request.

The objectives of our audit were to determine the extent of funds reimbursable to the government by 2 staff of the Northern Airports office and to determine why these inappropriate transactions occurred without detection. The government is considering taking legal action, depending on the results of our audit.

Our audit included the period from April 2007 to May 2012 and took place between January 2013 and December 2013. We examined government purchasing card guidelines, purchasing card transactions, expense claims, email and office communicator records (government instant messaging system) for the 2 staff.

Our examination was performed in accordance with Investigative and Forensic Accounting (IFA) standards as recommended by the Canadian Institute of Chartered Accountants. IFA standards are designed for engagements that *“involve disputes or anticipated disputes, or where there are risks, concerns or allegations of fraud or other illegal or unethical conduct.”*

Scope limitation

When we obtained the purchasing card records from the Department many receipts were missing. We contacted suppliers and obtained copies of some of the missing receipts. We were unable to audit about \$22,400 of receipts.

Findings

We completed our audit in December 2013 and will be sending our detailed audit findings to the Ministers of Finance, and Infrastructure and Transportation. Our findings include evidence to support legal action against the Clerk. We did not find evidence that the Manager had knowledge of the inappropriate transactions, however given his position and financial responsibilities, in our view, he should have known.

We have prepared this report for all members of the Legislature to describe what went wrong, so that they can implement appropriate changes to prevent such situations from occurring elsewhere.

1. Financial irregularities of over \$80,000

Clerk's purchasing card from July 2007 to October 2010

Our findings indicated that the Clerk regularly misrepresented what was purchased on the purchasing card logs. Purchases such as prepaid credit cards, diapers, and a car seat were listed as toner cartridge purchases on the purchasing card log. We found 90 instances where the Clerk made personal purchases during working hours.

In 2007, staff of the Northern Airports office opened a house account with a local supplier. Purchases were made on account with the supplier and payments were subsequently made to the account using the Clerk's purchasing card. The Clerk was the only one to use the house account except for 3 transactions. In February 2010, the amount owing on the house account was over \$11,000. From February 2010 to August 2010, the Clerk made 6 payments of \$2,500 to the house account using her purchasing card. These payments were recorded on her purchasing card logs as "Account payments." Purchasing card guidelines state that \$2,500 is the maximum purchase that can be made with a purchasing card and that the use of multiple transactions to circumvent this stipulation is a violation. These \$2,500 transactions on the Clerk's purchasing card log should have been an indication of misuse to anyone approving or processing the logs. The Clerk's purchases with this supplier, which we assessed as personal, included items such as school supplies, crayons, markers, Christmas wrap, and prepaid credit cards. The house account was closed in October 2010 before the Clerk went on maternity leave.

The credit limit on the Clerk's purchasing card was initially set at \$2,500 but was increased to \$5,000 in September 2009. About 90% of the Clerk's personal purchases were incurred after the credit limit was increased.

We found \$5,379 of purchases on the Clerk's purchasing card that were prohibited by the guidelines, including office chairs, cabinets, personal computers and printers.

The Clerk was assigned a government purchasing card from July 2007 until she went on maternity leave in October 2010. She was not re-assigned a purchasing card when she returned to work in October 2011.

Manager's purchasing card from September 2011 to May 2012

The Manager allowed the Clerk and other staff to use his purchasing card. Purchasing card guidelines prohibit cardholders from letting others use their purchasing card. Beginning in October 2011 when the Clerk returned to work following her maternity leave, she prepared the Manager's monthly purchasing card log. Purchasing card guidelines state that cardholders are responsible for preparing the purchasing card logs.

What was purchased did not match the purchasing card logs in many instances. Purchases such as kid's skates and mini gloves were listed as Pukatawagan supplies on the purchasing card log. Similar to when the Clerk had her own purchasing card, many of these personal purchases she made using the Manager's card were made during working hours. If the Manager had examined receipts, he would have known the Clerk was using his purchasing card for personal purposes.

There were 3 instances where receipts seemed to be tampered with so that the items purchased were not clear. On one of these receipts totaling \$236.39, the Clerk recorded the purchase as office supplies for ERP folders on the purchasing card log. We obtained a copy of the receipt from the supplier and found that the actual purchases included capri pants, jeans, boy's pants, and graphic tee shirts.

We examined office communicator records and found that the Clerk's spouse, a Manitoba government employee who has since resigned, seemed to be aware of the personal expenses. For several of the personal items purchased by the Clerk, using her Manager's purchasing card, we found that the Clerk and her spouse discussed the transactions either before or after the purchase.

Summary of financial irregularities

Figure 1 is a summary of our detailed audit findings from our examination of the purchasing card transactions for the 2 staff of the Northern Airports office.

Figure 1: Detailed audit findings (Purchasing cards)				
	Manager		Clerk	Total
Total legitimate & supported	\$	16,271	\$	14,270
			\$	30,541
Financial irregularities:				
Unsupported expenses	\$	3,721	\$	10,228
			\$	13,949
Missing receipts	-		22,460	22,460
Personal expenses	248		37,314	37,562
Personal expenses incurred by the Clerk using the Manager's p-card	-		2,234	2,234
Prohibited expenses	2,517		5,379	7,896
Total financial irregularities	\$	6,486	\$	77,615
			\$	84,101

For the records we were able to audit, the Clerk incurred over \$39,000 of personal expenses on these 2 purchasing cards. We do not know the amount of personal expenses for the missing receipts totaling \$22,460. Most of the personal expenses (\$37,314) were incurred by the Clerk on

her assigned purchasing card. We classified these expenses as personal because in our view, they had no legitimate business purpose. Personal expenses included prepaid credit cards, gift cards, adult and children's clothing, skates, child safety gates, crayons, toys, laundry detergent, children's books, and groceries.

We also examined expense claims of the 2 staff for the period April 2007 to May 2012. The Manager incurred \$43,773 of expenses during this period while the Clerk incurred \$3,266 of expenses. We did not find any personal expenses or duplicate payments for the records we were able to audit. But there were missing expense claims of \$2,534 for the Manager and \$977 for the Clerk.

2. Management oversight inadequate

Each month the Clerk prepared a purchasing card log to record her purchases and then forwarded the log to her manager for approval. We do not know if the Clerk attached the original purchase receipts to the log for her manager to review. If receipts were not attached, purchasing card guidelines were not followed. If receipts were attached, the manager should have detected personal items, such as diapers and toys being purchased. In either case, management oversight was inadequate. Diligent manager review of the log and receipts is a key control in the purchasing card system.

Thirteen of the 37 purchasing card logs we initially received from the Department did not have the manager's signature. The card co-ordinators told us that the purchasing card logs were either signed when they received them or they would subsequently have obtained a signature. They were very surprised to see the extent of the unsigned logs. Purchasing card logs with the manager's signature were subsequently found by the card co-ordinators for 11 of the 13 logs.

3. Clerical checks inadequate

Clerk's purchasing card from July 2007 to October 2010

Prior to 2009, the procurement card payments were processed in Thompson. After that, the card co-ordinator, located in Winnipeg, received the Clerk's purchasing card logs. She told us that receipts were not sent with the logs and she assumed the receipts were kept at the Thompson office. Purchasing card guidelines require that the logs and receipts be sent to card co-ordinators.

The card co-ordinator checked the Clerk's purchasing card logs for signatures and then sent them to the Department's finance section for payment processing.

The purchasing card guidelines do not have a specific procedure stating that card co-ordinators should examine the log transactions and receipts. There is a note in the guidelines that "*the card co-ordinator is expected and authorized to raise anomalies to the attention of the program manager.*" The purchasing card guidelines should include a procedure which requires card co-ordinators to examine purchasing card logs and receipts to help detect inappropriate transactions. The card co-ordinators are required to bring unusual items to the program manager who submitted them. This is not an adequate control. The card co-ordinators should advise senior finance officials in their department when unusual purchases are identified, in case of collusion between cardholders and managers or when a program manager has not diligently examined purchasing card logs and receipts.

4. Director took prompt, appropriate action

From September 2011 to May 2012, the Manager's purchasing card logs and receipts were supposed to be reviewed and approved by the Manager of Operations. Because the Manager of Operations did not have delegated financial signing authority at the time, we were told that he was to initial the logs as evidence of his review and then the Director of NAMO was to sign the logs.

In November 2011 the Director began to question some of the Manager's purchases. The Director was not satisfied with the Manager's response to her questions and after finding more questionable purchases and receipts that appeared to be tampered with, she decided to investigate further. She had Department finance staff conduct a further analysis of the Manager's purchasing card transactions. This analysis was then expanded to the Clerk's transactions. After more inappropriate transactions were found, the Provincial Comptroller was advised of the findings which led to the Minister of Finance request for the OAG to conduct a forensic review.

Recommendations and response of officials

We believe that the following recommendations are necessary to follow-up the inappropriate transactions and also to prevent similar situations from occurring elsewhere.

Recommendation 1: We recommend that the Minister of Finance forward our detailed audit findings to Civil Legal Services.

Response: The Province agrees with this recommendation and will forward the OAG's detailed audit findings to Civil Legal Services.

Recommendation 2: We recommend that the Department of Infrastructure and Transportation, in consultation with the Provincial Comptroller, review and revise the purchasing card guidelines. This should include credit card limits and direction for card co-ordinators who should document their review and follow-up of unusual transactions.

Response: The Province agrees with this recommendation. Steps are already underway at the Procurement Services Branch to implement various new guidelines over purchasing cards.

The new guidelines will increase the oversight and monitoring by the departments over purchasing cards. This will include requiring credit card co-ordinators to follow-up on unusual transactions. Purchasing card guidelines currently already require that logs and receipts be sent to card co-ordinators and provide direction on setting credit card limits.

Recommendation 3: We recommend that the Provincial Comptroller require all Departments to regularly review purchasing card activity using the online system. Unusual transactions or trends should be followed-up on a timely basis.

Response: The Province agrees with this recommendation. Steps are already underway at the Procurement Services Branch to implement new guidelines over purchasing cards. The new guidelines will increase the oversight and monitoring by the departments over purchasing cards. This will include requiring departments to regularly review purchasing card activity using the online system.