

MEDIA RELEASE**24 June 2016**

The management and administration of credit cards by ACT Government entities

ACT Auditor-General, Dr Maxine Cooper, today presented a performance audit report on the **Management and administration of credit cards by ACT Government entities** to the Speaker, for tabling in the ACT Legislative Assembly.

Dr Cooper says 'Credit card expenditure for most ACT Government entities only represents a very small component (less than 2 percent) of their total supplies and services expenditure, yet cards are an effective payment method. Given that ACT Government entities have, on the whole, effective arrangements for managing and administering credit cards the ACT Government is encouraged to assess the merits of increasing the use cards'.

'If card use is increased, it will be important that strong management and administration controls are in place to prevent fraud or misuse. While most current controls are satisfactory the audit identified areas for improvement, including undertaking credit card acquittals in a more timely manner ' said Dr Cooper.

Inefficient manual, paper-based administration and processing of credit card statements contributes to the longer time taken to acquit credit card statements. One of the six recommendations is aimed at fostering actions to progress the implementation of an automated credit card acquittal facility. Another recommendation encourages an assessment of the merits of increasing the use of cards. The other four recommendations provide guidance on improving the management and administration of credit cards.

The Summary of the **Management and administration of credit cards by ACT Government entities**, with the overall conclusion, key findings and recommendations is attached to this media release.

Copies of the **Management and administration of credit cards by ACT Government entities: Report No. 6/2016** are available from the ACT Audit Office's website, www.audit.act.gov.au . If you need assistance accessing the report please phone 6207 0833 or go to 11 Moore Street, Canberra City.

Extract of Summary Chapter:

Credit cards are a useful mechanism to facilitate the purchase of goods and services. They have advantages compared with other payment methods such as cash or cheques, including lower administrative costs and opportunities for more effective tracking of expenditure. However, their ease of use creates risks of fraud or misuse. The *ACT Public Service Integrity Policy* states:

While not attempting to pre-empt the range of risk areas that Agencies should address experience has shown that there are some areas of public sector administration that are particularly prone to breakdowns in integrity. As a matter of prudence, the Agencies should pay attention to the risks associated with ... the use of Government credit cards.

In 2015 approximately \$6.3 million was spent using ACT Government credit cards. While this represents a small percentage of overall ACT Government expenditure on goods and services using credit cards can contribute to efficiencies in purchasing and making payments, if robust controls are implemented.

Overall Conclusion

ACT Government entities have, on the whole, effective arrangements for managing and administering credit cards. However, some entities need to: improve their timeliness for acquitting credit card statements; better classify and describe goods and services purchased; maintain appropriate documentation to explain purchases (especially those for official hospitality); and collect tax invoices for reimbursements from the Australian Tax Office. The monitoring and review of the use of credit cards could also be improved through periodic validation of the issuing of cards.

Credit cards are being used for purchases of goods and services which appear to be available through the ACT Government's whole-of-government purchasing arrangements. This presents a risk that the full benefits of these arrangements are not being realised. It is therefore important that any departure from using them is well documented. This is not occurring.

Opportunities to monitor the use of credit cards, through the *Corporate Online* service which provides timely transactional data or detailed reports on credit card use from Shared Services, are not being taken by all entities. Furthermore, acquittals could be undertaken more efficiently if paper-based systems were replaced with an automated acquittal facility.

There would be merit in assessing credit and other cards as an accounts payable mechanism for widespread use, given the potential efficiencies for the ACT Government. The Australian and New South Wales governments have mandated the use of cards for this purpose. Adopting a similar approach would likely increase the use of cards; in that case it would be important to maintain strong controls over their management and administration to reduce the risks.

Key findings

CREDIT CARD USE

Paragraph

Analysis of the 479 credit cards issued by ACT Government entities as at August 2015 revealed that there was not a correlation between the number of staff in the entity and the number of cards. For example, in the Cultural Facilities Corporation 15.6 percent of staff (14 out of 90 FTE) had a card; 4.5 percent (four out of 88 FTE) in the Land Development Agency; 1.0 percent in the Health Directorate (61 out of 6 195 FTE); and 5.2 percent in Environment and Planning Directorate (15 out of 288 FTE).

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Analysis of ACT Government entities' credit card expenditure in 2015 shows that:

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- a total of \$6.3 million was incurred;
- the Education Directorate (including the ACT Teacher Quality Institute) incurred the highest expenditure of approximately \$2.0 million (31.9 percent of total ACT Government expenditure). The majority of this expenditure was incurred by schools, which totalled \$1.78 million (28.5 percent) of the total expenditure on credit cards by all ACT Government entities;
- the Health Directorate, Justice and Community Safety Directorate and the Canberra Institute of Technology had the next highest expenditure with \$0.8 million (12.7 percent), \$0.76 million (12.2 percent) and \$0.63 million (10.0 percent) of the total expenditure by all ACT Government entities; and
- nine of the 26 ACT Government entities were collectively responsible for less than one percent of the total expenditure.

Credit card expenditure represents a very small component of the total ACT Government supplies and services expenditure in 2015. For most ACT Government entities, credit card expenditure represented less than two percent of overall supplies and services expenditure.

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Analysis of expenditure by the Education Directorate, Health Directorate, Justice and Community Safety Directorate and Canberra Institute of Technology shows that:

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- except for January, the Education Directorate had a significantly higher monthly expenditure compared to the other three entities. There was some variability in expenditure in the Education Directorate, with specific 'spikes' in credit card expenditure in some months compared to others; and
- monthly expenditure by the Health Directorate, Justice and Community

Safety Directorate and the Canberra Institute of Technology was generally consistent.

Analysis of the frequency of use of ACT Government credit cards in 2015 shows that: 2.13

- one hundred and ninety three cards (34.2 percent) were used in ten or more months of the year, indicating high usage. Eighty six credit cards (15.6 percent) were used in each month of the year; and
- one hundred and thirty cards (23.6 percent) were used in three or less months of the year, indicating low usage. Forty credit cards (7.5 percent) were used only in one month.

Analysis of the number of monthly statements for ACT Government credit cards in 2015 shows that: 2.15

- on average there were seven monthly statements produced for each card, indicating that not all cards were used on a regular basis;
- the Cultural Facilities Corporation, Public Trustee for the ACT and ACT Building and Construction Industry Training Fund Authority had the highest average number of monthly statements per credit card (ten), indicating that there is, on average, frequent use of credit cards issued to staff in these entities; and
- the Gambling and Racing Commission had the lowest average number of monthly activity statements per credit card, indicating that there was, on average, infrequent use of credit cards in the entity.

Analysis of the number of monthly statements for ACT Government credit cards in 2015 shows that: 2.17

- forty cards were used only in one month, with 12 (30 percent) being issued to staff in the Chief Minister, Treasury and Economic Development Directorate and four (10 percent) issued to staff in the Education Directorate – Schools and Canberra Institute of Technology; and
- for ten or more months of the year the Education Directorate had the highest usage with 55 of its 105 cards being used each month. The Health Directorate had 25 of its 67 cards used, the Canberra Institute of Technology had 20 of its 60 and Justice and Community Safety Directorate had 24 of its 84 cards used each month.

Credit cards that were used only in one month in 2015 were issued to staff in the Gambling and Racing Commission, the Canberra Institute of Technology, Chief Minister, Treasury and Economic Development Directorate, Community Services Directorate, Education Directorate, Environment and Planning Directorate, the Independent Competition and Regulatory Commission, Justice and Community Safety Directorate and the Territory and Municipal Services Directorate. 2.18

Analysis of total monthly credit card expenditure for ACT Government entities in 2015 shows that: 2.20

- between \$456 000 and \$599 000 was spent each month. (This figure does not take into account outlier months of January 2015 and February 2015. There was comparatively little use of credits cards in January 2015, but this appears to have been offset by comparatively larger use in February 2015);
- there are between 280 and 374 credit card statements produced by Westpac each month (a credit card statement is only produced if expenditure is incurred on the credit card). (This figure does not take into account outlier months of January 2015 and February 2015); and

Analysis of the value of monthly of monthly credit card statements for ACT Government entities in 2015 shows that: 2.22

- there is an inverse relationship between the number of monthly statements and associated expenditure. Significantly more monthly statements have low balances, while significantly less monthly statements have high balances; and
- 1 601 statements (39.0 percent) were for expenditure less than \$500, although this only represented 4.8 percent of the total expenditure on monthly statements. In contrast 36 monthly statements (0.9 percent) were for expenditure of \$10 000 or more and represented 8.1 percent of the total expenditure on monthly statements.

Analysis of the value of transactions for ACT Government credit cards between October 2013 and October 2015 shows that most transactions are for small expenditures. Almost half (12 567) of the transactions that took place over the two year period are for \$100 or less. Furthermore, there is a strong inverse relationship between the number of transactions and the expenditure incurred, with significantly fewer transactions being incurred for large expenditures. A total of 276 transactions took place for expenditure in excess of \$3 000. 2.24

Analysis of the number of transactions processed per credit card for ACT Government entities (except Housing ACT) that use Shared Services to assist with the administration of credit cards between October 2013 and October 2015 shows that: 2.26

- five hundred and thirteen cards were used to process 25 359 transactions;
- one hundred and twelve cards were used for less than 10 transactions; and
- three cards were used for between 300 and 600 transactions.

The three credit cards that had between 300 and 600 transactions were issued to staff in the Justice and Community Safety Directorate, the Territory and Municipal Services Directorate and the Health Directorate. Staff responsible for these cards had key responsibilities for purchasing and were using the cards as a key accounts payable mechanism. 2.27

Analysis of the number of credit card transactions for selected ACT Government entities' use of credit cards between October 2013 and October 2015 shows the Justice and Community Safety Directorate had the largest use with 5 478 transactions followed by the Health Directorate with 4 042 and the Territory and Municipal Services Directorate with 4 132. 2.29

Analysis of ACT Government entities' administrative arrangements for credit cards shows that all directorates (Chief Minister, Treasury and Economic Development, Community Services, Education and Training, Environment and Planning, Health, Justice and Community Safety, and Territory and Municipal Services) use Shared Services to assist in their administration of credit cards. However, only a few non-directorate (Canberra Institute of Technology, Capital Metro Agency, and Elections ACT) use Shared Services. 2.34

Key performance indicators in the *Services Partnership Agreement* do not adequately measure the effectiveness of Shared Services' performance as they are not useful as a measure of performance.¹ 2.45

There are inefficiencies in the manual paper-based administration and processing of credit card statements and acquittals. This process does not present an effective control compared with an automated system for ensuring that appropriate authorising officers have reviewed and endorsed the credit card acquittal statement and the card holder's use of the credit card. A 2012 review of Shared Services' accounts payable activities and services identified efficiencies and potential savings through the implementation of an automated credit card acquittal facility. 2.58

The ACT Government has not incurred any expenses associated with the late payment of credit cards as all ACT Government credit card expenditure is paid promptly through an automated process. Automation introduces risks, which need to be managed by the prompt, timely and accurate processing of credit card 2.65

¹ The *Services Partnership Agreement* defines roles and responsibilities of ACT Government entities and Shared Services for the administration of credit cards.

acquittal statements.

Analysis of the guidance material provided by ACT Government entities on policy and procedure for the management and use of credit cards identified that guidance material provided by the Justice and Community Safety Directorate was the most comprehensive. While all entities provided guidance in some form, not all aspects of credit card management processes were covered or not covered to the same degree as done by the Justice and Community Safety Directorate. This Directorate's guidance could be used to assist other entities. 2.82

ISSUING OF CREDIT CARDS

Paragraph

The Education Directorate's guidance for schools (the *School Management Manual*) does not include any information on the rationale for the use of credit cards in schools. While the Education Directorate policy does provide limited guidance, given the comparatively greater use of credit cards by schools it would be prudent for such information to be included. All other ACT Government entities had guidance on the rationale for the use of credit cards in the entity, although often this was limited. 3.10

The Australian and New South Wales governments have identified credit cards and/or payment or purchasing cards to be a key mechanism for paying for goods and services. With the exception of some business units in some ACT Government entities, which in practice use credit cards as a key accounts payable mechanism, ACT Government entities do not use credit cards as a routine accounts payable mechanism. There may be merit in doing so, in order to achieve efficiencies in administration and processing. Whole-of-government policy guidance is needed on this matter. 3.23

ACT Government entities typically require a prospective card holder to document a business need for the card and most ACT Government entities require a prospective card holder to complete and sign an acknowledgement form. Exceptions to this are the Legal Aid Commission, ACT Long Service Leave Authority and Office of the Legislative Assembly. Of 60 credit cards issued between November 2014 and December 2015 that were tested by the Audit Office, there were four instances where there was no signed acknowledgement form. 3.31

For ACT Government entities that do not use Shared Services for the administration and processing of credit cards, information maintained by the entity on the number of credit cards issued to staff matched information provided by the ACT Government's credit card provider (Westpac). For a number of ACT Government entities that use Shared Services there was variation in the information on the 3.36

number of credit cards issued to staff, as maintained by Shared Services, the entity and Westpac. The discrepancy represents a risk to the effective management and administration of credit cards.

Very few ACT Government entities have provided ongoing training and information sessions to credit card holders. Exceptions include the Justice and Community Safety Directorate, Territory and Municipal Services Directorate and Environment and Planning Directorate. These directorates' training and information sessions represent better practice in the provision of ongoing support and guidance to credit card holders on their responsibilities and obligations. 3.44

CONTROLS OVER CREDIT CARD USE

Paragraph

Credit card and transaction limits are being effectively managed. All ACT Government entities have established card and transaction limits; and the ACT Audit Office's analysis of the use of credit cards did not find any instances where either the credit card or transaction limit had been exceeded. 4.12

With the exception of the use of credit cards for cash advances and withdrawals, the Territory and Municipal Services Directorate is the only directorate which has sought to place restrictions on the use of credit cards for certain merchant categories of expenditure. The Territory and Municipal Services Directorate has sought to restrict the use of its cards for 'auto expenses', including the use of credit cards for petrol, oils or lubricants. Such restrictions come with some risk, however, as certain types of allowable purchases may inadvertently be restricted through a broad-based restriction on merchant categories. 4.16

Analysis of the timeliness of the acquittal of credit card statements by ACT Government entities shows that: 4.25

- a significant percentage (29.0 percent) were acquitted late;
- late acquittals occurred in ten entities (Chief Minister, Treasury and Economic Development Directorate, Community Services Directorate, Education Directorate (Corporate and Schools), Environment and Planning Directorate, Health Directorate, Justice and Community Safety Directorate and the Canberra Institute of Technology). Of these entities, only Cultural Facilities Corporation and the Education Directorate - Schools do not use Shared Services for the administrative processing of credit cards; and
- the Canberra Institute of Technology had the highest percentage of credit card statements not acquitted within 30 days of the statement date; 87 statements out of 172 (50.6 percent). The Community and Services Directorate had the next highest percentage with 14 out of 35 (40.0 percent) and the Health Directorate with 43 out of 113 (38.1

percent) statements not acquitted within 30 days.

Seventy two percent of ACT Government entities provided satisfactory or good guidance on the role of reviewers of credit statement acquittals. A high degree of responsibility was placed on reviewers, which is appropriate as they have an important role in reducing the risk of inappropriate use of credit cards. Twenty eight percent of ACT Government entities did not provide adequate guidance. 4.40

There was a high compliance rate with procedures for reviewing credit card statement acquittals. Of the 852 statement acquittals reviewed by the ACT Audit Office only six were not signed by a reviewer, six were not signed by both the card holder and reviewer and there were three instances where the card holder was also the reviewer. However, managing risks is best achieved by striving to achieve 100 percent compliance. 4.41

Two hundred and sixty two transactions of the 4 128 examined by the ACT Audit Office were not supported by an appropriate description of the goods or services purchased. These transactions were commonly associated with meals and entertainment, but some related to the purchase of computers and related ICT equipment. While this is only 6.3 percent it does mean that for these purchases it is difficult to confirm that they were appropriate or undertaken for official government use. Managing the risk that funds are appropriately spent is best achieved by documentation being adequate for all transactions. 4.51

All ACT Government entities, with the exception of the Land Development Agency, have satisfactory or good guidance for requiring that sufficient documentation be retained to support the use of the credit card. Two hundred and thirty seven transactions of the 4 128 assessed by the ACT Audit Office were not adequately supported by documentation. Inadequate documentation included instances of mismatching of the invoice with the services purchased, insufficient evidence of prior approval where required and where credit card statement acquittal forms were not properly signed and authorised as required. While 237 transactions account for only 5.7 percent, managing the risk that funds are appropriately spent is best achieved by striving to achieve documentation that is 100 percent adequate. 4.64

Eleven ACT Government entities of the 26 assessed by the ACT Audit Office did not have guidance on the use of credit cards for hospitality purposes. Twenty one transactions of the 209 hospitality transactions examined did not have evidence of pre-approval or that these were not only attended by ACT public sector personnel. Given the risk associated with government funds being used for hospitality this is an issue that warrants attention by ACT Government entities, particularly those who do not have guidance or evidence to justify expenditure. 4.73

The Justice and Community Safety Directorate guidance is an example of better practice guidance on the use of credit cards for services covered by the whole-of-government purchasing arrangement for travel and accommodation. 4.80

The Justice and Community Safety Directorate and the Territory and Municipal Services Directorate were the only ACT Government entities with guidance on the use of credit cards for goods and services covered by existing whole-of-government purchasing arrangements. There were 242 instances in 445 transactions where a credit card was used to purchase goods and services that were the subject of whole-of-government purchasing arrangements and where there was insufficient documentation of the reason why this arrangement was not used. The low use of whole-of-government purchasing arrangements presents a risk that the benefits of the arrangements are not maximised. 4.90

MONITORING AND REVIEW OF CREDIT CARDS Paragraph

Most corporate finance areas in ACT Government entities review credit card acquittal statements prior to their submission to Shared Services for processing or as they are being processed by the entity. While this provides a level of assurance it does not constitute an independent review of the appropriateness or otherwise of the expenditure, or is a means of identifying ways to improve the effectiveness or efficiency for procuring a good or service, e.g. through using whole-of-government arrangements. 5.8

The large ACT Government directorates and entities: the Canberra Institute of Technology, Chief Minister, Treasury and Economic Development Directorate, Community Services Directorate, Education Directorate, Environment and Planning Directorate, Health Directorate, Justice and Community Safety Directorate and Territory and Municipal Services Directorate have conducted internal audits on credit cards. The scope and objective of the credit card audits ranged from focusing on compliance to a detailed analysis of the management and administration of credit cards to identify improvements. Smaller ACT Government entities have not conducted internal audits on credit cards, due to this being impractical and oversight achieved due to their small size. 5.9

Only 16 of the 26 ACT Government entities sought to make use of *Corporate Online*, which provides an opportunity for ACT Government entities to obtain real-time transactional data on the use of credit cards. Those entities which have not sought access to *Corporate Online* are missing an opportunity to effectively monitor and review credit card use and strategically assess data on its credit cards. 5.14

The Territory and Municipal Services Directorate and Capital Metro Agency have requested additional reporting from Shared Services in order to provide an independent monitoring and review mechanism, outside of its acquittal process. These reports assist these entities to monitor all credit card use. This is a better practice initiative.

5.17

Recommendations

RECOMMENDATION 1 ISSUE OF ACT GOVERNMENT CREDIT CARDS

ACT Government entities should regularly, and at least annually, review the allocation of ACT Government credit cards and determine if cards not being used should be rescinded.

RECOMMENDATION 2 SHARED SERVICES KEY PERFORMANCE INDICATORS FOR CREDIT CARD ADMINISTRATION

Shared Services, in consultation with ACT Government entities, should amend the *Services Partnership Agreement* key performance indicators so that they are measurable and relevant to its activities for administering credit cards on behalf of ACT Government entities.

RECOMMENDATION 3 AUTOMATED CREDIT CARD ACQUITTAL FACILITY

Shared Services should progress actions to advance the implementation of an automated credit card acquittal facility for the administration of credit cards.

RECOMMENDATION 4 ACT GOVERNMENT POLICY ON USE OF CARDS

The Chief Minister, Treasury and Economic Development Directorate should assess the merits, or otherwise, of using cards as a key accounts payable mechanism for goods and services and, if appropriate, provide whole-of-government direction including specifying controls to manage associated risks.

RECOMMENDATION 5**CREDIT CARD GUIDANCE AND USE**

All ACT Government entities should provide guidance on credit card management and administration for all supporting controls. However particular attention needs to be given to guidance on:

- a) tax invoices, especially explaining the need for these to be obtained for all transactions over \$82.50 (GST Inclusive) and defining what constitutes a tax invoice;
- b) appropriate retention of documentation to demonstrate appropriate use; and
- c) the use of whole-of-government purchasing arrangements, including the need for documentation to demonstrate any departures from the arrangements.

RECOMMENDATION 6**DATA FOR MONITORING AND REVIEW**

All ACT Government entities should investigate opportunities to:

- a) access *Corporate Online* for the purpose of obtaining detailed transactional data on credit card use within the entity; or
- b) receive reports from Shared Services with respect to credit card use within the entity; and
- c) use transactional data, or reports from Shared Services, to review and evaluate the use of credit cards within the entity, including the ongoing appropriateness of the issue of credit cards to staff and any opportunities for improvement with respect to the efficient and effective management of credit cards in the entity.