
Appendix one – Responses from councils and the Department of Planning, Industry and Environment

The following appendix includes the formal responses from audited councils to the findings in this report.

The response from Shellharbour City Council raises concerns with some report findings and recommendations.

In reference to Shellharbour City Council's concern that the report does not acknowledge the Council's existing review processes, we note the report does acknowledge these processes in Exhibit 17 (page 26) and also notes that the council has 'sufficient senior management oversight' (pages 2, 22 and 46).

In reference to the Council's disagreement with the report recommending that its reconciliation processes should be enhanced, we note the audit identified important gaps in its reconciliation process. For example, the council has failed to provide:

- receipts for all the approved transactions (Exhibit 17, page 26)
- evidence of pre-approval for training or travel-related transactions (Exhibit 20, page 29)
- documentation of the emergency circumstances where credit cards had been used for fuel purchases (Exhibit 21, page 30)
- evidence of investigation into split transactions (Exhibit 22, page 30).

The council notes that it had 215 fuel cards at the time of the audit, rather than the 24 reported. Following a review of evidence, the number in Exhibit 13 has been updated (page 18).

The Audit Office has carefully considered the Council's remaining concerns and we have concluded that, based on objective facts, the findings in this report remain balanced, accurate and complete as relevant to the audit scope.

Response from the Department of Planning, Industry and Environment



Office of
Local Government

5 O'Keefe Avenue NOWRA NSW 2541
Locked Bag 3015 NOWRA NSW 2541

Our Reference: A710047
Your Reference: D2014156/PA6646
Contact: Sonja Hammond
Phone: 02 4428 4143

Ms Claudia Migotto
Assistant Auditor-General
Performance Audit
GPO Box 12
Sydney NSW 2001

14 July 2020

Dear Ms Migotto

Thank you for your letter 2 July 2020 to the Secretary, Department of Planning, Industry and Environment, Mr Jim Betts, providing a copy of the Performance Audit report on credit card management in Local Government. Mr Betts has asked me to respond on his behalf.

The Office of Local Government appreciates the opportunity to respond and notes the findings and recommendation that has been made. I acknowledge the important work that your team has undertaken to identify areas that could be improved throughout councils in NSW.

I note that of the councils that were reviewed as part of the performance audit there were differences in the quality of credit card policies and procedures and there are significant gaps that limit the ability of councils to prevent or detect fraud and misuse.

Also, I acknowledge the gaps identified in the areas of policies and procedures that can lead to inconsistent and inappropriate use of credit cards within councils.

The recommendation that the Office of Local Government (OLG) develop sector-wide guidelines by mid-2021 to improve council credit card use and management is supported.

Thankyou once again for the opportunity to respond to the report.

Yours sincerely

Monica Gibson
A/Deputy Secretary, Local Government, Planning and Policy

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Response from Dubbo Regional Council

FILE19/364
ED20/134542
MM:mh

26 August 2020



Margaret Crawford
Auditor-General
GPO Box 12
SYDNEY NSW 2001

Dear Ms Crawford

PERFORMANCE AUDIT – CREDIT CARD MANAGEMENT IN LOCAL GOVERNMENT
YOUR REF: D2015951/PA6646

Thank you for the opportunity to provide a response on the above audit for incorporation into the final report. Dubbo Regional Council acknowledges the valuable work of your office, notwithstanding concern is raised with some aspects of the audit process and the content of the final performance audit report.

Continuous improvement is of utmost importance and Council welcomes the audit as a means to identify further steps that may be taken to improve the way we manage credit cards. As noted in your report there is no sector wide requirements or policies for credit card use and management and that over 90% of councils in New South Wales issued credit cards to staff members. Council is pleased to see the recommendation that by June 2021, the Department of Planning, Industry and Environment should publish guidelines on credit card management for the Local Government sector. This will ensure consistency across the sector.

Dubbo Regional Council has made significant improvements to our credit card register and reconciliation process since 1 July 2019. We have seen the introduction of the Civica Authority (our Council specific software) purchase card module and this is not mentioned in the report as the audit period was 1 July 2016 to 30 June 2019. We are disappointed that your acknowledgement of the change in our purchase card management system is not mentioned in the report. The Civica Authority purchase card module includes the following features:

- A register of credit card information.
- Importing of electronic bank file into the purchase card module.
- An on-line interface for cardholders to complete reconciliations with validation of cost accounts, GST codes and free text entry of purchase descriptions.

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- Approval workflow facility including notifications to cardholders and approval officers via emails in accordance with Council's business processes.
- Automated generation of costing transactions at the completion of the approval process.
- Enquiry facility for administrators to track reconciliation progress.
- Ability to create in-house reports for purchases.

Council is disappointed in the way the results are presented and is of the view that the report may not be clearly understood by the average reader. Council would like to highlight that no misuse of cards has been detected in this audit.

Council would like to make specific mention regarding the following exhibits:

Exhibit 9

When compared to both the total number and value of transactions outlined in exhibit 3, exhibit 4, exhibit 5 and chapter 5.1, exhibit 9 represents an insignificant amount as outlined below.

MCC Code	Number	% of total number	Value	% of total value
Dining and catering	330	3.9%	\$32,503	1.6%
Alcohol	29	0.4%	\$4,458	0.2%
Fines	5	0.1%	\$2,288	0.1%
Entertainment	105	1.3%	\$55,175	2.7%

Council purchases items listed in the above MCC code that are considered normal business practice, such as morning tea for community meetings and alcohol for areas of Council that sell alcohol.

No misuse was detected and Council confirms transactions were in accordance with the policy.

Exhibit 17 – review of selected reconciliation files

The report notes that Council could not retrieve some of the supporting documents for requested transaction records following our system migration:

	Audit Findings
Number of transactions selected	82
Receipt included	69
Cardholder sign-off	41
Approver sign-off	35
Checked by finance	0

During the period of Audit, Council used an online purchase card reconciliation system that is no longer being used. This meant receipts, cardholder sign-off, approver sign-off and finance checking was done in the old system.

No misuse was detected and Council confirms transactions were in accordance with the policy.

Exhibit 18 – Transactions that lacked adequate documentation to demonstrate a clear business-related purpose

The report outlines that none of the twenty food, coffee and entertainment-related transactions (\$13,067.55) or two purchases of essential oil worth \$113.70 and \$92.36 reviewed in the audit included evidence of a business-related purpose or approved exemptions.

We have established the following in regard the transactions you have highlighted:

- Eleven transactions (\$6,946.20) were incurred by positions that these transactions would be considered normal business operations.
- The remaining transactions (\$6,121.35) were deemed as normal business operations and not to be fraudulent or in breach of the policy.

An example of the error the report highlights is that Council has no record of the reason why the relevant supervisor thought it was appropriate for catering staff to buy food, other than a record that the supervisor approved the purchase.

Exhibit 19 – Fine payments

The report outlines that a total of four transactions (\$2,072.25) related to fines. These were for driving an unregistered vehicle and for not complying with mass requirements. It is suggested that Council did not investigate the fines at the time of the reconciliation. We have established the facts around the transactions highlighted and determined all fines were investigated at the time of the reconciliation. The conclusion of the investigation at the time was not documented other than the record that the payment was allowed.

Exhibit 20 – Travel expenses

The report outlines that a total of eight transactions (\$3,609.54) related to accommodation payments between 1 July 2016 to and 30 June 2019 and that Council did not provide any pre-approval evidence as required by our policy. We have established that these transactions were incurred by positions that are excluded from Council's Travel and Subsistence Policy and not required to seek pre-approval.

Exhibit 22 – Split transactions

The report outlines that Council had two instances of split transactions. The first purchase of \$636.68 was paid for in six transactions of \$99 and one transaction of \$42.68. The second purchase of \$270 was paid for in three transactions of \$90. Following our review we have determined that the purchases were deemed not to be fraudulent or in breach of the policy. That said, the method of processing was an inappropriate work-around by cardholders who had forgotten their PIN numbers.

Recommendations

Council has considered each of the recommendation that relate to our process and concurs with the proposed recommendations on pages 33 and 34 of the report. Additional comments are provided below on actions undertaken to date:

Dubbo Regional Council should immediately:

1. *Amend its credit card policy to prevent cardholders from sharing their credit card with other staff.*

Agreed. The Corporate Purchase Card Policy was amended effective 27 July 2020 to remove the ability to delegate use of purchase cards to other staff members

By December 2020, Dubbo Regional Council should:

2. *Clarify in the credit card policy and procedures:*
 - *eligibility criteria for a credit card*
 - *reconciliation arrangements for the general manager's credit card*
 - *Cabcharge management policy and procedures*
3. *Ensure that credit card management practices include:*
 - *monitoring credit card limits in line with financial delegations*
 - *considering the use of credit card blocks*
 - *keeping the credit card register are up-to-date, accurate and complete*
 - *maintaining complete and accurate records*
4. *Ensure reconciliation involves:*
 - *scrutinising business-related purposes and incident details of transactions*
 - *keeping a record of the finance team's review of transactions*
 - *reviewing transactions against travel pre-approval forms (where applicable)*
 - *recording vehicle details and mileage when credit cards are used in place of fuel cards*
 - *checking that there are no split transactions*

-
5. *Ensure there is ongoing senior management oversight of credit card use*
 6. *Ensure the internal auditor undertakes monitoring activities as specified in the credit card policy*

Agreed. Council is in the process of reviewing general and financial delegations. Once these have been established, credit card limits will be monitored in line with financial delegations.

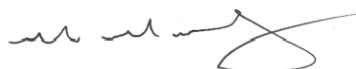
Council is now working with our bank to identify various MCC codes to allow corporate blocks of certain purchases.

Dubbo Regional Council has seen the introduction of the Civica Authority purchase card module to ensure the credit card register is kept up-to-date, accurate and complete and that complete and accurate records are maintained.

The Corporate Purchase Card Policy and procedures will be reviewed in line with the recommendations.

Further, I will ensure that review of credit card management will form part of our Internal Audit program.

Yours faithfully



Michael McMahon
Chief Executive Officer

Response from Junee Shire Council



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24 August 2020

Ms Margaret Crawford
Auditor General of NSW
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mail@audit.nsw.gov.au

Dear Ms Crawford

Performance Audit Report on Credit Card Management in Local Government

Thank you for your office's letter dated 29 July 2020 and for the opportunity to respond to the Performance Audit Report on Credit Card Management in Local Government.

Junee Shire Council notes the recommendations in the Report and undertakes to implement changes where appropriate. In particular, Council undertakes to amend its credit policy, by December 2020.

Additionally, Council will enhance its management practices and its reconciliation processes so that they encompass the recommendations.

Council would like to make the point its staff do not use credit cards where items can be purchased via council's normal purchasing system.

The Council expressed its concerns during the Audit that the use of merchant category codes (MCC) were an inappropriate criteria for the categorisation by expenditure type. Vendors themselves select the MCC for their respective business not councils. The use of MCC may have distorted the appearance of audit results by purchase type. Businesses that have self-selected their MCC as Retail and other stores may for example offer other business or contracted services which fall into other MCC categories.

I would like to thank the Audit Office for its efforts in examining our Credit Card usage and the positive recommendations put forward for council to work on.

Should you require any further information please contact me, (02) 6924 8126.

A handwritten signature in blue ink that reads "L. Taberner".

Luke Taberner
Chief Financial Officer

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Response from Lane Cove Council



Lane Cove Council

48 Longueville Road, Lane Cove NSW 2066

Tel: 02 9911 3555

Fax: 02 9911 3600

Date: 25/8/2020
Doc Ref: 48404/20

Margaret Crawford
Auditor-General for NSW
Audit Office NSW
Level 19, Darling Park Tower 2
201 Sussex Street
SYDNEY NSW 2000

Dear Margaret,

Re: Performance Audit – Credit Card Management in Local Government

I would like to formally respond to the Performance Audit for Credit Card management in Local Government.

Council would like to thank the Auditor General and her staff on a very comprehensive audit on credit card management in Local Government. The audit identified areas where Council can make improvements in its current policies and documentation. It is pleasing to note that no evidence of fraud or inappropriate use of Council funds was identified. However, Council would like to take the opportunity to address some items in the report that warrant further clarification.

1. The volume and value of transactions as acknowledged in the audit are extremely low (six credit cards in total) with Council preferring to use credit cards as a last resort, which inherently reduces risk and impacts the administrative systems required.
2. It was noted in exhibit 18 that Council has been unable to provide specific documentation relating to expenditure for the 'social club christmas party'. The expenditure had the appropriate assessment and approval, including by the General Manager, however, because Council was unable to provide a policy demonstrating the club is funded by staff rather than Council, it was flagged as being unable to demonstrate a clear business-related purpose. Council reiterates the Social Club is funded by the members.
3. It was noted in exhibit 19 that the transaction related to the payment of a fine. The expenditure had the appropriate assessment and approval, including by the General Manager, however, because Council's policy prohibits use of a credit card to pay a fine it was identified as a breach. The fine was against the organisation for an overweight load, not a staff member for speeding or parking illegally which the policy is designed to prohibit. Council therefore does not consider it a breach. As Council

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was unable to show evidence of any investigation undertaken it has been reported as a breach.

4. In exhibit 21, there was one transaction relating to a fuel purchase on a credit card. The expenditure had the appropriate assessment and approval, including by the General Manager, however, because Council's policy prohibits use of a credit card to pay for petrol this was identified as a breach. In this instance it was due to an emergency, however, because Council was unable to show evidence of any investigation it was highlighted as a breach.

Overall all purchases made on credit cards are checked to ensure they are for business purposes. The Executive Manager of each Division is ultimately responsible for all expenditure on their credit card. In practice they authorise each purchase before the use of the credit card and at the end of the month sign off on the statement, ensuring all transactions are business related. The General Manager then signs off the statement.

As a small Council the quantity of reports and systems to administer credit cards must ultimately be commensurate with the risk and administrative cost. The existing processes provide senior management with appropriate oversight to ensure the appropriate use of Council funds. It is acknowledged that like all systems, the current systems can always be improved.

Yours sincerely



Craig Wrightson
General Manager

Response from Nambucca Valley Council



Enquiries to: Michael Coulter
Phone No: 02 6568 0200
Our Ref: RF113
Your Ref: D2015954/PA6646

26 August 2020

Ms Margaret Crawford
Auditor-General for NSW
G.P.O. Box 12
SYDNEY NSW 2001

Dear Auditor-General,

Performance Audit – Credit card management in Local Government

In reference to your letter dated 29 July 2020 pertaining to the final report by the Audit Office of New South Wales on the 'Performance Audit – Credit card management in Local Government' and the request for a written response to be included in the published report to be tabled into State Parliament on 1 September 2020, please find below responses to findings of the audit:

1. Regarding the statement on page 3 that 'none of the six councils provided mandatory credit card training' the recently adopted Purchasing Card Procedures (adopted at Council's 29 July 2020 Managers meeting), in Section 5.4 states, *'The Finance Section will organise training for new cardholders at the time of physical hand over of the card, refresher training for cardholders, approvers and other relevant staff every time the Procedures and/or Policy are amended to ensure the amendments are communicated to cardholders and their approvers.'*
2. In the Insights for the Local Government sector on page 4 of the report, Council's Store Card & Cabcharge facilities were cancelled on 26 June 2020. Council's Fuel Card Policy was adopted at the 16 July 2020 Council meeting and the Fuel Card Procedures were adopted at the 29 July 2020 Managers meeting.
3. Regarding the statement, 'Council staff used credit cards throughout the week including weekends' on page 12 of the report, Council's recently adopted Purchasing Card Procedures now state, *'When managers/supervisors are approving the purchase they must check the costing account (amend if not correct), confirm in writing that they have verified the purchase is for business use, that purchase splitting has not occurred, if purchases are made out of business hours that valid explanations are provided, and ensure for purchases that are related to travelling/training that an authorised training application form (copy as the original should be sent to Human Resources) is attached to the reconciliation and the details on the form match the transactions on the purchase card, before approving.'*

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Page 1 of 3


4. Regarding the footnotes at pages 2, 17 and 31 about both the Mayor and the General Manager not holding a credit card during the audited period, further action has been taken as the amended Purchase Card Policy adopted at the 16 July 2020 Council meeting and the amended Purchasing Card Procedures adopted at the 29 July 2020 Managers meeting remove the ability of the Mayor and General Manager to have credit cards.
5. Regarding the statements on page 17 that 'while the general manager (or senior staff) had delegation to authorise the issue of credit cards, the policy did not explicitly state the eligibility criteria to ensure consistency (Dubbo Regional Council, Lane Cove Council, Nambucca Valley Council and Shellharbour City Council)' AND 'the general manager (or mayor) was authorised to determine credit limits, but there was no stated requirement to align credit limits with financial delegations (Junee Shire Council, Lane Cove Council, Nambucca Valley Council and Shellharbour City Council)', the Eligibility section of Council's amended Purchase Card Policy adopted at the 16 July 2020 Council meeting refers to the General Manager's Delegations of Authority which lists staff positions eligible for purchase cards.
6. Regarding the statements on pages 18 and 19 in relation to store cards and Cabcharge cards for Nambucca Valley Council, both of these facilities were cancelled as at 26 June 2020.
7. Regarding the statement on page 23 in relation to blocks on credit cards, in addition to cash advances Nambucca Valley Council has implemented blocks on "risky" merchants.
8. Regarding the statement about Nambucca Valley Council at Exhibit 20 on page 29 of the report 'The audit also found that the council did not consistently use the travel application form for pre-approval, the form was not part of the credit card reconciliation check, and completed forms did not always have the approver's signature. Details on the forms also did not always match the transactions.' This has now been addressed in the amended Purchasing Card Procedures as mentioned at point 5 above.
9. Regarding the statement on page 30 of the report at Exhibit 21, "Lack of details to explain fuel purchases using credit cards. All four councils with restrictions on fuel purchases approved credit card transactions without seeking vehicle details" Council has addressed this matter through the amended Purchasing Card Procedures which now states, *"Purchase Cards should only be used for purchases of fuel for Council Vehicles in an emergency i.e. where a Caltex Service Station is not available or the fuel card is not working or has been lost - if this occurs cardholders are to provide vehicle details such as registration number and odometer reading when completing their card reconciliations. Staff should use their vehicle's fuel card for normal fuel purchases."*

10. Regarding the statement on page 41 'there was insufficient control in handling staff departures, as the audit identified one incident where a credit card was returned after the staff member's last day.'
Nambucca Valley Council's Purchasing Card Procedures state, '*Cards should be returned as soon as no longer required and if leaving the services of Council, should be returned, at least 5 days before the last day of employment. Cards are to be returned to the Finance Assistant who will record the card as being returned in the Purchase Card Register and then cut the card into two or more pieces and dispose of as normal waste. Cardholders must acquit all expenditure on the Purchase Card and produce all supporting documentation prior to leaving.*'
11. At the 26 August 2020 Nambucca Valley Council Audit Risk & Improvement Committee meeting it was resolved an Internal Audit of Credit Card Management including a review of policies, controls, delegations, reporting and ongoing adjustments related to risks arising, be undertaken in July 2022.

The above changes to process, policies and procedures also address issues raised on pages 41 and 42 of the report under Section 8 'Nambucca Valley Council'.

Nambucca Valley Council appreciates the opportunity of being included in the performance audit on credit card management. The process has assisted the Council in lifting its performance in the use and management of credit cards in all their forms. The Council would welcome being included in future performance audits of NSW local government.

Yours faithfully



MICHAEL COULTER
GENERAL MANAGER

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Response from Penrith City Council



Our reference: InfoStore
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Telephone: 02 4732 8217

26 August 2020

Margaret Crawford
Auditor-General
Audit Office of New South Wales

Via e-mail: Margaret.crawford@audit.nsw.gov.au

Dear Ms Crawford

Re: Performance Audit – Credit Card management in Local Government

Thank you for your detailed Performance Audit Report dated 29 July 2020 and for allowing Penrith City Council to respond to your final report of the Performance Audit – Credit Card management in Local Government.

The report outlines some current weaknesses with the management of credit cards in the Local Government Sector and has highlighted areas which require improvements.

Penrith City Council acknowledges and supports the Audit Office findings and recommendations outlined in the report. We will endeavour to work with our Internal Audit and Finance teams to implement changes to our procedures in the following manner:

- Producing a credit card training module;
- Implementing thorough credit card reviews and scrutinising transactions; and
- Support from Managers to implement management of breaches and suspension of cards.

We are appreciative of the constructive input that the Audit Office Performance Team has provided us.

Yours sincerely

Warwick Winn
General Manager

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PENRITH
CITY COUNCIL

Response from Shellharbour City Council



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1 September 2020

Ms Margaret Crawford
Auditor-General for NSW
GPO Box 12
SYDNEY NSW 2001

Response to Performance Audit – Credit Card Management in Local Government

Dear Ms Crawford,

I refer to your letter dated 29 July 2020 inviting Council to provide a formal response to the final report on the Performance Audit – Credit card management in Local Government.

Shellharbour City Council (Council) would like to thank you for the opportunity to provide a formal response to the final report.

Council has reviewed the report and is of the view that a number of findings have not taken into account evidence provided by Council as part of the audit process.

This response seeks to address key items specifically relating to Council where it is not able to concur with the findings.

Section 1. Key findings from the six audited councils:

The report includes a finding that Council's reconciliation processes need to be enhanced to enable detection of potential misuse or fraud including the verification of business related purposes.

Council disagrees with this finding with the report failing to take into consideration the extensive approval and review processes in place. This includes the requirement of manager/supervisor review and approval along with finance review and approval. Council's Executive Leadership Team's (ELT) also reviews all transactions. Evidence was provided by Council of ELT minutes showing this review process for a sample transaction verifying the business purpose of a transaction. The above reviews consider narrations recorded in Council's Financial Management Software Credit Card module as part of the reconciliation process.

The report also made a comment that Council was unable to explain some of the credit card numbers. Council did provide explanation of the two cards in question as part of the initial audit process and again in response to the draft report. The information provided included that both cards had been replaced and were no longer active, the card holder names and replacement card numbers (which were in the register).

Section 2.2 Types of credit card purchases.

This section relies solely on the Merchant Category Code (MCC) to determine the transaction type. This concerns Council. In particular Council highlighted that some transactions listed as

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Auditor-General for NSW
Response to Performance Audit – Credit Card Management in Local Government

Alcohol include food catering with no alcohol involved in the purchase. None of the transactions in the alcohol category were selected in the sample transactions by the Audit Office staff for Council to provide information on. It is also worth noting that this MCC code is blocked for these types of transactions on most credit cards.

Section 3.1 Policies and procedures

The report recommends Council should provide further guidance on the use of fuel cards via a fuel card management policy and procedure.

The use of fuel cards are restricted to fuel and oil purchases for the listed vehicle only. Fuel type and vehicle registration is clearly identified on the card and the user is required to provide odometer readings at the point of purchase.

It is considered this is clear to staff as the Drivers Kit explains the card's operations and how to identify where it is accepted or search for locations in advance. The Vehicle Management Operational Policy states personal fuel use for leaseback vehicles is only within NSW and the ACT and this is checked during the monthly invoicing process. There is also regular exception reporting to highlight any purchases that are outside set parameters of litres or consumption rates.

The Exhibit 13 table from the report identifies that Council has 24 fuel cards. Council had 215 cards at the time of the audit.

Section 4.1 Insurance and cancellation of credit cards

Council does not agree with the report's comments regarding the linking of credit card transaction limits in line with financial delegations. Council has shown that all credit card transaction and monthly limits are delegated under authority by the General Manager and recorded in Council's delegation register. They are explicitly different to general financial delegations, reflecting the different operational requirements, nature of usage as dictated by the Procurement Policy and Procedure, and risk profile associated with lower value transactions, reconciliation and approval process.

Additionally, where either a transaction or monthly limit, greater than the general financial delegations of the card holder is requested, justification must be provided on the application form which is then approved by their Group Manager or Director prior to submission to the General Manager for authorisation. It is also noted that the approver of the transaction during the reconciliation process must have the appropriate level of financial delegation for the transaction.

Council believes this approach is in line with the recommended requirements of section 1.2 of NSW Treasury Policy Use and Management of NSW Government Purchasing Cards (TPP17-09) as below.

1.2 The Agency's internal approval process must ensure the following before a PCard is provided to an Employee (the Cardholder):

- *the Employee has the appropriate financial and operational delegations to incur expenditure on behalf of the Agency or has been formally authorised by someone who has appropriate financial and operational delegations*

Auditor-General for NSW
Response to Performance Audit – Credit Card Management in Local Government

In summary, it is felt the report does not reflect the extent of Council's processes in place for the management of credit cards and their use. Council also believes that some of the recommendations identified for Council to implement may lead to unnecessary administrative burden which potentially could undermine one of the main purposes in using credit cards, being to reduce administrative costs associated with low value purchases.

I and the officers are able to provide you with more information if that would assist.

Thank you again for the opportunity to communicate in this way.

Yours sincerely,



Carey McIntyre
General Manager