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Comptroller General
Ministry of Finance

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Subject: Suspicious Purchase Card Transactions – Ministry of Transportation and Infrastructure

Introduction

On December 11, 2013 the Corporate Compliance and Controls Monitoring Branch (3CMB), Office of the Comptroller General (OCG) notified the Investigation and Forensic Unit (IU), OCG of several suspicious government purchase card transactions involving an employee of the Ministry of Transportation and Infrastructure (MOTI or the ministry).

The IU immediately contacted the ministry Executive Financial Officer to discuss the matter and agree upon an approach to the investigation.

The approach was documented in a formal Terms of Reference that was approved by the Comptroller General (CG) in early January 2014 and subsequently shared with the ministry.

Background

3CMB notified the IU in early December 2013 when it learned that BMO had cancelled a ministry employee's purchase card when suspicious charges totalling \$8,774 were detected.

3CMB also noted that BMO had immediately re-issued a new card and that this was the sixth card that had been issued to the employee since 2007.

After contacting the ministry on December 11, 2013, the IU advised the Executive Director, 3CMB (December 12, 2013) to take the necessary steps, including

coordinating with the ministry, in order to prevent further losses through the employee's purchase card.

Although the ministry immediately cancelled the card when the incident was reported, it had already been compromised, resulting in an additional \$40,902 in fraudulent charges.

BMO issued the ministry a seventh card but it was immediately cancelled (December 20, 2013) when further attempts to compromise the employee's card were detected.

BMO issued an eighth card on January 3, 2014, without the ministry's knowledge. Unfortunately, an additional \$33,524 in fraudulent charges was made before the ministry became aware and immediately instructed BMO to cancel the card (January 8, 2014).

Fraudulent charges for the employee's purchase card totalled \$83,200.

Purpose

The purpose of the investigation was to examine the ministry employee's suspicious purchase card transactions in an attempt to assign accountability for the losses, to assess the ministry's handling of the incident, including its loss recovery efforts, and to identify whether additional controls are necessary to minimize the likelihood of similar types of losses.

Approach

The IU conducted the following steps:

- Interviewed the ministry cardholder, card co-ordinator and Acting Chief Financial Officer (A/CFO);
- Consulted with the following parties: BMO Client Relationship Manager; BMO Investigative Security Services Investigator; Victoria Police Department; Crown Counsel, Ministry of Justice; and government's Provincial Purchase Card Co-ordinator;
- Examined relevant financial records and documents;
- Reviewed central agency and ministry purchase card policies and procedures;
- Provided regular updates to the CG on the status of the investigation; and

- Conducted an 'exit interview' with the ministry's Assistant Deputy Minister and Executive Financial Officer (EFO), to discuss the engagement results.

Overall Conclusion

The investigation team completed its examination of the ministry employee's suspicious purchase card transactions and concludes:

- An external fraudster was responsible for all of the fraudulent charges made using the ministry employee's government purchase card (\$83,200). The fraudster was arrested and convicted of credit card fraud in June 2014;
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- 3CMB's timely reporting of the suspicious transactions, as well as their collaboration with the IU and ministry, was instrumental in responding to this incident;
- The ministry acknowledges that improved monitoring and response efforts would further strengthen its control over employee purchase card usage; and
- The ministry recovered all of its losses from BMO (\$83,200).

Assigning Accountability for the Losses

Shortly after the incident was reported to the police, an external fraudster was arrested, charged and subsequently convicted (June 2014) for credit card fraud.

Police, acting on information provided by BMO, determined that individuals working with the fraudster

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This enabled the fraudster to s.17,s.21 and make fraudulent purchases before the ministry became aware of the fraudster's activities.

With respect to this specific incident, the investigation team determined that

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BMO also did not provide the required notifications to the ministry when they identified suspicious purchase card activities involving the employee's card resulting in the card's cancellation, contrary to the provincial contract.

Although there were several other issues of contract non-compliance noted by the investigation team, BMO's failure to communicate effectively with the ministry was the contributing factor that enabled the fraudster to circumvent the prescribed controls.

BMO representatives have informally acknowledged their role in the mishandling of this incident.

Ministry's Handling of the Incident

To assess the ministry's handling of this incident, the investigation team discussed the ministry's understanding of purchase card policies and procedures with the cardholder, the card coordinator and the A/CFO. Specifically, the team discussed rules respecting: card issuance/reissuance; card cancellations; reporting lost/stolen cards; and monthly transaction reconciliation procedures.

The team did not identify any significant gaps in the ministry's understanding with respect to purchase card usage, as prescribed in central agency policy.

The IU team further acknowledges that controls are typically designed to detect errors in the processing of routine transactions. When external fraudsters are able to circumvent controls, as determined in this series of incidents, additional reliance is placed on the card co-ordinator's judgment and experience to identify and quickly respond to unusual transactions.

While it is clear that an external fraudster is responsible for the fraudulent purchases, it is the investigation team's opinion that the ministry could have been more diligent when the cardholder notified the card coordinator on November 28, 2013 that her government purchase card had been 'blocked' by BMO.

Specifically, if the ministry had performed an on-line enquiry through 'BMO Online' on November 28th, it would have discovered approximately \$8,700 in suspicious purchase card transactions (e.g. \$4,980 jewelry store purchase and an attempted purchase of \$3,545 at Best Buy).

It is possible that such discovery and immediate follow-up may have enabled the ministry to prevent some or all of the fraudster's subsequent activities.

Assessment of Controls/Recommendations/Loss Recovery Efforts

As noted above, an external fraudster

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and using the cards to make approximately \$83,000 in fraudulent purchases.

3CMB detected the suspicious purchase card activity and promptly notified the ministry.

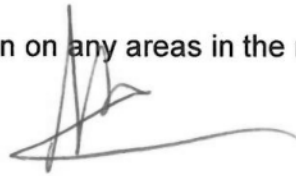
The A/CFO took responsibility for liaising with BMO and the Victoria Police Department once she determined the extent of the external fraudster's activities.

Although the ministry followed prescribed procedures, such procedures are designed for typical situations. Nonetheless, the ministry has acknowledged that additional efforts designed to improve the monitoring of suspicious transactions to detect and respond to inappropriate card activities in a timely manner would further improve control over their employees' purchase card usage.

The ministry also identified BMO's control deficiencies in responding to this incident and sought OCG's support in meeting with the Provincial Purchase Card Co-ordinator to discuss control improvements that could potentially be implemented government-wide.

The ministry and OCG's Investigation Unit worked collaboratively to recover the total loss of \$83,200 from BMO.

If you require additional information of clarification on any areas in the report please contact me at (250) 387-8542.



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