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of Ontario



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de l'Ontario

STANDING COMMITTEE ON PUBLIC ACCOUNTS

SCHOOL BOARDS – ACQUISITION OF GOODS AND SERVICES

(Section 4.11, 2008 Annual Report of the Auditor General of Ontario)

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The Honourable Steve Peters, MPP
Speaker of the Legislative Assembly

Sir,

Your Standing Committee on Public Accounts has the honour to present its Report and commends it to the House.

A handwritten signature in cursive script, appearing to read "Norm. Sterling".

Norman W. Sterling, MPP
Chair

Queen's Park
May 2010

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2nd Session, 39th Parliament

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LIST OF CHANGES TO COMMITTEE MEMBERSHIP

LAURA ALBANESE was replaced by DAVID RAMSAY on September 15, 2009.

ERNIE HARDEMAN was replaced by TED ARNOTT on September 15, 2009.

TED ARNOTT was replaced by PETER SHURMAN on February 24, 2010.

PHIL MCNEELY was replaced by AILEEN CARROLL on March 9, 2010.

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EXECUTIVE SUMMARY

The Auditor General's (Auditor's) 2006 audit report titled *School Boards – Acquisition of Goods and Services* was among the first broader public sector audits conducted under the Auditor's expanded mandate. The Standing Committee on Public Accounts (Committee) held hearings on this audit report and called transfer partners (four school boards) to appear before the Committee, another first in that prior to 2007 only representatives from ministries participated in hearings. During the hearings, the Committee engaged with the school boards, as well as with representatives from the Ministry of Education (Ministry), and made specific recommendations directed at the boards.

The process piloted by the Committee was a success. Specifically, the hearing and subsequent letters sent by the Chair on behalf of the Committee to the Directors of Education at school boards and to the Ministry were effective in securing important changes to school boards' acquisition of goods and services, including changes related to expenditure policies. The main steps involved in the process were as follows:

- The Auditor General identified issues related to the school boards' acquisition of goods and services and made related recommendations in his 2006 audit.
- The Ministry, following-up on the Auditor's recommendations, distributed Ministry expenditure guidelines in four areas to the boards in December 2006 and asked the boards to use these guidelines as a basis for reviewing or creating their own expenditure policies, which were to be posted on the boards' public websites by the end of March 2007.
- In April 2007 the Committee held hearings and concluded that a disappointing number of school boards had complied with the Ministry request.
- In May 2007 the Chair of the Committee sent letters on behalf of the Committee to the Ministry and the school boards requesting the boards to post their expenditure policies on their websites.
- The Committee issued a report in February 2008 that endorsed the Auditor's 2006 findings and recommendations and contained two Committee recommendations.
- In the Auditor's 2008 follow-up report the Auditor concluded that substantial progress had been made on most of the recommendations in his 2006 audit.
- In the Committee's May 2009 hearings on the Auditor's follow-up report the audited school boards described actions they had taken to address recommendations made by the Auditor and the Committee. The Ministry also told the Committee that all school boards have posted their expenditure policies on their public websites and that the Committee's May 2007 letter helped achieve full compliance.

Introduction

In May 2009, the Standing Committee on Public Accounts held hearings on the Auditor General's (Auditor's) 2008 follow-up report on School Boards – Acquisition of Goods and Services (section 4.11 of the Auditor's *2008 Annual Report*). This follow-up completed the audit cycle for one of the first broader public sector audits conducted under the Auditor's expanded mandate. The Committee believes that the audit cycle was a success. The Committee's report highlights the main steps during the audit cycle and important changes implemented by the school boards in the way that they acquire their goods and services resulting from the audit.

The Committee wishes to congratulate the Ministry of Education (Ministry) and the school boards on those changes and to extend its appreciation to senior officials from the Ministry and the four audited school boards who participated in the April 2007 and May 2009 hearings. The Committee also acknowledges the assistance provided during the hearings by the Office of the Auditor General, the Clerk of the Committee, and staff of the Legislative Research Service. The Committee has endorsed the findings in the Auditor's follow-up report.

Auditor General's Expanded Mandate

The Auditor's mandate was expanded through amendments to the *Audit Act* which took effect on April 1, 2005. The main objective was to enable the Office of the Auditor General to undertake value-for-money audits in the broader public sector of selected major recipients of government grants such as hospitals, colleges, universities and school boards. The Auditor is now also able to conduct value-for-money audits of Crown-controlled corporations.

Audit Cycle

The Auditor's initial value-for-money audit report on School Boards – Acquisition of Goods and Services was published in his *2006 Annual Report*. After publication of this initial audit report,

- the Ministry sent a memorandum (in December 2006) to the school boards with Ministry guidelines in four areas of expenditures to assist the boards in assessing or developing their own expenditure policies and asking the boards to post those policies on their public websites by March 31, 2007;
- the Committee held hearings (in April 2007) with officials from the Ministry of Education and representatives of the four district school boards that were audited and noted a disappointing response by school boards in general to the Ministry's December 2006 memorandum;
- the Chair issued letters, on behalf of the Committee, (in May 2007) to the Ministry and the school boards requesting the boards to post their expenditure policies on their websites; and

- the Committee issued a report (in February 2008) that endorsed the Auditor's findings and recommendations and contained two Committee recommendations.

This report provides background on the points listed above but primarily focuses on the Committee's findings from the 2009 hearings on the Auditor's follow-up report. *Hansard*, the verbatim record of the hearings, should be consulted for the complete proceedings.

Auditor General's 2006 Audit

In 2006, the objective of the audit was to assess whether the purchasing policies and procedures in place at selected school boards were adequate to ensure that goods and services were acquired economically and in accordance with sound business practices. The Auditor reviewed the policies of six school boards and audited the following four other district school boards:

- Durham District School Board;
- Rainbow District School Board (Sudbury Region – made up of the former Sudbury, Espanola and Manitoulin boards of education);
- Thames Valley District School Board (made up of the former City of London, Middlesex, Elgin County, and Oxford County boards of education); and
- York Catholic District School Board.

December 2006 Ministry Memorandum on School Board Expenditure Guidelines

In response to the Auditor's audit, the Ministry sent a memorandum to the school boards in December 2006 titled *School Board Expenditure Guidelines*. The purpose of the memorandum was to assist the boards with developing expenditure guidelines. The Ministry guidelines addressed the following areas of school board expenditure: the use of corporate credit cards; travel, meals and hospitality; advertising; and, advocacy. It asked the school boards to review their policies against the Ministry guidelines, or to use the guidelines as a basis for establishing policies in these areas, and to post their expenditure policies on their public websites by March 31, 2007.

April 2007 Committee Hearings and May 2007 Committee Letters

In the April 2007 hearings, the Committee noted a disappointing response by school boards to the Ministry's December 2006 memorandum and concluded that board policies in the four expenditure areas addressed by Ministry guidelines (the use of corporate credit cards; travel, meals and hospitality; advertising; and advocacy) must be available for public scrutiny through postings on the board web sites. The Chair sent letters on behalf of the Committee in May 2007 to the

Ministry and the boards on this matter. It was also the subject of a recommendation in the Committee report (see below).

February 2008 Committee Report

In its February 2008 report the Committee recommended that:

1. The Ministry of Education report to the Committee by July 15, 2007 on the boards that have not posted the appropriate policies on their web sites as of June 30, 2007.*
2. Each district school board review the number of purchasing cards within its system and cancel those cards deemed unnecessary so that accountability controls can be reasonably maintained.

OBJECTIVE OF THE AUDITOR'S FOLLOW-UP

The purpose of the 2008 follow-up by the Auditor was to ensure that action was taken on recommendations in his 2006 audit. The Auditor concluded that substantial progress was made on most recommendations, primarily those dealing with the use of purchasing cards and the acquisition of services. He did note that two boards still had substantially more purchasing cards outstanding than required.

2007-08 Funding for Public Education

The Auditor noted that total funding for public education in Ontario for the 2007/08 fiscal year was about \$18.4 billion (\$17.2 billion in 2005/06). He said that while school boards spend the majority of their funding on salaries and benefits, they also spend several hundred million dollars on purchases of services, supplies, and equipment.

ISSUES RAISED IN THE AUDITOR'S FOLLOW-UP AND BEFORE THE COMMITTEE

The Ministry said that it accepts the Auditor's report and supports all the comments in it. The Ministry added that it has worked closely with the school boards and some of their associations in recent years to improve the administrative functions in school boards.

The Committee described the Ministry and school board efforts as a "success story" in terms of meeting the Auditor's 2006 objectives. The Committee attached importance to the issues discussed below.

* The Committee requested that this be done in its letter to the Ministry and the boards that was sent in May 2007 and repeated this as a recommendation in its February 2008 report.

Impact of May 2007 Committee Letter

The Ministry said that the Committee letter to the Ministry and the school boards asking how many of the boards had posted their expenditure guidelines helped achieve full compliance across the boards. However, the Ministry's message to the boards was that it should not take such a letter to achieve this action. According to the Ministry, the boards accept the need for improving management and demonstrating better stewardship of resources; at times it is simply an issue of priorities.

Informal Sharing of Information

School board representatives described how they shared information on matters related to the audit formally, as well as informally. The director of the Rainbow District School Board said, for example, that a public Council of Ontario Directors of Education (CODE) meeting provided a forum for informal sharing of such information.

Operational Reviews

The Ministry initiated an operational review process, working closely with school boards to examine back-office functions. The process is intended to provide a comprehensive definition of leading practices in the non-academic business functions of school boards. The Ministry has increasingly recognized the close connection between improving student outcomes and good administration of board operations.

According to the Ministry, boards have large scale management responsibilities in finance, human resources, facility management and transportation (the latter is the subject of a separate Ministry project). It said, for example, the boards are among the biggest property managers, employers and transportation operators in the province. The Ministry noted that a corporation running an operation as large as that of some school boards would employ more people than is the case with the boards.

The operational review process began in 2007 and is anticipated to take three years though the process may extend into a fourth year. It includes a return visit to every board reviewed. The Ministry said that more time was spent than anticipated early in the project, defining leading edge practices in governance, finance, human resources and facilities. The Ministry worked with consultants from Price Waterhouse Coopers and Deloitte, school boards, trustee associations and others on these definitions.

During operational reviews, consulting teams visit each school board for two- or three-day engagements. The consultants' reports, typically 40 to 60 pages long, provide the board with feedback on where the board stands in its own practices in relation to leading edge practices.

The Ministry has received good feedback from boards that have undergone operational reviews. Boards that have not yet undergone reviews are using leading practices for self-assessment. The Ministry believes that this is strengthening management.

School Boards' Assessment of Operational Reviews

The Durham District School Board said that its operational review provided an opportunity to assess management practices. Durham District's networking technology was identified as a best practice; its review of policies and procedures at the board level was identified as an area for improvement. As a result of the review, Durham District has expanded the provision of its policies, procedures and regulations on its public website and has made items searchable. The Board has also implemented a more standardized review of all policies, procedures and regulations with individual superintendents responsible for the annual review.

The Director of Education for the Thames Valley District School Board was pleased with the results of the operational review for his Board. He said the review yielded few recommendations. The Board is following through on a recommendation to establish an attendance management program through its human resources department. The Director said the Board is pleased with its performance rating for governance, and the role of trustees and senior administration.

The York Catholic District School Board served as the pilot board for operational reviews. It provided advice to the committee that initiated the review process. York Catholic will likely be the final board to undergo a full operational review.

Operational Reviews and Policies in Four Expenditure Areas

The operational reviews assess not just whether expenditure policies are in place, but also whether the policies are reviewed and refreshed, and staff receive regular training on them. The Ministry cited its own experience in putting its entire staff through Purchasing Card (Pcard) training, even though Pcard policies have existed in the Ministry for some time. The Ministry emphasized the importance of refreshing training and reminding people of their responsibilities. The Ministry is trying to reinforce such a culture in school boards.

Board Audit Committees

According to the Ministry more school boards have budget or finance committees than audit committees. It encourages the creation of audit committees, an initiative which emerged from the operational reviews. Many boards are now establishing audit committees with external representatives who sometimes bring financial or legal expertise to the board.

The Ministry has announced funding to create and support internal audit capacity and to support the establishment of external audit committees. It referred to a governance review committee report prepared for the government which

recommends that audit committees with external members become a feature of school board governance.

The Thames Valley District School Board said that at the time of its operational review it was already in the process of setting up an audit committee with two external members, one of whom is a professor at the Richard Ivey School of Business at the University of Western Ontario. Upon completion of a school internal review, the Director of Education meets with the executive superintendent of operations and the superintendent of the school to develop a plan for moving forward. The superintendent is tasked with verifying that commitments undertaken by the principal are fulfilled and reports results to the audit committee – a process intended to increase transparency and accountability.

The York Catholic District School Board said that it has an audit committee and is discussing the issue of external representation on the committee.

The Ministry said that operational reviews and audit committees help provide clear policy direction and help individuals build capacity and understand their responsibilities. Boards in Ontario vary in size, scope and sophistication. According to the Ministry real compliance occurs when people at the local level are committed to a policy, understand it and “own it.”

Procurement Practices and Internal Audits

The Committee asked whether all boards have internal auditors to monitor procurement practices. The Ministry said that some of the larger boards have an internal audit capacity; others rely more on external audits. The Ministry is investing to ensure that internal audit capacity is available to all boards. This may not mean placing staff in all boards. According to the Ministry some boards are too small for an internal auditor to function on a part-time basis so it is working with boards to design a lead-board model or perhaps a regional model.

Supplementary Information

Bill 177, the *Student Achievement and School Board Governance Act, 2009*, which was introduced in May 2009, provides as follows:

- 253.1** (1) Every district school board shall establish an audit committee.
- (2) The Minister may make regulations governing the composition, functions, powers and duties of audit committees established under subsection (1)
- (3) A regulation made under subsection (2) may provide for a district school board's audit committee to include individuals who are not members of the board.
- (4) A regulation made under subsection (2) may provide that a district school board's audit

committee has all the powers of an auditor under section 253.

(5) A regulation under this section may be general or particular.¹

Posting Board Policies on Websites

As noted earlier, the Committee recommended that the school boards post their policies in the four expenditure areas addressed by Ministry guidelines (the use of corporate credit cards; travel, meals and hospitality; advertising; and advocacy). The Ministry said that Simcoe Muskoka Catholic was the last board to post its policies; all boards have now posted their policies on websites and the Ministry considers them to be in compliance with its expectations. According to the Ministry the guideline on advocacy generated the most discussion between it and the boards. Some boards issued an explicit stand-alone guideline on advocacy; others included a reference to advocacy in another board document such as a mission statement.

The Ministry said that the fact that school boards' posted guidelines differ reflects the different sizes and operations of different boards. Some districts in Ontario have thousands of staff and several hundred schools. In such organizations detailed policies are necessary as not everyone can gather to meet. In smaller boards, principals are able to meet each month, and come to understand practices and compliance issues through these meetings. In the Ministry's opinion, for these smaller boards where regular meetings occur, it is not necessary to list all details in writing: boards need adequate policies and controls to match their circumstances.

The Ministry said that it ensures consistency in policies through various measures such as operational reviews, audits, and reviews of budgets. Each year it scrutinizes boards with spending patterns that appear out of sync with averages across the province. According to the Ministry there is much "back and forth" between the boards and the Ministry on financial and operational issues.

Ministry Guidelines on Trustee Expenses

The York Catholic District School Board Director of Education reviewed two years' worth of trustee expenses and concluded that better clarity on this issue was required. More detailed policies on trustee expenses were implemented. The Board held a retreat for trustees on this topic to clarify what items may be expensed.

The Rainbow District School Board said that it is also working on the issue of clarity regarding trustee expenses. The Board has lists for items that may and may not be expensed, and has an approval process for exceptions.

¹ Bill 177, *Student Achievement and School Board Governance Act, 2009*. Internet site at http://www.ontla.on.ca/web/bills/bills_detail.do?locale=en&Intranet=&BillID=2187, accessed November 10, 2009.

The Thames Valley District School Board has an internal auditor and three levels of accountability. Finance staff review expenditures daily; senior administrators and the director must then also approve the expenditures. The Board said that on those rare occasions when a trustee expense does not meet internal requirements, the claim form is returned to the trustee.

The Durham District School Board has an internal auditor who primarily audits and monitors school-generated funds. While not mentioning trustees specifically, the Director of Education said that he is responsible for viewing the expenses of all superintendents. He follows up with individuals if appropriate documentation is missing or if there are questions regarding adherence to policy or procedure. He added that the appropriate paper trail and full compliance are maintained at all times for internal purposes.

Supplementary Information

In July 2009 the Ministry issued its final trustee expenditure guideline. The Ministry wrote to the Directors of Education and Secretary/Treasurers of School Authorities to share the guideline and to thank participating associations and organizations for their feedback and advice. The Ministry said that the guideline addresses the following aspects concerning trustee expenditures:

- summary of the legislative framework;
- scope of school board policies;
- expenses eligible for reimbursement;
- ensuring reasonable expenses; and
- adequate approvals and procedures.

The Ministry said that the purpose of the guideline is to provide a foundation for each board to develop its own policy on trustee expenditures or to review its existing policy. The guideline was developed for school boards but that it is expected that school authorities will also establish a new policy or revise an existing policy. The Ministry said that all boards are to have their new or amended policies posted on their websites (or made publicly available if no website exists) by December 31, 2009.

Other Ministry Guidelines

The Ministry is also working with organizations such as the Ontario Education Collaborative Marketplace (OECM) to develop supports for purchasing that will include guidelines and standards. In addition, the Ministry of Finance is overseeing the development of supply chain guidelines, which will become guidelines for the Ministry of Education and the sector.

Collaboration on Green Energy Issues

The Ministry said that it works with school boards to define energy efficiency practices and to identify best practices. It noted that the York Catholic District School Board has assessed its energy use and has calculated savings accrued from the implementation of energy savings practices.

The Committee referred to a recent announcement for green practices' funding for school boards. It also drew attention to the colleges' secretariat on green practices. The colleges are able to monitor electricity use (for example, at the room, building or campus level) anywhere in the system across the province. The Committee asked whether any initiatives are under way for school boards to work at an all-board level for energy efficiencies.

The Ministry said that it met with the college sector's green secretariat, which it described as a great source of ideas and advice. The Ministry noted that school boards have also been leaders in green practices and have contributed to a number of Ministry-led projects. The Ministry is developing its own utility database and is creating an inventory of green initiatives similar to the colleges'. One Ministry team is leading a green clean study on school cleaning materials that are, for example, environmentally friendly. The Ministry also now has an energy conservation officer.

In addition, it has an expert panel on capital standards comprising a group of individuals from school boards that collectively have built more than 1,000 schools in the past 10 years. The panel is knowledgeable and enthusiastic about building schools cost-efficiently and energy-efficiently. The Ministry hopes that boards will build, at a minimum, to 25% better than the national energy code for buildings and has heard of projects that are 60% and 70% better than that standard.

Collaboration on IT Issues

The Ministry said that boards are very big purchasers of computers and other IT services. The Ministry works with the boards to determine good practices in this area. It believes that the key issue is to bring people in the sector together to work collaboratively, in order to use money to the best effect.

Purchasing Consortia

Cooperatives and Consortia

In his 2006 audit, the Auditor General noted that acquiring goods and services as a group can achieve greater savings or discounts based on higher volumes and said that the four boards audited already participated in group purchasing to varying degrees.

During the hearings the York Catholic District School Board said that it has long supported working collaboratively and has been involved in the York Region buyers co-operative. This region was one of the first to have a transportation

consortium. The Board believes that consortia provide a forum for sharing best practices. York Catholic has been refining its purchasing and procurement policies.

The Rainbow District School Board said that it continues to seek purchasing efficiencies through the following types of consortia: its transportation consortium, the Sudbury Regional Buying Group, and its work with the Catholic school boards on electricity purchasing. The Board also uses recommendations from operational reviews to refine its own practices.

Purchasing Practices

The Auditor concluded in his 2006 audit that purchasing policies and procedures for the boards were adequate. However, the Auditor flagged areas where compliance could be improved, saying that boards were

- using some suppliers for significant purchases, as well as for ongoing minor capital projects, for a number of years without periodically obtaining competitive bids;
- inviting a selected group of suppliers to bid rather than advertising publicly; and
- continuing to make payments where a purchase order had expired and/or the purchase order amount had been exceeded.

In his 2008 follow-up, the Auditor noted, based on information provided by the school boards and work performed by the Ministry's Internal Audit Services, significant progress at the four audited boards in purchasing practices. The Internal Audit Services selected samples of purchases at the boards and found that most were made on a competitive basis and in accordance with the boards' policies, though there were still some instances, primarily at one board, where the policies were not followed.

During the hearings the Ministry said, based on the results of 19 completed operational reviews, that purchasing policies for the boards have been adequate and have met leading-practice expectations in terms of the following expectations:

- that the contracts be open and transparent;
- that supplier contracts be regularly reviewed at an appropriate time interval; and
- that efforts be made to purchase in consortia to achieve efficiencies.

The Ministry described this as a starting standard and said that it has additional ambitions.

Purchasing Card Management

In his 2006 audit the Auditor said the school boards generally had adequate policies governing use of corporate charge cards, which are also known as purchasing cards (Pcards), but noted concern regarding

- a lack of clear policies for the use of board funds for employee recognition and gift purchases; and
- certain meal and travel-related expenditures at one school board.

In his 2008 follow-up, the Auditor stated that substantial progress is being made on the boards' use of purchasing cards though, as discussed earlier, he did point out that two boards still had substantially more purchasing cards outstanding than they required. The Ministry said that each school board sets its own policy regarding who receives a purchasing card.

The Durham District School Board said that it has not encountered problems with Pcards. It has fewer than 300 Pcards in use and cited the following typical card characteristics:

- The purchase limit is \$500.
- The card limit is approximately \$1,000.
- Users would be a school principal or certain teachers who may require certain items on an ongoing basis.

The total Pcard expenditure across all of the District's 135 school and board operations is less than \$400,000.

The Rainbow District School Board said that Pcards have added efficiency to its operations, helping to eliminate paperwork. Most board employees are not allowed to charge travel and meals on Pcards. Cards not being used are monitored carefully and discontinued after eight months of no use. The discontinued card can be reinstated if the cardholder speaks to the finance department. All charge items are reviewed and must be supported by receipts.

The York Catholic District School Board has spending restrictions on its Pcards. Charges are monitored monthly. In recent years annual Pcard expenditures across the Board totalled between \$400,000-\$500,000. The Board commented on the Auditor's observation that 152 of York Catholic's 820 Pcards had been used to purchase \$50 or less in one year. The Board believes that in some cases an individual may need a card, even if the card is not used often. The Board switched card providers from CIBC to another firm and now has approximately 500 Pcards.

The York Catholic Board noted that the purchasing card is only a tool to access budget funds that have been approved by the Board. The Thames Valley District School Board provided an example to illustrate spending controls. A small elementary school may, for example, be allocated \$40,000 for operational

expenses such as supplies and services, textbooks and materials. Different divisions would be allocated a total dollar amount for such expenses. Staff would then be able to purchase items required for classrooms; no more than \$250 could be spent at any one time. Once the budget limit is reached for a division, that division may not spend more.