



**Australian Government**  
**Department of Defence**

**Senate Standing Committee on Foreign Affairs, Defence  
and Trade inquiry into the Department of Defence's  
Management of Credit and Other Transaction Cards**

**Department of Defence  
Written Submission**

**January 2017**

## Purpose

1. The purpose of this submission is to provide the Foreign Affairs, Defence and Trade References Committee ('the Committee') with information which may be relevant to its consideration of the Department of Defence's (Defence) management of credit cards.
2. Defence's management of credit cards was referred to the Committee by the Senate on 10 November 2016, to report on 11 May 2017.
3. The terms of reference for the Committee's inquiry are as follows:  
"The Department of Defence's management of credit and other transaction cards, with particular reference to:
  - a. controls in place to manage credit card expenditure including action to prevent credit card misuse and minimise risk to the Commonwealth;
  - b. issuing of Cabcharge Fastcards and e-tickets to staff including monitoring and management of e-ticket accounts;
  - c. controls in place on the use of fuel cards for commercial and military vehicles, including compliance testing of the assurance framework;
  - d. implementation of the Department of Defence's new governance arrangements for credit card management;
  - e. legislative requirements and framework set out in the Financial Management and Accountability Act 1997 and its successor, the Public Governance, Performance and Accountability Act 2013; and
  - f. other related matters."<sup>1</sup>
4. Defence specifically addresses the terms of reference a to e in appendices 1 to 5 of this submission.

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<sup>1</sup> Senate Standing Committee on Foreign Affairs and Trade Inquiry Department of Defence's management of credit and other transaction cards  
[http://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Foreign\\_Affairs\\_Defence\\_and\\_Trade/CredittransactionsCards/Terms\\_of\\_Reference](http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Foreign_Affairs_Defence_and_Trade/CredittransactionsCards/Terms_of_Reference)

## The Department of Defence Credit Card Context

5. Defence is a large and diverse Government agency consisting of over 95,000 Australian Defence Force, Reservist and Australian Public Service staff in all states and territories in Australia and 45 locations throughout the world.
6. The Defence actual expenditure for financial year 2015-16 was \$31.523 billion and the budget for financial year 2016-17 is \$32.337 billion<sup>2</sup>. Defence expenditures are made across a vast range of activities and types. For the purposes of financial risk management, Defence classifies its expenditures across three broad types:
  1. Employee costs,
  2. Capital costs; and
  3. Operating costs.
7. Table 1 below outlines the breakdown of expenditures by these categories.

Table 1: Defence expenditure by expenses categories

<b>FY</b>	<b>Employees \$m</b>	<b>Capital \$m</b>	<b>Operating \$m</b>	<b>Total \$m</b>
2015-16 Actual	11,693.9	8,979.5	10,849.6	31,523.0
2016-17 Budget	11,570.1	9,634.0	11,132.8	32,337.0
2016-17 Actual to 31 December 2016	5,663.8	4,274.4	5,868.0	15,806.2

Source: Defence's financial management information systems on 6/1/2017

8. Defence manages its expenditure in accordance with the *Public Governance, Performance and Accountability Act 2013* (Public Governance, Performance and Accountability Act). It takes the responsibility to manage allocated resources seriously. Processes and procedures are employed to safeguard resources and ensure that they are used as the relevant appropriation Acts intended.
9. In dealing with the proper management of expenditure across the categories of Employee, Capital and Operating costs Defence utilises two main types of payment vehicles:
  1. The centrally managed non-employee payments system, wherein payments are actioned to vendors via the Department's bank on the

<sup>2</sup> Portfolio Budget Statements 2016-17

basis of approved Section 23 proposals supported by evidenced receipt of goods and services

2. The centrally managed employee payments system that actions payments to employees for their remuneration via the Departments bank.
10. Credit card transactions are not in themselves a payment to a vendor but rather they are a commitment by Defence to pay the relevant credit card company upon receipt of a validly rendered statement for credit card transactions undertaken. All credit card transactions ultimately result in a payment from the centrally managed non-employee payments system. The usual practice is for that payment to be made monthly for all types of credit cards.
11. Defence has been utilising credit cards as an official payment mean for over 20 years. During this time, the usage of cards by Defence has evolved in response to changes in the business requirements, technology, the financial industry and government financial policy.
12. The volume of credit cards on issue and the value of credit card transactions for the six months ended 31 December 2016 are shown in Table 2 below.

Table 2: FY 2016-17 Defence credit and transaction cards as at 31 December 2016

<b>Transaction card type</b>	<b>Number of cards on issue to 31 December 2016</b>	<b>Transaction Value to 31 December 2016 \$m</b>
Travel (Diners/Mastercard)	58,998	178.2
Fuel Cards	27,257	17.5
Purchasing (Visa)	8,692	131.9
Fastcards (Cabcharge cards)	2	0
E-tickets (Cabcharge vouchers plus manual vouchers)	21,255	1.4
<b>Total (excluding E-tickets)</b>	<b>92,719 <sup>a</sup></b>	<b>329.0</b>

Source: Defence's financial management information systems on 6/1/2017

Note: <sup>a</sup> E-tickets are not included in the total number of cards on issue, they are single use only vouchers.

13. The use of credit cards in Defence is a minor method of transaction enablement and as demonstrated in Table 3, accounted for less than 3 per cent of all transactions during the years 2013-14 to 2016-17 year to date.

**Table 3: Defence credit card spend**

<b>FY</b>	<b>Actual spend \$m</b>	<b>Credit card expenditure excluding fuel cards \$m</b>	<b>Fuel card expenditure \$m</b>	<b>Credit card expenditure as a % of total expenditure</b>	<b>Number of credit cards on issue as at 30 June including fuel cards</b>
2013-2014	26,566.3	486.4	51.0	2.02	73,432
2014-2015	29,774.3	548.7	38.8	1.97	89,874
2015-2016	31,523.0	582.5	33.7	1.95	80,497
2016-2017 to 31 December 2016 – cash basis	15,806.2	311.7	17.5	2.08	92,719

Source: Defence's financial management information systems on 6/1/2017

14. Like other Government agencies, Defence utilises credit cards to undertake purchase of items such as travel, training, fuel, stationery and minor goods and services. As set out in Tables 4 and 5 below, the vast majority of credit card expenditure occurs within the Operating Cost classification.
15. Credit card usage in relation to employees is largely due to a classification of the type of travel for conditions of service for Australian Defence Force members.
16. Credit card usage in relation to capital is for purchases relating to minor plant and equipment items with an average spend of \$1,526 on the Defence Purchasing Card and Defence Travel Card for financial year 2016-17 as at 31 December 2016. These costs are capitalised in accordance with the accounting standards.

Table 4: FY 2015-16 Defence expenditure by payment method

<b>Expenses category</b>	<b>Actual cash spend \$m</b>	<b>Credit card expenditure excluding fuel \$m</b>	<b>Credit card expenditure as % of actual spend</b>
Employees	11,693.9	41.7	0.36
Operating	10,849.6	530.5	4.89
Capital	8,979.5	10.3	0.11
<b>Total</b>	<b>31,523.0</b>	<b>582.5</b>	<b>1.85</b>

Source: Defence's financial management information systems on 6/1/2017

Table 5: 2016-17 YTD Defence expenditure by payment method

<b>Expenses category</b>	<b>Actual cash spend to 31 December 2016 \$m</b>	<b>Credit card expenditure to 31 December 2016 excluding fuel \$m</b>	<b>Credit card expenditure as % of actual spend</b>
Employees	5,663.8	17.4	0.31
Operating	5,868.0	289.4	4.93
Capital	4,274.4	4.9	0.11
<b>Total</b>	<b>15,806.2</b>	<b>311.7</b>	<b>1.97</b>

Source: Defence's financial management information systems on 6/1/2017

17. Defence's credit card usage is commensurate with the size and complexity of its activities, but is not dissimilar in usage to other large Commonwealth agencies. As an example and by way of comparison, although Defence is the largest Commonwealth user of Diners Travel cards, the next largest Commonwealth user of Diners travel cards is not dissimilar in transaction activity per card as illustrated in Table 6 below.

Table 6: FY 2015-16 Defence Travel Card (Diners and Mastercard) transactions comparison

<b>Commonwealth agency</b>	<b>Number of Travel card transactions</b>	<b>Number of cards on issue</b>	<b>Average number of transactions per card</b>
Defence	1,659,563	63,141	26
2 <sup>nd</sup> largest	304,975	14,485	21

Source: Citigroup

18. The application and usage of each type of credit card is discussed below.

### **Defence Travel Card (Citigroup issued Diners and Mastercard)**

19. The Defence Travel Cards are comprised of two credit cards. A primary card called the Diners Club Card and a Mastercard called the companion card. Both cards are issued by Diners Club, and the companion card is utilised where there is non-acceptance of Diners Card. The companion Mastercard does not give rise to a separate credit provision. There were 2,018 on issue as at 31 December 2016.
20. The arrangements surrounding the booking and payment of travel is determined by policy set by the Department of Finance. These arrangements are governed under the terms of Whole of Australian Government Travel Service arrangements.
21. Under the Whole of Australian Government arrangements, Department of Finance has established contracts with four domestic airlines, 18 international airlines and one Travel Management Company.
22. Qantas Business Travel is utilised for Travel Management services across the Commonwealth including Defence. Qantas Business Travel is utilised for Accommodation Program Management Services, Car Rental Services and Travel and Related Card Service and provides a central means to access of the contracts.
23. Individuals using whole of Government travel and accommodation arrangements, do not generally personally organise payment by a credit card, but rather an automatic credit card entry is made by the central booking service against a credit card holders card.
24. Defence Travel Cards can be used to acquire the following items:
  - All services provided by Qantas Business Travel for accommodation, car rental and travel related card services;
  - Ground transportation; and
  - Travel allowance withdrawal.
25. As indicated in Table 7 below the majority of Defence Travel Card expenditure is against Whole of Australian Government based central booking activities, with personal card activity transactions amounting to less than 30 per cent of all credit card activity.

Table 7: Defence travel card expenditure against Whole of Australian Government related merchants

<b>FY</b>	<b>Expenditure \$m</b>	<b>Whole of Australian Government expenditure as a % of total spend</b>
2015-16	240.4	77
2016-17 to 31 December 2016	131.7	78

Source: Defence's financial management information systems on 6/1/2017

Note: Expenditure has been categorised as Whole of Australian Government based upon merchant categories

### **Fuel Cards**

26. Defence Fuel cards are utilised for the commercial fleet, the military vehicle fleet and Aviation fuel and for General Service Equipment such as chainsaws and generators. Fuel card expenditure was over \$33.7 million in 2015-16.
27. The Defence fuel card is used across a “white” (commercial) fleet of approximately 5,696 and “green” (military) fleet 10,962 vehicles. A more comprehensive discussion of fuel cards is contained at Appendix C.
28. In October 2016, the Australian National Audit Office removed the Category C finding based on the positive improvements in the management of fuel cards by Defence.
29. In closing the Category C finding, the Australian National Audit Office recommended that Defence conduct a follow-up review of the progress of the fuel management arrangements in the 2016-17 financial year. Audit and Fraud Control Division commenced this review in November 2016 and the findings of the review are contained within (Attachment D).

### **Purchasing cards (Visa ANZ and NAB)**

30. The Defence Purchasing Card is utilised in accordance with the Department of Finance whole-of-government guidance on credit cards, the Resource Management Guide No. 416 ‘Facilitating Supplier Payment Through Payment Card’ (Attachment A).
31. This guidance sets out the preferred payment method for supplier payments valued below \$10,000 is through payment on credit card. The Defence Purchasing Card is issued to those officers having a purchasing facilitation role and is more limited in its issuance than travel credit cards. Not all persons involved in acquisition and procurement have access to a purchasing card.
32. The majority of transactions on the Defence Purchasing Card are less than \$10,000 as outlined in Table 8 below, with less than 2 per cent of all purchasing card transactions being greater than \$10,000.

Table 8 Defence Purchasing Card transactions value distribution

<b>FY</b>	<b>Total Transactions</b>	<b>Less than \$500 %</b>	<b>\$500.01-\$2,000 %</b>	<b>\$2,000.01 - 5,000 %</b>	<b>\$5,000.01 - 10,000 %</b>	<b>\$10,000.01 - 50,000 %</b>	<b>\$50,000+ %</b>
2015-16	221,222	62.8	23.2	8.8	3.6	1.4	0.1
2016-17 to 31 December 2016	103,813	64.7	22.7	8.3	3.1	1.1	0.1

Source: Defence's financial management information systems on 6/1/2017

### **E-tickets (Cabcharge vouchers)**

33. In addition to credit cards Defence utilises e-tickets, which are also referred to as Cabcharge vouchers.
34. e-tickets are used to facilitate taxi usage where individuals do not have a Defence travel card. For example where Defence members who are less than eighteen years of age, recruitment activities, attendance at medical appointments and return for overseas deployment.
35. There are 208 e-tickets accounts within Defence across Australia. These accounts are managed by Groups and Services with oversight from the Chief Finance Officer Group.
36. In November 2016, Cabcharge introduced two enhanced products called a FLEXeTICKET and personalised Fastcards. This provides controls on the single use card in relation to maximum spend, expiry period and the time, and days of use. Defence is considering the introduction of these products. This will allow Defence to implement the desired controls over single use Cabcharge vouchers.

### **Fastcards (Cabcharge cards)**

37. The Department of Defence has two Fastcards (Cabcharge cards) on issue. One card held by the Minister for Defence (Senator the Hon Marise Payne) and one held by the Minister for Defence Industry (the Hon Christopher Pyne MP).
38. These Fastcards are only used by the Ministers for official Defence purposes and in 2015-16 the total expenditure was \$966.
39. The Department of Finance advised Defence in 2016 that under the Ministers' and Parliamentary Secretaries' Entitlements Handbooks, the cost of car transport for Ministers and Assistant Ministers is the responsibility of the respective portfolio agencies. Procedurally,

Ministerial and Parliamentary Services in Department of Finance issues Cabcharge cards to Senators and Members on their commencement. Should a Senator or Member be sworn in to the Ministry, Ministerial and Parliamentary Services will charge any further costs incurred through that Cabcharge card to the portfolio agency, until such time as the agency issues a new Cabcharge card to the office holder.

40. Further, the Handbook for Entitlements for Senators and Members issued by the Department of Finance states that all Senators and Members are issued with a Cabcharge card by Ministerial and Parliamentary Services. The Handbook goes on to indicate that the Fastcard is card is the preferred method for payment for taxi travel allowed for under the handbook (Paragraph 4.3.2). The Ministers of State Entitlement Handbook states that “(A) Minister’s portfolio department meets the cost of all official Ministerial car transport, except for the Parliamentary Shuttle Service (which is paid for by Ministerial and Parliamentary Services) (Paragraph 4.4.5).

### **Telecommunication cards**

41. There are no telecommunication cards on issue within Defence and Defence has not had any telecommunication cards on issue since September 2013.

### **Financial Governance**

42. Defence applies a financial governance regime over Defence Credit card business, which is consistent with the *Public Governance, Performance and Accountability Act 2013* (Public Governance, Performance and Accountability Act).
43. Defence maintains control of credit card usage through a range of activities:
  - Instructions,
  - Endorsed processes,
  - Training,
  - Monitoring activities,
  - Investigative and enforcement processes, and
  - External controls and reporting.

### **Instructions**

44. The Public Governance, Performance and Accountability framework (the Public Governance, Performance and Accountability Act and the Public Governance, Performance and Accountability Rule) requires that officials (in Defence's case, Australian Defence Force members and

Australian Public Service staff) ensure that public resources (including relevant money) are used in an 'efficient, effective, economical and ethical' manner.

45. In addition, the Secretary of Defence as Defence's accountable authority is required by the Public Governance, Performance and Accountability Act to establish and maintain systems relating to risk and control (Public Governance, Performance and Accountability Act section 16). Defence has complied with all of these requirements in relation to the use and management of credit cards through:
- a. the Secretary's approval of an Accountable Authority Instructions was updated on credit cards was 15 January 2016;
  - b. the Secretary delegating some of his powers and functions relating to credit card issuing and usage in Defence's Financial Delegations Manual;
  - c. the Chief Finance Officer Group issuing detailed policy and guidance material on credit cards in Defence's Financial Management Manual; and
  - d. The Fuel Control Framework.
46. In addition, the Department of Finance has established Whole of Australian Government contracts with four domestic airlines, 13 international airlines and one Travel Management Company. Following a formal selection process, Qantas Business Travel was selected for Travel Management services across Whole of Australian Government including Defence. This includes contracts for Accommodation Program Management Services, Car Rental and travel related card services.

### **Endorsed processes**

47. The Defence Credit Card Governance (Attachment B) issued in January 2016 outlines the Defence credit card business including process and monitoring.
48. Defence maintains a range of processes to manage the issuance, use, review and cancellation of credit cards. Processes included system based controls and administration controls.
49. As a condition of service, all Defence employees are required to gain and maintain a certain level of clearance and are subject to a security clearance process that is used to assess the suitability of an applicant to hold and maintain a clearance. This includes police check and other relevant personal detail being verified. As Defence credit cards are only issued to authorised personnel, this review prior to employment forms another control for the Defence Credit card business.

50. The process for the issuance of Defence Purchasing Card and Defence Travel Card includes a number of steps including validating the individual requesting the card against payroll and other corporate records and ensuring that the business request to hold a card (in the case of a purchasing card) or hold a higher than standard limit has been appropriately authorised.
51. A delegated account holder holds the e-tickets and is responsible for issuing them as required. Defence's practise to manage the e-tickets as valuable items, which includes securing them in safes, maintaining a register and issuing on a "signed for" basis.
52. All Defence Purchasing Card and Defence Travel Card transactions are managed through a commercially provided expense management system. Cardholders, or a delegate, are required to review and acquit each transaction.
53. Defence requires the ability to access cash from Defence Purchasing Cards to enable payments in Operational situations where cards are not accepted. The default cash transfer limit on all Defence Purchasing Cards is \$0. To enable the ability access cash from a Defence Purchasing Card a business case approved by the Defence Group Chief Finance Officers (SES Band 1) is required.
54. An annual review of all Defence Purchasing Card and Defence Travel Card is undertaken. This review includes revalidation of the requirement to hold a purchasing card, revalidation of the requirement for limits above the standard limit and a review the requirement for cash access on a purchasing card.
55. On a daily basis, holders of Defence Purchasing Cards and Defence Travel Cards are validated against the Defence payroll system. When a cardholder ceases to be valid within the payroll system, their credit card is cancelled.
56. Further detail in relation to Defence's credit card processes is included in Appendix 1.

## **Training**

57. All Defence personnel are required to undertake biannual mandatory training on Fraud and Ethics.
58. Defence personnel undertaking procurement activities are required to hold basic, complex or strategic procurement competencies or consult with someone who holds these competencies prior to a procurement activity.

59. There is a comprehensive set of Task Cards on the use of credit card maintained by Defence service helpdesk which are available to all staff through the Intranet.
60. Assistance is available to Defence personnel to support their use of Defence credit cards through the Defence service helpdesk, the credit card provider helplines and the Defence credit cards support service.
61. Credit card administrators receive targeted training from the credit card providers.

### **Monitoring activities**

62. To complement the controls and training activities the Chief Finance Office maintains a central monitoring process to provide assurance around the effective, efficient and economical use of Defence's resources.
63. The monitoring process is undertaken through the forensic data team consisting of 3 Full Time Equivalent staff, supported by the systems accounting team.
64. The team undertake regular testing and monitoring culminating in a monthly forensic report designed to maintain awareness of the need for vigilance within the department and to identify any aberrations requiring attention.
65. The forensic capabilities include, but are not limited to, the following:
  - Transactions to high risk merchant categories;
  - Transactions on consecutive days;
  - High volume users;
  - High value transactions;
  - Any transactions post separation;
  - Transactions not acquitted within 60 days;
  - Duplicate transactions;
  - Cash withdrawals on Defence Purchasing Card;
  - Suspect transaction descriptions; and
  - Taxi purchases of high value.
66. The forensic capabilities are a continuing development, and over time much greater use of automated system analytics will be utilised to balance the cost of forensic analysis against the benefits of deterrence and detection.

## **Investigative and enforcement processes**

67. Defence's investigative and enforcement activities are undertaken by Audit and Fraud Control Division and military investigation services.
68. As part of the forensic analytic teams work, all transactions reasonably suspected of being fraudulent and/or corrupt are referred to the AFCD for further consideration. CFOG and AFCD regularly consult with respect to unexplained or otherwise anomalous transactions.

## **Individual responsibility**

69. Defence Purchasing Cards and Defence Travel Cards are issued to individuals for official purposes. When applying for a Defence Purchasing Card or Defence Travel Card via the electronic form (Attachment N) the individual signs an acknowledgement that:
  - a. The card is only to be used for official purposes;
  - b. That they are aware of the procedures for use;
  - c. That they are responsible for control of the card and Personal Identification Number;
  - d. If the card is lost or stolen that they are to notify both the card provider and the Defence card management team immediately; and
  - e. That they are aware of the possible punishment for misuse.
70. Fuel cards are issued to a point of contact at the unit level. The Defence Road Transport Manual outlines the responsibilities of the Fuel Card point of contact.
71. The behaviour and conduct of Australian Defence Force members is covered by *Defence Force Discipline Act 1982*, *Defence (Personnel) Regulations 2002* and various Defence Instructions.
72. The behaviour and conduct of Defence's Australian Public Service (Australian Public Service) employees is covered by the *Public Service Act 1999*, Australian Public Service code of conduct and Australian Public Service values.

## **Credit Card Provider Controls**

73. The inherent controls on credit cards require either the physical card and pin or card number, expiry date and security code to undertake a transaction.
74. Credit card providers have their own fraud detection process that are designed to detect unusual transactions. For example, Diners (a business within Citigroup Inc) has a comprehensive fraud control plan. Key aspects of the Fraud control plan include a 24/7 fraud control team who

monitor any inconsistencies in a members' card spending, full encryption of all data to and from Citigroup and compliance awareness testing of all staff. Diner works closely with Defence and other Government agencies to ensure fraud prevention, detection and investigation occur.

75. Defence credit card management team has a close working relationship with providers of all Defence issued credit cards. This includes, when the credit card provider identifies a suspect transaction, the provider notification and discusses this with the Defence credit cards management team, contract quarterly review meetings are undertaken and designated customer service team within the providers.

### History of credit card fraud in Defence

76. In any organisation fraud can and does occur. The controls within Defence that support the credit card business, supported by the credit card provider internal controls are based upon a risk based approach and are balanced against the cost of those controls.
77. Despite over 2 million financial transactions 2015-16 on the credit cards and over 95,000 employees, Defence has a relatively low occurrence of fraud. For the last three financial years the level of fraudulent activity is outlined in Table 9 below:

Table 9: Defence credit and other transactional cards fraud

<b>FY</b>	<b>Number of instances of fraud</b>	<b>Value of fraud \$'000</b>
2013-14	36	688 <sup>a</sup>
2014-15	22	90
2015-16	20	26

Source: Audit and Fraud Control Division on 6/1/2017

Note: <sup>a</sup> 2013-14 includes \$585,116 in fuel fraud

78. By way of comparison Table 10 below outlines the fraud related misuse of Commonwealth Government credit cards across all Commonwealth agencies. In 2012-13 as reported in the Australian Institute of Criminology monitoring report *Fraud against the Commonwealth Report to Government 2010-11 to 2012-13*<sup>3</sup> the misuse of government credit cards in 2012-13 was 75 instances across 14 entities.

<sup>3</sup> [http://www.aic.gov.au/media\\_library/publications/mr/mr24/mr24.pdf](http://www.aic.gov.au/media_library/publications/mr/mr24/mr24.pdf)

Table 10: Fraud focused on financial benefits - misuse of government credit cards (internal fraud)

<b>FY</b>	<b>Number of entities</b>	<b>Number of incidents</b>
2008-09	18	163
2009-10	14	90
2010-11	13	110
2011-12	10	82
2012-13	14	75

Source: Australian Institute of Criminology

79. In relation to credit card fraud more generally, the most recent data available from the Australian Payments Clearing Association Limited<sup>4</sup> shows that the national average of fraudulent transactions per credit card transaction is 0.035 per cent. This rate compared to Defence is at Table 11 below

Table 11: FY 2015-16 Comparison of fraud in Defence with all other credit cards in Australia<sup>5</sup>

	<b>Total number of transactions m</b>	<b>Number of fraudulent transactions</b>	<b>Fraudulent transactions as % of total</b>
Defence	2.01	89	0.004
Australian-issued cards	7,666.0	2.7m	0.035

Source: Defence's financial management information systems, and Australian Payments Clearing Association Ltd on 6 January 2017

Note: In 2015-16 Defence had 20 instances of fraud made up of 89 individual transactions

80. Defence does not tolerate fraud and the Department responds to fraudulent activities appropriately. The comparative statistics on fraudulent activity are not intended to diminish the seriousness by which Defence attend to its obligations to manage resources ethically, but rather they help to keep the magnitude of fraud in perspective.

<sup>4</sup> <http://www.apca.com.au/docs/fraud-statistics/Australian-payments-fraud-details-and-data-2015.pdf>

<sup>5</sup> Australian-issued cards data sourced from APCA report - <http://www.apca.com.au/docs/fraud-statistics/Australian-payments-fraud-details-and-data-2015.pdf>

## **Australian National Audit Office Performance Audit - *Defence's Management of Credit and Other Transaction Cards***

81. The Australian National Audit Office commenced an audit in April 2015 to assess whether Defence effectively manages and controls the use of Commonwealth credit and other transaction cards for official purposes in accordance with legislative and policy requirements. The period of the audit was from financial year 2012-13 to 2014-15.
82. It should be stressed that for the three year scope of the audit, no additional confirmed fraudulent transactions were detected by the Australian National Audit Office.
83. Defence engaged with the Australian National Audit Office and welcomed the recommendations as helpful to Defence's efforts to continuously improve its management of credit cards. During the Australian National Audit Office's audit Defence provided a comprehensive response to the Australian National Audit Office to assist it in preparing its report.
84. On 5 May 2016 the Australian National Audit Office published the report *Defence's Management of Credit and Other Transaction Cards* (report number 33 of 2015-2016) and made the following three recommendations:
  1. To improve its management of credit cards, the Australian National Audit Office recommends that Defence:
    - a. identifies the risks associated with its credit cards and its current control framework;
    - b. implements enterprise-wide control arrangements aligned to key risks; and
    - c. implements arrangements to provide assurance that the control arrangements are working as intended.
  2. To provide assurance that credit card use is consistent with Defence policies, the Australian National Audit Office recommends that Defence:
    - a. undertakes periodic analysis of credit card transactions, targeting key areas of risk; and
    - b. takes corrective action, where necessary.
  3. To help ensure that the new fuel management arrangements are operating satisfactorily and have addressed the risks identified in this performance audit report and in its 2012 internal audit on fuel cards and fuel management, the Australian National Audit Office recommends that Defence conduct a follow-up review of progress in the 2016-17 financial year.

85. In response to these recommendations Defence has implemented the following:
- 1a. The Defence Credit Card Governance issued in January 2016 (Attachment B) included a risk assessment of Defence's credit card business. Further risk assessments were completed through the Enterprise Wide Defence Credit Cards Fraud Risk Register prepared in April 2016 and updated in October 2016. (Attachment C). This Enterprise Wide Defence Credit Cards Fraud Risk Assessment formed part of the Defence Fraud Risk Assessment prepared by Audit and Fraud Control Division within Defence. This Enterprise Wide Defence Credit Cards Fraud Risk Assessment will continue to be updated on a biannual basis;
  - 1b. The Defence Credit Card Governance (Attachment B) aligned controls to key risks in January 2016. The Financial Control Framework (Annex B) was most recently updated in October 2016 and reflects controls to address the current risk profile;
  - 2a. Monthly forensic data analytic testing of credit card transactions which targets risk areas, the results of this testing are reported to senior levels of Defence on a monthly basis through the Chief Finance Officer's monthly finance report.
  - 2b. Transactions of concern identified through the monthly forensic data analytic testing are referred to Audit and Fraud Control Division for review and investigation.
  3. Defence Audit and Fraud Control Division commenced an audit of Management of Fuel Cards and Related Compliance Assurance Arrangements (Attachment D) in November 2016, the objective of this audit is to provide reasonable assurance that Defence's fuel cards are being managed satisfactorily, and whether new compliance assurance arrangements have effectively addressed the risks identified in the Australian National Audit Office Performance Audit No 33 of 2015-2016 *Defence's Management of Credit and Other Transaction Cards* and the 2012 Audit Branch audit on fuel cards.

## **Conclusion**

86. Defence trusts this submission is of use to the Committee in reviewing the Defence's management of credit and other transaction cards. Defence's Chief Finance Officer is available to provide any additional information required by the Committee.

### **AUTHORISED BY:**

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Chief Finance Officer

Date: 25 January 2017

**Appendix 1**

**Defence submission in relation to Inquiry Terms of Reference (a) -  
“controls in place to manage credit card expenditure including action to  
prevent credit card misuse and minimise risk to the Commonwealth”**

87. Defence has a robust Control Framework in place that supports the management of credits cards. These include:
- a. Financial control framework;
  - b. Fuel control framework;
  - c. Defence Information Systems controls;
  - d. Internal audit based controls; and
  - e. Forensic Controls.
88. As outlined in the Table 12 below the attachments provide a comprehensive list of the controls that were in place before 2015 and the strengthened controls that are currently in place.

Table 12: Defence Controls

Annex	Title
A	Financial Control Framework as at 2015
B	Financial Control Framework as at 31 December 2016
C	Fuel Control Framework prior to audit
D	Fuel Control Framework as at 31 December 2016
E	Administration Controls including the Corporate Card management quality assurance manual as at 31 December 2016
F	Defence Information Systems controls prior to audit
G	Defence Information Systems controls as at 31 December 2016
H	Compliance and Forensic Accounting framework as at 31 December 2016

**The Department of Defence Governance of credit cards**

89. The Department of Defence is governed by the following external and internal governance arrangements:

**External governance**

90. Performance audits involve the independent and objective assessment of the administration of an entity or body’s programs, policies, projects or activities. They also examine how well administrative support systems operate. As such, the audits can include consideration of:
- economy (minimising cost);
  - efficiency (maximising the ratio of outputs to inputs);

- effectiveness (the extent to which intended outcomes were achieved); and
  - legislative and policy compliance.
91. The Australian National Audit Office performance audits into Defence recently have included: Performance Audit (Australian National Audit Office Report No 33 of 2015-2016) *Defence's Management of Credit and Other Transaction Cards*.
92. To support the Financial statements, the Financial Statement audits are undertaken by the Australian National Audit Office. The primary purpose of financial statements is to provide relevant, reliable information to users about a reporting entity's financial position. In the public sector, the users of financial statements include Parliament, Ministers, and the community. The preparation of timely and accurate audited financial statements is also an important indicator of the effectiveness of an entity's financial management, which fosters confidence in an entity on the part of users.
93. A central element of the Australian National Audit Office's financial statement audit methodology, and the focus of the interim phase of Australian National Audit Office audits, is a sound understanding of an entity's environment and internal controls relevant to assessing the risk of material misstatement in the financial statements. This understanding informs the audit approach, including the reliance that is placed on an entity's systems to produce financial statements that are free from material misstatement.
94. The Corporate Card management quality assurance manual at Annex E outlines the responsibilities and the review process of the administration of the corporate cards current as at 2013.
95. This document has been replaced by the internal governance framework for credit card management in January 2016 and is at Attachment B.
96. The key aspects of the governance framework are described below:
- a. By the Chief Finance Officer (CFO) revising the Department of Defence Credit Card Governance arrangements to address issues identified by the Australian National Audit Office (Attachment B).
  - b. By the automatic cancellation of credit cards where the employee ceases to exist in the daily payroll feed.
  - c. By the monthly review of credit card transactions for pre-defined high risk merchant categories (Attachment C).
  - d. By the credit cards that are not activated within 90 days are cancelled (Attachment D).

- e. Merchant codes defined as inappropriate are blocked and expenditure on these codes cannot be made (Attachment E).
- f. The Group Chief Finance Officers (or their delegate) will annually review the following to determine whether to retain or alter:
  - individual credit card spending limits.
  - individual credit card cash transferral limits.
  - virtual credit card limits.
  - merchant categories.
  - unused credit cards.
  - all new credit cards being issued with default spending limits unless Group Chief Finance Officer's at the Senior Executive Service Band 1 level or their delegates has approved the limit increase. This is through the electronic web based form and a business case for a higher spending limit to support the request.

### **Fuel Card Framework**

97. In financial year 2013-14, the Australian National Audit Office as part of its Defence Financial Statements audit issued a Category C audit finding for management of fuel cards. In order to address this audit finding, Fuel Services Branch has developed and implemented a range of reforms covering the management and use of Defence fuel cards including the implementation of assurance strategies. These reforms have been progressively rolled out over the past 18 months with additional work still under way.
98. In mid 2015, the Australian National Audit Office conducted a Performance Audit of the use of Credit Cards in Defence which included fuel cards. The Australian National Audit Office noted in their report that the Defence arrangement with SG Fleet was different to that which other Government entities had in place. This is due to the size, complexity and usage of Defence's vehicles and assets required a different approach with SG Fleet. A number of concerns in the management of Defence fuel cards were identified in the report, in particular, outstanding SG Fleet Exception Reports, the generic PIN linked to the fuel card, and progress of Defence's assurance program.

99. While the Australian National Audit Office report raised a number of concerns, it was also positive about the improvements which had been implemented prior to and following the establishment of Fuel Services Branch in early 2015 and only raised a single recommendation. The Australian National Audit Office recommended that Defence conducts a follow-up review of the progress of the fuel management arrangements in the 2016-17 financial year. To address the Australian National Audit Office recommendations, the Defence Audit and Risk Committee approved the audit fieldwork for the management of fuel cards and related compliance assurance arrangements. The findings of the audit field work is contained within (Attachment D).
100. In October 2016, the Australian National Audit Office removed the Category C finding based on the positive improvements in the management of fuel cards by Defence.
101. In closing the Category C finding, the Australian National Audit Office recommended that Defence conduct a follow-up review of the progress of the fuel management arrangements in the 2016-17 financial year. Audit and Fraud Control Division commenced this review in November 2016 and the findings of the review are contained within (Attachment D).
102. Annex D is the current Fuel control framework.

### **Defence Information system based controls**

103. The Department of Defence has a robust systems controls in place Annex F and the Annex G outline the key aspects.

### **Internal audit based Controls**

104. During 2011-2015 the effectiveness of Defence's financial control environment was monitored by Audit and Fraud Control Division. The Audit and Fraud Control Division provided a reporting outcome to CFO throughout the year (Attachment F).
105. An internal decision between the First Assistant Secretary Audit and Fraud Control and the Chief Finance Officer in December 2015 resulted in the cessation of Financial Risk Controls testing by Audit and Fraud Control Division.
106. Audit and Fraud Control Division has refocused the work that the Financial Risk Controls Testing team performed to:
  - a. Strengthen Audit and Fraud Control Division's detection capability in terms of fraud control testing in critical areas that support the more strategic focus of Audit and Fraud Control Division's Fraud Control Plan; and

- b. Expand Audit and Fraud Control Division's compliance audit coverage.

### **Forensic controls**

107. The forensic team, supported by the systems accounting team, conducts analysis and testing on credit card transactions with a number of tests ranging from but not limited to consecutive spends, cash advances, taxi fares, infringements, high risk merchant categories and cash withdrawals.
108. This activity provides assurance that expenditure is appropriate, legitimate, and complies with relevant legislation and policies. This acts as an additional control. Annex H, and Attachment H outline the work program and provide the details.
109. The program is designed to provide assurance around the effective, efficient and economical use of the Defence resources it is also designed to:
  - a. Influence changes in behaviour and expenditure;
  - b. Forecast expenditure trends to improve test benchmarks; and
  - c. Identify emerging areas of concern to direct future testing, controls and updates to existing policies.
110. Part of the forensic team's role is to identify issues and refer these to the supervisor and Audit and Fraud Control Division. Audit and Fraud Control Division will engage their own procedures and processes (Attachment H).
111. The designated team within Defence produces a monthly compliance report, which includes credit card testing results that is accessible by all Defence groups (Attachment I).
112. Highlights of these activities are then communicated to the senior executive through the Secretary weekly round table report (Attachment J).
113. Defence has engaged a data analytics firm to strengthen and enhance our current processes and controls.
114. The Australian National Audit Office report highlighted the current controls were not complete and effective. Defence did have a range of controls in place at the time. Defence further strengthened controls around the provision of credit cards, monitoring use and card management. This regime is applied to all credit and other transactional card types. Fuel cards are addressed separately.

## Appendix 2

### **Defence submission in relation to Inquiry Terms of Reference (b) - “issuing of Cabcharge Fastcards and e-tickets to staff including monitoring and management of e-ticket accounts”**

115. The Department of Defence utilises Cabcharge vouchers in situations where the employees are not able to use the Defence Travel Card, does not have a Defence Travel Card and in some cases when employees return from operations.
116. Expenditure on e-tickets was \$3.1 million in 2015-16.
117. Defence’s practice is to have delegated e-ticket account holders manage the cards as valuable items which includes securing them in safes and being issued on a signed for basis.
118. A review of the 208 e-tickets accounts has determined that adequate controls are in place.
119. Joint Operations Command Operations has informed personnel of the trial to use the Defence Travel Card in lieu of e-tickets for travel associated with Joint Operations Command led operations and exercises. (Attachment K).
120. The Department of Defence has two Fastcards (Cabcharge cards) on issue. One card held by the Minister for Defence (Senator the Hon Marise Payne) and one held by the Minister for Defence Industry (the Hon Christopher Pyne MP).
121. These Fastcards are only used by the Ministers for official Defence purposes and in 2015-16 the total expenditure was \$966.
122. The Department of Finance advised Defence in 2016 that under the Ministers' and Parliamentary Secretaries' Entitlements Handbooks, the cost of car transport for Ministers and Assistant Ministers is the responsibility of the respective portfolio agencies. Procedurally, Ministerial and Parliamentary Services (M&PS) in Finance issues Cabcharge cards to Senators and Members on their commencement. Should a Senator or Member be sworn in to the Ministry, M&PS will charge any further costs incurred through that Cabcharge card to the portfolio agency, until such time as the agency issues a new Cabcharge card to the office holder.
123. Further, the Handbook for Entitlements for Senators and Members issued by the Department of Finance states that all Senators and Members are issued with a Cabcharge card by Ministerial and Parliamentary Services. The Handbook goes on to state that this card is the preferred

method for payment for taxi travel allowed for under the handbook (Paragraph 4.3.2). The Ministers of State Entitlement Handbook states that “(A) Minister’s portfolio department meets the cost of all official Ministerial car transport, except for the Parliamentary Shuttle Service (which is paid for by Ministerial and Parliamentary Services) (Paragraph 4.4.5).

124. CFO systems accounting controls are now in place. A reconciliation process for Cabcharge payments is undertaken each month. The outcomes of the reconciliation process is then used for reporting and monitoring.
125. In November 2016, Cabcharge introduced two enhanced products FLEXeTICKET and personalised Fastcards. This provides controls on the single use card in relation to maximum spend, expiry period and the time, and days of use. Defence is considering the introduction of these products. This will allow Defence to implement the desired controls over single use Cabcharge.

### Appendix 3

#### **Defence submission in relation to Inquiry Terms of Reference (c) - “controls in place on the use of fuel cards for commercial and military vehicles, including compliance testing of the assurance framework”**

126. Defence Fuel cards are utilised for the commercial fleet, the military vehicle fleet and for General Service Equipment such as chainsaws and generators. The current number of cards on issue to all assets and vehicles is 27,257 and the expenditure to 31 December 2016 was \$17.5 million with 69,499 transactions in the same period.
127. Since commencement of the Australian National Audit Office Performance Audit in mid 2015, a single Defence wide fuel card system has been fully implemented by Fuel Services Branch as part of the Whole of Australian Government contract with SG Fleet. This includes the incorporation of the ‘green’ fleet vehicles and assets to the WoAG contract. The standard procedure for Government departments is to have SG Fleet provide a fully maintained fuel management service including the cost of fuel. Defence differs from SG Fleet arrangements with other Commonwealth Departments in that Defence utilises fuel cards at both ‘on base’ POL points and at commercial outlets. Fuel is provided under Defence’s broader fuel supply arrangements which leverages better value for money fuel prices direct with suppliers.
128. SG Fleet has been contracted by Defence to provide a complete fuel card management and administration function for all Defence vehicles. SG Fleet is responsible for comprehensive end to end fuel card management: fuel card ordering, fuel card delivery, fuel card file uploads, cancelling and replacing fuel cards and exception reporting. Through adoption of the Whole of Australian Government contract, Defence can now obtain Exception reports on a daily basis and Ad-hoc reports that were previously not available. Through SG Fleet, Defence has been able to enact a new Defence Fuel Card policy – that of one card to one vehicle which has in turn allowed for the creation of the following reports: listing of all assets for which a Defence fuel card has been issued; fuel card transactions now linked to an individual asset and vehicle optimisation data (kilometre travelled between refuels, carbon dioxide emissions per white fleet vehicle only).
129. In October 2016, the Australian National Audit Office removed the Category C finding based on the positive improvements in the management of fuel cards by Defence.
130. In closing the Category C finding, the Australian National Audit Office recommended that Defence conduct a follow-up review of the progress of the fuel management arrangements in the 2016-17 financial year.

Audit and Fraud Control Division commenced this review in November 2016 and the findings of the review are contained within (Attachment D).

### **Exception Reports**

131. SG Fleet is contracted to issue Exception Reports from their information technology system (Fleetintelligence) on a daily basis to Unit Points of Contact which is a direct outcome of the new arrangements. SG Fleet monitors and vets Unit returns to ensure a reasonable explanation to the exception is acceptable. If there is doubt to the validity of the explanation or to escalate the exception, SG Fleet will inform nominated Group and Service Headquarter representatives or Fuel Services Branch for further investigation into potential theft or fraud. To further enhance exception reporting, Fuel Services Branch in collaboration with SG Fleet is currently developing a periodic exception reporting regime. This is to inform Defence's senior stakeholders areas of non-compliance and expedite remediation to capitalise on Defence's capability through improved fuel card management.
132. The main exception reports the Australian National Audit Office have commented on are as follows:
  - a. Invalid Odometer Report – this report is a standard SG Fleet maintenance report to monitor the Defence Owned White Fleet (commercial) vehicles (and a small number of leased vehicles) which are maintained and serviced through Fleet intelligence (a consistent approach for all Government departments under the Whole of Australian Government contract). Military vehicle maintenance and servicing is currently managed and recorded in the Military Integrated Logistics Information System. As at 10 January 2017, there are three invalid odometer readings being reported as an exception for the White Fleet.
  - b. Excessive Fuel (Overfill) Report – currently there are a number of contributing factors resulting in the number of these exceptions. The main factors include SG Fleet not receiving timely updates from Fleet Managers of modifications or additional tank capacities to the Military vehicle and multiple vehicles are being refuelled at on and off base facilities using a single fuel card (vehicle convoys or base Ground Service Equipment). As such, the risk of fraudulent activity is assessed as low by Fuel Services Branch. As at 10 January 2017, there are 323 transactions being investigated.
  - c. Three or More Transactions in a 24 Hour Period Report – this report identifies multiple transactions in a 24 hour period. The Unit Transport Manager is to provide documentary evidence to mitigate the multiple fills identified as exceptions to SG Fleet. SG Fleet has the

ability to escalate unacceptable responses to nominated Group/Service points of contact or to Fuel Services Branch. As at 10 January 2017, there are 257 transactions being investigated.

- d. Infringement Report – as at 1 December 2016, SG Fleet have twelve infringements outstanding where the individual driver is to be identified. SG Fleet is currently investigating these infringements with the assistance of the unit responsible for the vehicle. Once the driver is identified, the infringement will be re-issued to the driver. Over the previous 12 month period, outstanding infringements have dropped from 271 to 12. As at 10 January 2017, there are six infringements being investigated.

### **Defence Fuel Card and PIN**

133. A Personal Identification Number needs to be entered to use each card for off base purchases at commercial retail fuel outlets. The same card is used for on base supplies from Defence owned fuel installations. There are 22,779 active Defence Fuel Cards issued to 16,931 vehicles only. The cards are directly linked to a single vehicle and fuel type, with Caltex being the main provider. While the majority of vehicles only have a single fuel card, multiple fuel cards can be issued, following receipt of an approved business case, to a vehicle, especially those vehicles in remote or travelling to remote locations. These vehicles may have an additional BP and or Shell Fuel Card. All Defence fuel cards exclude any other commodities or services other than fuel type and authorised additives being charged to the fuel card.
134. The PIN was reset for all Defence fuel cards on 1 March 2016 to a unit specific PIN. Defence working with SG Fleet have initiated controls to reduce the risk of theft or fraud by reducing a vehicle specific limit based on each vehicle's fuel capacity allowing three full tank refills per day for commercial vehicles and four full tank refills per day for military vehicles. Additionally, the fuel card will be suspended after three unsuccessful PIN attempts. It should also be emphasised that every fuel card is now assigned to a specific vehicle registration to afford an unprecedented level of accounting scrutiny by SG Fleet and Fuel Services Branch to detect fraudulent activity.
135. Notwithstanding these much improved security arrangements Fuel Services Branch continues to work with the fuel service providers and SG Fleet to improve the PIN management system which may include a future technological solutions.

## **Defence Fuel Card Assurance**

136. The Defence fuel card management assurance framework was implemented in April 2015, resulting in the amendment of several key policies on fuel card management to improve controls and guidance to fuel card managers and users. The monitoring of the assurance framework is an on-going process.
137. Additional amendments to the Defence Electronic Supply Chain Manual (ESCM) were included on 1 July 2015, to provide guidance to unit transport managers on the use of Defence fuel cards and exception reporting. The guidance focuses on access to and use of exception reporting, proper use of monthly vehicle logs, the capture of accurate odometer readings, unit fleet handover/takeover responsibilities, the annual census of Defence fuel cards to vehicles, the removal of fuel cards on vehicle disposal and business continuity downtime procedures to ensure the capture of fuel issues when IT systems are offline.
138. Fuel Services Branch continues to review the effectiveness of the assurance framework by monitoring feedback from units and by identifying issues and trends using SG Fleet exception reports to improve controls and guidance for fuel card managers and users. The framework was documented and published in the ESCM to give formal authority across Defence on 1 March 2015, with subsequent updates for each ESCM version release.
139. Business Process Testing (BPT). Formal BPT audits commenced in September 2015 by Fuel Services Branch. 20 sites were audited between September 2015 and November 2016; testing did not reveal any potential fraud or theft. The major issues identified relate to roles and responsibilities of all participants in the fuel card management chain.
140. The audit program for the remainder of financial year 2016-17 will continue to audit large fleet locations based on risk and performance using intelligence from fuel card exception reports. By 30 June 2017, approximately 6,000 or about 22 per cent of total cards issued have been included as part of a rolling statistical sample audit. Defence is expanding its audit capacity by incorporating fuels card audits as part of its broader logistics business process-testing regime.
141. The results from site visits made it necessary for Fuel Services Branch to engage Defence Learning Branch for the development of an on-line training regime for managers/supervisors and drivers in the use and management of fuel cards. Fuel Services Branch has reviewed drafts of these courses. The Driver's course is expected to be rolled-out before early 2017.

## **Remediation - 2017**

142. Fuel Services Branch will continue to drive improvement in the management of Defence Fuel Cards which will in turn remediate the Australian National Audit Office findings and further reduce the risk of any potential theft or fraud. As a matter of priority the following will be addressed by Fuel Services Branch:
- a. to demonstrate with confidence to the Australian National Audit Office that the Defence Fuel Card Assurance framework initiated by Fuel Services Branch in 2015 is continuing to drive improvement at unit level through an unprecedented level of Business Process Testing, mentoring and education and training of individual staff;
  - b. to continue to apply scrutiny to the exception Reports provided by SG Fleet;
  - c. to work with the fuel service providers and SG Fleet to improve the PIN management system which may include a future technology solutions;
  - d. to explore technology solutions to replace manual paper based procedures used to track vehicle operating statistics including the identity of the assigned driver;
  - e. to finalise the development of two online 'CAMPUS' courses to provide training and education targeting the use of Defence Fuel Cards by Unit Transport Managers and Drivers; and
  - f. continued engagement with internal stakeholders to refine processes and procedures.
143. Audit and Fraud Control Division are currently undertaking an internal audit into the management of Fuel Cards and related compliance arrangements (Attachment D). The scope of the audit includes the status of the management actions taken in response to the Australian National Audit Office audit and previous internal audit; and the controls over the storage, issue and return of fuel cards, and their use. The assurance arrangements in relation to traffic infringements picked up through the arrangements with SG Fleet are also in scope.

## Appendix 4

### **Defence submission in relation to Inquiry Terms of Reference (d) - “implementation of the Department of Defence's new governance arrangements for credit card management”**

144. The Department of Defence enhanced the Credit Card Governance in January 2016 (Attachment B). The key features being:
- a. The Card Application Processing System initiates automatic cancellation of credit card based on matching of card holders with daily feed from Defence employee data.
  - b. Monthly review of credit card transactions for pre-defined high risk merchant categories. (Attachment L)
  - c. Credit cards that are not activated within 90 days are cancelled. (Attachment M)
  - d. Inappropriate merchant codes are blocked (Gambling and Pornographic sites). (Attachment L)
  - e. All new credit cards are issued with default spending limits unless Group Chief Finance Officers or their delegates provide a business case and approval for a higher spending limit. The revised AE602 form has a number of controls. (Attachment N)
  - f. The card application requests and amendments are made via electronic forms. These forms include digital signatures. Digital signatures provide proof that the form was submitted / approved by a particular individual.
  - g. Card applications identity checks are automatically reviewed by the system. A properly submitted card application will be automatically approved if it passes a series of control tests:
    - The application is (digitally) signed;
    - The applicant does not already have a card (of the type applied for);
    - The applicant is entitled to a card (of the type applied for);
    - The name on the application form matches the Employee ID (HR File lookup – Surname and given name checked);
    - The date of birth on the application form matches the HR file date of birth;
    - The gender on the application form matches the HR file gender (Defence Travel Card only);
    - A valid address is available on the HR file;
    - A valid contact number is available on the HR file;
    - A valid Card Management System user has been provided (required to allocate the card in the Card Management System);
    - A valid default company/cost centre has been provided (required to allocate the card in the Card Management System).

- h. Where an application is not auto-approved it requires the review of a card administrator.
  - i. Cards are only issued to entitled personnel based on employee type and type of card applied for.
  - j. The system will not allow the approval of an application for an applicant already having an active card of the type applied for.
  - k. All new cards are issued with standard approved limits (\$10,000 for Defence Purchasing Card and \$30,000 for Defence Travel Cards).
  - l. Access to cash for Defence Purchasing Card is by defaulted to zero and not enabled at time of application.
  - m. Access to cash for Defence Travel Card is enabled at time of application.
  - n. Address and contact details are sourced from employee data received daily. Applicants provide basic identity data which is cross referenced to the human resource data – the primary purpose of this is to ensure the provided employee details are correct.
  - o. The primary means of applying for a limit change is via an electronic form. Limit change applications are to be justified and signed by the applicant and approved by the relevant Group Chief Finance Officer. Limit changes are reviewed by a card administrator prior to being actioned.
  - p. Contact details (address telephone and email) can be amended by the cardholder (or the appointed accountholder in the card management system), a card administrator or the card issuers (Diners / ANZ) when in contact with the cardholder after a confirmation of identity. We are currently transitioning to contact details being updated only through Defence HR systems.
  - q. Identity details (Employee ID, title and names) can be amended by a card administrator. Defence is currently transitioning to identity details being updated only through Defence HR systems.
  - r. Cardholders who do not activate their cards within 60 days of issue (Defence Travel Card only) are contacted and given a further 30 days to activate their card. Cards remaining un-activated after 90 days are cancelled.
  - s. Cards are automatically cross referenced with the Human Resources file and any active card where the employee is no longer on the Human Resources file or the entitlement to have the card no longer exists will be cancelled (automatic for Defence Travel Card, weekly for Defence Purchasing Card). At the request, Card administrators will cancel cards with a valid reason to do so.
145. The Credit Card Governance framework is in accordance with Defence's Accountable Authority Instructions and Defence Instructions and manuals. Accountable Authority Instructions Chapter 5 (Attachment O)

articulates spending limits, monitoring of merchant categories and activation of cards specifically contained within Finance Manual 5.

## Individuals eligible to use Defence issued credit cards

146. Table 13 below lists types of individuals and whether they are entitled to use a Defence issued credit card.

Table 13 individual types entitled to use a Defence issued credit card

	Defence Travel Card - Issued and/or useable	Defence Purchasing Card	Defence Fuel Card	Cabcharge Fast Cards	Cabcharge e-ticket
Australian Public Service (APS) <sup>2</sup>	Yes	Yes	Yes	Yes <sup>1</sup>	Yes
APS - under 18	No <sup>7</sup>	No <sup>9</sup>	Yes	Yes <sup>1</sup>	Yes
Australian Defence Force (ADF) - permanent and regular. (i.e. Full Time) <sup>3</sup>	Yes	Yes	Yes	Yes <sup>1</sup>	Yes
ADF - permanent and regular - under 18 <sup>3</sup>	No <sup>7</sup>	No <sup>9</sup>	Yes	Yes <sup>1</sup>	Yes
ADF - Reservist on Continuous Full Time Service <sup>3</sup>	Yes	Yes	Yes	Yes <sup>1</sup>	Yes
ADF - Reservist on Continuous Full Time Service - under 18 <sup>3</sup>	No	No <sup>9</sup>	Yes	Yes <sup>1</sup>	Yes
ADF - Reservist - On Duty <sup>3</sup>	Yes	Yes	Yes	Yes <sup>1</sup>	Yes
ADF - Reservist - On Duty - under 18 <sup>3</sup>	No <sup>7</sup>	No <sup>9</sup>	Yes	Yes <sup>1</sup>	Yes
ADF - Reservist - Not on Duty <sup>3</sup>	No <sup>12</sup>	No <sup>12</sup>	NA	No <sup>12</sup>	No <sup>12</sup>
Potential Recruit for the ADF (permanent, regular or reserve) <sup>4</sup>	No	No	No	No <sup>1</sup>	No
Foreign Military <sup>4</sup>	No	No	Yes <sup>10</sup>	No <sup>1</sup>	No
Cadets <sup>5</sup>	No	No	No	No <sup>1</sup>	No
Cadet instructors <sup>5</sup>	No	No	Yes <sup>10</sup>	No <sup>1</sup>	No
Cadet officers <sup>5</sup>	No	No	Yes <sup>10</sup>	No <sup>1</sup>	No
Contractors <sup>6</sup>	No	Yes <sup>11</sup>	Yes <sup>10</sup>	No <sup>1</sup>	Yes <sup>11</sup>
Contractors - under 18 <sup>6</sup>	No <sup>7,8</sup>	No <sup>9</sup>	Yes <sup>10</sup>	No <sup>1</sup>	Yes <sup>11</sup>

<sup>1</sup> Department policy (under Review)

<sup>2</sup> Officials under section 13 PGPA Act

<sup>3</sup> Officials under PGPA Rule s9(1) Item 3 in the table

<sup>4</sup> Not officials under the PGPA Act

<sup>5</sup> Officials under PGPA Rule s9(2) Item 2 in the table

<sup>6</sup> Officials under PGPA Rule s9(1) Item 1A in the table

<sup>7</sup> Diners do not issue cards to under 18

<sup>8</sup> FINMAN 5 chapter 5 [5.2.12.6] prevents holding and use.

<sup>9</sup> ANZ do not issue cards to under 18)

<sup>10</sup> DTRM Chapter 5 5.3 and Chapter 11. ESCM V05 S07 C01B1 Paragraph 7.

<sup>11</sup> Where "prescription" requires that they hold a card to exercise task 7

<sup>12</sup> Departmental policy that cards cannot be retained while not on duty

<sup>13</sup>

147. The Department of Finance advised Defence in 2016 that under the Ministers' and Parliamentary Secretaries' Entitlements Handbooks, the cost of car transport for Ministers and Assistant Ministers is the responsibility of the respective portfolio agencies. Procedurally, Ministerial and Parliamentary Services in Department of Finance issues Cabcharge cards to Senators and Members on their commencement. Should a Senator or Member be sworn in to the Ministry, Ministerial and Parliamentary Services will charge any further costs incurred through that Cabcharge card to the portfolio agency, until such time as the agency issues a new Cabcharge card to the office holder.
148. Further, the Handbook for Entitlements for Senators and Members issued by the Department of Finance states that all Senators and Members are issued with a Cabcharge card by Ministerial and Parliamentary Services. The Handbook goes on to indicate that the Fastcard is card is the preferred method for payment for taxi travel allowed for under the handbook (Paragraph 4.3.2). The Ministers of State Entitlement Handbook states that “(A) Minister’s portfolio department meets the cost of all official Ministerial car transport, except for the Parliamentary Shuttle Service (which is paid for by Ministerial and Parliamentary Services) (Paragraph 4.4.5).
149. The Enterprise Business Committee agreed in October 2016 there will no longer be a requirement for Card Management System Supervisors to approve Defence credit card transactions in Card Management System. (Attachment P)

## Appendix 5

### Defence submission in relation to Inquiry Terms of Reference (e) - “legislative requirements and framework set out in the *Financial Management and Accountability Act 1997* and its successor, the *Public Governance, Performance and Accountability Act 2013*”

#### **A. The Financial Management and Accountability Framework**

150. The Financial Management and Accountability framework was comprised of the *Financial Management and Accountability Act 1997* and the *Financial Management and Accountability Regulations 1997*. The Financial Management and Accountability framework dealt with credit card issues in sections 38 ‘Finance Minister may borrow for short periods’ and 60 ‘Misuse of Commonwealth credit cards’. The Financial Management and Accountability Regulations covered credit cards in Financial Management and Accountability Regulation 21 ‘Credit cards’.
151. Under the Financial Management and Accountability framework, the Department of Finance issued whole-of-government policy in the ‘Financial Management Guidance’ series of publications.
152. Defence complied with the requirements of the Financial Management and Accountability framework and the Financial Management Guidance series through the:
- a. Chief Executive Instructions. The Chief Executive Instructions were issued by the Secretary of Defence and covering matters relating to the Financial Management and Accountability framework;
  - b. Financial Delegations Manual (Attachment Q). Financial Delegations Manual 2 sets out the financial delegations issued by the Secretary as Chief Executive of Defence under the Financial Management and Accountability framework and detailed (among other things) which officials could enter into credit card arrangements and who could approve the spending of public money and the financial limits and conditions under which they could do it; and
  - c. Financial Management Manual (FINMAN 5) (Attachment R). FINMAN 5 provided detailed guidance and instructions on the matters set out in the Chief Executive Instructions
153. The Financial Management and Accountability framework was superseded with effect from 1 July 2014, when it was succeeded by the Public Governance, Performance and Accountability framework.

#### **B. The Public Governance, Performance and Accountability Framework**

154. From 1 July 2014, the Public Governance, Performance and Accountability framework has been primarily comprised of the *Public*

*Governance, Performance and Accountability Act 2013* (Public Governance, Performance and Accountability Act) and the *Public Governance, Performance and Accountability Rule 2014* (Public Governance, Performance and Accountability Rule).

155. The Public Governance, Performance and Accountability Framework requires officials (for Defence, employees of the Australian Public Service (Australian Public Service) and the Australian Defence Force (Australian Defence Force)) to ensure that public resources (including money) are used in a 'proper' manner. Section 8 of the Public Governance, Performance and Accountability Act defines 'proper' as meaning 'efficient, effective, economical and ethical'.
156. The Public Governance, Performance and Accountability Act deals with credit-card related issues when it provides for the following matters:
  - a. duties and powers of Accountable Authorities (the former Chief Executives under the Financial Management and Accountability framework) – sections 15, 16 and 20A;
  - b. powers and duties of officials – sections 23 and 25 to 28; and
  - c. borrowing by the Commonwealth – sections 56 and 57 and section 21A of the Public Governance, Performance and Accountability Rule.
157. The Department of Finance has issued whole-of-government policy guidance on matters covered by the Public Governance, Performance and Accountability framework. This guidance (the Resource Management Guides is available on the Department of Finance's public website. The Resource Management Guide of most relevance to credit cards is Resource Management Guide 416 'Facilitating Supplier Payment Through Payment Card'. Attachment A.
158. Resource Management Guide 416 requires government departments (or 'Non-Corporate Commonwealth Entities' under the Public Governance, Performance and Accountability Framework) to establish processes that:
  - a. promote payment cards as a preferred option for eligible payments to suppliers valued at less than \$10,000;
  - b. provide suppliers with the opportunity, to the extent practicable, to request payment via a payment card for amounts below \$10,000;
  - c. require the Non-Corporate Commonwealth Entities to make payments via a payment card where requested to for eligible payments: and
  - d. require payment to be made via cards where the:
    - 1) payment is under \$10,000 (inclusive of Goods and Services Tax and merchant service fees);
    - 2) supplier can accept payment via a card; and
    - 3) merchant service fees charged are reasonable and sufficiently disclosed.

159. Defence complies with the requirements set out in Resource Management Guide 416 through the following:
  - a. the issuing by the Secretary of Defence (as the accountable authority of Defence under the Public Governance, Performance and Accountability framework) of Defence's Accountable Authority Instructions (Accountable Authority Instructions);
  - b. the issuing by the Secretary of Defence of a structure of financial delegations (the Financial Delegations Manual (FINMAN 2)); and
  - c. the issuing of Defence's Financial Management Manual (FINMAN 5) that provides detailed guidance and advice on the matters covered by Defence's Accountable Authority Instructions and FINMAN 2 Attachment Q.
160. Defence's requirements relating to credit cards are primarily set out in Accountable Authority Instruction 5 'Commonwealth credit cards and credit vouchers' and FINMAN 5 chapter 5 'Commonwealth credit cards and credit vouchers'.
161. Accountable Authority Instruction 5 Chapter 5 of the Accountable Authority Instructions provides instruction to officials about the use of credit cards and Chapter 5 of FINMAN 5 describes processes and procedures to provide guidance for officials to achieve the policy outcomes described in Accountable Authority Instruction 5 and Resource Management Guide 416.
162. Defence has implemented a number of new control measures to ensure that it meets the above requirements about the use and governance of credit cards. These control measures include revised card limits, revocation after 90 days if the card has not been activated, continuing reviews of high risk merchant categories and sampling performed on a monthly basis.

**Annexes:**

- A. Financial Control Framework prior to audit
- B. Financial Control Framework Current
- C. Fuel Control Framework
- D. Fuel Control Framework Current
- E. Administration Controls including the Corporate Card management quality assurance manual
- F. Defence Information Systems controls
- G. Defence Information Systems controls Current
- H. Compliance and Forensic Accounting framework

**Attachments**

- A. Resource Management Guide No. 416 'Facilitating Supplier Payment Through Payment Card'
- B. Department of Defence Credit Card Governance January 2016
- C. Enterprise Wide Defence Credit Cards Fraud Risk Assessment
- D. Audit Task – Management of Fuel Cards and related Compliance Assurance
- E. Merchant Codes Blocked as Inappropriate
- F. Control Effective Testing Report
- G. Credit Card and Defence Financial Risk Controls Framework
- H. Evidence collaboration with Audit and Fraud Control Division
- I. Monthly Financial Assurance and Compliance Report – September 2016
- J. SWCRT September /October Reports
- K. DEFGRAM 613/2016 Use of Defence Travel Card Management System
- L. Defence Merchant Reporting Categories
- M. Card Activation Email
- N. AE602 Form Credit Card Application and Limit Amendment
- O. Accountable Authority Instruction Chapter 5 'Commonwealth credit cards and credit vouchers'
- P. DEFGRAM 461/2016 Card Management System
- Q. Financial Delegations Manual FINMAN 2
- R. Financial Management Manual FINMAN 5