Audit of The Department of Administration – Procurement Services-Procard Program

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Office of the Comptroller

February 28, 2013

To the Honorable
The Common Council
City of Milwaukee

Dear Council Members:

The attached report summarizes the results of our Audit of the Department of Administration - Procurement Services (Procurement) Procard Program. The objectives of the audit were to evaluate the adequacy of internal controls over card issuance, purchasing guidelines, and review of purchases with regard to the Procard program, to assess the adequacy and efficiency of Procurement's secondary review of Procard purchases, and finally to evaluate individual Procard holder and department compliance with purchasing guidelines of the Procard program including the timely and accurate recording of journal entries in FMIS.

Procurement has defined procedures for recording expenditures in the City's general ledger. The audit determined that there are opportunities for improvement in the processes and controls of the Procard program. This audit makes four recommendations to ensure that there are proper controls and notes two observations.

Audit findings are discussed in the Audit Conclusions and Recommendations section of this report, which is followed by Procurement's response.

Appreciation is expressed for the cooperation extended to the auditors by the staff of Procurement and all City departments that were involved in the audit.

Sincerely,

Aycha Sirvanci, CPA
Audit Manager

AS:pad

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I. Audit Scope and Objectives

The audit examined procedures and controls over the Procard Program administered by Procurement. The audit included all Procard transactions, all Procard Payment Reports prepared and processed by all departments of the City, and all journal entries to account 143104 for the period September 1, 2011 through August 31, 2012. The audit also included interviews of Procurement personnel responsible for administering the Procard program; reviews of Procurement files, Procard instructions and training materials; interviews of personnel responsible for Procard activities in the Police Department, Fire Department, Department of Public Works – Fleet Services, Health Department, Mayor's Office, Department of Public Works – Forestry, Employes' Retirement System, and Fire and Police Commission. Information was extracted from the JP Morgan Chase Procard system, Provalue System, for sampling and verification to source documentation and obtained from eVault, the City's record retention system, and City departments. The audit also examined the timeliness and accuracy of journal entries into the City's accounting system, the Financial Management Information System (FMIS). The Audit Division believes that the evidence obtained provides a reasonable basis for the audit's findings and conclusions based on the audit objectives.

The scope of this audit excluded procedures and reports used to determine what, when, and how much departments purchased and whether quantities purchased are appropriate. The audit did not include an independent review of the system controls of the Provalue System. Transaction testing did not rely on system controls of the Provalue System; therefore, this was not a scope limitation.

The objectives of the audit were to:

- Evaluate the adequacy of internal controls over card issuance, purchasing guidelines, and review of purchases with regard to the Procard program.

- Evaluate the adequacy and efficiency of the Procurement secondary review of Procard purchases.

- Evaluate individual Procard holder and department compliance with purchasing guidelines of the Procard program including the timely and accurate recording of journal entries in FMIS.

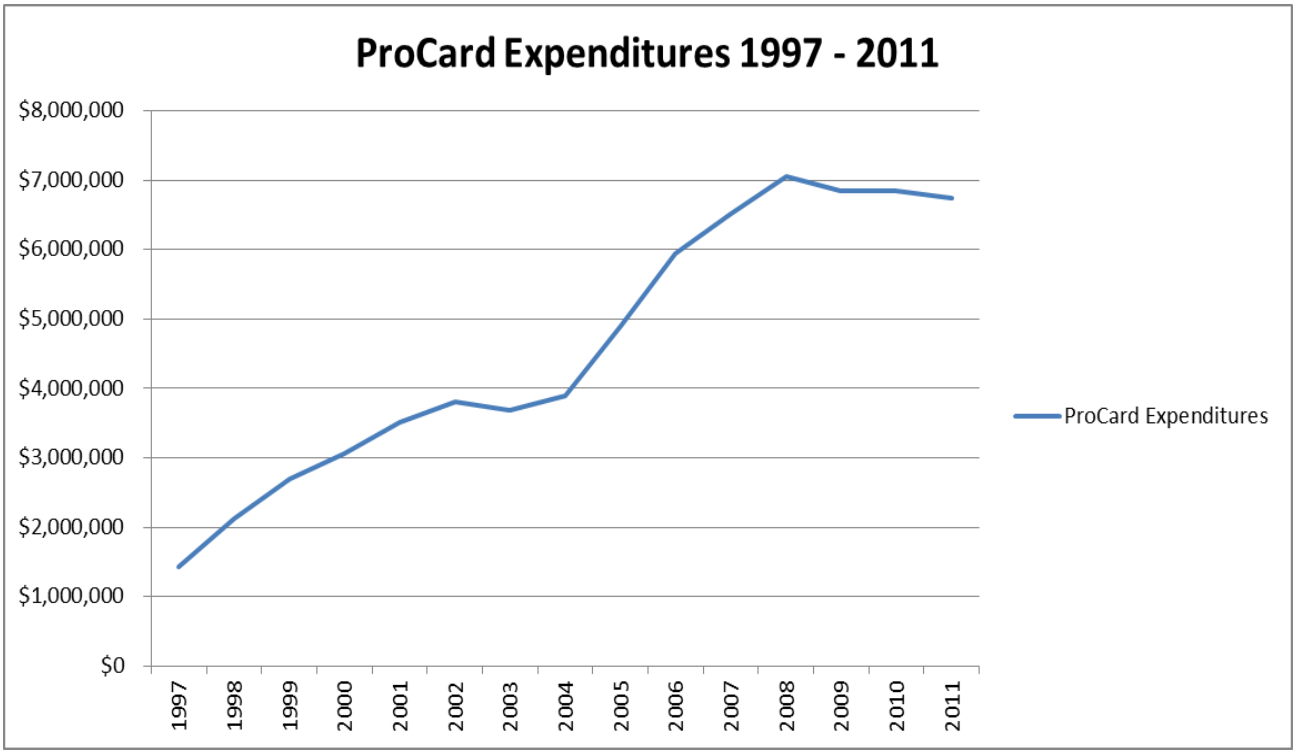
II. Organization and Fiscal Impact

The City of Milwaukee's procurement card program, known as Procard, was designed as an efficient means for purchasing low dollar value items, such as non-inventory items and non-equipment funded items that were previously purchased with petty cash. In 1997, the Procard program was implemented in selected departments and expanded to all departments in 1998. In 2011, the program was modified to accept purchases from any vendor accepting MasterCard removing the need for a Valued Supplier List.

The program is operated through a contract with JP Morgan Chase with administrative oversight by Procurement. The day to day administration of the Procard program is decentralized in the transaction execution. Review and approvals, and documentation are maintained by the individual departments. JP Morgan Chase provides the Procards, makes payments to vendors and operates a computerized information system, Provalue, that provides operational and control reports to Procurement. JP Morgan Chase also furnishes the City with an annual rebate for Procard purchases based on dollar volume of transactions.

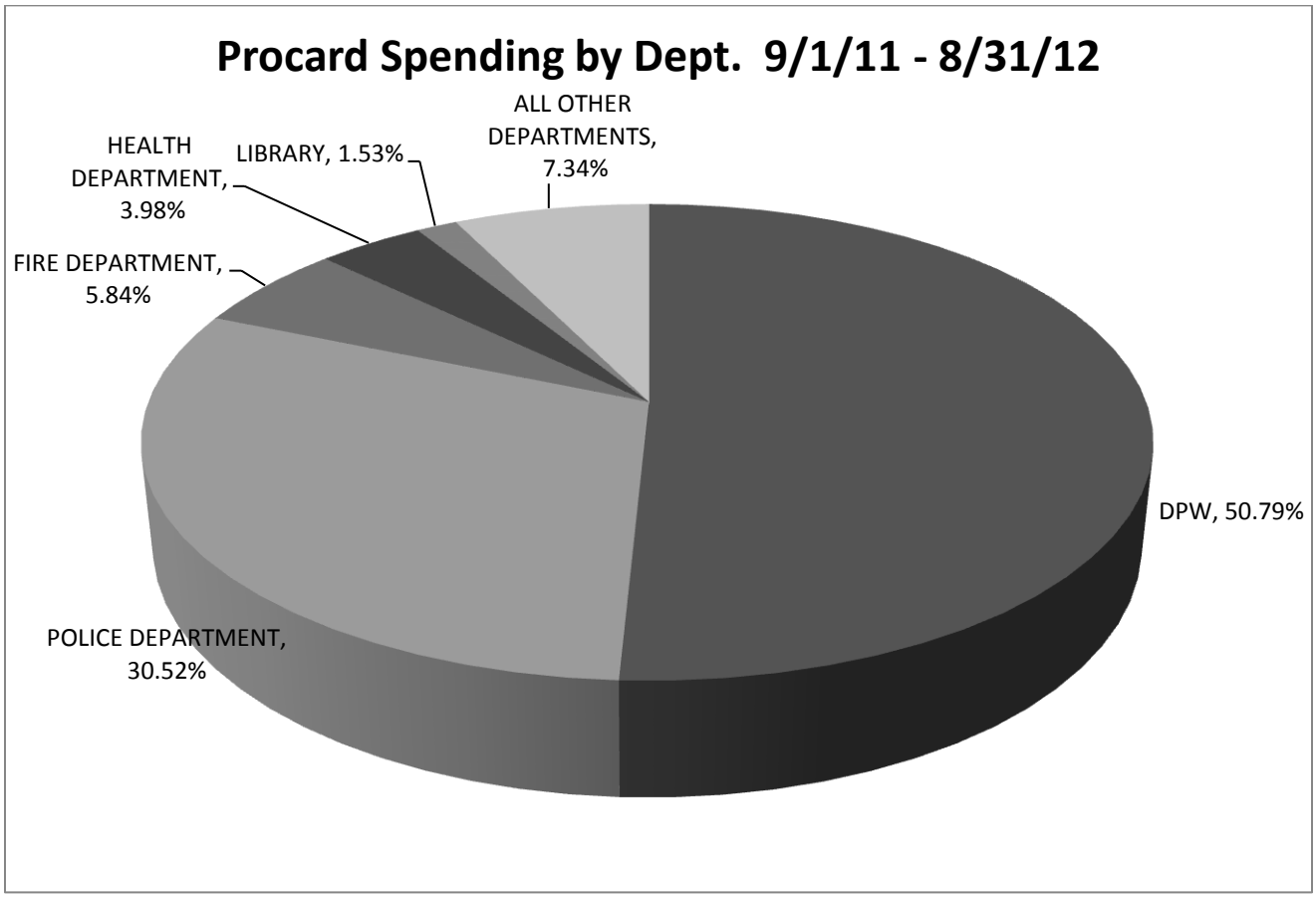
Currently, there are three types of Procards. The three types are the traditional Procard that only allows the Procard holder to purchase supplies and services, the travel Procard that allows the Procard holder to purchase travel services in addition to supplies and services, and the OfficeMax Procard that can only be used to purchase items from OfficeMax. There is a total of 386 Procards currently in use by City employees, 298 traditional Procards, 18 travel Procards, and 70 OfficeMax Procards. In 2011, purchases of $6,742,489 were made using the Procard which is a decrease of 1.42% from the previous year's purchases. Chart 1 illustrates total Procard purchases over the last 15 years.

Chart 1



Total departmental Procard spending for the period September 1, 2011 through August 31, 2012 was $7,241,597. The largest departmental expenditures for this period were the Department of Public Works (all DPW divisions aggregated) $3,678,305, the Police Department $2,210,004, the Fire Department $422,634, the Health Department $288,372, and the Library $110,993. All other departments' Procard expenditures totaled $531,288. Chart 2 illustrates the percentage of Procard purchases by department for the period September 1, 2011 through August 31, 2012.

Chart 2



III. Audit Conclusions and Recommendations

The internal control system is crucial in a procurement card program such as the City of Milwaukee's Procard program. Internal controls are essential to discourage misuse and abuse of the Procard by City employees and vendors. Internal controls are also designed to safeguard and protect employees by defining the responsibilities of all parties involved in the program. Appropriate controls ensure that no one person initiates the transaction, approves the transaction, records the transaction, reconciles balances, and reviews reports.

The audit did not reveal any significant number of purchases that were either non-compliant or otherwise questionable in nature. However, due to the decentralized nature of the program, further improvements are necessary. This audit makes four recommendations to improve processes and controls in the Procard program.

A. Procard Controls

Inappropriate Purchases

During testing, the audit identified some purchases of unallowable items that totaled more than $1,000. A department had ordered coffee numerous times and a bookcase from OfficeMax. Bookcases are included on the "excluded office supply items for purchase from OfficeMax" list. Coffee is considered a food item. Food is included on the "Unacceptable Procard Purchase" list. Given the restrictions established by Procurement regarding appropriate Procard purchases, these purchases should not have been made using the Procard, and would be considered a violation of Procard guidelines for which disciplinary action can be taken against the card holder.

Recommendation 1: Unallowable items should be blocked from purchase using OfficeMax Procard and these items should be reviewed periodically.

The items included on the "excluded office supply items for purchase" and the "unacceptable Procard purchase" list should be blocked from being purchased from OfficeMax. These items should be reviewed periodically. By blocking items on these lists from purchase, the accidental purchase of these items will be eliminated. If the purchaser needs an item from these lists, Procurement will need to be contacted to allow the purchase.

B. Procard Administration

Personnel Changes

During the interviews of Procard users, it was identified that individuals listed in the Provalue system as Approving Officials or Procard Managers were no longer serving in these roles. The audit found that two individuals are no longer Procard Managers and one individual is no longer a Procard holder.

Recommendation 2: Procurement should send out a communication annually to all City departments to review and update the list of Approving Officials and Procard Managers.

This procedure would aid Procurement during the compliance audit to ensure that the appropriate Approving Official is signing the Procard Payment Reports. Additionally, departments should be required to submit changes to these roles as they occur.

Procurement's Compliance Review Process
Monthly, the Procard Program Administrator performs a compliance review of a random sample of 5% of the active Procard holders. After completing the review, the Procard Program Administrator completes an audit form, and sends the cardholder a summary of the results of the compliance review. The audit evaluated Procurement's compliance review process and noted the following deficiencies:

1. There are no detailed work papers supporting the conclusion reached on the Audit Form. Therefore, an independent third party would not be able to understand or form the same conclusion.
2. 16 to 18 Procard holders are randomly selected monthly to audit six months of Procard transactions. As a result of the selection process, a Procard holder can be selected several times or never selected for an audit of their Procard activity.
3. The scope of the audit is to evaluate the appropriateness of purchases only. Compliance with other Procard guidelines is not tested.

Recommendation 3: Procurement should improve the compliance review process.
Procurement should improve the compliance review" process by:

1. Preparing and retaining detailed work papers supporting the conclusion on the Audit Form so that an independent third party can understand the conclusion.
2. Auditing each Procard holder and department at least once every two years.
3. Testing compliance with all Procard guidelines such as adherence to due dates, proper approvals and sufficient documentation.
4. Performing monthly spot check of all Procard transactions.

Frequent and well-designed compliance reviews of Procard activity serve as a detective control to deter potential fraud and abuse, and ensure compliance with program guidelines.

Training
As part of the audit procedures, the auditors attended a Procard holders training session. The training did not discuss all of the items that should not be purchased with the Procard. As noted in Recommendation 1, providing thorough training to card holders on unallowable items can prevent inappropriate use of the Procard. Other opportunities for improvement to the training program were noted and are explained in detail below.

Recommendation 4: Procurement should enhance the training program for Procard holders, Approving Officials and Procard Managers.

The Procard training program should include:
1. Refresher training for all parties involved in the Procard program at least every two years to communicate any changes that have been made to the program and to reinforce program guidelines and procedures.
2. Annual review and update of training materials.

3. Periodic email notifications from Procurement to card holders, Approving Officials and Procard Managers of program changes.
4. A thorough discussion of all unallowable items.

C. Observations

The following are observations noted during the audit that may not constitute a recommendation, but Procurement should take these items under advisement.

Observation 1: **Purchasing contracted items with the Procard.**
The audit found that Procard holders are purchasing items covered by contracts because a lower price was found with another vendor. Purchasing items that are under contract with the Procard is a violation of Procard user guidelines. Procard holders contact Procurement when a better price than the contracted price is found. Procurement noted that they are made aware and will continue to follow-up as these occurrences arise.

Observation 2: FMIS journal entries are not entered by the due date.
The audit also found FMIS journal entries are not consistently entered by the due date. As a result, the Comptroller's Office keeps a list of departments that have sent in the Procard Payment Reports and makes calls to the departments that have not sent in the Procard Payment Reports.

City of Milwaukee

Department of Administration
Business Operations Division

Tom Barrett
Mayor

Sharon Robinson
Director of Administration

Rhonda U. Kelsey
City Purchasing Director

February 27, 2013

Aycha Sirvanci
Comptroller Office, Audit Section
City Hall, Room 400

Re: Response to Procard Audit Findings and Recommendations

Dear Ms. Sirvanci:

Below are the responses from the Procurement Services Section for the Audit Recommendations. I would also like to take this opportunity to thank you and your staff for the time and professional feedback you have provided for our Procurement Card (Procard) program. It was a sincere pleasure to work with you and your staff on this endeavor.

Recommendation #1 – Unallowable Items on Office Max

When the City's blanket contract for office supplies with Office Max was set up, items on the excluded list were blocked from ordering. However, due to high product turnover, new products are available for purchase before a restriction can be placed on the item. Blocking groups of items has proven difficult because Office Max groups items together in broad categories, meaning restricted and non-restricted items often fall in the same group.

Procurement will work with Office Max to block all excluded items and review the available products regularly to ensure the restrictions are being applied to new products.

Implementation Date: April 1, 2013

Recommendation #2 – Updated List of Approving Officials and Procard Managers

In the Purchasing Liaison Manual, Department/Division Heads and/or Procard Managers are instructed to report changes of Approving Officials. However, over the years, it appears that this has not always been done. Therefore, Procurement will send out a communication annually to all City departments to review and update the list of Approving Officials and Procard Managers. This will be done in February/March each year, coinciding with the refresher training course that is done at this time every two years.

Implementation Date: April 1, 2013

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Recommendation #3 – Improving Internal Audit Process

Currently, the "internal audit" process is very manual. Procurement reviews the account statement reports for the last six months of transactions for each cardholder being audited. Obtaining a copy of the paperwork submitted each pay period is very cumbersome, so they are only requested if a purchase appears questionable.

Procurement will make the following improvements:

1. Update the cardholder audit form to allow for a description of the actions performed and conclusions. *Implementation Date: April 30, 2013*
2. Perform a monthly internal audit on approximately 5% of the cardholders, ensuring that all cardholders are audited at least once every two years. *Implementation Date: April 30, 2013*
3. Review copies of the paperwork submitted for each cardholder audited. Procurement was recently granted access to E-Vault to review Procard submittals electronically, which will make the process much simpler. *Implementation Date: April 30, 2013*
4. Perform a monthly spot checks of Procard transactions. Procurement will run a monthly report that provides line item detail for many of the cardholders' transactions. Cardholders, their Approving Officials, and Procard Managers will be notified of any transactions that are not compliant with Procard guidelines. *Implementation Date: March 1, 2013*

Recommendation #4 – Enhanced Training Program

Procurement provided refresher training to all cardholders, Approving Officials, and Procard managers in March 2011 and will do so again in March 2013. This coincides with the reissuance of Procards with new expiration dates. Cardholders must complete the refresher training and complete a quiz before they can receive their new Procard. *Implementation Date: March 31, 2013*

Procurement updates its Procard training materials on an ongoing basis. A formal review of the training materials will also be done annually. *Implementation Date: May 1, 2013*

E-mail distribution lists are maintained for Procard holders, Approving Officials, Procard Managers, and the Accounts Payable staff responsible for entering Procard vouchers in FMIS. Any changes to the Procard program are sent to the appropriate e-mail distribution list(s).

A more thorough discussion of all unallowable items, including those items excluded on the office supply contract, will be added to the Procard training course. *Implementation Date: March 6, 2013*

Observation #1 – Vendor Contracts

Procurement encourages departments to purchase goods at the best price available. City-wide vendor contracts typically have lower pricing than a cardholder would find in store. However, when an item goes on sale or a cardholder finds an everyday low price on item, they are encouraged to notify Procurement. This information will be clarified in Procard training.

Implementation Date: March 6, 2013

<u>Observation #2 – FMIS Journal Entries</u>
Procurement has begun sending a due date reminder to all Accounts Payable staff responsible for entering Procard vouchers in FMIS.

Procurement will also update the Procard Payment Calendar to make the due dates clearer.

Implementation Date: April 30, 2013

Sincerely,

Cynthia M. Matz
Procurement Administrator

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