Audit of the City of Milwaukee's Procard Program

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December 4, 2019

Honorable Tom Barrett, Mayor
The Members of the Common Council
City of Milwaukee
Milwaukee, WI 53202

Dear Mayor and Council Members:

The attached report summarizes the results of the audit of the City of Milwaukee's Procard Program. The scope of the audit included examining the adequacy of internal controls over Procard administration and transaction activity from March 2017 through April 2018. The audit objectives were to:

1. Evaluate the adequacy of internal controls, policies, procedures and processes over the City's Procard Program for:
   - Department of Administration, Purchasing Division; and
   - Select City of Milwaukee Departments
2. Evaluate the appropriateness of Procard issuance, purchases, compliance with purchasing guidelines, and review of purchases.
3. Evaluate timely and accurate recording of journal entries in the Financial Management System (FMIS).

The audit concluded that the controls in place over the City's Procard Program are adequately designed and are operating effectively. The audit found that there was no fraudulent, abusive, improper or personal use of the purchasing card. However, several enhancements to controls identified to improve operational effectiveness and to eliminate the related exposure to risk. This report identifies eight recommendations to address these issues.

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

Appreciation is expressed for the cooperation extended to the auditors by the personnel of the Department of Administration, Purchasing Division.

Sincerely,

Charles Roedel

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CR/rmk

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MILWAUKEE

AUDIT REPORT HIGHLIGHTS

Audit of the City of Milwaukee's Procard Program

OBJECTIVES

The objectives of the audit were to evaluate the adequacy of internal controls, policies, procedures and processes over the City's Procard Program; evaluate the appropriateness of Procard issuance, purchases, compliance with guidelines and review of purchases; and evaluate timely and accurate recording of journal entries in the Financial Management Information System (FMIS).

BACKGROUND

The Purchasing Division is the city's centralized buying and supply management agency responsible for procuring approximately $85 million in goods and services annually and administering guidelines for the disposal of the city's surplus, obsolete and confiscated goods.

The City of Milwaukee's Procurement Card Program (Procard) was originally designed in 1996 and implemented as an economical means for purchasing low-value items in 1997. Approval was granted in 2005 to use the Procard for the purchase of equipment-funded items.

Today, departments are able to purchase certain goods and services under $5,000 using a Procard. The Procard is a procurement card that facilitates purchases by eliminating the necessity for a requisition, purchase order, invoice process and the associated paperwork through the use of a charge card.

OVERVIEW

The audit concluded that most controls in place over the Purchasing Division's procurement card program processes are adequately designed and operating effectively to ensure only City approved business purchases are made by authorized cardholders. However, some identified controls require enhancements to ensure operational effectiveness and to eliminate the related exposure to risk.

The report identified **eight** recommendations to address these issues, as summarized in the Recommendation Summary below. (Additional details regarding recommendations for improvement are provided in the Audit Recommendation and Conclusion section of the report).

RECOMMENDATION SUMMARY

1. **Enhance policies, procedures, internal controls and processes governing the Procard Program.**

   - Enhance policy and procedure manuals describing the specific steps, actions and processes to safeguard the use of the purchasing card from fraudulent, improper, intentional and/or unintentional purchases.

2. **Adopt a multi-faceted approach to monitoring and oversight of Procard activities.**

   - Streamline the monitoring/auditing process for assessing compliance with the Procard policy and procedures.

3. **Reinforce processes and controls for safeguarding the City's Procard.**

   - Risk mitigating processes and controls of inventory management and safeguarding of City issued purchasing cards should be documented and reinforced (where applicable).

4. **Reinforce processes and controls for safeguarding the City's Procard.**

   - Risk mitigating processes and controls of inventory management and safeguarding of City issued purchasing cards should be documented and reinforced (where applicable).

I. Audit Scope, Objectives and Methodology

The audit examined the City of Milwaukee's Procard Program administered by the Department of Administration, Purchasing Division. The scope of the audit included examining the adequacy of internal controls over Procard administration and transaction activity. The audit period was March 2017 through April 2018. Specifically,

- All Procard payment records and transactions from March 26, 2017 through April 7, 2018.
- All Procard applications/agreements.
- All Procard Managers and Approving Officials agreements.
- All journal entries made for Procard purchases to account 143104, March 16, 2017 through April 7, 2018.
- All City employees involved with the Procard Program administration or transaction activity.

The objectives of the audit were to:

1. Evaluate the adequacy of internal controls, policies, procedures and processes over the City's Procard Program for:
   - Department of Administration, Purchasing Division; and
   - Select City of Milwaukee Departments
2. Evaluate the appropriateness of Procard issuance, purchases, compliance with purchasing guidelines, and review of purchases.
3. Evaluate timely and accurate recording of journal entries in the Financial Management System (FMIS).

The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Internal Audit believes that the evidence obtained provides a reasonable basis for the audit's findings and conclusions based on the audit objectives.

Methodology

The audit's methodology included developing an understanding of the processes and controls over the administration and transaction activities of the City's Procard Program. Audit procedures were developed to evaluate the processes and controls necessary to meet the audit objectives and included process walk-throughs, inspection of relevant control documentation, and testing of controls.

Procedures and tests that were conducted included:

- Reviewed existing policies, procedures, agreements and guidelines relevant to the City of Milwaukee's Procard Program.
- Verified cardholder accounts for transferred, retired, or employee no longer employed with the City have been closed (deactivated).
- Confirmed the cardholder reconciled the bank statement to the Procard Payment Record and submitted an itemized receipt for the purchased transaction.
- Verified the transaction date, vendor name, and billed amount on the bank statement agreed to the transaction on the receipt.
- Confirmed sales tax was not included with the transaction; if sales tax was included, verified the cardholder requested and received a refund for the sales tax amount.
- Verified transactions to questionable vendors exhibiting characteristics of potential fraudulent, improper and abusive purchases were authorized and for City-business.
- Verified transactions to weekend, holiday and year-end spending purchases exhibiting characteristics of potential fraudulent, improper and abusive purchases were authorized and for City-business.
- Confirmed the cardholder, Procard Manager, Approving Official, or any individual performing Procard related activities met the training requirement and signed the respective agreement prior to performing related activities.
- Verified authorized spending and transaction limits agreed to the limits identified in the JP Morgan Chase Smartdata System.

II. Organization and Fiscal Impact

The Department of Administration (DOA) supports the City's mission, delivery, goals and provides planning, policy, and management functions that assist the Mayor, Common Council and City departments. Through these efforts, DOA supports the city's community goals with key functions that include providing analysis and recommendations on fiscal issues that affect the City, developing the annual city budget, influencing local, state and federal government policy actions, increasing grant funding, distributing grant funding to city agencies and neighborhood organizations, managing citywide procurement processes, supporting the growth of emerging and local businesses, and developing policy and programs for environmental sustainability. In addition, DOA is the key operating entity for the delivery of city information technology services.

The Purchasing Division (Purchasing) governed by the DOA, is the city's centralized buying and supply management agency responsible for procuring approximately $85 million in goods and services annually and administering guidelines for the disposal of the city's surplus, obsolete, and confiscated goods. The division manages the procurement process and negotiates cost savings for more than 700 requisitions received from City departments annually in a transparent, socially conscious, and ethical manner.[1]

Program Overview

The City of Milwaukee's Procurement Card Program (Procard) was originally designed in 1996 and implemented as an economical means for purchasing low-value items in 1997. Approval was granted in 2005 to use the Procard for the purchase of equipment-funded items (6800 accounts). Today, departments are able to purchase certain goods and services under $5,000 using a Procard.[2] The Procard is a procurement card that facilitates purchases by eliminating the necessity for a requisition, purchase order, invoice and the associated paperwork through the use of a credit card**.**

The program is managed through a contract with JP Morgan Chase ("Chase"). Chase provides the procurement cards, issues payment to vendors and operates a computerized information system

[1] *2018 Plan and Budget Summary, City of Milwaukee. Department of Administration, Purchasing Division, pg. 31*
[2] *Department of Administration, Purchasing Division, Programs – Procard Program*

that provides operational and control reports to Purchasing. In addition, Chase also furnishes the City with an annual rebate for Procard purchases based on the dollar volume of transactions. The City is obligated to pay JP Morgan Chase for Procard purchases within two weeks of the end of each biweekly billing cycle.

***Figure 1**: Chase JP Morgan: Commercial Banking Solutions. Purchasing Card - streamline your organization's payment process and set controls for everyday purchases - www.jpmorgan.com.*

Purchasing has the overall responsibility to manage the program and ensure that (1) training required for all cardholders, Procard Managers, Approving Officials and any other employee involved in purchasing card activities is provided, (2) a current listing of cardholders, Procard Managers and Approving Officials is maintained, and (3) monitoring/oversight and review is conducted. Purchasing uses administrators from City departments in a decentralized approach to assist with the administration of Procard activities. Specifically,

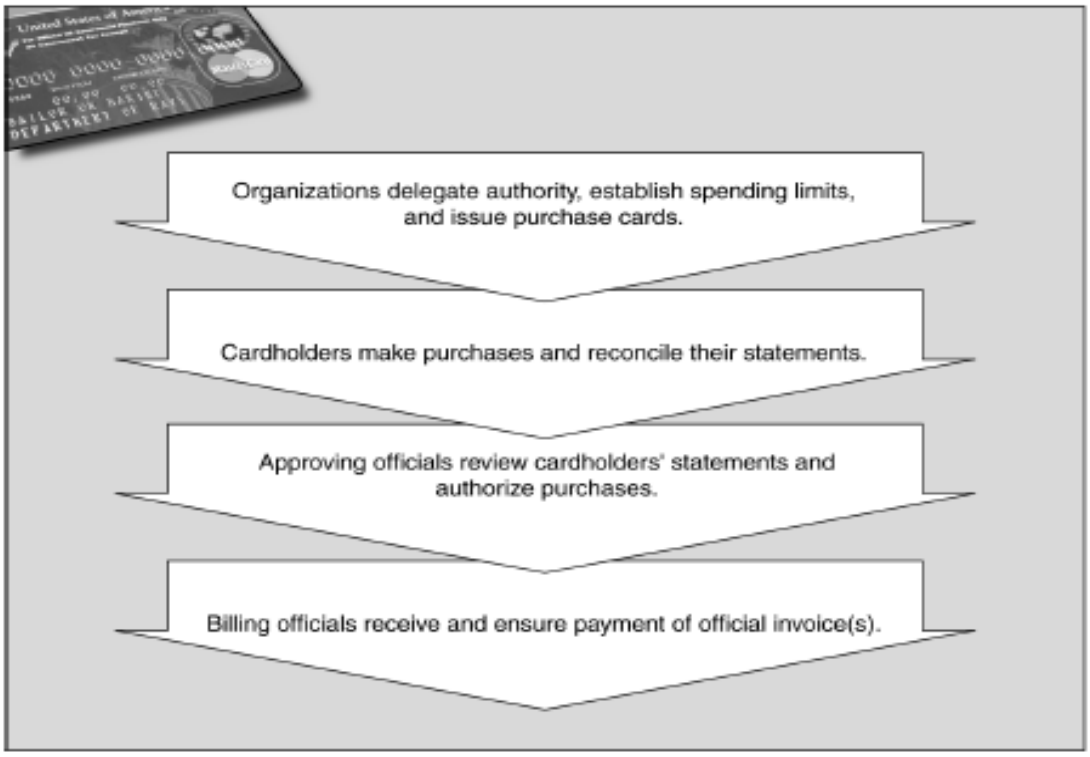
- The **cardholder** is the department employee to whom the purchase card, bearing the employee's name, is issued. The card can be used only by that employee for official City business, in adherence with policies and procedures.
- The **Procard Manager** is the primary point of contact for the department and has the responsibility to approve Procard request; monitor and/or determine appropriate cardholder limits; and verifies that statements, payment records, and receipts are reconciled.

- The **Approving Official (AO)** reviews cardholder statements, is responsible for authorizing cardholder purchases (for official use only), and ensures that statements, payment records, and receipts are reconciled and submitted to the Comptroller's Office, General Accounting for payment processing.

Though a written delegation of authority (application) process, an authorized individual (Procard Manager) from the department establishes a cardholder and specifies spending and transaction limitations unique to the cardholder.

Figure 2: Government Purchase Card Program[3]

Figure 1: Basic procedures of a government purchase card program



Source: U.S. Department of the Treasury, Financial Management Service.

[3] *U.S. Department of Treasury, Treasury Financial Manual, Vol. 1 – Part 4 – Chapter 4500, Government Purchase Cards, (Washington D.C.: May 2003)* http://www.fms.treas.gov/tfm/vol1/v1p4c450.txt

III. Audit Conclusions and Recommendations

The audit assessed the adequacy and effectiveness of the controls in place over the City of Milwaukee's Procard Program process. These internal controls provide management with assurance that processes are performed consistently and comply with applicable statue, policy, procedures, and best practices.

The audit concluded that most controls in place over the Purchasing Division's procurement card program process are adequately designed and are operating effectively to ensure only City approved business purchases are made by authorized cardholders. However, some controls identified require enhancements to ensure operational effectiveness and to eliminate the related exposure to risk.

This audit report identifies eight recommendations to address these issues.

1. Enhance policies, procedures, internal controls and processes governing the Procard Program.
2. Formalize the process to retrieve, deactivate and destroy the Procard of a former cardholder.
3. Modify the process for temporary or permanent increase to the daily and/or monthly transaction/spending limit.
4. Adopt a multi-faceted approach to monitoring and oversight of Procard activities.
5. Enhance training for all individuals performing Procard activities (cardholders, Procard Managers and Approving Officials, etc.).
6. Restructure internal controls and processes for reconciliation and timely recording of journal entries in FMIS.
7. Reinforce processes and controls for safeguarding the City's Procard.
8. Formalize a systematic process for managing, maintaining and storing Procard-related records.

Additional details regarding the recommendations for improvement are provided in the remaining sections of this report.

A. Internal Controls

Policies and Procedures

In accordance with best practice, including the National Association of Purchasing Card Professionals (NAPCP) and the *2013 COSO Framework – Principle 11*: management should implement control activities through policies and procedures that communicate what is expected and in procedures that put policies into action.

Points of focus:

- Establish a process of internal controls that is designed to provide reasonable assurance (a) that the purchase card is used efficiently, economically, effectively and legally to achieve the purpose for which the program was established and (b) in compliance with the applicable policies and procedures.
- Develop a portfolio of internal controls which are appropriate to safeguard City resources and manage against risk associated with the use of the City's purchasing card (Procard) within the department, and protected from malicious intent (e.g., fictitious transactions, unauthorized purchases).

Comprehensive written, documented policies and procedures should be developed to maintain appropriate controls, in accordance with the requirements of the purchasing card program: made accessible and communicated to all personnel; and reviewed and updated as needed. Thorough policies, procedures and processes establish management's criteria for executing City operations, outline current requirements interdependencies, risks and controls, and they can help to identify improvement opportunities as well as serve as an effective training tool for staff and faculty.

Documented policies and procedures provide oversight into standardized functions, key risks and controls that need to be monitored, simplify risk assessments, risk mitigation and audit efforts. Policies and procedures governing the procurement card program are inadequate and lack the

specific steps, actions and processes to safeguard the use of the purchasing card from fraudulent, improper, intentional and/or unintentional purchases.

Audit testing indicated that policies, procedures, internal controls and processes governing the Procard Program should be enhanced to include specific steps, actions and processes to safeguard the Procard from Procard from fraudulent, improper, intentional and/or unintentional purchases.

Specifically,

- Inadequate policies and procedures governing the use of the City's purchasing card.
- Lack of documentation/inadequate documentation of purchases.
- Inconsistent purchasing card practices within individual departments and cardholders.
- Approving Officials have statements in excess of 10 at a time to review.
- Procard is linked to cardholder personal Amazon account.
- City departments share an Office Depot purchasing card; however, one department has an employee making purchases, but has not been through the application approval process, or training. In addition, although the department head has previously been through training, she has not been designed as the Approving Official, but is signing as such and in her absence a member of the Board of Directors signs.
- There is one department that has three employees where the department head is the Procard Manager and the Approving Official and one employee who is the cardholder. In the absence of the cardholder, the department head would be signing as the cardholder, the Procard Manager and the Approving Official.

Recommendation 1: Enhance policies, procedures, internal controls and processes governing the Procard Program.

To improve the level of controls over the City's Procard Program, management should enhance policy and procedures describing the specific steps, actions and processes to safeguard the use of the Procard from fraudulent, improper, intentional and/or unintentional purchases.

Specifically,

- Instructions on employee responsibility and written acknowledgements signed by the employee.
- Ongoing training of cardholders, Procard Manager and Approving Officials.
- Spending and transaction limits for each cardholder both single and monthly.
- Written request for higher spending limits.
- Recordkeeping requirements, including review and approval processes.
- Clear guidelines on the appropriate use of the purchasing card, including approved and unapproved Merchant Category Codes (MCC).
- Guidelines for making purchases by telephone and fax, or over the Internet.
- Periodic audits for card activity and retention of sales receipts and documentation of purchases.
- Timely reconciliation by cardholders, Procard Managers and Approving Officials.
- Procedures for handling disputes and unauthorized purchases.
- Procedures for card issuance, destruction, cancellation, lost or stolen cards, and employee termination.
- Segregation of duties for payment approvals, accounting and reconciliations.
- Regular review of spending per vendor and merchant category codes.
- Require City departments to develop and document internal control procedures consistent with the City's Procard Program policies and procedures.
- Where it is determined that departmental internal controls are inadequate, the Procard Administrator have the authority to request improvements and/or place Procard restrictions on the department until such controls are established, documented and implemented.
- Inclusion of special conditions (such as travel, congratulatory & condolences flowers, meal purchases, etc.) with specific requirements listed next to each item listed. If the specific conditions are not met or the approvals are obtained after the purchase was made, the purchase may be considered unauthorized and the cardholder will be required to return all items or reimburse the City for the purchase.
- A comprehensive list of items, goods, or services prohibited for Procard purchases (cardholder with special need, should obtain authorization prior to purchase).

- Ensure that rebates from the bank are promptly deposited into the City's account; include background of the rebate, where and what monies are allocated for.
- Ensure refunds from vendors are promptly placed back on the respective card for the specific cardholder.

While the Purchasing Division has a Procard training guide, for regular and travel purchasing authority, that is distributed during training it is not well-defined or comprehensive to program requirements and Procard users are unclear on their specific program roles, responsibilities and requirements.

In addition, both citywide and departmental Procard policies and procedures should be stored in a centralized location that is easily accessible and should be updated as needed.

Cardholder Account

In accordance with best practice requirements, if a cardholder retires, transfers to another division or department, or terminates employment, the Procard Program Administrator should be notified immediately and the purchasing card should be returned for cancellation and destruction. If deemed necessary for the cardholder to obtain a new purchasing card for his/her new division or department, the Procard Manager should complete a new request form.

Testing results concluded that the Purchasing Division does not have a formal process to notify the Procard Program Administrator to retrieve, deactivate and destroy the Procard of a former cardholder. In addition, the Procard for some retired, transferred, suspended or former City employee accounts have remained active in the JP Morgan Chase Smartdata database from 365 to 1,825 days.

Specifically,

- Review of Procard cardholders who transferred to another department, retired, resigned, or terminated employee identified accounts in an active status for an employee who had been retired for at least a year or more.

- Cardholders whose employee record in the City's Human Resource Management System (HRMS) had been in a suspended status for 5 years or more; however, the Procard account is still active in the JP Morgan Chase Smartdata database.
- Cardholders who had been in a suspended status for 5 years or longer, and have recently retired, still have an active Procard account status.

Recommendation 2: Formalize the process to retrieve, deactivate and destroy the Procard of a former cardholder.

Management should formalize the process to ensure a cardholder account for an employee who retired, suspended, transferred, or terminated employment with the City are closed in the JP Morgan Chase Smartdata database.

To accomplish this, the Procard Program Administrator should:

- Work with JP Morgan Chase MasterCard to establish internal controls to decline future payments after the date the cardholder is no longer performing cardholder activities.
- Require the Approving Official to notify them in writing of an employee who no longer needs access to the Procard.
- Require the Approving Official to return the physical card to the Procard Administrator for proper destruction.
- Require the Approving Official to perform the last reconciliation of the MasterCard statement and notify the Procard Administration upon completion of the reconciliation.
- Confirm the name of the cardholder and the date in which the Procard was returned. Both the card and form should be return to the Procard Program Administrator. The Procard Program Administrator should sign and date the form confirming receipt, destruction and deactivation of the card.

Transaction/Spending Limit

In accordance with purchasing card control standards, the purchasing card and any transaction made with the card may become a liability of the government entity. For this reason, it is important

that governments be aware of the risks related to the use of purchasing cards and establish controls to address those risks. Governments need to maintain appropriate controls in accordance with their purchasing card policy to ensure the ongoing success of a purchasing card program. Such controls should include comprehensive control restrictions for single transactions, the number and amounts authorized per day and per cycle.

Audit testing indicated that there is no formal or documented process to request a temporary or permanent increase to spending limits:

- Review of cardholder weekend/year-end purchases revealed a payment voucher, bank statement, Procard Payment Record, or itemized receipt could not be located for purchase transaction sampled items selected for review.
- Sales tax was included on the receipt for cardholders with no documentation to support a refund had been requested or that a refund was received.
- There was no documentation to support transactions that exceeded daily transaction limitation and there was no documentation to support the request was authorized by the Approving Official.
- Documentation for declined transactions exceeding the transaction limitation, for both closed and active account.

Recommendation 3: Modify the process for temporary or permanent increase to the daily and/or monthly spending limit.

Management should modify the process for temporary or permanent increase to the daily and/or monthly transaction limit and the daily and/or monthly spending limit.
Consideration should include:

- Develop a spending limit increase form (the form should include the name of cardholder, spending limit increase, whether it is temporary or permanent increase, the date the request was made, the signature of both Procard Manager and Approving Official, the date the limit should be returned to its original limit, if temporary, etc.)
- Once approved, the spending limit request form should be maintained in the cardholder's file.

- If a purchase is declined, documentation indicating a purchase was declined should be placed in the cardholder file, e-mail the cardholder, cc the Procard Manager / Approving Official of the declined purchase with a recommendation to request a spending limit forms for required, necessary purchases.

B. Process Review & Compliance

In accordance with best practice requirements, including the *National Association of Purchasing Card Professionals*: management should consider the potential for fraud when identifying, analyzing and responding to risks. Monitoring purchasing card activities can provide unique insight as to which approaches are working and which present challenges. Monthly, or periodic purchase transaction monitoring not only validate program performance indicators, but can uncover new expense categories, suppliers or locations to target. A continuous review ensures that the program never stagnates. Monitoring identifies intentional deviations, such as when an employee purposely seeks to stray from a defined process for his or her own benefit. Reviewing a process for compliance helps management to affect changes when an activity does not meet or is at risk of not meeting its intended results. This step is pivotal in process management. Per referenced best practice requirements, including the *2013 COSO Framework-Principle 10*: management should select and develop control activities that contribute to the mitigation of risks to the achievement of objectives.

Points of focus:

- Control activities can include a range and variety of controls, including both manual and system automated controls, and preventive and detective controls.
- Attributes contributing to the effective design and implementation of controls:
  - Purpose - a control activity that prevents or detects issues is more precise than one that identifies and explains differences.
  - Aggregation - control activities performed at a more granular level are more precise than one performed at a higher level.

- Consistency - control activities performed routinely and consistently are generally more precise than those performed inconsistently.

Monitoring and Oversight

Audit results identified an opportunity for management to redefine monitoring and oversight of Procard activities.

- The Purchasing Division does not consistently perform monitoring/auditing of Procard activities.
- A payment voucher, bank statement, Procard Payment Record, or itemized receipt were unable to be located in e-vault for six (6) samples selected for review.
- Discussions with cardholders, Procard Managers and Approving Officials revealed that duplicate Procard payments were made by check.
- The Purchasing Division does not have a process in place requiring departments to implement process improvements consistent with requirements of the program; or to place restrictions on departments (and cardholders) until controls are established, documented and implemented.
- Departments heads are performing Procard activities as the Procard Manager, and/or Approving Official without completing the application process, the Procard Manager/ Approving Official agreement form, Procard training, and without the knowledge of the Procard Administrator.
- The Procard Administrator does not send annual communication requesting an update of any changes to departmental Procard Managers and Approving Officials.

Recommendation 4: Adopt a multi-faceted approach to monitoring and oversight of Procard activities.

Management should streamline the monitoring/audit process for assessing compliance with the Procard policy and procedures as follows:

- Revise policies, procedures and processes for monitoring cardholder, Procard Manager, Approving Official and departmental compliance with the requirements of the Procard Program.
- Perform a monthly spot check, or run a report of all Procard transactions for potential violations of the City's Procard Program.
- Perform a compliance review on each individual cardholder and department once every two years. This review should include adherence to due dates, approvals and documentation.
- Implement a corrective action process for both cardholder and department violators of the Procard Program. The corrective action should be based on the severity and frequency of violations and should include actions such as:
  - 1st Violation - email warning sent to the cardholder, Procard Manager, Approving Official, as well as the cardholder's direct supervisor.
  - 2nd Violation – enforce a suspension, equivalent to 2 business days of Procard use.
  - 3rd Violation – enforce a 10 business day suspension of Procard use.
  - 4th Violation – enforce 20 business day suspension of Procard use, require both cardholder and/or Approving Official to be retrained, require a written reinstatement letter, or dismissal from the program.
- Prepare and retain a detailed summary supporting the conclusion on the cardholder's compliance review. Documentation of the review should be placed in the respective cardholder's file.

Procard Training

In accordance with best practice requirements, including the *National Association of Purchasing Card Professionals:* effectively communicating, educating, monitoring and enforcing compliance is the ultimate challenge for sound purchasing card program management. Training is crucial for organizational development and success. It is fruitful to both employees and employers for performing a specific job task. Training molds the thinking of employees and leads to quality performance of employees. It is continuous and never ending in nature. In some cases, employers may need to document training to meet a regulatory requirement, but regulatory compliance is not the only reason to keep training records. Training documentation may be needed as part of an

internal management or quality system. In addition, prior to performing any Procard-related activities, receiving the credit card, or signing the respective agreement a City employee, including cardholders must attend Procard Training.

Audit procedures identified an opportunity for the Purchasing Division to organize and streamline the Procard Training process to boost performance, decrease the risk of errors and manage compliance with the purchasing card program.

- Training records are not consistently maintained, or easily accessible to the purchasing card administrator.
- Individuals performing Procard activities have an unclear understanding of purchasing card guidelines; receive inconsistent, minimal, or no guidance from the Purchasing Division.
- Purchasing card training material is inconsistent and contradicting to both individual and departmental practices.
- Inadequate training provided to individuals performing Procard activities.

Recommendation 5: Enhance training for all individuals performing Procard activities (cardholders, Procard Managers & Approving Officials, etc.).

Management should identify the appropriate knowledge and skills needed in the purchase card program, require the necessary training, and maintain documentation evidencing that required training is current for all program personnel.
Specifically,

- Document that training was appropriate to the authorized purchasing spending and program authority of the individual (i.e. travel Procard usage, meal Procard usage, etc.).
- Records evidencing training should be signed and dated by the individual performing Procard activities and the individual performing training.
- Maintain training documentation in a centralized database, location and/or individual file of the program participant evidencing that required training is current for cardholder, Procard Manager, Approving Official and other staff performing Procard activities.

- Provide periodic (monthly, biweekly, biannual, etc.) refresher training to cardholders, Procard Managers and Approving Officials for the benefit of maintaining their knowledge, awareness and understanding of Procard activities.
- Require periodic (biannual) refresher training provided to employees performing Procard related activities in maintaining their knowledge and awareness of control activities.
- Encourage the program administrator to obtain certified purchasing card professional credentialing as recommended by the National Association of Purchasing Card Professionals (NAPCP).

Journal Entries in FMIS

In accordance with purchasing card reconciliation best practice, including the *National Association for Purchasing Card Professionals:* management with oversight of purchasing card responsibilities rely on a system of internal controls to safeguard the organizations financial assets. Approving Officials are a key element of the internal control system and should be expected to monitor purchasing card activities in their respective areas. In general, the Comptroller Office reviews purchasing card reconciliation, accounts payable vouchers, journal entries, and receipts; however, part of that review, relies heavily on the Approving Official. This is usually because Comptroller staff may not be familiar with the requirements of a specific department, what an item, or piece of equipment is, what it does, or why it is needed. Individual cardholders, departments, and Approving Officials should make timely journal entries and submit proper Procard-related documentation to support transactions.

Audit procedures identified, City departments/divisions are submitting purchasing card reconciliation, accounts payable vouchers, journal entries, and receipts documentation to the Comptroller's Office past the 4-day submission date as stipulated in purchasing card policies and procedures.

- One department has roughly fifty (50) cardholders in the department, Procard statements, payment records, itemized receipts and other supporting documentation is consistently submitted to the Comptroller's Office at least one (1) week, or more past the 4-day due date.

- Various City departments submit Procard supporting documentation, to Comptroller's Office, past the deadline date as stipulated by the Purchasing Division delaying processing of vouchers for the entire City.
- The Procard Administrator does not monitor the Procard payment process to ensure timeliness of journal entries, or that statements, payment records, receipts and other Procard supporting documentation is submitted to the Comptroller's Office within four (4) days of the statement distribution for reconciliation of payment vouchers.

Recommendation 6: Restructure internal controls and processes for reconciliation and timely recording of journal entries in FMIS.

Management should review the process for the reconciliation, timely and recording of journal entries in the Financial Management Information System (FMIS).

Specifically,

- Update policies and procedures to require that by each Friday, the transactions of the previous week are correctly input with adequate documentation (e.g. itemized receipts, expense reports, etc.), and the review is completed. At the beginning of each week, engage the General Accounting Division to send an email to Procard users, a list of unconverted transactions in an attempt to ensure that the approval and conversion process are completed by the fourth day after the statement.
- Perform monthly compliance reviews of reconciliation and timely recording of journal entries into FMIS.
- Require General Accounting to carbon-copy the Procard Administrator on all emails to department heads, Approving Officials, etc., regarding the untimely submission of required Procard documentation for reconciliation purposes.
- Establish a process for repeat offenders by re-evaluating the number of cardholders, assessing the ratio of cardholders to Approving Officials and requiring adjustments as necessary, working with the department to determine an alternative process for ensuring timely, reconciliation and recording of journal entries as well as the submission of supporting documentation to General Accounting.

- Implement a corrective action process for departments that continuously violate the policies and procedures. The severity of the correction action should be based on the frequency of violations.

C. Inventory Management and Safeguarding

Safeguarding the Procard

Best practice and standard inventory considerations mandate the utilization of documented control-based policies and procedures over inventory (asset) management. The appropriate safeguarding of inventory means that documented control-based policies and procedures have been implemented to provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of the city's assets. Assurance must exist that transactions related to assets have been properly processed and that appropriate physical handling and control over assets are in place.

The Purchasing Division is responsible for the oversight of the City's Procard Program. However, responsibility for most day-to-day activities have been delegated to respective departments that utilize the purchasing card. Specifically,

- The cardholder is responsible for safeguarding the purchases issued in their name and is accountable for all purchases made using the card.
- The Approving Official is responsible for retrieving the card from individuals who transfer, retire, no longer have a use for the card, or separate from the City.
- The Procard Administrator (in the Purchasing Division) has a responsibility to ensure proper cancellation and destruction of the card.

Audit procedures determined the necessary risk mitigating processes and controls related to the City issued purchasing card inventory management and safeguarding are not being utilized, have not been developed, and have not been documented in the available policies, procedures and guidelines.

Additionally,

- One cardholder keeps her Procard in a locked cabinet, which is accessible to two (2) other individuals within the department.
- Purchasing cards issued to employees who have transferred, retired, or separated from the City continue to have an open (active) account in the JP Morgan Chase Purchasing Card System, which includes employees who have been retired, suspended, or separated from the City for at least one (1) year to as long as five (5) years.
- Purchasing cards retrieved from employees retired, transferred, or terminated are not consistently returned to the Procard Administrator for proper destruction and cancellation of the card.

Recommendation 7: Reinforce processes and controls for safeguarding the City's Procard.

Risk mitigating processes and controls of inventory management and safeguarding of City issued purchasing cards should be documented and reinforced (where applicable).

To strengthen controls and segregation of duties over purchasing cards, management should:

- Develop and implement standard inventory management and safeguarding controls to protect the City's physical and financial assets from fraud, theft and errors.
- Ensure that purchasing cards are promptly cancelled upon retirement, transfer, or termination of employment.
- Require Approving Officials to notify the Procard Administrator in writing the names of retired, transferred or terminated cardholders (create a form, email process, etc.).
- Ensure purchasing cards for employees in a suspended status are deactivated.
- For inventory management of the purchasing card, at least annually, run a report by department, organization code of cardholders with an active account, send it to respective Procard Manager/Approving Official and request an updated status on the necessity for a purchasing card for the cardholder.

Procard Records

In accordance with best practice the process of organizing, storing and archiving an organization's records is critical for business success. Before any actions are taken it is critical to understand what the rules are that govern the document control requirements in order to determine what the organization is required to keep. There are federal, state, legal and regulatory requirements that determine how long, and for what types of documents the organization needs to acknowledge when creating their document management plan. As business practices become increasingly complex, the cost of keeping and maintaining documents indefinitely can grow to astronomical proportions. On the corporate front, state and federal requirements relating to business operations and administrative procedures generate increasing volumes of records that must be retained for specific periods of time. In a similar manner, both by regulatory policy and project administrative practices, design and construction project records continue to grow. All businesses have a responsibility to handle information in a secure, organized and legally compliant manner. It is important to know exactly where your information is at all times. Every document you maintain should be accurately indexed and categorized. At any point in the information lifecycle, you should be able to locate each and every file and distinguish between active files and archival documents.

Audit results concluded the Purchasing Division would benefit from enhancing their process for managing, maintaining and storing records related to individuals performing Procard activities. Specifically,

- There were missing, unsigned or the wrong agreement was signed for both Procard Managers and Approving Officials.
- Agreements for cardholder, Procard Manager and Approving Officials were signed, but there was no sign-in sheet or other documentation to support that training was received, or a reason why an agreement was signed prior to completing Procard training.
- Procard training sign-in sheets are not maintained as part of the Procard user file in the Purchasing Division. In addition, there was no documentation to support whether a former cardholder met the two training requirement, or a cardholder with travel purchasing authority received the proper training for the travel Procard.
- Procard applications were incomplete, or missing required information (i.e. authorized signature, date, Procard Administrator signature and date, etc.).

- Transaction and/or spending limits on the application do not agree to the limits in the JP Morgan Chase Smartdata database, or a handwritten change was made on the application with no explanation and/or signature and date to support the change.

Recommendation 8: Formalize a systematic process for managing, maintaining and storing Procard related records.

Management should improve the record retention process for the Procard Program to ensure consistency with purchasing card guidelines and the City's Records Retention Policy.

Consideration should include:

- Convert Procard documents into digital files that can be tagged and stored in an electronic document repository for quick and easy retrieval. By digitizing documents and tagging them for rapid search and retrieval, employees reduce time spent and productivity increases as a result.
- Create a cancellation request form so that purchasing cards are promptly cancelled upon retirement, transfer, or termination of employment.
- Choose a document management system that utilizes a secure document repository and includes authentication and password protection in order to control access to documents and track and manage who has viewed them.
- Select an electronic filing system that manages where documents are in their life cycle, know whether they are active, archived or ready for disposal.
- Ensure the document management system satisfies the current Procard Program requirements.
- Ensure managing, maintaining and storing of Procard-related documents and records are consistent with the City's Record Retention Policy.
- Collaborate with Records Retention to determine the records schedule for Procard related documentation. The length of time records will be retained should be stated in the policies.

City of Milwaukee

Department of Administration
Purchasing Division

Tom Barrett
Mayor

Sharon Robinson
Director of Administration

Rhonda U. Kelsey
City Purchasing Director

November 26, 2019

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

Re: Response to ProCard Audit Findings and Recommendations

Dear Ms. Sawa:

Listed below are the responses to the Audit Recommendations for the City of Milwaukee's ProCard Program from the DOA-Purchasing Division. I would also like to take this opportunity to thank you and your staff for the time and value-added professional feedback you have provided regarding our DOA-Purchasing Card (ProCard) program.

Recommendation 1: Enhance policies, procedures, internal controls and processes governing the ProCard Program

Purchasing updates its ProCard training materials and procedures on an ongoing basis as needed. We are currently in the process of updating our Citywide ProCard Training Procedures as well as internal and external procedures to provide additional clarity regarding steps, actions, and processes in an effort to maximize the greatest level of understanding and compliance. However, it is also important to point out that the majority of the recommended actions on page eleven (11) and twelve (12) of the report, have been long standing practices of the DOA-Purchasing Division. For example, instructions regarding employee responsibility and written acknowledgements signed by the employee do exist. In order for a cardholder to receive a ProCard he/she must sign "*The City of Milwaukee-Purchasing Division Cardholder's Agreement*" form. The agreement outlines thirteen (13) clauses that detail the appropriate use of the purchasing card as well as information regarding card issuance, destruction, cancellation, lost or stolen cards, and employee termination. Many of the guidelines in the form itself address many of the recommendations included in the report.

In addition, processes and procedures are detailed in the 28 page "*ProCard Training*" PowerPoint presentation that addresses spending and transaction limits; recordkeeping requirements; review and approval processes; procedures for handling disputes and unauthorized purchases and more. Please see "*ProCard Training*" presentation. Furthermore, the "*ProCard Training*" presentation includes ten (10) additional resource documents that are a part of the ProCard procedures all of which are centrally located on the City's intranet (https://mint.milwaukee.gov/citypurchasing/ProCard-Forms.htm). In short, while DOA-

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Purchasing supports and is committed to adhering to the recommendation of enhancing and improving the format of the communication of its policies and procedures, it is important to point out that specific policies and procedures do exist. As a result, DOA-Purchasing is committed to refreshing the layout of the policies and procedures that are identified in the "*ProCard Training*" presentation and other informational resources. In addition, we will refresh and update a number of other resource documents where necessary to assist with ensuring the greatest level of understanding and compliance regarding the protocols of the program.

Implementation Timeline: In progress, complete by March 31, 2020.

Recommendation #2: Formalize the process to retrieve, deactivate and destroy the ProCard for a former Cardholder

The process to retrieve, deactivate and destroy the ProCard for a former cardholder is as follows: The ProCard Manager must provide a completed ProCard application indicating "Close Account" to the ProCard Administrator. An e-mail can be provided, but the application must follow the e-mail. The ProCard Manager must communicate to DOA-Purchasing how the card was destroyed. Once the request has been made, the ProCard Administrator will log onto JPMorgan Chase SmartData and deactivate the cardholder's account. After deactivation, the card is assigned to the "Inactive" account group in SmartData. Once the card is deactivated, the folder is moved to the "Inactive Cardholders" drawer of the ProCard filing cabinet.

To enhance this process, DOA-Purchasing will send out a quarterly communication to all City departments to review and update the list of Approving Officials and ProCard Managers. In addition, we will require that all cards are returned to the ProCard Administrator for destruction. Moreover, we will work with the Department of Employee Relations (DER) to obtain a list of retired and former City employees on a quarterly basis to ensure that the cards are deactivated in a timely manner.

Implementation Timeline: In progress, complete by March 31, 2020.

Recommendation #3: Modify the process for temporary or permanent increase to the daily and/or monthly transaction/spending limit

The process for temporary or permanent increase to the daily and/or monthly transaction/spending limit has been enhanced by modifying the "*ProCard Account Application*" "Change to Account" section to include a check box for Temporary or Permanent as well as adding Expiration date line. We also updated "Account Information" to obtain more detailed information regarding requested spending limits and a justification regarding the need for the items/services to be purchased.

Implementation Timeline: In progress, complete by December 31, 2019.

Recommendation 4: Adopt multifaceted approach to monitoring and oversight of ProCard activities

Currently, the "internal audit" process is very manual. Purchasing 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.

DOA-Purchasing will make the following improvements:

1. Update the "*DOA-Purchasing Cardholder Audit*" form to allow for a description of the actions performed and conclusions. *Implementation Date: January 31, 2020*
2. Perform a monthly internal audit on five percent (5%) of approximately five-hundred (500) cardholders, ensuring that all cardholders are audited at least once every two years. *Implementation Date: Early February 2020.*
3. Tighten internal auditing controls by updating our current corrective action plan. *Implementation Timeline: In progress, complete by January 31, 2020.*

Recommendation #5: Enhance training for all individuals performing ProCard activities (cardholders, ProCard Managers and Approving Officials, etc.)

Every cardholder must attend a one (1) hour training session where we address the requirements and responsibilities for cardholders, ProCard Managers, and Approving Officials. We specifically address ProCard violations and proper ProCard processing. Before any cardholder is given their ProCard, they have to sign the "*City of Milwaukee-Purchasing Division Cardholder's Agreement*", which reiterates everything that is covered in training. Additionally, every cardholder takes a short "quiz" where they act as an Approving Official to ensure they understand their role as it relates to processing their ProCard Statement, as well as understanding what their Approving Official will expect from them. ProCard cardholders are currently required to repeat training upon receiving a new ProCard due to card expiration, which is every two years. The training provided is very thorough and therefore we do not believe that an annual refresher training is necessary. However, the "*ProCard Training*" presentation will be made available on the City's intranet and supplemental training may be provided as requested/needed.

In addition, we will enhance training by providing more real-life examples so that the cardholders, ProCard Managers, and Approving Officials realize the importance of adhering to the policies and procedures of the ProCard Program.

Furthermore, we have improved the training recording documentation to include a training sign-in sheet in the folder of each individual receiving training. The sheet will be initialed by the cardholder and the ProCard Administrator. Lastly, we will renew our membership to the National Association of Purchasing Card Professionals (NAPCP) in order to ensure that we are abreast of industry best practices.

Implementation Timeline: In progress, complete by March 31, 2020.

Recommendation #6: Restructure internal controls and processes for reconciliation and timely recording of journal entries in FMIS

Currently, the controls in place require that reconciliation documentation is submitted to the Comptroller's office four (4) business days after the statements are distributed by Purchasing. To ensure that the documentation is submitted to the Comptroller on time, Purchasing will send out the statements so that the departments have at least six (6) business days to get their statements to the Comptroller's office.

In an effort to jointly strengthen internal controls, Purchasing will collaborate with the Comptroller's office to ensure that we are receiving the names of the departments/divisions who

have not submitted their statements by the due date. We will ensure stricter monitoring of those departments not meeting the deadlines.

Implementation Timeline: In progress, complete by March 31, 2020.

Recommendation #7: Reinforce processes and controls for safeguarding the City's ProCard

During ProCard Training, Purchasing will reiterate the importance of safeguarding the City's ProCard. We will also communicate to ProCard Managers and Approving Officials the importance of ensuring that the cardholder has a secure place for the ProCard to be placed (i.e., a locked drawer that only the cardholder and their immediate supervisor has access to).

To enhance this process, Purchasing will send an e-mail to Department Heads, ProCard Managers, and Approving Officials on a quarterly basis requesting a status update of all active cardholders. This process will ensure that ProCard accounts are being deactivated.

Implementation Timeline: In progress, complete by March 31, 2020.

Recommendation #8: Formalize a systematic process for managing, maintaining and storing ProCard-related records

Purchasing currently has a systematic process for managing, maintaining and storing ProCard related records. We have a locked file cabinet where ProCard documents (Active & Inactive Cardholders) are kept inside the Purchasing "Vault". We set up a file folder for each ProCard cardholder/ProCard Manager/Approving Official. Their ProCard application is placed in the folder, along with any supporting documentation provided by the ProCard Manager or Approving Official. Any time a request is made to make changes to a cardholder's account, that documentation is added to the cardholder's file. In the event a ProCard needs to be deactivated, the file is moved to the "Inactive Cardholders" drawer of the filing cabinet. All ProCard records are kept/destroyed according to the City's Records Retention Policy.

To enhance this process, The ProCard Administrator will create electronic files for all new ProCard cardholders, ProCard Managers, and Approving Officials effective January 6, 2020. We will also identify, on the file folder, the year the ProCard was issued, which will assist with monitoring necessary training and records retention.

Implementation Timeline: January 6, 2020.

Sincerely,

Rhonda U. Kelsey
City Purchasing Director

Martin Matson
Comptroller

Aycha Sawa, CPA, CIA
Deputy Comptroller

Toni Biscobing
Special Deputy Comptroller

Rocklan Wruck, CPA
Special Deputy Comptroller

Office of the Comptroller

December 5, 2019

Honorable Tom Barrett, Mayor
The Members of the Common Council
City of Milwaukee
Milwaukee, WI 53202

Dear Mayor and Council Members:

With this letter, the Office of the City Comptroller acknowledges receipt of the preceding report, which communicates the results of the audit of the City of Milwaukee's Procard Program. I have read the report and support its conclusions. Implementation of the stated recommendations will help improve City processes.

As the City Comptroller, I was not involved in any portion of the work conducted in connection with the audit. At all times, the Internal Audit Division worked autonomously in order to maintain the integrity, objectivity, and independence of the audit, both in fact and in appearance.

Sincerely,

Martin Matson

Martin Matson,
Comptroller

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