

City Clerk



---

**Audit of  
City of Milwaukee  
ProCard Program**

---

**W. MARTIN MORICS**  
City Comptroller  
City of Milwaukee, Wisconsin

November 2003

## Table of Contents

<b>Transmittal Letter</b> .....	1
<b>Audit Scope and Objectives</b> .....	2
<b>Organizational and Fiscal Impact</b> .....	3
<b>Audit Conclusions and Recommendations</b> .....	6
<b>Overall Conclusions</b> .....	6
<b>Control Area I – ProCard Distribution</b> .....	8
<b>Recommendations 1 through 4</b> .....	10
<b>Control Area II – Authorized Suppliers</b> .....	12
<b>Recommendations 5 through 10</b> .....	13
<b>Control Area III – Transaction Activity and Billing Cycle</b> .....	14
<b>Recommendations 11 through 18</b> .....	17
<b>Control Area IV – Reporting Process</b> .....	20
<b>Recommendations 19 through 21</b> .....	22
<b>Control Area V – DOA Audit Process</b> .....	23
<b>Recommendations 22 through 25</b> .....	24
<b>Control Area VI – Voucher Payment Process</b> .....	25
<b>Exhibit A</b> .....	27
<b>Exhibit B</b> .....	28
<b>Department Response</b> .....	29



Office of the Comptroller

W. Martin Morics, C.P.A.  
Comptroller

John M. Egan, C.P.A.  
Deputy Comptroller

Michael J. Daun  
Special Deputy Comptroller

Anita W. Paretti, C.P.A.  
Special Deputy Comptroller

November 20, 2003

To the Honorable  
the Common Council  
City of Milwaukee

Dear Council Members:

The attached report summarizes the results of our Audit of City of Milwaukee ProCard Program. In 2002, the ProCard program included 11,751 transactions totaling \$3,807,839.

The objectives of the audit were to evaluate the adequacy of internal controls over ProCard purchases, the adequacy of Department of Administration controls over other departments' ProCard utilization and compliance with purchasing rules in the ProCard program.

The audit determined that in general the Department of Administration administers the City's ProCard program effectively. However, improved controls are needed in certain areas. In other areas, the program could be enhanced by improved controls.

Audit findings and recommendations are discussed in the Audit Conclusions and Recommendations section of the report, followed by the Department of Administration response.

Appreciation is expressed for the cooperation extended to the auditors by the staff of the Department of Administration, the Department of Public Works and the Department of Neighborhood Services.

Very truly yours,



W. MARTIN MORICS  
Comptroller

---

**AUDIT SCOPE AND OBJECTIVES**

---

## **Audit Scope and Objectives**

The scope of the audit included both identifying the internal controls governing the ProCard system and measuring the extent of compliance with those internal controls. The audit included interviews of Department of Administration-Business Operations Division Procurement Services Section (DOA) personnel responsible for administering the ProCard program. The audit also included reviews of DOA ProCard files, ProCard manuals and ProCard training materials. The audit also included interviews of personnel responsible for ProCard activities in the Department of Neighborhood Services, the Department of Public Works (DPW)-Water Works Division, DPW-Infrastructure Division and DPW-Facilities Repair Division. The audit further included an examination of a sample of 672 ProCard transactions in 2002 and 2003 by 30 cardholders in 11 City departments and divisions. The audit included a survey of procurement card program features in 21 cities through the National Association of Local Government Auditors. The audit also reviewed six audits of purchasing card programs in other governmental units.

The internal control system is crucial in a credit card program such as the City of Milwaukee's ProCard program. The adequacy of these internal controls are essential to discourage misuse and abuse of the ProCard by City employees or vendors. The audit was designed to evaluate the ability of the internal control system to deter ProCard misuse. However, this audit would not necessarily identify all cases of ProCard fraud or misuse.

The objectives of the audit were to:

- Evaluate the adequacy of internal controls over ProCard purchases.
- Evaluate the adequacy of DOA controls over other departments' ProCard utilization.
- Evaluate compliance with purchasing rules in the ProCard program.

---

**ORGANIZATIONAL AND FISCAL  
IMPACT**

---

## Organizational and Fiscal Impact

In recent years, numerous local governments as well as state and Federal agencies have established procurement card programs. Under these programs, authorized employees are able to make small dollar purchases using a card similar to a credit card. The purpose of procurement cards is to reduce the time, effort and cost involved in making small dollar purchases.

The City of Milwaukee's procurement card program, known as ProCard, was initiated in 1997 in selected departments and was expanded to all departments in 1998. DOA administers the ProCard program. DOA has estimated that based on an industry standard cost of \$150 per purchase order (source: the National Institute of Government Purchasing), the program has resulted in administrative cost savings of approximately \$8,200,000 to date. Currently there are 322 authorized City ProCard holders and 1,642 approved ProCard vendors. Statistics provided by DOA indicate that ProCard transaction expenditures and average purchases have increased significantly since 1997, as shown below.

<u>Year</u>	<u>ProCard Transactions</u>	<u>ProCard Expenditures</u>	<u>Average Purchase</u>
1997	7,052	\$1,418,964	\$201
1998	9,049	2,128,282	\$235
1999	10,065	2,701,317	\$268
2000	11,037	3,053,263	\$277
2001	12,535	3,518,627	\$281
2002	11,751	3,807,839	\$324

DOA is responsible for administrative oversight of the ProCard program. DOA has delegated responsibility for most day-to-day ProCard activities to individual departments whose employees use the ProCard. The program is operated through a contract with Bank One. Bank One provides the procurement cards, makes payments to vendors and operates a computerized information system known as the ProValue System, which provides operational and control reports to DOA. Bank One also furnishes the City with a 0.3% rebate for ProCard purchases. This rebate amounted to \$11,423 in 2002. The City is obligated to pay Bank One for ProCard purchases within two weeks of the end of each biweekly billing cycle.

Departments provide DOA with names of recommended cardholders, as well as daily limits on the number of transactions, individual transaction dollar limits, daily dollar limits and monthly dollar limits. The City-wide maximum single transaction limit is \$5,000, although a limited number of exceptions are allowed. Monthly dollar limits range from \$500 to \$70,000, with an average of approximately \$9,000. DOA approves the cardholders and limits and instructs Bank One to add the cardholders to the ProValue system. Bank One issues the ProCards and forwards them to DOA. DOA distributes the cards to the cardholders after they have completed required training and signed a Cardholder's Agreement. Exhibit A presents a flowchart of the training and ProCard distribution process.

Cardholders make purchases by phone or in person from vendors on the City's Valued Supplier List. This Valued Supplier List identifies each approved vendor who will accept the City ProCard as payment. A departmental Approving Official reviews each cardholder's transaction activity. Exhibit B presents a flowchart of the biweekly transaction activity and billing cycle.

DOA generates a number of reports from the ProValue System that are useful in the biweekly payment process and in biweekly reviews of cardholder activity. These reports are described in the Audit Conclusions and Recommendations section of this report. DOA also performs a biweekly random audit of selected cardholder accounts.

The audit included a survey of procurement card program features in other cities through the National Association of Local Government Auditors. Responses were received from 21 cities. The survey disclosed that most features of the City of Milwaukee's ProCard program are similar to those of other cities. The majority of such programs are administered by a central purchasing department which delegates responsibility for most day-to-day activities to individual departments. One unique feature in the City's program is the maintenance of a list of authorized suppliers. Only one city surveyed maintains such a list. The maintenance of this list and rules regarding its use are an important strength of the ProCard program.

The audit also included a review of audits of procurement card programs in other governmental units. Review of these reports disclosed significant internal control weaknesses in some of these jurisdictions, particularly Federal government agencies audited by the General Accounting Office. Weaknesses included lack of comprehensive managerial oversight of procurement card transactions. In Milwaukee, DOA has taken



steps to clarify and improve managerial oversight. The misuse of procurement cards intended for travel expenses to make prohibited expenditures was pervasive in some jurisdictions. DOA has established procedures under which the ProValue system prohibits travel expenditures for all but a few designated ProCard users. The splitting of transactions to avoid transaction limits was also a common problem in other governmental units. DOA reviews and follows up on transactions that appear to be designed to do this. For example, procurement card misuse in the City of Washington D.C. was so extensive that the procurement card program was suspended until all cardholders could be retrained.

---

**AUDIT CONCLUSIONS AND  
RECOMMENDATIONS**

---

## **Audit Conclusions and Recommendations**

### **Overall Conclusions**

The audit determined that DOA administers the City's ProCard program effectively. However, the audit found that improved controls are essential in certain areas. In other areas, the program could be enhanced by improved controls. The audit makes a series of recommendations to improve internal controls.

Generally, the control system established by DOA works effectively to discourage misuse and abuse of the ProCard. DOA also actively works with departments to resolve any identified problems as they arise. DOA consistently works to improve the ProCard program. DOA raises questions relating to transaction activity and follows up promptly with City departments. DOA continues to initiate and implement changes to improve internal control. City department management including Approving Officials, appointed in each ProCard user department, enforce established DOA policies and procedures in most instances. Some departments have developed their own policies and procedures in addition to Citywide rules to control their unique purchasing environments. Cardholders generally follow established policies and procedures. Cardholders collect receipts and reconcile transaction activity in a timely manner. Approving Officials review and approve reported activity in a timely manner. Vouchers are processed in a timely manner.

The City's ProCard program has many control features that compare favorably to similar programs elsewhere. The City has not encountered most of the problems disclosed in audits of procurement card programs in other governments, particularly Federal government agencies.

The most important of the audit recommendations address the role of ProCard Approving Officials within each user department. Approving Officials are critical in guarding against and detecting ProCard misuse or fraud. The audit recommends that Approving Officials execute specific procedures in reviewing cardholder transactions and that they sign an agreement similar to the Cardholder's Agreement specifying penalties for allowing ProCard misuse. The audit also makes essential recommendations regarding Approving Officials' training, span of control and technical expertise. Detailed receipts stating exactly what was purchased are needed in all instances to ensure cardholder accountability and to facilitate transaction review. DOA should require each user department to submit an Annual User Department ProCard Statement, signed by the department head certifying that the

department has complied with DOA ProCard policies.

The audit evaluated the City's ProCard program in terms of six major control areas:

- ProCard Distribution
- Authorized Suppliers
- Transaction Activity and Billing Cycle
- Reporting Process
- DOA Audit Process
- Voucher Payment Process

For each of these control areas, this report provides the following information:

- Description and overall evaluation of controls
- Summary of the current policies and procedures
- Program strengths
- Opportunities for improvement
- Recommendations

Detailed recommendations are presented for each major control area. Essential recommendations are identified by bold print.

## Control Area I – ProCard Distribution

I. To receive a City procurement card (ProCard), employees must attend a training session provided by DOA. Upon the completion of this training and receipt of a policy and procedural manual, employees are required to sign cardholder agreements as a further condition to receive a ProCard. Signed agreements indicate that cardholders understand and will abide by basic rules and responsibilities specified by DOA. Department representatives responsible for reviewing and approving transaction activity (Approving Officials) also attend training sessions. Prior to a cardholder attending an initial training session, DOA must enter basic cardholder information and parameters on a ProValue<sup>1</sup> system to establish the cardholder on a Cardholder Master List. City departments are responsible for notifying DOA in a timely manner of cardholder terminations, retirements and transfers so that DOA can deactivate their accounts on the ProValue system.

The audit determined that the processes involving card distribution and the maintenance of the Cardholder Master List were generally effective. However, improvement is needed in the training and retraining of Approving Officials as not all DOA procedures are routinely enforced by these Approving Officials. The audit disclosed numerous instances where prescribed procedures were not followed. Examples:

- 1) ProCard account numbers appeared on payment documentation receipts;
- 2) Either cardholder's or Approving Official's signatures were missing on biweekly Statements of Account or ProCard Payment Record Envelopes.

DOA personnel have stated that they are reviewing and revising training manuals. DPW has recently provided updated policies and procedures to its cardholders and Approving Officials.

### Current Policies and Procedures

DOA requires that departments designate ProCard users, Approving Officials, daily limits on the number of transactions and individual transaction and daily and monthly dollar limits. Departments forward this information to DOA on approved forms known as the Purchasing Card Cardholder Account Form (Account Form). These forms are also used to designate a Merchant Category Code (MCC) group which controls the types of businesses that purchases can be made from. There is a single transaction purchase limit of \$5,000, although exceptions are allowed for certain individuals. There is no policy requiring departments to periodically review established cardholder limits for appropriateness. DOA authorizes the requested additions, changes and deletions by signing Account Forms and faxing these forms to Bank One for processing. Bank One updates the ProValue system (Cardholder Master List) to reflect the changes made. Individual departments must notify DOA of employee terminations, transfers and other personnel actions that require deletion from the ProValue system. Copies of faxed forms and signed cardholder agreements are retained in individual cardholder files maintained

---

<sup>1</sup> ProValue System is a vendor owned and operated information system provided through Bank One for administration of the City's procurement card program.

in a locked storage area. Cardholder account profiles are retained on the ProValue system for all active cardholders and for cardholders who have been deleted for one year. Cardholder transaction histories can be generated for a selected time period for both active and deleted cardholder accounts.

Once Bank One has added new cardholders to the ProValue system it forwards their ProCards to DOA. ProCards are distributed to new cardholders after they complete required training and sign Cardholder Agreements. Under terms of the Cardholder Agreement, a cardholder agrees to use the card for purchases required for the conduct of City business, not to make personal purchases, to report lost or stolen cards, not to allow someone else to use the card, to comply with established internal control policies, to maintain receipts and to reconcile transaction activity on a biweekly basis. Signed agreements are placed in individual cardholder files. Approving Officials also attend training sessions but attendance is not mandatory. At the program's onset, Approving Officials received the same training as cardholders. DOA now provides specialized training to Approving Officials. DOA has made changes in its training process, policies and procedures. Individual departments may establish their own policies and procedures that complement but do not replace those of DOA. DOA's policies and procedures include: Program Administration Instructions and Guidelines, ProCard Program Cardholder Manual and the Purchasing Liaison Manual. The Purchasing Liaison Manual specifies responsibilities of the cardholder, Approving Official and supplier in addition to describing ProCard forms.

DOA now provides departments with transaction histories on a semi-annual basis. This information can be used by departments to evaluate whether continued card assignment is warranted and if established limits remain appropriate.

#### **Strengths**

- Written policies and procedures.
- Maintenance of a Cardholder Master List of all cardholders by DOA.
- Training and signed agreements required prior to the issuance of a ProCard.
- Signed agreements state specific requirements that a cardholder agrees to and provide for sanctions which may be taken by the City for a cardholder's misuse of a ProCard.
- Changes to the ProValue system are made centrally by DOA.
- Assignment of each cardholder to an MCC group to control the type of expenditures allowed.
- Semi-annual transaction histories are provided to departments for each cardholder.

#### **Opportunities for Improvement**

- According to departments interviewed, procedures and training could be improved especially as it relates to potential card misuse. There is also no requirement for mandatory periodic retraining to serve as a refresher course or to explain changes and new requirements.
- At the present time Approving Officials are not required to attend training sessions. The audit sample disclosed 41 instances in 672 transactions (six percent) where ProCard account numbers appeared on payment documentation receipts and 96

instances during 120 biweekly payment cycles where either cardholder's or Approving Official's signatures were missing on biweekly Statements of Account or ProCard Payment Envelopes. Retraining provided to Approving Officials could emphasize the importance of enforcing these and other procedural requirements.

- DOA depends on individual departments for notification of cardholders who have transferred or terminated their employment with the City.
- There are no City-wide standards concerning eligibility requirements for cardholders or Approving Officials.
- There is no independent assurance that all cardholder terminations, retirements and transfers are reported by City departments in a timely manner.

### **Recommendations Regarding the Distribution and Control of ProCards**

The audit makes the following recommendations that are essential for strengthening internal controls.

1. **DOA should review policies, procedures and practices concerning the designation of Approving Officials.**
  - a. **DOA should require that Approving Officials be trained. No one who has not successfully completed training should act as an Approving Official.**
  - b. **Approving Officials span of control – Approving Officials should not have more cardholders assigned than is manageable. DPW – Water Works reduced the number of cardholders assigned to individual Approving Officials late in 2002. All departments should review the number of cardholders assigned to each Approving Official. DOA should revise procedure manuals and training materials to provide guidance in this area.**
  - c. **Approving Officials should have the technical and field expertise to know whether a purchase is appropriate. Approving Officials should not be clerical or administrative staff unfamiliar with the responsibilities of the cardholder whose purchases they are approving.**
  - d. **Individuals who act as backups to Approving Officials should be formally designated as such in writing and receive appropriate training.**
  - e. **Approving Officials should be required to sign an agreement similar to the Cardholder's Agreement. This agreement should include penalties for allowing misuse of ProCards similar to the penalties stated in the Cardholder's Agreement.**

The audit also makes the following recommendations which, although not essential, should be considered to improve controls and the ProCard program.

2. DOA could enhance procedures and training by identifying indicators of possible card misuse for user department Approving Officials.
3. DOA should take a more active role in ensuring the appropriateness of card assignment and established limits. DOA and City departments should periodically review Cardholder lists and identify cardholders who are inactive or have minimal transaction activity and reevaluate established card limits.
4. DOA should periodically obtain a listing of employee terminations, retirements and transfers from the Department of Employee Relations and compare this listing to a

list of authorized cardholders and the dates of their transactions.



## **Control Area II – Authorized Suppliers**

**II. DOA maintains a list of authorized suppliers (“Valued Suppliers”) who will accept ProCards for purchases relating to City business. ProCard users are required to use suppliers on the Valued Suppliers List. The ProValue system identifies instances when a cardholder uses a supplier not on the Valued Suppliers List and reports each such instance. The maintenance of this list and rules regarding its use are an important strength of the ProCard Program. The audit noted that most procurement card programs used in other governments did not have a requirement to use authorized suppliers.**

### **Current Policies and Procedures**

Suppliers must complete three separate forms in order to be added to the Valued Supplier List. These forms are the Supplier ProCard Commitment Form, ProCard Valued Supplier Information Survey and Request for Taxpayer Identification Number and Certification (W-9). These forms are available at the City’s web-site or can be faxed or hand delivered to prospective suppliers. These forms serve as an agreement between the City and suppliers. Among other things, the supplier agrees to accept the ProCard as the payment method for goods and services purchased, not to charge sales tax, and to fax a detailed receipt for telephone purchases. The forms provide suppliers with the option of offering the City a discount on ProCard purchases. Upon the completion and submission of these forms, DOA adds a supplier to the Valued Supplier List. The Bank assigns a merchant category code (MCC) to the supplier based on the type of products that it provides. Each cardholder is assigned a merchant category code group (MCCG) by his/her supervisor. This MCCG controls the types of businesses from which a cardholder is permitted to make a ProCard purchase. As purchases are made, the ProValue system compares the vendor’s MCC to the ProCard holder’s assigned MCCG, reporting any exceptions. Proposed ProCard purchases from an unauthorized MCC business (e.g. restaurants, taverns, vehicle rentals, etc.) would be blocked based on criteria established by DOA.

### **Strengths**

- Maintenance of an Unauthorized Supplier Listing – The ProValue system provides this report on a biweekly basis. This report lists all vendors having accepted a ProCard purchase within a biweekly cycle and identifies whether they are authorized or not.
- A written DOA policy requiring the use of only authorized suppliers for ProCard purchases. Only two of the 21 other cities surveyed required this.
- Signed agreements with suppliers.
- City defined prohibited purchase categories matching the MCC and MCCG.
- Identification of transactions where unauthorized suppliers were used for ProCard purchases.

### **Opportunities for Improvement**

- Cardholders sometimes use unauthorized vendors. Cardholders must either return such purchases for credit or recruit vendors to become future ProCard authorized

vendors. However, the audit could find no penalties assessed to either the user department or ProCard user, even for repeated use of unauthorized vendors.

- Not all cardholders and Approving Officials are aware that suppliers can be recruited through the City's web-site.
- The Valued Supplier list is not current. There are 1,642 approved suppliers on the Valued Supplier List. This list has not been updated to delete suppliers no longer used.
- Very few suppliers agree to offer discounts to the City.

### **Recommendations Regarding Authorized Suppliers**

The audit makes the following recommendations which, although not essential, should be considered to improve controls and the ProCard program.

5. DOA should contact Bank One to determine whether the ProValue system could be programmed to reject purchases from unauthorized suppliers.
6. DOA should determine the feasibility of modifying the Unauthorized Supplier Listing to list only unauthorized suppliers used (instead of all suppliers used) in a cycle billing period or generate an ad hoc report to provide such a list. Such a change would eliminate the need to go through all suppliers used in order to identify unauthorized suppliers used.
7. DOA and user departments should require cardholders repeatedly using unauthorized vendors to receive additional training and, if necessary, suspend card privileges for such repeated use. Sanctions included in the Cardholder Agreement for failure to follow requirements for ProCard use should be enforced.
8. DOA should notify cardholders and Approving Officials that vendor recruitment as an authorized supplier for the ProCard program can be performed through the City's web page.
9. DOA should contact those vendors refusing to provide City ProCard users with product discounts and request that they do so. For larger purchases, DOA should re-evaluate the continued use of a vendor and/or the use of a ProCard where the loss of a discount is substantial.
10. DOA and user departments should perform timely (at least semi-annually) updates of the Valued Suppliers list to delete suppliers where suppliers are no longer in business or where there is a lack of activity.

## **Control Area III – Transaction Activity and Billing Cycle**

**III. The City's ProCard program places the authority for purchasing decisions at departmental, divisional and individual staff levels. To expedite procurement, ProCard users are allowed to make purchase decisions without obtaining prior approval from DOA and in most instances without prior approval from department management. To attain effective control in this environment, cardholders must obtain receipts for all goods and services purchased and Approving Officials need to review receipts in relation to transaction activity reported by Bank One and cardholders. DOA policies and procedures require cardholders to provide a signed cash register receipt and/or itemized receipt as documentation of the purchase. Detailed receipts, stating specifically what was purchased, are not required. As a result, Approving Officials cannot determine exactly what was purchased in all instances. The audit considers this to be a basic weakness in the City's ProCard program.**

**In most, but not all cases, cardholders and Approving Officials complied with DOA's policies and procedures. The audit did not identify any occurrences of fraud or misuse. As described more completely in Control Area IV of this report, DOA identified an instance of fraud and misuse of a ProCard in autumn 2002 while performing a routine review of ProValue system reports.**

### **Current Policies and Procedures**

#### **Purchase Transaction and Recordkeeping Procedures**

The audit included a test of transactions for four biweekly cycles for each of 30 cardholders from 11 City departments. Tests were conducted to determine the extent of compliance with DOA policies and procedures.

Cardholders make purchases during biweekly cycles which coincide with the City's pay periods. Purchases must be made from an authorized supplier. Purchases may be made by a cardholder in person or by phone. When an order is phoned in, the supplier is required to fax a receipt to the attention of the cardholder and to provide a shipping address. Phone orders may be shipped to the City or picked up in person. Orders may be picked up or received by someone other than the cardholder placing an order. Orders are sometimes placed by someone other than the cardholder using that cardholder's card number. DOA's written policies state that cardholders should not let someone else use their cards. DOA policies and procedures do not specifically address card usage for phone orders. While in most instances the cardholder is probably aware of usage by another for a phone order it is possible that usage may occur without a cardholder's knowledge. The audit found one instance where someone other than the cardholder signed the cardholder's name on the credit card receipt.

Cardholders are required to inform suppliers that the City is tax-exempt. The ProCard also indicates this. However, there are occasions when sales tax is paid. Payment of sales tax is indicated on Statements of Account provided by Bank One. In such cases, the

cardholder is required to obtain a credit from the vendor. In the few instances in the audit sample in which sales tax was paid, credit was obtained as required.

Cardholders are required to eradicate ProCard numbers from sales receipts, packing slips, etc. to ensure that unauthorized individuals do not obtain card numbers. The audit identified 41 instances in 672 transactions (six percent) when this was not done.

There are occasions when a receipt is not obtained or is lost or misplaced. In these instances the cardholder must obtain a duplicate receipt from the supplier or sign an affidavit certifying that goods were received. Cardholders must file a dispute form with Bank One if any item billed is in error (e.g. a duplicate billing). The audit found no problems with obtaining receipts or submitting affidavits. The audit further noted that dispute forms were submitted for purchase disputes with vendors as required.

The ProValue system will not allow purchases that exceed the cardholder's single purchase dollar limit or cause the cardholder to exceed his/her monthly limit. The ProValue system will also not allow purchases from a supplier in a prohibited MCC, such as a liquor store. Policies and procedures state that these types of violations will be recorded in a Cardholder Transaction Violation Report. DOA does not currently use this report. The audit sample did not uncover any purchase of prohibited items. The audit noted instances of splitting transactions to avoid limits. DOA provided appropriate follow-up when this occurred. No occurrences of a single purchase exceeding established limits were identified in the audit sample.

DOA policies stress the importance of retaining receipts for each purchase and recording purchases on the ProCard Payment Record (PCPR) envelope. Cardholders obtain receipts from the vendors and place the receipts in the PCPR envelope. A separate PCPR envelope must be maintained for each billing cycle. The cardholder must record all transactions on the PCPR envelope. Cardholders are also required to record returns, credits or disputed items on the PCPR envelope. Every two weeks DOA generates Cardholder Statements of Account for all cardholders from the ProValue System and distributes the statements to departments. Each cardholder reconciles the Cardholder Statement of Account to the PCPR transaction log and receipts. The audit determined that receipts were retained as required. Descriptions stated on receipts agreed with descriptions provided on PCPR envelopes for the most part. The audit noted some instances where part or model numbers were listed on PCPR envelopes without a further description provided. The audit also noted occurrences of high value items purchased (e.g. televisions) with no explanation of where the item would be used.

The audit identified numerous instances where either Approving Officials or cardholders did not sign Cardholder Statements of Account or PCPR envelopes. Other instances were noted where the use of a signature stamp was used rather than actual signatures. In a few instances a cardholder was also his/her own Approving Official.

The audit included a test to determine the appropriateness of shipping addresses on receipts, packing lists and related documentation. All items were shipped to City-owned

addresses.

DOA depends on departments to notify them when cardholders need to be deleted from the ProValue system due to transfers or terminations. DOA could generate a list of cardholders with zero or limited activity but does not currently do so. Providing such a list to departments could result in the identification of additional cardholders to remove from the ProValue system.

### **Reconciliation and Payment Procedures**

It is the cardholder's responsibility to reconcile the Cardholder Statement of Account to transaction receipts and sign both the Cardholder Statement of Account and PCPR envelopes. The Cardholder's signature verifies the receipt of all goods and services and that all expenditures were for a valid business purpose. Upon completion of this reconciliation, cardholders must forward this documentation to their Approving Official in a timely manner.

The Approving Official is responsible for reviewing and approving cardholders' transaction activity. The Approving Official must sign the Cardholder Statement of Account and PCPR envelope. This signature signifies that the Approving Official has approved all purchases and that all expenditures are reasonable and were made for valid City of Milwaukee business purposes. Upon approval, payment documentation is forwarded to the user departments' accounts payable section where a payment voucher is prepared for its cardholder purchases. Payment vouchers and supporting payment records are submitted to the Comptroller's Office for payment to Bank One. See Section VI of this report for additional information relating to the voucher payment process. DOA policies and procedures do not provide specific guidance regarding procedures to follow in the performance of this review. Reconciled receipts are forwarded to departmental accounts payable sections for processing.

Supervisory review and approval must be performed in a timely manner. Biweekly Cardholder Statements of Account are received on Monday. Departments must submit accounts payable vouchers and supporting documentation to the Comptroller's Office by the following Friday.

### **Strengths**

- Cardholders and Approving Officials followed established DOA policies and procedures in most instances. In general, DOA provides effective oversight over user department execution of these rules.
- Cardholders retain receipts and related documentation in compliance with DOA policies and procedures. Departments submit required documentation to support the preparation of payment vouchers in a timely manner.
- Cardholders are conscientious in making sure that sales tax is not paid. DOA has established procedures to recover the amount of sales tax when paid in error.
- Departments submit affidavits and dispute forms in compliance with DOA policies and procedures thereby promoting cardholder responsibility and payment processing in a timely manner.

- The ProValue system did not allow any purchases of goods from disallowed Merchant Category Codes. Transaction limits were not exceeded. DOA followed up appropriately when cardholders split transactions to avoid exceeding limits.
- The audit sample disclosed that purchases on Cardholder Statements of Account agreed with purchases recorded on PCPR envelopes and were supported by receipts.

### **Opportunities for Improvement**

- Detailed receipts are not required. Submission of a credit card slip stating the amount of purchase satisfies DOA requirements. Such a receipt is not sufficient to allow Approving Officials to determine whether a purchase is appropriate or to determine that items have been received.
- Descriptions of purchases on PCPR envelopes are not always sufficient for Approving Officials to determine if purchases are appropriate.
- DOA's written policies do not explicitly state that phone orders should only be made by cardholders.
- Departments do not receive faxed receipts for phone orders in all instances.
- Cardholders do not always ensure that ProCard numbers are eradicated from receipts and other documentation.
- The Cardholder Transaction Violation Report that identifies attempts to exceed transaction limits or purchases from a vendor in a prohibited MCC is not used.
- An audit sample showed that Cardholders and Approving Officials did not sign Cardholder Statements of Accounts or PCPR envelopes in 96 instances out of 120 cycles (80 percent of the total audit sample.)
- Cardholders are sometimes Approving Officials for their own purchases
- DOA does not provide departments with a list of cardholders with zero or limited activity for use in identifying cardholders that should be removed from the ProValue system.

### **Recommendations Regarding Transaction Activity and Billing Cycle**

The audit makes the following recommendations that are essential for strengthening internal controls.

11. **Detailed receipts should be required for every purchase made. A credit card receipt is insufficient supporting documentation and does not allow an Approving Official to determine whether a purchase is appropriate.**
12. **Approving Officials are the City's primary defense against improper purchases. DOA should emphasize specific responsibilities of Approving Officials, as they relate to the submission of payment documentation including the following essential responsibilities:**
  - a. **Approving Officials should obtain Cardholder Statements of Account from DOA-Procurement in a timely manner and ensure that employees submit receipts, PCPR envelopes and Cardholder Statements of Account in a timely manner.**
  - b. **Approving Officials should examine each purchase receipt to determine appropriateness. Shipments to non-City locations should be questioned.**

- c. **Approving Officials should determine that receipts are available for each transaction reported on the Cardholder Statement of Account and that receipt totals for all documentation submitted are in agreement. Cardholder Statements of Account and PCPR envelopes should be signed by the cardholder and the Approving Official.**
  - d. **Approving Officials must ensure the accuracy of account distribution.**
  - e. **Approving Officials should verify that sales tax was not paid or if tax was paid that it is recovered in the next cycle.**
  - f. **Approving Officials should document follow-up on any exceptions or concerns resulting from their review process, including resolution of disputes, filing of affidavits, etc.**
  - g. **Cardholders and Approving Officials should make sure that card numbers are not visible on documentation.**
  - h. **Approving Officials should not authorize payment for items not received.**
  - i. **Approving Officials should document and follow-up on any concerns raised by DOA that result from its oversight capacity.**
  - j. **Approving Officials should be vigilant concerning Procard use for the purchase of items for inventory and items that could be converted to personal use.**
  - k. **Approving Officials should review any questionable items approved in a prior payment cycle due to time constraints.**
13. **Cardholders should not be permitted to approve their own purchasing activity.**

The audit also make the following recommendations which, although not essential, should be considered to improve controls and the ProCard program.

- 14. DOA should insert a statement on the PCPR envelope stating that the cardholder's and Approving Official's signatures verify that detailed receipts substantiating all purchases that appear on the Cardholder Statements of Account have been submitted, reviewed and approved. Cardholders should provide totals on PCPR envelopes to facilitate reconciliation and review processes. Cardholders should provide a complete description of an item when a part, stock or model number appears on a receipt. For high cost items or items that may be readily converted to personal use, Approving Officials should require the identification of where the item will be located and who will use it.
- 15. DOA should provide specific guidance in their policies, procedures and training concerning phone orders. Departments should require faxed receipts for all phone purchases. DOA and departments should request that phone orders be made only by cardholders. Someone other than a cardholder should never sign the cardholder's name to a receipt.
- 16. Cardholders should be reminded that their ProCard numbers should not appear on any payment documentation. Approving Officials should enforce this rule when reviewing payment documentation.
- 17. DOA should generate and review the Cardholder Transaction Violation Report to identify attempts to exceed transaction limits or purchase from vendors in prohibited MCCs.

18. DOA should periodically generate and distribute to departments listings of cardholders with zero or limited transactions.



## Control Area IV – Reporting Process

IV. The ProValue system generates reports to facilitate the biweekly payment cycle process. Reports are also generated to assist in audit and review processes. Other reports provide profile information on cardholders, suppliers and transaction information maintained on the database. The ProValue system offers a variety of administrative reports that DOA does not use and also offers ad hoc reporting capabilities. DOA is satisfied that existing reports provide for their needs in the oversight of the City's ProCard program. An online version of the ProValue system is available. DOA personnel stated that the online version does not provide the same level of control features as the system version presently in use. DOA recently began to provide departments with transaction histories for their respective cardholders. These reports make it possible for departments to identify cardholders who are inactive, evaluate whether to raise or lower transaction amount limits and identify purchases that may indicate patterns of misuse.

During a biweekly review of reports DOA identified one DPW - Water Works cardholder who was misusing his ProCard and defrauding the City. DOA worked with DPW and the Comptroller's Office to document the misuse that occurred. These efforts led to the discharge, prosecution and conviction of the employee. Since then both DOA and DPW have improved policies, procedures and training to deter fraud. Improvements initiated by DOA include the establishment of a biweekly audit process to review cardholder transaction activity and providing additional training to Approving Officials. Improvements initiated by DPW - Water Works include limiting the number of cardholders that an Approving Official is responsible for and requiring that the Approving Official has sufficient knowledge of field operations to determine the appropriateness of ProCard purchases.

### **Reports now produced relating to the biweekly payment cycle**

**Statement of Account Summary in alphabetical order** – This report summarizes the number of transactions and value of charges by cardholder in a biweekly period and is used by Approving Officials to verify that all cardholders with transaction history have submitted transaction records to facilitate preparation of Payment Vouchers.

**Statement of Account Summary sorted by department** – This report summarizes the number of transactions and value of charges by cardholders in a biweekly period and is used by the Comptroller's Office in the Payment Voucher approval process.

**Cardholder Statements of Account** – These reports are generated for each cardholder with transaction activity occurring in a biweekly period. These Statements are essential in approving transaction activity. The information on these statements is matched to individual receipts and purchase descriptions recorded on ProCard Payment Record Envelopes by cardholders.

## **Reports relating to Biweekly Review Process**

**Unauthorized Supplier Listing** – This report identifies instances where unauthorized suppliers were used by cardholders. The use of this report is described in more detail in Control Area II of this report.

In autumn 2002, DOA through its review of the Unauthorized Supplier Listing identified a cardholder that used an unauthorized supplier. Due to the nature of the item purchased from the supplier, DOA reviewed additional transactions by this employee and found additional uses of using suppliers. DOA, the cardholder's department and the Comptroller's Office examined transaction activity and documented ProCard misuse and fraud for the employee. The employee was subsequently discharged, prosecuted and convicted of six felony counts for defrauding the City of \$22,000. The employee was ordered to repay the City this sum of money and to date has paid \$10,000 with an additional \$12,000 owed. The employee was also ordered to serve jail time and three years of probation.

**Multiple Transactions Exception Report** – This report identifies instances where individual cardholders may have tried to exceed single transaction limits by splitting transactions into two or more transactions. The audit noted a few occasions where this occurred. In such instances DOA followed up by contacting the cardholder's Approving Official. The audit noted that employees may attempt to exceed single transaction limits by splitting transactions over two billing cycles or by two or more employees making purchases on the same day at the same supplier. These latter types of occurrences are difficult to identify through current review procedures.

## **Audit Process**

**Cardholder Statement of Accounts for designated time periods** – These reports are used for audit purposes by DOA and DPW as described in the following section of this report. These reports are considered to be an important strength of the ProCard program.

## **Other Reports**

**Cardholder Profile** – This report is sorted alphabetically by cardholder and provides information on recorded transaction number and value limits. This report also states the last date that a cardholder used a ProCard. The Cardholder Profile Report indicated instances of active cardholders that had not used a ProCard in years. DOA relies on input from individual departments for notification regarding the need to remove a cardholder as active on the ProValue system.

**Transaction Report by MCC** – This report lists purchases by Merchant Category Code for each cardholder.

## **Strengths**

- Reports now produced regularly have been used by DOA to identify occurrences of

ProCard misuse and violations of DOA procedures.

- Reports readily facilitate the biweekly payment process.
- Transaction histories now forwarded to individual user departments facilitate the review of whether continued ProCard assignment is warranted, identify usage patterns for each cardholder within departments for managerial review and can identify instances where cardholder transaction limits need to be changed.
- The version of the ProValue system in use by DOA does not allow dial-up access by individual user departments. This promotes more central control by DOA over the City's ProCard system.

### **Opportunities for Improvement**

- Procedures to detect the splitting of transactions over two payment cycles and through the collaboration of two or more individuals need to be developed.
- Transaction Reports by MCC are not generated or distributed to departments. This report would allow departmental management to see how often a cardholder uses a specific supplier and whether there are indicators of obvious misuse (e.g. frequent purchases at grocery stores, etc.). This report may also help to identify instances where two cardholders make purchases from the same supplier possibly to evade transaction limits.
- DOA is using an older version of the ProValue system because it finds the reporting capabilities of that system to be useful in the control of ProCard activity. There is a newer online version of the ProValue system that is available. It is possible that Bank One may decide to discontinue the ProValue system currently used by DOA.

### **Recommendations Regarding the Reporting Process**

The audit makes the following recommendations which, although not essential, should be considered to improve controls and the ProCard program.

19. DOA should generate Multiple Transactions Exception Reports for consecutive billing cycles to help in identifying instances in which cardholders tried to exceed single transaction limits or splitting transactions over two billing cycles.
20. DOA should periodically provide departments with the Transaction Report by MCC for each department's cardholders.
21. DOA should contact Bank One to learn more about the available online system, plans for continuation of support for the system now in use and any planned system upgrades.

## Control Area V – DOA Audit Process

V. In autumn 2002 DOA initiated a biweekly random audit process of selected cardholder accounts. Transaction activity for a three-year time period is reviewed in detail for each cardholder selected for audit by the ProCard Coordinator. In addition to the audits performed by DOA, DPW instituted a ProCard audit procedure of its own in June 2003.

### Current Policies and Procedures

The DOA audit consists of a review of a limited sample of selected cardholder files and a review of the last three years of each selected cardholder's purchases by vendor. An Audit Form is prepared for each cardholder account audited. The DOA ProCard Coordinator lists the cardholder's name and department on this form and the number of previous violations, if any, as documented in individual cardholder paper files. The DOA ProCard Coordinator records any concerns in the comment field of the Audit Form. The DOA ProCard Administrator reviews these comments and makes recommendations concerning any additional information needed and what, if any, corrective action may be necessary. The DOA Purchasing Director reviews the Audit Form and approves findings and recommendations. Approving Officials are contacted if questionable items are identified, when violations occur repeatedly or when an alternative to ProCard use appears to be warranted. Communications with departments include e-mails, memorandums, phone conversations and meetings when necessary. Audit Forms are signed by the ProCard Coordinator, the ProCard Administrator and the Purchasing Director. DOA also reviews all single purchase transactions in the amount of \$5,000 or more and makes inquiries as necessary. All cardholders have been informed of this periodic cardholder file audit process.

DPW now performs similar limited audits on a quarterly basis of its own cardholder accounts. A one- year transaction history is obtained from DOA and is reviewed by DPW personnel who conduct further investigations as needed. DPW section heads must each submit an annual report to the Commissioner of Public Works documenting their ProCard oversight activities.

### Strengths

- The existence of the above audit practices is a strength. These practices discourage inappropriate or fraudulent ProCard usage.
- Methods used by DOA appear to be thorough and well documented.
- DOA senior management's commitment and involvement in all facets of the ProCard program.
- Annual report of Procard oversight activities to the Commissioner of Public Works.

### Opportunities for Improvement

- In some cases, actions taken by departments, if any, in response to concerns raised by DOA were not documented in cardholder files.
- User departments are not required to report cardholder problems they identify through

audit or other procedures to DOA.

### **Recommendations Regarding DOA Audit Process**

The audit makes the following recommendations that are essential for strengthening internal controls.

- 22. DOA should require an Annual User Department ProCard Statement by each user department. This Annual Statement should include the following:**
  - a. Certification that the department is complying with all DOA ProCard Policies and Procedures**
  - b. Certification that the department has followed up on all ProCard related problems referred to it by DOA or include a list of referral items outstanding.**
  - c. Certification that the department has concluded action on all exception ProCard transactions identified with their own cardholders or provided a list of the exception items pending.**
  - d. The signature of the department head.**

The audit also makes the following recommendations which, although not essential, should be considered to improve controls and the ProCard program.

23. DOA should maintain a log of referrals made to departments regarding ProCard problems DOA has identified. DOA should carefully evaluate subsequent responses from user departments to ensure that explanations are provided or that appropriate corrective action has been taken on each DOA referral made.
24. City departments should provide written notification to DOA of problems that they identify with their own cardholders for inclusion in cardholder files.
25. DOA should consider increasing the number of ProCard user accounts examined as part of its biweekly audits.

## **Control Area VI – Voucher Payment Process**

**VI. Voucher processing involves a two-step process. DOA prepares a payment voucher for all ProCard expenditures in a biweekly period and forwards it and supporting documentation to the Comptroller's Office. These records are reviewed and approved for prompt payment by Comptroller's Office staff. A wire transfer is made to Bank One for the amount due for all ProCard transactions made during the prior biweekly period. Individual departments subsequently forward payment vouchers and supporting documentation to the Comptroller's Office for review and approval. Any payment adjustments are made in the subsequent payment cycle. The Comptroller's Office processes these vouchers and distributes ProCard expenditures to individual department accounts.**

**This method of voucher processing was initiated in December 2002 to ensure that Bank One was paid promptly and to avoid the possibility of late fees. Prior to that time, there were no wire transfers and payments were made to Bank One after the processing of separate payment vouchers submitted by departments. Processing delays occurred earlier due to submission of incomplete documentation and disputed items.**

### **Current Policies and Procedures**

On the first Monday in a biweekly payment cycle, DOA prepares a payment voucher for an electronic wire transfer to Bank One for ProCard expenditures in the previous biweekly period. The payment voucher and supporting documentation is forwarded to the Comptroller's Office. The Comptroller's Office reviews the payment voucher and processes it for payment.

Subsequently, departments submit individual payment vouchers to the Comptroller's Office to facilitate the distribution of ProCard expenditures to departments. Departments also submit cardholders' PCPR envelopes with invoices, individual Cardholder Statements of Account and a Statement of Account listing total department expenditures by cardholder. The Comptroller's Office compares the amount of each receipt to transaction amounts on Cardholder Statements of Account and PCPR envelopes to ensure that all payments are supported by invoices. Cardholder affidavits of purchase may be received at times instead of actual purchase receipts. The Comptroller's Office contacts departments whenever receipts or affidavits are missing. Upon the completion of this review the Comptroller's Office prepares a worksheet to summarize the review of detailed payment records. The total on this worksheet is compared to the department expenditure total on the Statement of Account. Departmental payment vouchers are processed when this reconciliation is complete.

### **Strengths**

- Wire transfers enable payment to Bank One in a timely manner. Disputed items are resolved in a subsequent payment.
- The payment voucher enabling the wire transfer is supported by a Statement of Account Summary provided by DOA.

- Individual payment vouchers submitted by City departments are supported by invoices and other payment documentation.
- The Comptroller's Office reviews and reconciles all documents submitted by cardholders and departments prior to the approval and processing of departmental payment vouchers.

**Opportunities for Improvement** – None. Activities relating to the processing of payment vouchers are well controlled and provide for payment to Bank One in a timely manner.

**Recommendations Regarding the Voucher Payment Process** – None.

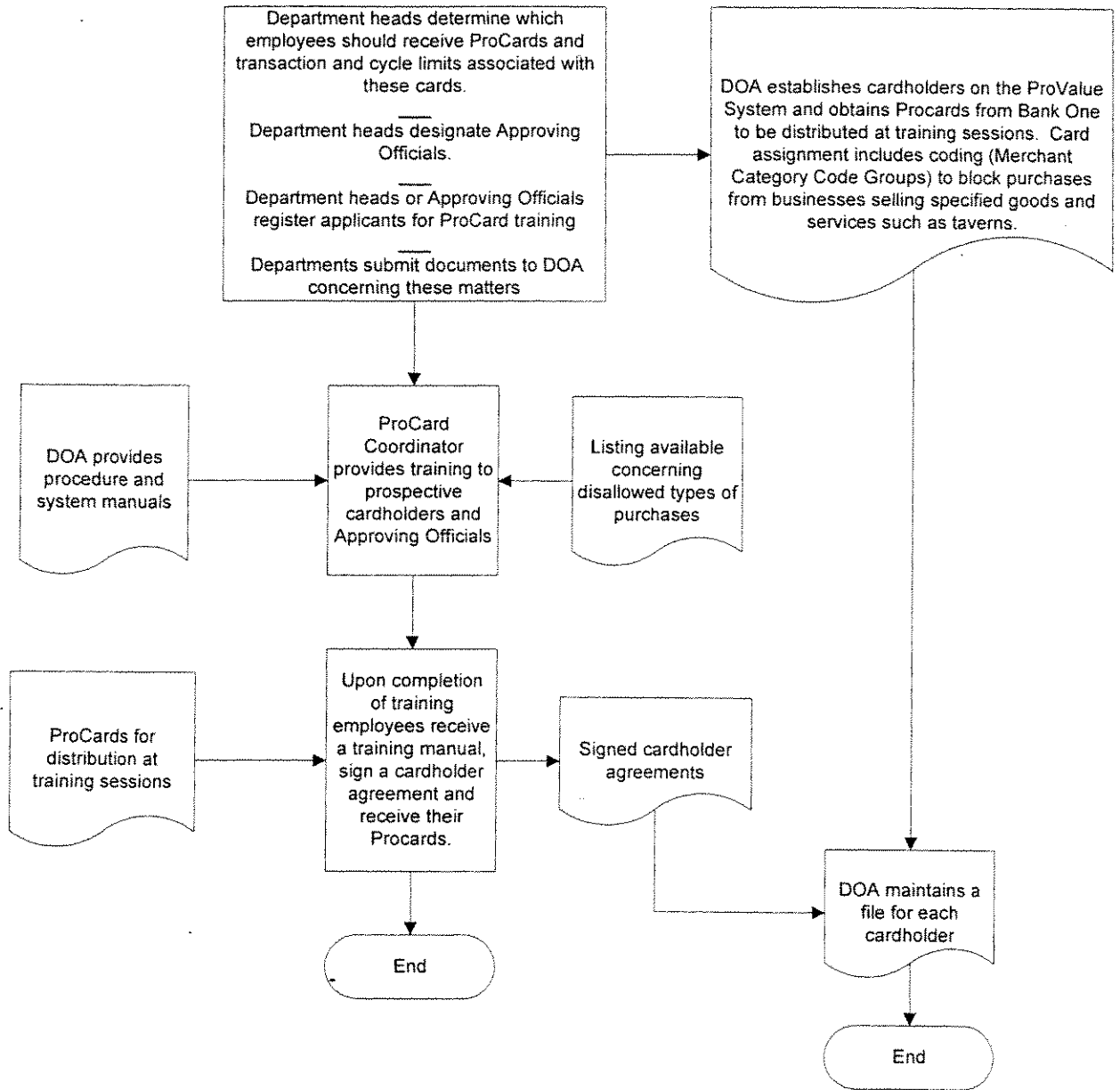
---

**EXHIBITS**

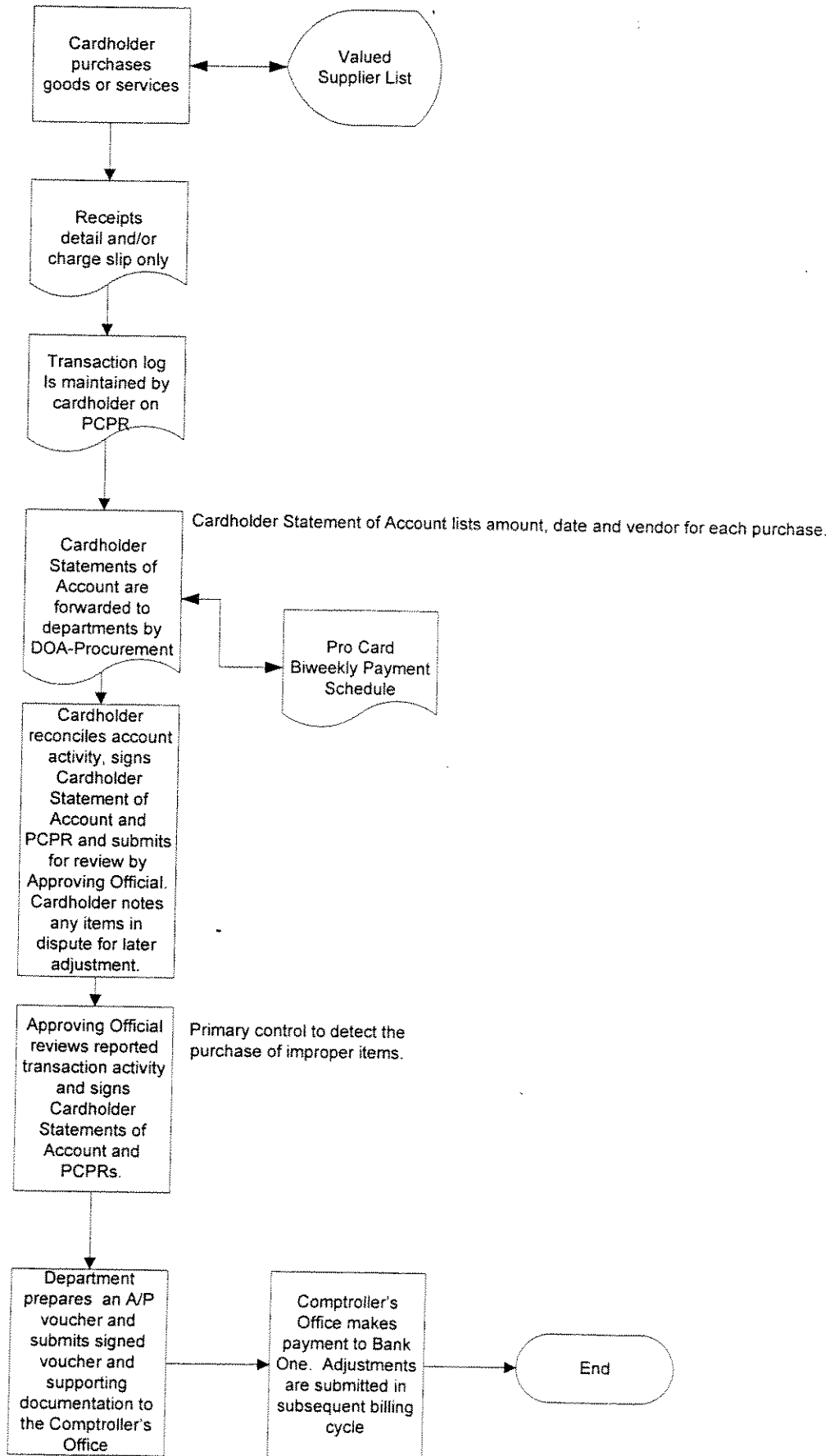
---



Milwaukee ProCard Program  
Training and ProCard Distribution



Milwaukee ProCard Program  
Biweekly Transaction Activity  
and Billing Cycle



---

**DEPARTMENT RESPONSE**

---



Department of Administration  
Business Operations Division

**John O. Norquist**  
Mayor

**Michael J. Soika**  
Director

**Cheryl L. Oliva**  
City Purchasing Director

November 7, 2003

W. Martin Morics  
City Comptroller  
City of Milwaukee  
200 East Wells Street, Room 404  
Milwaukee, Wisconsin 53202

Dear Mr. Morics:

The Department of Administration is pleased to respond to the audit of the City's Procard Program conducted by the Comptroller's staff. While the determination expressed in the audit that the Program is effectively administered with the current control system in place reinforces the Department of Administration's view, we are cognizant of the fact that there are additional steps the City can take to protect the integrity of the Program. Therefore, our response to the findings and constructive recommendations for improvements in certain areas defined in the audit report is attached. The emphasis of the audit report appears to be recommendations that involve more training of the Approval Officials in user departments. With that in mind, please be informed that the Department of Administration, Business Operations Division, Procurement Services Section has already begun planning for a Citywide mandatory training/retraining of all Procard Approving Officials in early 2004 which will encompass the recommendations put forth in the audit report.

It was a pleasure working with the Comptroller's audit staff to assist them in discovering ways in which the existing Program could be further enhanced. The goal of any changes made to the Program will attempt to maintain a balance of ease of use and more timely receipt of goods and services with the proper accountability for those empowered with cardholder and approver privileges. Thus, we are confident that the select changes we make to the Program will enable the City's Program to remain an effective model for other entities to continue to mirror as a quality program that provides drastic efficiencies in procurement processes without unnecessary restrictions that reduce its benefits.

Sincerely,

Cheryl L. Oliva  
City Purchasing Director

Attachments (4)

Ref:procardauditcover

## **Department of Administration Response to Procard Audit Findings and Recommendations**

### **Approving Officials Selection and Training**

At the inception of the program in 1997, training was mandatory for all Approving Officials as well as all cardholders. With the expansion of the program and turn over of staff over the years, the Approving Official training was not extended to the replacement Approving Officials until the need was recognized by the Department of Administration in the fall of 2002. Therefore, a separate training presentation was developed and mandated for all department heads, division heads and approving officials to attend in December of 2002 (See the attached PowerPoint training presentation, letter dated November 20, 2002 and Procard Approving Officials Listing). Please note emphasis on the following points for Approving Officials:

#### **• Approving Officials:**

- Should be the cardholder's immediate supervisor.
- Should be assigned a manageable number of cardholders based on:
  - ▶ Number and frequency of transactions
  - ▶ Field and technical expertise
- Should attend Procard training.
- Should determine if all purchases were for official use.
- Should take appropriate steps to prevent and resolve cardholder purchase issues.
- Should review and certify cardholder's cycle statements of accounts.
- Should ensure all cardholders submit cycle statements in accordance with Procard payment schedule. Must verify purchases and sign the envelope\*:
  - ▶ Verify signed cash register and/or itemized receipt for each transaction (itemized preferred)
    - Charge slips or packing slips acceptable
  - ▶ Check that account # does not appear on receipt – black it out
  - ▶ Verify appropriate Ship To location on receipt
  - ▶ Verify that transaction amount = receipt amount
  - ▶ Verify cardholders' signatures
    - Person picking up a phone order should sign receipt
- Check all documentation for accuracy
- Collect card from cardholder upon employment termination

\*Note: In one instance during the audit process, the use of a signature stamp by an Approving Official was identified. The Approving Official has been notified to discontinue this practice and this point has been added to the training materials. As reinforcement, the Procard payment envelope will be redesigned to include a statement that signature stamps are not allowable for approving Procard transactions.

In addition, the Procard training has been offered Citywide through the Department of Employee Relations' training bulletins and will continue to be offered on a quarterly basis or as the need arises to ensure that Procard responsibilities and procedures are clearly defined and conveyed. Another mandatory training session will be scheduled for all new Approving Officials in 2004. Please note that on occasion individual training is provided if a department identifies the need for a new cardholder or Approving Official before the next regularly scheduled group training is to be held.

The cardholders and Approving Officials are selected at the discretion of the department heads based on their delegated purchasing responsibilities and their functional and technical expertise. The department heads are also responsible for setting the transaction and monthly limits and determine how many cardholders to assign to an Approving Official based on the number and frequency of transactions required. The departments will be instructed to notify the Department of Administration as new Approving Officials and their backups are identified and register them for the appropriate Procard training.

Cardholders should not be permitted to approve their own Procard purchases. Corrections have already been made to the Approving Officials where such instances were recognized during the audit process.

As recommended in the audit report, an annual statement was drafted on October 22, 2003 which will require the department head's signature certifying the department's compliance with all Procard policies and procedures and necessary follow up of any outstanding reported Procard transaction problems. An Approving Official Agreement similar to the Cardholder Agreement form will be drafted as recommended. However, review by the City Attorney may be required prior to implementation.

### **Communicating Changes to the Program**

Remarkably minimal changes to the program's policies and procedures have occurred since the program was instituted. Any changes and reinforcement of policies and procedures have been communicated either via city wide meetings, training sessions, email transmissions to the Approving Officials, or written notices and procedures sent with the bi-weekly statements. In addition, the Purchasing Liaison manual is updated on line as necessary. We recognize that communication and cooperation are key elements to the program's success.

### **Receipts and Procard Payment Record Envelopes**

The Department of Administration first learned through the audit process of the concerns raised regarding inadequate receipts, account numbers appearing on receipts, missing signatures, use of a signature stamp, and lack of descriptions on the Procard Payment Record Envelopes, since these items are not reviewed by the Department of Administration staff. This paperwork is first examined for compliance and approved at the department level and then submitted directly to the Comptroller's Office with payment documentation for final review. However, eradicating the account numbers on receipts is covered in the managers training, cardholder training and manual.

Through better communication and a closer working relationship with the user departments and the Comptroller's office these issues can be resolved. These points will also be incorporated into future Procard training sessions and the procedures manual.

Also as recommended, the Procard Payment Record Envelopes will be redesigned. Signatures of both the cardholder and the Approving Official will be required on the Procard Payment Record Envelope. A statement will be added to the payment envelope that reads, "The cardholder's and Approving Official's signatures verify that detailed receipts substantiating all purchases that appear on the Cardholder Statements of Account have been submitted, reviewed and approved". Two additional points will be printed on the envelope: 1) signature stamps are not allowed and 2) the account number should not be legible on receipts.

### **Phone Orders**

In the Procard training and the written procedures, cardholders are clearly instructed to safeguard their cards, not to share their cards or their account numbers with anyone, and to obtain a fax receipt from the vendors for phone orders. Procard phone orders are permitted and should only be made by the cardholder. As suggested in the audit report, instructions have been incorporated into the training presentation that if someone other than the cardholder picks up a phone order, the person picking up the goods must sign their own name on the receipt for the cardholder.

### **Departing Employees**

Upon termination of employment, it is the responsibility of the user department to collect the departing employee's Procard, along with their keys, identification card, etc. and to notify DOA to delete the cardholder. This point has been added to the training presentation and will be emphasized in the training sessions for Approving Officials.

In February of 2003, a new approach to the Procard exchange was initiated for the replacement of cards expiring in March of 2003. The Departmental Procard Managers were emailed instructions from DOA to collect all Procards from their cardholders and bring them along with an alphabetical listing of cardholders to the Procurement Services Section office. A replacement Procard was only provided for each Procard that was collected. The exchange revealed that in several instances a new Procard was issued for an employee whose status had changed due to a transfer, retirement, resignation, or whose position no longer required a Procard. However, because DOA was not notified of these changes when they occurred, new cards were automatically issued by the bank. Upon discovery, these Procard accounts were promptly deleted and their files updated. Also, during the card exchange it was found that Bank One issued several Procards with the wrong expiration date and these cards had to be reissued for consistency.

### **Valued Supplier List**

While a Valued Supplier List is somewhat unique among other entities utilizing procurement cards, maintaining a Valued Supplier list has proven to be an asset to the City's program. Supplier recruitment and changes, certified Emerging Business Enterprise suppliers, access to the supplier listing and recruitment forms on our web site are covered in the Procard training. This list is updated daily as new vendors are recruited or modified and brought to the attention of DOA. Though it can be a bit cumbersome at times to maintain this Valued Supplier List, one of the primary reasons DOA has chosen to keep this process in place is because it encourages the use of certified Emerging Business Enterprise businesses and enables us to identify how many Procard dollars are spent with them. It is also used as a management tool to determine if inappropriate or unauthorized purchases are being made.

### **Violation Notification and Audit Process**

As violations are detected during bi-weekly review of the unauthorized supplier or split transaction reports, the Approving Official is notified via email and a response is required. A response log has been created to track the identified problems and/or possible violations, notices sent, responses received, required follow up and corrective action taken to ensure compliance with the Procard program policies and procedures. In addition, the user departments will be requested to provide written documentation to DOA of any Procard problems detected at the department level, which will become a part of the cardholder's file.

Currently, DOA reviews two Procard user accounts on a biweekly basis which will be increased to four reviews. These reviews have proven to be a valuable tool in detecting such things as collaboration of purchases by cardholders; multiple large volume purchases from the same vendor resulting in the establishment of a vendor contract; elimination of a cardholder due to lack of use; change in an Approving Official, etc. These cardholder transaction reviews will continue and DOA may increase the number of accounts reviewed in the future if the need arises.

Ref:procardauditresponse  
Dated: November, 2003