



Procurement Fraud Investigation

Report On Procurement Fraudulent Transactions & P-Card Process

February 6, 2012

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Table of Contents

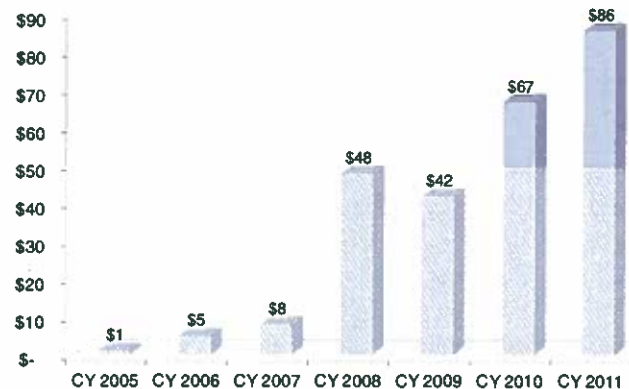
Executive Summary.....	2
Procurement Internal Audit Objectives & Background.....	5
Fraud Identification.....	5
Investigation Objectives & Approach.....	6
Procurement Card Program & Fraud Background.....	7
Detailed Observations & Recommendations: Findings.....	9
Detailed Observations & Recommendations: Recommendations.....	16
Detailed Observations & Recommendations: Management Responses.....	17

Executive Summary

In conjunction with the internal audit of the Procurement function initiated in July, 2011, a fraud was detected within the Procurement Card (P-card) process. The extent of the fraud and circumstances allowing it to go undetected for multiple years, became the focus of this investigation.

The fraud was perpetrated by Kristin Seimits (Schraml or Phelps), Procurement Manager, and overall administrator of the P-card Program. Over the tenure of the program (October, 2005 - present), it is estimated that approximately \$259K of fraudulent charges were incurred by Ms. Seimits on her p-card and subsequently paid by Milwaukee Area Technical College (MATC). The nature of the purchases varied including a car, trips, home furnishings, electronics, entertainment, groceries, meals, etc. Fraudulent charges were identified almost immediately after the program was put in place, but didn't ramp up significantly until calendar year 2008. A summary of the spending by year is provided in Figure 1.

Figure 1: Fraudulent Spend By Calendar Year (\$K's)



To substantiate the suspect transactions, procedures were executed to classify all of Ms. Seimits p-card transactions since the program inception. As such,

Figure 2: Summary of Fraudulent Spend By Validation Method

Validation method:		
Receipts	\$	106,099
Partial receipts		43,451
Vendor verbal		12,543
E-mail confirmation		5,684
Corroborating evidence		740
Charges considered highly suspect, but not validated		
Dining*		13,079
Service stations		979
All other highly suspect transactions		76,564
Total Fraudulent	\$	259,140

each transaction was categorically classified by the type of evidence obtained and is summarized in Figure 2. As depicted, 65.0% (\$168.5K) of the suspected transactions were validated through "hard" evidence, 5.4% (\$14.0K) of the purchases were dining or represented purchases from service stations in which no business purpose was associated, and 29.5% (\$76.5K) were considered highly suspect- not independently validated, but by the nature of transaction had no clear business purpose. At the conclusion of the forensic procedures, the fraud had been validated without doubt.

Beyond investigation of Ms. Seimits, we also performed procedures to determine if collusion had potentially occurred, or whether any other individual employees were potentially committing a similar type of fraud. These procedures did not yield evidence that any other MATC employees were involved, had knowledge of Ms. Seimits fraudulent transactions, or were committing a separate fraud.

Throughout the investigation, process issues and control weaknesses were identified that collectively allowed the fraud to occur and persist. These issues were categorized to more succinctly summarize core contributing controls breakdowns. As indicated in Figure 3, the root causes that led to the fraud perpetration included gaps in policies & procedures, ineffective monitoring controls and program flaws driven by poor overall process design.

Figure 3: Summary of Key Issues



Policies & procedures are the foundation of an effective control environment. Four significant gaps were identified that contributed to fundamental control environment breakdowns, including:

1. *Lack of Segregation of Duties:* As P-card program administrator, Ms. Seimits had essentially unlimited access throughout the process, including the ability to authorize, record & reconcile transactions, and maintained custody of records and master data.
2. *No Delegation of Authority:* Without a delegation of authority policy, an imbalance and unclear accountability model existed and senior management was forced into highly inefficient transactional operational roles.
3. *P-card Policy Ambiguity:* The p-card policy lacks clear definitions of certain allowable / unallowable purchases creating interpretation by the p-card user and the potential for abuse.
4. *No Fraud Policy:* No formal fraud policy or ethics hotline exists for the organization. Without these elements, inherent organizational risk is significantly increased.

Ineffective monitoring was the second major issue identified with the P-card process. Little to no monitoring infrastructure appeared to be in place, or was applied inconsistently. At the time of this investigation, key monitoring controls including data analytics, exception reporting and budget to actual variance analysis were either not being performed, or were not effective. Additionally, several instances were identified over the fraudulent period that should have alerted management to improprieties that did not result in the appropriate actions.

Inherent program design flaws were also noted throughout the process. Examples of such items included allowing personal purchases using MATC issued p-cards, no infrastructure around records management resulting in missing manual & electronic data files, sharing of p-cards across users, inappropriate capitalization of fraudulent charges, poor expense reimbursement reviews and highly manual processes. These flaws created an environment that was extremely cumbersome and disorganized significantly increasing the likelihood of

errors and improprieties undermining controls.

In response to these findings, a recommendation has been provided that incorporates a major process re-design. Included in this recommendation is general commentary regarding the re-design process / approach, policy & procedure design considerations, monitoring infrastructure thoughts and overall efficiency components.

Management has responded to these recommendations and proposed a comprehensive approach using business process improvement / six sigma techniques. This approach will incorporate clear definition of teams and roles that will work collaboratively, will apply industry standards in terms of process re-design and methodology, and provide robust execution infrastructure to ensure success. Internal Audit will be integral to this process playing an active role in assessing the process risks and controls, and as a strategic partner consulting on project management and driving completion.

Procurement Internal Audit Background & Objectives

The Milwaukee Area Technical College (MATC) Procurement function was initially identified as a high risk function during the overall Internal Audit risk assessment completed by Titus in June, 2011, and as such, was subject to a full audit during FY 2012. Correspondingly, the Procurement audit was initiated on July 1, 2011, with the following objectives:

1. Assess the overall Procurement control environment and impact on established processes.
2. Identify and understand all key procurement processes and corresponding risks and controls.
3. Prioritize and test key controls based on risk and coverage expectations.
4. Identify opportunities for business process improvement and/or savings based on process change.
5. Identify opportunities to strengthen the control environment.

The Procurement function had not been subject to previous internal audits and required gaining a detailed understanding of all key sub-processes. The Procurement Card (P-card) program was one of the key sub-processes identified, and therefore, subject to comprehensive audit procedures. Initially, these procedures included inquiry, observation and re-performance techniques to understand key process risks, controls, breakdowns, process effectiveness and inefficiencies. Subsequently, audit testing was performed on specific p-card transactions to assess the operating effectiveness of identified controls. Note that at the onset of the Procurement audit there was no knowledge of potential improprieties associated with the p-card process and forensic procedures associated with a potential fraud were not part of the original objectives.

Fraud Identification

As audit procedures were executed to test the p-card process several red flags were observed. Such items included the following:

- Providing multiple requests to gain access to US Bank procurement card transaction data and not being granted access. After reporting to the VP Finance, being told that access had been granted, yet still not receiving access.
- Multiple instances of meeting requests to review audit questions being cancelled or rescheduled.
- Requested documentation not being provided with the explanation that the documents were "missing".
- Identified transactions that did not appear to be legitimate business expenses, and support could not be provided.

A culmination of these items, and our overall assessment of the control environment risk (described subsequently) provided a basis that an impropriety may exist. At this point, new objectives were established and more forensic procedures were employed to substantiate the circumstantial concerns.

Investigation Objectives & Approach

Upon identification of potential fraudulent transactions following our review and testing of the P-card process operational controls, our focus shifted to a forensic approach. This approach was designed with the following key objectives:

1. Establish if transactions suspected of being fraudulent, were indeed fraudulent.
2. Perform an in-depth analysis reviewing all of Ms. Seimits P-card transactions since the program inception, identifying all transactions likely to be fraudulent.
3. Assess the likelihood that collusion occurred, or other MATC employees had been involved or perpetrated a similar fraud separately.
4. Gain an in-depth understanding of the control break downs that allowed the fraud to occur and not be detected.
5. Identify process improvement opportunities to be leveraged subsequently to drive both efficiency and effective controls around the P-card process.
6. Support legal proceedings and litigation as requested.

The scope of the review included all transactions from the P-card program inception (October, 2005) through August 31, 2011, the date Ms. Seimits was placed on unpaid administrative leave.

To effectively ensure completeness and appropriateness of our findings, we employed specific techniques to allow efficient data analysis and categorization of transactions. These procedures included:

- Summarizing all data by vendor to evaluate trends and patterns in spending;
- Reviewing all transactions within the review period to evaluate propriety;
- Obtaining receipts for all transactions considered fraudulent;
- Validation of charges allocated as being illegitimate/unauthorized with corresponding budget managers;
- Review of all P-card statements with Procurement specialist in which fraudulent charges had been placed.

The culmination of these procedures is the basis for the findings detailed below. Given the fluid nature of the investigation, procedures were enhanced or retracted based the size and characterization of the transaction types. All transactions were placed into certain buckets based on the means in which they were validated. Thus, all transactions were categorized as “Fraudulent” or “Non-Fraudulent” based on one of the categories listed below defining how the transaction was validated. Transactions were validated through:

1. Obtaining receipts
2. Obtaining partial receipts
3. Gaining verbal confirmation from a vendor verifying the purchase details
4. Obtaining e-mail correspondence identifying the purchase
5. Using corroborating evidence

Additionally, transactions for dining and service stations were considered fraudulent, unless appropriate remittance and support could be identified proving otherwise. Lastly, certain transactions were characterized as either “highly suspect” (generally if the other validation methods could not be used, but no reasonable business purpose could be associated with the type of expenditure) or “not validated, considered low likelihood of fraud” (charges that appeared to have an obvious business purpose).

Procurement Card Program & Fraud Background

Kristin Seimits (Schraml or Phelps) was hired as the Manager of Procurement in September, 2003. During 2005, Ms. Seimits initiated the implementation of a procurement card program to allow purchasing efficiency across the institution and take advantage of credit card rebates. The program was coordinated through US Bank (Visa) and Ms. Seimits was provided overall authority to administer all aspects of the program, coordinating with a US Bank contact. The program was rolled out organization wide in October, 2005, and included the following components:

- *Milwaukee Area Technical College Board Policy B0806.* Policy B0806 effectively defines the role / administration parameters of the program, effectively identifying the procurement manager as the overall administrator. Additionally, this policy establishes spending expectations and generally defines that p-cards should only be used for the purchase of authorized district expenses.
- *Procurement Card Program Manual.* Issued on April 19, 2006 by Procurement Card Administrator Kristin Seimits, the manual provides users with step-by-step guidance on card use & maintenance.
- *MATC Procurement Card Agreement.* In conjunction with issuance of a p-card, all users are required to sign a MATC Procurement Card Agreement. This agreement establishes specific parameters for card usage, including that the use of the card for personal purchases is a violation of State law and subjects the user to prosecution and termination.
- *Training.* Formal training was provided for all new users of p-cards ensuring policy and use expectations were clearly understood as cards are issued.

The p-card process is fairly straight forward and incorporates the following steps:

1. MATC full-time District employees are eligible for procurement card issuance.
2. Prior to issuance, a new user is assigned a card spending limit and is assigned restriction via the use of Merchant Category Classification (MCC) codes only allowing purchases from certain vendor types.
3. Upon use of the p-card, individuals receive bi-weekly statements from US Bank through manual mail and optionally, through an on-line download. If the card is not used, statements are not sent.
4. P-card users are required to submit US Bank statements and receipts for all purchases using a MATC Purchasing Card Transaction Log Envelope to the user's supervisor, user's Vice President and Procurement (Ms. Seimits) for approval.
5. Within two weeks of charges being incurred, users, accessing US Bank's automated interface, define the specific department/project to which the charges should be applied. Note that upon initial set-up, users are assigned a default accounting code, specifying the department, project and line item to which charges on their respective p-card are applied. Users, within the two week window, can change the expense type and project mapping, but not department to which these charges are coded.
6. Accounts Payable receives an automatic feed from US Bank identifying all p-card liabilities and pays the balance consistent with the processing of all payables.
7. Procurement receives the US Bank feed and reconciles all P-card envelopes received to the listing ensuring completeness of the support received to the total transactions processed by US Bank.

Note that if personal purchases are placed on MATC p-cards, the user is required to remit a check for the personal expenses. Additionally, expenses in excess of approved limits require Procurement manager approval and use of a Procurement p-card to initiate these types of transactions.

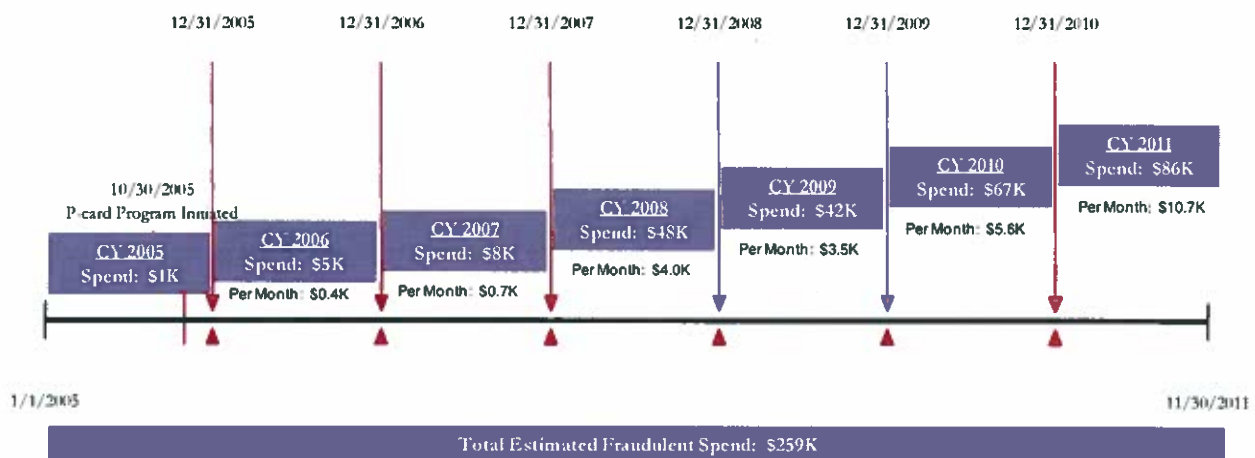
At the time of this audit, approximately 184 individuals were identified as having used their respective p-cards over the previous 2 years. Currently, approximately 175 P-cards are outstanding.

Serving as the overall program administrator, Ms. Seimits had the ability to perform the following functions for any MATC employee, including herself:

- Issue p-cards
- Activate or terminate p-cards
- Define MCC codes to be applied to any cardholder
- Define spending limits
- Allocate charges to any departments or projects
- Use all cards issued and activated

Ms. Seimits' initial p-card was activated in October, 2005 and subsequently had two additional p-cards issued and activated (totaling three cards). We believe the issuance of multiple cards was a result of name changes occurring over this period due to a divorce and subsequent marriage. At the time of our audit, we determined that Ms. Seimits had a self imposed bi-weekly spending limit of \$250K and no MCC code restrictions.

Upon the onset of the program, Ms. Seimits immediately began using her p-card. We identified "suspect" transactions in calendar year 2005, with a steady ramp until she was placed on administrative leave and her P-card privileges revoked on August 31, 2011. A representative timeline and a summary of the fraudulent spend by *calendar year* is provided below.



As depicted above, although fraudulent transactions were initiated essentially from the onset of the P-card program, the frequency and amount of spending increased dramatically over the past several years. At the time Ms. Seimits was placed on unpaid administrative leave, her fraudulent spending had been pacing at \$10K+ per month.

Ms. Seimits' spending included a wide variety of purchases including a wedding trip, vacations, a car, electronics, entertainment, home remodeling, home furnishings, groceries and sports / athletic items.

Detailed Observations & Recommendations

Control Environment

Overall Risk Ranking*



Risk Ranking Key

- High risk: Significant control environment issues, design gaps and/or operating gaps
- Medium risk: Limited control environment concerns, some design or operating gaps, but considered individually and collectively minor.
- Low risk: Sound control environment with no (or very minor) control gaps.

Overview: The control environment within the Procurement function, and across the p-card sub-process, was considered ineffective. Significant policy gaps exist for key areas including segregation of duties and delegation of authority. Additionally, minimal monitoring of the function appeared to be in place. Limitations of effective data use essentially provided an environment in which perpetration of a fraud was easily achieved. Beyond the ease of initiating a fraud, there was a lack of effective monitoring resulting in the inability of management to detect the improprieties despite exposure of fraudulent transactions across a wide cross section of the management team. These issues are subsequently discussed in detail.

Conclusions: The inherent control environment within the procurement p-card sub-process is ineffective, and has achieved the highest possible risk ranking. This ranking indicates that the control environment has significant issues and puts MATC at risk of significant loss. This conclusion was reached based on our collective assessment of risks and corresponding controls across the function.

Findings

Note: Each of the critical findings has been detailed below. Per discussion with management, we believe a comprehensive review of both the Procurement function and the P-card process is warranted. The results of this effort will be an overall process re-design and a re-establishment of a new baseline control environment. As such, all findings are discussed followed by a single comprehensive recommendation and subsequent management response.

Finding #1: Policies & Procedures Gaps

Throughout the review of the P-card process, several instances of gaps in policies and procedures were identified that allowed an environment conducive to perpetration of the fraud. Policies and procedures are considered the foundation to an effective control environment, and critical breakdowns collectively resulted in failed controls. Specific instances included:

- a) **Segregation of Duties.** Segregation of duties (SOD) is typically evaluated to ensure that within a single process, key duties of authorization, transaction recording, custody and reconciliation are distinct and cannot be executed by a single individual. The P-card process was being maintained with significant SOD violations allowing the P-card Administrator (Procurement Manager) to perform the following:
 - Authorize & issue p-cards.
 - Establish & change p-card limits.

- Assign or remove Merchant Charge Codes (MCC) thus allowing or denying card holders the ability to use p-card with certain merchants.
- Use any p-card number without user knowledge.
- Allocate p-card charges to any department (initiate & execute journal entries).
- Approve all p-card transactions.
- Custody and responsibility for storage of all p-card related documentation
- Access to Other Employee P-cards. During the investigation, it was determined that Ms. Seimits had also placed fraudulent charges on a P-card issued to a direct report Procurement Specialist. Through detailed review of these charges (and all charges incurred on the specialist's P-card) since program inception, all fraudulent charges were validated as such. Through the detailed review of the circumstances allowing use of the Specialist's P-card by Ms. Seimits, the following were identified:
 - i. As administrator, the Procurement Manager had the ability to apply charges to any P-card.
 - ii. P-card statements are sent hard copy and users have the ability to download an electronic copy.
 - iii. In certain instances, it is believed that Ms. Seimits intercepted the Procurement specialist's mail and removed the hard copy statements.
 - iv. Instances were noted in which P-card envelopes were completed by Ms. Seimits and brought to the Procurement specialist for signature. The specialist signed these envelopes without reviewing the contents.
 - v. Instances occurred in which the Procurement specialist identified suspect transactions (i.e., Walmart charges), and was told not to worry about such charges. In the Walmart instance, Ms. Seimits informed the specialist that she had used the specialist's card as a test transaction in conjunction with a new corporate card program available at Walmart.
 - vi. Instances were noted in which supporting documentation for charges placed by Ms. Seimits on the specialist's card were not provided.

As part of our procedures, we were made aware that no formal segregation of duties policy exists and no consistent model is followed. As such, it appeared as though the Procurement manager had the ability to define her specific authorizations and essentially had authority across every aspect of the p-card process. This access allowed the procurement manager to initiate, record, approve and reconcile providing an environment allowing fraudulent transactions and the ability to cover up and avoid detection. Perhaps the most significant SOD issue was allowing the Procurement manager to have a P-card and serve as overall program administrator. This inherent conflict of interest allowed the P-card manager to have access to all "master data" associated with the program and operate / hide improprieties.

- b) Delegation of Authority (DOA). No formal DOA policy exists within Procurement or institution wide. By having a lack of concise DOA guidelines, accountability and spending authority are not clearly defined. Several instances were identified in which a lack of DOA impacted the p-card process, including:
- 1) Credit Limits. Ms. Seimits established her personal credit limit at \$250,000 every two weeks (\$500,000 monthly), essentially providing excessive spending capability without limitation. Additionally, p-card users were assigned limits at the discretion of the P-card manager without a consistent, standardized procedure.
 - 2) Purchase Approvals. Per policy (#B0806) all p-card purchases are subject to vice president

approval, evidenced by a sign-off on the P-card envelope. Additionally, the P-card Program Manual (v.7/24/2009, pg 12) states that the P-card envelope contents will be reviewed by the MATC VP Finance. Lastly, a final review of all P-card purchases and envelopes is performed by the Purchasing Manager. This process is both inefficient and ineffective, yielding “rubber-stamping”, significant back-logs and driving “transactional monitoring” without providing management insight into spending patterns or exception reporting.

- 3) Use of Merchant Category Classification (MCC) Codes. The Procurement manager has the ability to assign restrictions on P-card usage based on designating certain vendors in which P-card purchases are not allowed. Essentially, this allows specific restrictions based on the type of merchant (e.g., “automated fuel dispensers”, etc.), but not on specific transactions (e.g., purchases of alcohol). MCC codes appear to be assigned somewhat randomly and many users have no MCC restrictions. Lack of a consistent approach in terms of who and how MCC codes are applied yields control weakness.

Note: The use of MCC codes as a key operating control has limited value due to the significant number of codes and the inability to apply at a transaction level. MCC codes should be considered a secondary control and administered based on DOA design.

- c) Fraud Policy & Ethics Hotline. MATC does not have a specific fraud policy or ethics hotline. Lack of a fraud policy hinders management’s ability to effectively establish a consistent understanding and expectation of the consequences of perpetrating a fraud, and, conversely, the protections afforded a whistleblower. Implementation of these tools can substantially reduce the risk of fraud. Additionally, there does not appear to be consistent training to all MATC employees re-establishing expectations with regard to committing a fraud or reporting a potential impropriety.

Note that a hotline does exist within Public Safety known as the “Anonymous TIPP Line”, but does not appear to be structured as an ethics hotline (e.g., the line is routed to the third shift supervisor, versus General Counsel or Internal Audit as would be expected).

- d) “Grey” Policies- Phone Costs. The MATC Procurement Card Program Manual (v.7/24/2009, pgs. 13-14) specifies approved and unapproved P-card uses. In certain instances, these guidelines are subject to interpretation and not specific. We observed this scenario as we reviewed phone charges incurred by Ms. Seimits. Specifically, the Manual (pg. 14) states “MATC approved cell phone-monthly service charges only” is an approved use. However, no specific limits, types of services, etc. are identified, resulting in the potential for abuse. Additionally, the Manual (pg. 13) specifies that “Phones or initial contract for service” is not a legitimate expense. We believe that Ms. Seimits had been authorized to receive reimbursement for cell phone charges consistent with the Procurement Card Program Manual, but believe she incurred excessive charges and appears to have been using her P-card to cover charges on minimally two plans through two different carriers.
- e) Use of P-card for Information Technology Purchases. Instances were identified in which purchases of computers, ipads and other technical equipment had been made through Purchasing. We identified both fraudulent and legitimate technology purchases. An Information Technology (IT) “informal” policy requires that all technology purchases are made through the IT function. Circumvention of policies without reprimand undermines the overall effectiveness of the control environment and, correspondingly, increases organizational risk.

Finding #2 Ineffective Monitoring

The P-card process was assessed in terms of both transactional controls and monitoring controls. Monitoring controls and capability is critical to allow management appropriate oversight of any process and

be alerted if process breakdowns or improprieties occur. The P-card program was subject to minimal oversight. When monitoring controls were effective, responses to the controls were ineffective. We encountered multiple instances in which significant monitoring lapses occurred including:

- a) P-card Manager Transactions. Significant amounts of transactions requiring remittance to the VP Finance for approval were identified as a) never submitted for approval, b) submitted with incomplete documentation, c) submitted with falsified or highly suspect documentation. These instances were widespread, occurring repeatedly over the entire program tenure. Ms. Seimits did not submit any P-card envelopes, receipts or other supporting documentation for approval after June 15, 2010. During this period, an estimated \$128K of fraudulent expenses were incurred.
- b) P-card Split Purchases. Many instances were noted in which purchases were “split” to avoid exceeding a specific P-card spending limit. Beyond being split, these purchases were subsequently approved following the submission of receipts through the P-card envelope process. It is important to note that these transactions occurred in very close proximity (same day) and obviously were done to circumvent the spend limit control. No instances were identified in which any reprimands were delivered when this practice occurred indicating that the approval process failed to capture the split or that the practice was considered acceptable.
- c) Impact of Delegation of Authority- Monitoring Based on User Risk. No procedures are currently in place to understand and differentiate between various user risks, and correspondingly, monitoring is not designed to ensure focus on those users / functions with the greatest amount of exposure. Given the significant amount of transactional detail embedded within the P-card program, monitoring without the benefit of stratification or focus is extremely difficult to consistently execute.

We view this finding in the context of Delegation of Authority. With effective DOA p-card definitions, identification of high risk users can be efficiently identified and specific procedures to ensure appropriate monitoring can be applied.

- d) Business Intelligence- Ineffective Use of Data / Analytics. Throughout the Procurement audit, and subsequent Fraud audit, it became apparent that minimal use of data and analytics was being performed. Additionally, it was determined that significant data for analysis did exist and could be leveraged to drive exception reporting, spending by vendor, spending by P-card user, etc.

Lack of effective analytics and reporting undermines the organization’s ability to monitor the P-card process, significantly impacting the control environment. Lack of skills or complacency may underlie the ability of middle management to effectively deliver an effective reporting infrastructure to the senior management team.

- f) External Purchases, Cedarburg Fire & Rescue. Several fire equipment / EMS vendors were identified as fraudulent transactions. In researching these expenses, it was determined that several purchases had been made on Ms. Seimits’ P-card that were subsequently submitted as expense items and reimbursed to Ms. Seimits by the Cedarburg Fire Department. (Note: Ms. Seimits served as an EMS for the Cedarburg Fire Department during the period the fraud was perpetrated.)
- e) Lack of Effective Budget Variance Analysis. As part of the procedures performed, a review of “budget to actual” financial performance was done for the Procurement Department (department #96600). This review yielded the following:

<u>Fiscal Year</u>	<u>Actual</u>	<u>Budget</u>	<u>Better / (Worse)</u>
2011	\$392,260	\$245,852	(\$146,480)
2010	325,482	308,919	(16,563)
2009	314,637	295,645	(18,992)
2008	259,427	277,743	18,315
2007	256,751	284,784	28,032

Per inquiry and observation, it was determined that budget vs. actual variance reports are generated and distributed by Finance on a monthly basis. However, no evidence (within the P-card instance) could be obtained that this process resulted in questioning, actions or additional follow-up on the ramp up in unfavorable spending. For fiscal year 2011 (ending June 30, 2011), it is estimated that \$62K of the \$146K variance was due to fraudulent charges.

- f) Allocation of Fraudulent Charges. Minimally, we are aware of fifteen departments in which fraudulent charges were allocated, initiated and directed by the Procurement manager. These departments included:

Capital Projects Funds	Maintenance
Desktop Services	Recruiting
Equipment Business Office	Shipping & Receiving
Equipment IT Desktop	Student Activities
Equipment Legal Offices	Trust & Agency
Equipment Sustainability	Voc Ed Projects
Equipment T&I	Wellness
Library	

All fraudulent charges allocated to these departments were done so through a journal entry identified with "Kristin" and a detailed description identifying the vendor. The majority of these allocations were not questioned. In certain instances, charges that were questioned were subsequently re-allocated to other departments or, we believe, certain charges resulted in a "fraud" complaint being reported to US Bank and reimbursement for such charges ensued.

- g) Falsified / Questionable Documentation. Significant amounts of falsified or questionable support for purported business expenses were identified. Some examples include:

- Fabricated invoice for Steinhafels furniture for an alleged purchase of a bench seat for an MATC van.
- Dining receipts with date and time stamps purposely blacked out or written over.

We identified no instances in which any of the fabricated or altered documents were questioned for appropriateness.

- h) Inadequate Follow-up. On September 3, 2009, Ms. Seimits received a written warning related to certain performance issues. In conjunction, in July, 2009, certain suspect purchases were identified in 2008 and 2009 by management and Ms. Seimits was formally questioned on their legitimacy. A summary of the vendors and Ms. Seimits documented response is provided below:

Vendor Name	Action Taken / Response
Golf Galaxy	Ms. Seimits supposedly contacted Golf Galaxy and was told: "I was advised that their system deletes detailed history at the end of every business day and then only transaction date and dollar value history after that time."
Dick's Sporting Goods	Ms. Seimits purportedly contacted and was told: "I was advised that they only keep detailed history for 30 days at which time they only have transaction date and dollar value history."
Residence Inn	<p>"I found that this was a personal transaction of mine. The reason I did not catch this as mine up front was that when I booked a room for a relative that was coming in town, the date of the stay was 2/22/09 and I booked it through Expedia at a Marriott. In seeing this transaction, I did not equate the two since the transaction date is listed as 3/10/09 at Residence Inn. I checked my Expedia account and found that it has my MATC card as the primary card since I use this website for booking business travel as well. I did not realize that this had happened as I do not pay bills at home. I immediately reimbursed MATC, the attached is the check that was sent to A/P yesterday to cover this expenditure.</p> <ul style="list-style-type: none"> I am sick about this charge as I should have caught this. The date and hotel name was different and that is why I did not equate it as mine."
Sears	"Attached is the Sears information you requested. We had this in our vendor file in purchasing as we were involved in this transaction when it happened back in 9/2008."

The procedures performed in conjunction with the audit validated that the Golf Galaxy, Dick's Sporting Goods and Residence Inn were indeed fraudulent. Our procedures allowed identification of detailed transactional evidence (including receipts, or other equivalent evidence) of the specific purchases that occurred with these vendors. The statements made by Ms. Seimits regarding lack of receipt availability appear to be false. The Sears charge is considered questionable, but could not be unequivocally characterized as fraudulent.

Following the identification of these questionable transactions in 2009 and a formal written warning, no additional procedures were put in place to retrospectively or prospectively monitor Ms. Seimits p-card transactions. Subsequently, we noted a continued ramp-up in fraudulent spending.

Finding #3 Other Findings: Process / Program Design Flaws

- a) *P-card Envelopes.* The P-card approval process uses envelopes in which users remit both US Bank statements and receipts for approval. This is a manual process after charges have been incurred that requires multiple levels of approvals (see DOA Finding 1.b). We observed many irregularities with this process including missing or incomplete documentation, approvals after charges had already been paid (lack of timeliness) and lost or missing envelopes that had supposedly been previously processed.

The P-card envelopes appear to be highly susceptible to error, misplacement and do not appear to be serving as an effective control.

- b) *P-card Issuances & Activity.* Currently, approximately 175 P-cards have been issued to MATC personnel and are currently active. User credit limits for these cards vary, but the majority of cardholders are subject to a bi-weekly limit of \$500. Within this population, usage varies considerably. The following table summarizes transactions and use over the two year period ended 9/29/2011 (note that total card users over this period were 184):

Total P-cards used	184
Number of cards with less than 24 transactions	78
Number of cards with less than 10 transactions	33
Number of cards with less than 5 transactions	16

As depicted in the table above, 78, or 42.3% of active cardholders average 1 or fewer transactions per month. We did not observe any process to actively assess card usage and remove cards with limited to no use. By actively maintaining cards with limited usage, MATC inherently increases its exposure to fraud, misappropriation and increased maintenance.

- c) *P-card Sharing or Sharing of P-card Numbers.* Several instances were identified in which p-cards were shared, p-cards were delegated (i.e., physically maintained by persons other than to whom issued) or p-card numbers freely exchanged. Such practices substantially increase the likelihood of abuse or improprieties.
- d) *Records Management.* A substantial amount of manual records and supporting documentation were missing relevant to p-card transactions. Following Ms. Seimits placement on administrative leave, some of these missing records (that she had communicated as missing) were found in her office, under her desk. Additionally, certain electronic records documenting the p-card reconciliation process could not be located as well. Organization, retention and back-up practices for all records have not been defined or effectively implemented.
- e) *Expense Reimbursements.* Instances were noted in which Ms. Seimits incurred p-card charges for business related expenses (trips) that were subsequently submitted for expense reimbursement. Current processes to not allow cross-checking to ensure that if expenses are remitted that had been previously paid via an MATC issued p-card, they will not be paid a second time. The ability of the Accounts Payable function to efficiently match p-card transactions to expense reports is critical to ensure an effective overall process.
- f) *Fraudulent Expenses Potentially Capitalized.* Many instances were noted in which Fraudulent charges were submitted to project codes and subsequently capitalized. As a specific example, the capitalized SciQuest costs (procurement vendor software) included meals, hotel, airfare, limousine charges, etc. Per the MATC Procurement Card Program Manual (v.7/24/2009, pg. 4), "no capital expenditures can be purchased with the procurement card. By allowing allocations of procurement card charges to capital projects (Fund 3), allocations to capital are easily accomplished and were observed to occur regularly.
- g) *No Reprimand System For Misuse Consistently Applied.* P-card policy (B0806) specifies that:
- "Inappropriate use of the procurement card or other violations of the procurement card program by any cardholder or their direct supervisor will result in revocation of individual cardholder privileges and/or other appropriate disciplinary actions, up to and including termination of employment."

Despite these clear guidelines, we saw no evidence that identified misuse resulted in appropriate

reprimands. By not having an effective reprimand system in place, control violations, circumvention of controls and unapproved use is considered tolerated and will persist.

- h) *Personal Purchases Allowed On P-card.* The existing policies and procedures allow personal purchases to be incurred on MATC issued p-cards. If a personal purchase is made, the p-card owner is expected to reimburse the institution via a check. Discrepancies appear to exist in terms of who receives reimbursement checks. In some instances, checks are remitted to Procurement and other times are remitted to Accounts Payable. Once remitted, these checks are batched with other cash receipts which are subsequently applied to the corresponding department through a "summary session" entry. The current practice of allowing personal purchases results in a potentially more cumbersome program due to increased administration, tracking reimbursements, etc. Additionally, inherent risk within the p-card process is inevitably increased due to the potential comingling of business and personal expenses. Further, by allowing multiple avenues for reimbursements to be submitted coupled with a highly burdensome process to match reimbursements to personal transactions, the risk is compounded.
- i) *Expense Reimbursement Reviews.* As part of the investigative procedures, reviews of all expense reimbursements submitted by Ms. Seimits were performed. Several instances were noted in which documentation provided to substantiate the expenses reported were at a summary level. Upon obtaining actual receipts, it was noted that additional charges beyond room charges were indeed incurred, expensed and reimbursed. In other instances, receipts and/or transactional details were not provided.
- Comingling of Procurement and Time & Expense (T&E).* MATC uses the P-card program to administer both institutional purchases and expense reimbursements associated with travel, etc. Presently, Accounting is responsible for T&E reimbursements, but does not have oversight of travel costs associated with P-card purchases. By commingling these two distinct processes lack of overall process accountability and ownership ensues, and potential risk for improprieties increases.
- j) *Background Checks.* No financial background checks are conducted for recipients of p-cards. Failure to perform background checks inherently increases the program risk and exposes the institution to increased risk of fraud. Evidence was obtained that Ms. Seimits had been denied external credit due to credit history.
- k) *Confidentiality & Security.* US Bank statements are placed in p-card envelopes that are subsequently distributed for review. These statements contain full credit card numbers and user names potentially compromising security and increasing the inherent risk that card numbers may be stolen. Additionally, the Procurement manager has access to all card numbers allowing potential for improprieties.

Recommendations

As described in this report, the P-card process lacks critical control environment elements and appropriate operational and monitoring controls. Given the nature and extent of the issues, a complete review of all process elements should be conducted. At the conclusion of this review, significant process re-design should ensue. The re-design process should establish an appropriate standard of control and drive efficiency. The key process re-design elements that should be incorporated into this process are summarized below:

- 1) **Process Re-design.** A process re-design should be conducted that incorporates a detailed plan and follows a proven business process re-design format. This process should include a defined

methodology, business process improvement team, subject matter experts, internal controls consultation, executive sponsorship and governance. Additionally, this process will include clear objectives, team accountability, performance metrics and milestone reporting.

- 2) **Policies & Procedures.** A comprehensive review of all P-card process policies & procedures should be performed. This review should encompass governance, analysis of gaps, ownership & accountability and completeness. Additionally, all policies & procedures should be assessed in terms of training and communication plans. Specific known policy gaps for Segregation of Duties, Delegation of Authority and Fraud should be addressed.
- 3) **Compliance.** A review should be conducted of all statutes to ensure that if any compliance requirements are applicable (state or federal), all are appropriately captured in policies and reflected in daily procedures.
- 4) **Monitoring.** Monitoring infrastructure should be designed to ensure appropriate procedures are embedded allowing effective detection of errors or improprieties. This infrastructure should include an evaluation of necessary monitoring within Procurement, at the department level and within Finance. Monitoring procedures should be established that include exception reporting and analytics. Additionally, a review of budget and actual procedures should developed to ensure an efficient and effective means to assess variances and understand performance drivers.
- 5) **Goals & Objectives- Performance Measurement.** The re-design process should incorporate identification of specific P-card process goals and objectives, and identify how achievement of these objectives will be measured.
- 6) **Efficiency.** The P-card process should be evaluated in terms of overall efficiency. Existing processes should be assessed to determine specific component timing, inefficiencies and more effective solutions. The existing highly manual processes should be evaluated for automation.
- 7) **Controls Re-design.** Critical to the overall process re-design will be the design of the internal control infrastructure. Controls should be evaluated in the following context:
 - Preventative vs. detective
 - Automated vs. manual
 - Monitoring vs. transactional
 - Operating/ financial reporting / compliance
 - Configured vs. non-configured

Management Response

The recommendations are in response to three major findings related to 1) Policies & Procedures Gaps 2) Ineffective Monitoring 3) Process/Program Design Flaws. The recommendations includes: 1) Process re-design, 2) Policies & Procedures 3) Compliance 4) Monitoring 5) Performance measurement 6) Efficiency 7) Controls Re-design.

Management agrees with the findings and recommendations. Management supports using the Business Process Optimization (BPO) methodology for implementation of the above recommendations over the next six months. The BPO process will include the training of select MATC Administrators who will in turn train

additional management members. The P-Card Process will serve as the initial project for utilization of the BPO process.

The VP Finance and Manager, Procurement will work with staff members from Titus Group to fully implement the above seven recommendations using both the BPO Process and traditional internal controls assessment strategies.