

# DWSD CORPORATE CREDIT CARD AUDIT

OIG File No. 21-0003-AUD



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Ellen Ha, Esq., CIG.  
Inspector General

## EXECUTIVE SUMMARY

The Office of Inspector General (OIG) conducted an audit of the purchases made using Detroit Water and Sewerage Department (DWSD) corporate credit cards (the cards) by its authorized employees for a period of two fiscal years. Between July 1, 2019 and June 30, 2021, there were 514 purchases on the cards totaling \$346,239.64. The objective of the audit was to determine if there is any evidence of potential fraud, abuse, waste or corruption in the usage of the cards by the employees. The OIG reviewed applicable policies, laws, and regulations to determine if the policies, laws, and regulations were effective at preventing and detecting fraud, abuse, waste, and corruption.

Based on the OIG's audit, we found the use of the cards for the audit period left DWSD with an increased risk of fraudulent, abusive, or wasteful purchases for the reasons stated below:

- DWSD did not consistently enforce the requirement that all cardholder's provide detailed supporting documentation as stated in DWSD's Corporate Credit Card Policy (the Policy).
- DWSD did not prevent purchases that are prohibited by the Policy.
- DWSD did not enforce the requirement that cardholders fully complete monthly expense reports or submit the reports in a timely manner. In some instances, the cardholders did not submit any report.
- Disciplinary actions were not taken against the users who did not comply with or violated the Policy.

Our audit also revealed several deficiencies and loopholes in the Policy which increase the risk of abusive, fraudulent, or wasteful purchases made on the cards. They are:

- Failure to apply key controls from DWSD's Procurement Policy to purchases made with the cards created potential opportunities or avenues for the cardholders to circumvent DWSD's Procurement Policy.
- The Policy did not provide adequate guidance to cardholders on the type of purchases allowed as municipal expenditures.
- The Policy also lacked specific guidance for certain types of purchases that increase the risk of fraud, abuse, and waste, such as food purchases, tax-exempt purchases, and the prevention of excessive travel expenditures.

Based on the audit findings, the OIG is making the following recommendations to prevent and minimize potential risks for abusive, fraudulent, or wasteful use of the DWSD corporate credit cards.

1. DWSD should consistently enforce the existing controls in the DWSD Policy to include, but not limited to:

- a. Requiring cardholders to submit all supporting documentation for any purchases on the corporate credit card.
  - b. Requiring cardholders to submit timely and fully completed monthly expense reports.
  - c. Applying appropriate disciplinary action when the policy is not followed by any users, including card deactivation.
2. DWSD should strengthen the Policy pertaining to the use of the cards to increase detection and prevention of waste, fraud by revising the policy to include:
    - a. Guidance to cardholders on the types of documents that qualify as adequate supporting documentation.
    - b. A review process that identifies employees separate from the cardholders, who are responsible for reviewing and approving the credit card transactions, including reviewing the credit card statements for prohibited or questionable purchases.
    - c. Definitions which clarify or provide examples of terminology used in the policy, such as capitalized equipment & furniture, gifts, small purchases, and official business.
    - d. A process which allows review and approval of the transactions prior to making a payment on the credit card balance.
    - e. A clear deadline regarding when the monthly expense reports are due to the DWSD Program Administrator (PA).
    - f. Clarification on the types of purchases allowed and prohibited when using the credit card, as well a definition of public purpose, which would limit the types of expenditures that can be made using public funds.
    - g. The establishment of preventive procedures and progressive disciplinary consequences for the cardholders who do not comply with the Policy.
  3. DWSD should consider transitioning from manual review process that includes hard copies and file cabinet storage to an electronic process.
  4. DWSD should provide purchasing guidance consistent with DWSD Procurement Policy, including instructions for the cardholders to refer the Procurement Policy to determine whether the purchase to be made on the cards would be appropriate under the new Policy.
  5. DWSD should consider adding sections in the Policy that addresses food purchases, tax-exempt purchases, and travel expenditures.

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## **I. Audit Purpose**

### **A. Objective**

The objective of this audit was to determine whether there is potential fraud, abuse, waste, or corruption in the usage of the Detroit Water and Sewerage Department's (DWSD) credit cards by its employees. As such, the OIG audit primarily focused on the types of credit card purchases made by DWSD cardholders to determine the efficacy of the DWSD Credit Card Policy in mitigating risks of potential waste, abuse, fraud, and corruption. The audit included an assessment of the current policies and procedures to evaluate how effective they are at detecting and preventing fraud, abuse, waste, and corruption.

### **B. Scope**

The Office of Inspector General's (OIG) audit focused on all purchases made with DWSD's credit cards for the period of July 1, 2019-June 30, 2021. The audit included an assessment of the current internal controls to evaluate how effective the controls are at detecting and preventing fraud, abuse, waste, and corruption.

### **C. Methodology**

To assess the risks of fraud, abuse, waste, or corruption in the purchases made with DWSD credit cards, the OIG audit work comprised of the following:

- Interviewing DWSD Chief Financial Officer (CFO) and the Program Administrator (PA) on the Corporate Credit Card policies and procedures.
- Reviewing various policies, laws, regulations, and other guidance including:
  - DWSD's Corporate Credit Card Policy
  - DWSD's Procurement Policy
  - State of Michigan Public Act 266 of 1995
  - State of Michigan Supreme Court opinion from *Hays v. City of Kalamazoo*
  - Government Accountability Office (GAO) Audit Guide on Auditing and Investigating the Internal Controls of Government Purchase Cards
  - State of Michigan Audit Manual for Local Units of Government
  - Handbook for Municipal Officials published by the Michigan Municipal League

- Analyzing 514<sup>1</sup> credit card purchases made by all cardholders during the audit period for compliance with applicable policies, laws and regulations.
- Assessing risks of fraud, abuse, waste, or corruption in credit card purchases.
- Evaluating current preventative and detective controls in place as well as their efficiency in mitigating risks of fraud, abuse, waste, or corruption.
- Analyzing all expense reports completed by the cardholders during the audit period for compliance with the Corporate Credit Card Policy.
- Selecting transactions for further review based on OIG identified red flags including but not limited to:
  - Missing or insufficient documentation for the purchase
  - Missing or incomplete expense reports
  - Purchases where the reason for the purchase is unclear, or where it is questionable if the expenditure is an appropriate use of government funds, such weekend travel expenditures.
  - Purchases prohibited by the policy
  - Purchases inconsistent with DWSD's Procurement Policy

#### **D. Standards**

This audit was conducted in accordance with the Generally Accepted Governmental Auditing Standards (GAGAS) issued by the Comptroller General of the United States. The GAGAS standards require that the OIG plans and performs the audit to obtain sufficient and appropriate evidence in support of the OIG findings and conclusions, as identified in our audit objectives.

#### **E. Authority and Role**

The OIG audit of the DWSD's corporate credit card usage was performed in accordance with Sections 7.5-301 and 306 of the 2012 Charter of the City of Detroit (the Charter), which provides the OIG the authority to root out waste, abuse, fraud, and corruption by detecting and preventing the same.

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<sup>1</sup> There were 551 total transactions. Transactions that were either cancelled or refunded were excluded from the audit analysis.

## II. Background

### A. DWSD's Mission

According to the City's website, DWSD "delivers clean water and collects sanitary sewage and stormwater from more than 230,000 accounts, representing a residential population of nearly 700,000. DWSD's water system consists of more than 2,700 miles of water main and 29,000-plus fire hydrants, and the combined sewer collection system has nearly 3,000 miles of sewer piping, more than 90,000 catch basins and 16 green stormwater infrastructure projects within the city of Detroit." As stated in the City of Detroit's 2021-2024 Four Year Financial Plan, "DWSD's mission is to exceed [its] customer's expectations through the efficient transmission of treated water, collection of wastewater for treatment and the provision of services that promote healthy communities and economic growth."

### B. Public Funds and Public Purpose

The City of Detroit (City) is a municipal corporation and the DWSD is a municipal agency of the City. To achieve its mission, DWSD makes expenditures using public funds. However, the use of public funds must be for public purpose. The corporate credit card is one method of procurement used for these expenditures.

The Michigan Supreme Court stated in their opinion the following regarding public purpose:

Generally, a public purpose has for its objective the promotion of the public health, safety, morals, general welfare, security, prosperity, and contentment of all the inhabitants or residents within the municipal corporation, the sovereign powers of which are used to promote such public purpose. The phrase 'municipal purpose,' used in the broader sense, is generally accepted as meaning public or governmental purpose as distinguished from private<sup>2</sup>.

To better understand public funds, and any limitations on their use, the MML Handbook<sup>3</sup> also provides guidance to municipal officials on various topics. The MML handbook defines public purpose using the Michigan Supreme Court opinion cited above. The MML handbook also states: "the right of public to receive and enjoy the benefit of the use determines whether the use is public or private."<sup>4</sup> Stated more simply, there are limits on what can be purchased with public funds.

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<sup>2</sup> *Hays v. City of Kalamazoo*, 316 Mich. 443, 454 (Mich. 1947)

<sup>3</sup> The handbook was reviewed for the OIG to gain an understanding of public funds but was not used as criteria for the audit testing.

<sup>4</sup> Michigan Municipal League Handbook for Municipal Officials, Section 4: Finance, Chapter 23: Limits of Municipal Expenditures, Pg. 98

### C. Overview of DWSD’s Corporate Credit Card Program

The DWSD Corporate Credit Card Program “is designed to make it more cost effective and efficient for DWSD Senior Executive Management to make small dollar purchases of goods or services from any supplier that accepts the Corporate Credit Card.<sup>5</sup>” The cardholders are “authorized to make purchases of merchandise, travel and non-travel related expenses for DWSD business purposes.<sup>6</sup>” Examples of acceptable uses from the policy include:

- Subscriptions and Publications
- Travel and Training Expenses
- Emergency Supply Purchases
- Meeting Expenses

The policy also gives examples of purchases not allowed on the credit card including:

- Personal or non-business expenditures of any kind
- Cash Advances
- Capitalized furniture or equipment
- Entertainment, gifts, or other expenditure which are prohibited by policies and Federal, State, or Local laws or regulations

The current DWSD Corporate Credit Card Policy assigns the following responsibilities to its employee users:

Role	Responsibilities
Cardholder	Identifies goods/services needed, processes credit card transaction, receives receipt for the purchase, receives monthly statement and reconciles with receipts, completes the expense report monthly and submits with statement and receipts <sup>7</sup> .
Program Administrator	Reconciles expense reports to receipts and credit card statement (ensures expense is appropriate), pays statement balance on the American Express website and forwards to Accounting for recording, files all statements, receipts, and expense reports in file cabinet <sup>8</sup> .
Chief Financial Officer	Establish the necessary procedures to implement the corporate credit card policy and take all necessary measures to ensure the policy is adhered to <sup>9</sup> .

<sup>5</sup> DWSD Administrative Policy #200-FIN-Corporate Credit Card, Section 2. Purpose, 2.2.

<sup>6</sup> DWSD Administrative Policy #200-FIN-Corporate Credit Card, Section 3. Definitions-Card.

<sup>7</sup> DWSD Administrative Policy #200-FIN-Corporate Credit Card Exhibit A: Corporate Credit Card Process Flowcharts

<sup>8</sup> *Ibid.*

<sup>9</sup> DWSD Administrative Policy #200-FIN-Corporate Credit Card, Section 5. Responsibilities, 5.1.



### III. Audit Analysis

DWSD provided the OIG with 135 credit card statements that were issued during the audit period of July 1, 2019 and June 30, 2021. These statements included 551 transactions in total. During this period, 37 of purchases were either canceled or refunded. Therefore, the OIG's review focused on the 514 credit card purchases during the audit period. DWSD also provided the OIG with the 122 expense reports used to reconcile the credit card purchases. The purchases made during the audit period totaled \$346,239.64.

### IV. Findings and Recommendations

#### *1. Credit card purchases did not include sufficient supporting documentation increasing the risk of fraudulent, abusive, or wasteful purchases.*

Based on the OIG's audit, the policy requirement regarding supporting documentation of credit card purchases is not consistently enforced. This finding is based on the following:

- 85 of the 514 transactions did not include a receipt or any other supporting documentation which would detail the items and/or services purchased on the card.
- 28 of the 514 transactions included receipts but, lacked sufficient descriptions of the goods or services purchased.
- 13 of the 514 transactions included hotel reservations as supporting documentation but did not include a detailed receipt for the hotel stay.
- 7 of the 514 transactions included the receipts of the purchases, but the receipt total did not match the transaction total from the credit card statement.

By way of background, on November 27, 2018, DWSD adopted a Corporate Credit Card policy that provides guidelines on documentation requirements for the card users. The pertinent portion of the policy states the following:

5.5.1.-The CFO shall establish the necessary procedures to implement this Policy and shall take all necessary measures to ensure this policy is adhered to. The CFO may delegate all or some of his/her authority under this policy to an appropriate member of Senior Executive Management

6.6.1.-In the event the policy is not followed, the Program Administrator has the authority to deactivate the card. In addition, disciplinary action may be taken up to and including termination. The determination and administration of any disciplinary actions resulting from Corporate Credit Card abuse shall be the responsibility of the CFO and Human Resources.

7.1.4.-The Cardholder is responsible for submitting the original receipt attached to their monthly expense report. If the original receipt cannot be located, the transaction detail from the online account should be printed.

7.1.6-Whether paying for order in person, by phone, or over the internet, the Cardholder is responsible for obtaining and retaining proper documentation for all transactions, i.e., receipts, invoices, or other documentation showing the item(s) purchased and the amount paid.

7.5.1-Cardholders must keep all original sales documents (receipts, packing slips, cash register tape, credit card slips) from purchases made on their corporate credit card.

Our audit revealed some cardholders did not submit sufficient supporting documentation for every purchase on the cards as required by the policy. As a result, approximately 17%<sup>10</sup> of the purchases made during the audit period did not have supporting documentation for the purchases. Furthermore, the current policy does not provide the necessary guidance on what cardholders can use as supporting documentation. As a result, approximately 9%<sup>11</sup> of the supporting documentation provided by the card users lacked sufficient detail of what was purchased with the cards.

In addition, the Finance Department did not consistently apply the supporting documentation requirement of the Policy. The OIG observed notes made on the expense reports and credit cards statements when receipts were missing. However, we did not find any evidence which would suggest that any actions were taken, including discipline, against the cardholders when they did not provide the required supporting documentation<sup>12</sup>.

The absence of adequate supporting documentation for purchases, and the lack of disciplinary action when cardholders failed to comply with the policy, results in a greater risk that fraudulent, abusive, or wasteful purchases will go undetected. It is important to note that without detailed supporting documentation, there is no way to ensure the purchases were for legitimate DWSD business.

***Recommendation #1a: DWSD should enforce the Corporate Credit Card Policy by requiring the cardholders to submit detailed supporting documentation.***

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<sup>10</sup> Based on the 85 of the 514 transactions that did not include any supporting documentation.

<sup>11</sup> Based on 28 of the 514 transactions without sufficient detail, the 13 of 514 purchases that included reservations instead of receipts and the 7 of 514 transactions where the receipt totals did not match the purchase amount of the credit card statements.

<sup>12</sup> In the entrance interview held on September 9, 2021, the PA and CFO stated there had been no concerns about the credit card purchases, except one purchase made on the CAO's credit card.

The OIG recommends that DWSD reduce the risk of fraudulent, abusive, and wasteful transactions by consistently enforcing the policy that requires the cardholders to submit detailed supporting documentation for each purchase on their corporate credit cards. In addition, the DWSD policy should be equally enforced regardless of the position the cardholder has with the DWSD.

***Recommendation #1b: DWSD should revise the Policy to provide additional guidance on what qualifies as supporting documentation.***

The policy should be revised to require the cardholders provide receipts or invoices that include detailed descriptions of the goods or services purchased, as well as the quantity, the price per item/hour, and the total amount paid. Receipts or invoices that simply list the amount paid should not be accepted.

As noted above, the current policy allows the cardholders to use transaction details from the online credit card account if the original receipt cannot be located. The policy should be revised to make it clear that printed details from the online account are not an acceptable substitute for the original receipt, since print detail would not provide enough support to determine exactly what was purchased.

In the event an itemized receipt is not available, the policy should require the cardholders to contact the vendor for a copy of the itemized receipt or invoice. In addition, the revised policy should state that hotel reservations may be accepted for prepaid travel, however, the detailed receipt must be provided once the travel has been completed to show what was purchased.

***2. Purchases made with the Corporate Credit Card are prohibited by DWSD's Policy***

The OIG's audit determined the policy requirement regarding prohibited purchases is not consistently enforced. Based on our audit, we found the following:

- 4 of the 514 purchases were for furniture or equipment
- 4 of the 514 purchases were for gifts for employees
- 4 of the 514 purchases were for personal travel expenses

DWSD's Corporate Credit Card Policy<sup>13</sup> prohibits certain types of purchases. Those purchase include:

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<sup>13</sup> DWSD Administrative Policy #200-FIN-Corporate Credit Card, 6.3 Unauthorized Uses, 6.3.1.

- Personal or non-business expenditures of any kind
- Cash Advances
- Capitalized furniture or equipment
- Entertainment, gifts, or other expenditure which are prohibited by policies and Federal, State or Local laws or regulations.

In addition, the State of Michigan Audit Manual for Local Units of Government also provides guidance on employee gifts, which states in part the following:

Retirement/Recognition Functions and Employee and Retiree Gifts: Retirement functions, gifts or plaques for employees or officials, recognition dinners for volunteer fire fighters or ambulance staff are usually not for a public purpose, therefore, not an allowable expense<sup>14</sup>.

The DWSD Credit Card Policy does not currently provide enough clarity on prohibited purchases. As stated above, the policy prohibits the purchase of capitalized furniture or equipment but does not define what is considered a capital purchase. There is evidence the credit cards were used to purchase furniture and equipment, however, there is no evidence to confirm or verify whether the purchases are considered capital purchases. Therefore, the OIG is unable to evaluate if the purchases should be considered a violation of the Corporate Credit Card Policy.

The OIG also found evidence of personal travel on the credit cards. For example, we identified a travel-related expense that included a Saturday night hotel stay for an employee. According to the PA, the employee in question stayed at his own expense. When the OIG requested proof of the reimbursement, the OIG was provided a copy of a check payable to DWSD dated January 7, 2022. The travel took place in October 2019. Based on the policy, this purchase should not have been allowed. At the very least, the reimbursement should have been made sooner.

The OIG also found the credit cards were used to purchase gifts for employees, such as gift cards, DWSD branded clothing, and Bluetooth speakers. DWSD explained the purchases were part of a Rewards and Recognition Program the department created to increase employee morale. However, gifts are prohibited by the DWSD Credit Card Policy, as referenced above. In addition, the State of Michigan guidance also places restrictions on employee gifts.

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<sup>14</sup> [https://www.michigan.gov/documents/treasury/Audit\\_Manual\\_for\\_LUG\\_in\\_Michigan\\_383593\\_7.pdf](https://www.michigan.gov/documents/treasury/Audit_Manual_for_LUG_in_Michigan_383593_7.pdf) Appendix H, Restrictions on Local Government Expenditures.

Furthermore, when the OIG asked for a detailed list of the employees who had received such gifts under the program, DWSD did not provide a list. Even if these gifts were somehow permissible purchases under the DWSD Policy, the lack of documentation suggests DWSD does not have an effective control at preventing the misappropriation of gifts. Without documentation, it is impossible to confirm the gifts were indeed provided to the employees.

The Finance Department did not consistently enforce the Policy regarding prohibited purchases. As a result, approximately 2% of the purchases allowed on the cards were prohibited based on how the Policy is currently written.

Allowing the usage of corporate credit card for any personal expenditures, such as the personal travel noted above, can easily increase the risk of abuse and fraud. Likewise, allowing the cardholders to use the credit card for purchases prohibited by the policy, or a questionable expenditure based on the guidance from the State of Michigan, increases the risk of fraud, abuse, and waste.

***Recommendation #2: DWSD should revise the Corporate Credit Card Policy regarding prohibited purchases.***

DWSD should reduce the risk of fraudulent, abusive, or wasteful transactions by revising the Credit Card Policy to include a timely review of credit card statements for prohibited purchases. The revision should outline procedural steps to review the purchases, including identifying who should conduct the review, requiring verifications of training or conferences to support travel, and checking the travel dates to ensure it does not include personal travel. The OIG is also recommending the cardholders receive pre-approval for all travel giving the CFO or their designee adequate time to review the request before a purchase is made with the credit card.

The Policy should be revised to include definitions for terminology used in the Policy, such as capitalized equipment and furniture, entertainment, gifts, and personal expenditures. This would allow the individual responsible for approving the purchases on the corporate credit card to better detect purchases prohibited by the Policy.

DWSD should revise the Policy to include DWSD personnel who is/are responsible for reviewing the credit card purchases. To properly segregate the duties, the reviewer should not be the cardholder. The reviewer should be responsible for ensuring all purchases made by the cardholders comply with the DWSD Corporate Credit Card Policy.

The revised policy should also include procedural steps the reviewer should take to enforce the Policy, if a prohibited, questionable, unsupported, or unauthorized transaction is detected. The Policy should also be revised to prohibit payments from being made to

credit cards balances until the credit card invoices are fully reconciled and approved as required by the DWSD Policy or by law.

The CFO or the designee should, in consultation with DWSD Legal, HR and any other necessary DWSD staff, pursue appropriate discipline, including but not limited to suspension of the credit card privileges when the requirements of the Corporate Credit Card policy are not followed.

***3. DWSD did not enforce its Corporate Credit Card Policy that requires cardholders to timely submit and complete expense reports for their purchases on the credit cards***

DWSD provided the OIG with 116 expense reports completed for during audit period of July 1, 2019-June 30, 2021. Based on our audit, we found the following:

- 107 of the expense reports were missing approval signatures<sup>15</sup>.
- 98 of the expense reports were not provided to the PA in a timely manner<sup>16</sup>.
- 55 of the expense reports did not include general ledger strings for the transactions<sup>17</sup>.
- 6 expense reports were not completed<sup>18</sup>.
- 2 transactions which were identified on the credit card statement were not included on the expense report<sup>19</sup>.

DWSD adopted a Corporate Credit Card Policy that provides guidelines on expense report requirements. The pertinent portion of the policy states the following:

7.15.-All Cardholders must complete an expense report form and submit it with the receipts and credit card statement. The credit card form must include the date of purchase, amount, and for what purpose the purchase was made. The appropriate GL string must be included on the report for all expenses.

6.2.5.-The Cardholder is responsible for keeping all supporting documentation for the purchases made and submitting the statement, expense report and receipts to the Program Administrator by the 5<sup>th</sup> business day of the following month. A

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<sup>15</sup> These expense reports include a total of 456 transactions where approval signatures were missing.

<sup>16</sup> These expense reports include a total of 393 transactions where the expense report was not filed in a timely manner.

<sup>17</sup> These expense report include a total of 90 transactions where the general ledger account was not provided.

<sup>18</sup> These expense reports include 8 transactions where no expense report was completed.

<sup>19</sup> These expense reports include 2 transactions that were on the credit card statement but not included on the expense report.

Cardholder that does not turn in receipts for all purchases made on a monthly basis may be subject to disciplinary action, including deactivation of Card and up to termination.

7.1.8.-The Program Administrator will review the submitted form and receipt(s) when received. Any incomplete form will be returned to the Cardholder to complete and resubmit.

Furthermore, the Michigan Credit Card Transactions Act, otherwise known as the State of Michigan Public Act 266 of 1995, also states in part:

129.243 Sec. 3. A local unit shall not be a party to a credit card arrangement unless the governing body of the local unit has adopted by resolution a written policy that provides all of the following:

(c) That an officer or employee using credit cards issued by the local unit shall submit to the local unit documentation described in the credit card policy detailing the goods or services purchased, the cost of the goods or services, the date of purchase and the official business for which purchased.

(g) [A written policy] for the approval of credit card invoices before payment.

The Finance Department did not consistently enforce the expense report requirements of the DWSD Corporate Credit Card Policy to ensure the expense reports were complete, timely and properly supported. As a result, only one expense report was fully completed and filed timely. The remaining 115 expense reports (99%) were either incomplete or not filed in a timely manner, with some expense reports signed and dated months after the initial purchases. Despite these insufficiencies, the OIG was not provided with any evidence that would suggest the PA returned incomplete forms to the cardholders for completion as required by the policy, since several the expense reports reviewed for this audit were incomplete.

In addition, the Policy has conflicting due dates regarding when the expense reports are due to the PA. Currently, the Policy has three different due dates for the expense reports. Section 6.2.5 states the expense reports are due on the 5<sup>th</sup> business day of the following month; Section 7.1.7 states the expense reports are due no later than the 1<sup>st</sup> business day of the following month; and the Corporate Credit Card Process Flowchart states the expense reports must be submitted to the Program Administrator by the 3<sup>rd</sup> of every month.

Incomplete or inaccurate expense reports increase the risk of fraudulent, abusive, or improper purchases. In addition, inconsistent or lack of enforcement of the DWSD Policy may increase the risk detection of any fraudulent or abusive use of the cards will not be made in a timely manner. Lastly, incomplete expense reports may be a violation

of Michigan Credit Card Transactions Act, if payments are made to credit card balances before credit card purchases/expense reports have been reviewed and approved.

***Recommendation #3a: The Corporate Credit Card Policy should be enforced to require cardholders to submit their monthly expense reports.***

DWSD's CFO or its designee should enforce the requirement that all cardholders submit complete and timely expense reports for all purchases made on the credit card.

***Recommendation #3b: The Corporate Credit Card Policy should be revised to provide clarity on the expense report requirements to the cardholders.***

The expense report form currently requires signatures from the cardholder, CFO and the DWSD Director. However, neither the credit card policy nor the expense report form addresses the reason why the individuals are signing the form. Therefore, the policy and expense report form should be revised to include what each party is attesting to when they sign the expense reports.

In addition, DWSD should revise the policy to make clear to cardholders when the expense report is due to the PA. The conflicting due dates, as described in the above paragraphs, should be revised to reflect one due date for expense reports to the cardholders.

***Recommendation #3c: Transition from paper process to an electronic process***

DWSD should consider, if feasible, transitioning from the current paper process for monthly credit card reconciliations to an electronic process that would allow cardholders to upload receipts and link them to corresponding transactions. This would create a centralized and easily accessible location for the documentation and streamline the review and approval process.

#### ***4. Cardholders made purchases that were not consistent with DWSD's Procurement Policy***

Of the 514 purchases made on the corporate credit cards:

- 3 purchases exceeded \$5,000.00<sup>20</sup>

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<sup>20</sup> There were 5 purchases total that exceeded \$5,000.00 but 2 met the emergency procurement requirements of DWSD's Procurement Policy.



- 98 purchases had cumulative totals that exceeded \$5,000.00<sup>21</sup>

In addition to the Corporate Credit Card Policy, DWSD adopted a procurement policy that provides guidance on proper procurement practices, including when solicitations are needed. The relevant procurement policy<sup>22</sup> states in part the following:

- (A) Emergency Procurement-The Director, without prior approval of the Board of Water Commissioners (the “Board”) or Detroit City Council, may make, or authorize others to make, an emergency procurement when public exigencies require the immediate delivery of articles or performance of services or when there exists a threat
- (B) Sole Source Procurements-Competitive bidding is not required when the DWSD purchasing staff certifies that only one (1) source of supply is available. When this exception is utilized, procurement personnel shall maintain appropriate documentation substantiating the proprietary nature of the technology, good or service being provided.
- (C ) Small Purchases (ii) Small purchases over \$5,000 but not exceeding \$25,000. Insofar as it is practical, solicitations of verbal or written quotes from a minimum of three qualified sources of supply shall be made and documentation of the quotes recorded on or attached to the purchase requisition.

Our audit revealed some cardholders made purchases on the cards that would have been subjected to a competitive bidding process under DWSD’s Procurement Policy. The corporate credit card is a method of procurement. Therefore, any purchases made on the card should be consistent DWSD’s Procurement Policy. However, the current Credit Card Policy is treated as a separate policy and does not address key controls that should align with the Procurement Policy to reduce the risks of fraud, abuse, and waste, such as purchasing limits, the requirement for competitive bidding, and a definition for what qualifies as a small purchase.

While the corporate credit card allows a faster and more efficient way to purchase necessary items, the method of payment should not drastically alter established procurement standards. For example, the current Corporate Credit Card Policy does not prohibit the purchases of goods or services based on dollar value in compliance with the Procurement Policy.

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<sup>21</sup> These purchases include multiple purchases from the same vendor that exceeded \$5,000.00 during the audit period.

<sup>22</sup> DWSD Procurement Policy (5) Exceptions to Competitive Bidding

Therefore, risk of fraud, abuse and waste is increased when purchases made using the credit cards are not in compliance with the standard procurement policy. This includes the risk of fraud, waste, or abuse in purchases where DWSD may not be getting the best value by working with the lowest responsible bidder identified through a fair and competitive bidding process.

When the two policies (credit card policy and procurement policy) are not aligned, the use of credit cards may increase the risk of circumventing the procurement process as required by the Procurement Policy. Furthermore, it would be difficult to detect when the cardholders are making purchases from companies or individuals where a conflict of interest may exist.

***Recommendation #4: DWSD should revise the Corporate Credit Card Policy so it aligns with the Procurement Policy requirements.***

The CFO should reduce the risk of fraudulent, abusive, and wasteful purchases by revising the Credit Card Policy to ensure cardholders do not use the credit cards to circumvent DWSD's Procurement Policy. The Credit Card Policy should not only incorporate the Procurement Policy, but also should require cardholders to provide documentation when a solicitation was not practical. For example, if the credit card was used in an emergency circumstance or a one-time purchase, a solicitation may not be practical. DWSD Finance should also consult with the DWSD's Legal staff to determine if additional exceptions to competitive bidding need to be added to the Procurement Policy, such as exceptions for certain legal expenses.

Furthermore, the revision should provide guidance on when it is appropriate to use the traditional procurement process instead of the credit card. While the current Credit Card Policy allows the use of the credit card to pay for subscriptions and meeting expenses, the revision should address when it is appropriate for those purchases to be made via a contract, such as based on the cumulative total of the purchase. The revision to the Policy should also require the cardholders to justify why the purchases were made using the credit card instead of the traditional procurement process.

***5. The DWSD Corporate Credit Card Policy does not adequately address certain purchases that can increase the risk of fraud, abuse, and waste.***

The OIG observed purchases on the corporate credit card which appeared to be questionable expenditures. Our audit revealed:

- 55 purchases for food/beverages
- 26 local purchases that included sales tax

- 3 travel purchases with excessive hotel rates
- 1 purchase for a floral arrangement

The DWSD Corporate Credit Card Policy does not specifically address these types of purchases. While the Policy states the card “is to be used for official DWSD business only,<sup>23</sup>” it does not define what “official DWSD business” means within the meaning of public purpose. As a result, the cardholders are not properly trained on what qualifies as a public purpose. A purchase can be made in DWSD’s name, or for the benefit of its employees, and still not necessarily qualify as a public purpose. Moreover, the current policy does not address tax-exempt purchases or per diem rates for travel purchases.

Although the DWSD Credit Card Policy does not address food purchases, the Michigan Audit Manual for Local Units of Government<sup>24</sup> does provide some guidance regarding food purchases. Generally, under the manual, food purchases during travel and training may be an acceptable expenditure for local government. The relevant portion of the manual also states in part the following:

Coffee, food, etc., for employees use during normal working hours is considered personal, not for a public purpose, and improper unless specifically provided for in a collective bargaining agreement or duly adopted employment policy of the governmental unit (fringe benefit).

We also note the State of Michigan provides guidance regarding sales tax exemptions. On its website regarding taxes, it states “[s]ales to the United States government, the State of Michigan and its political subdivisions, departments and institutions are not subject to tax, if the sales are ordered on the government form or purchase order and are paid for directly to the seller by warrant on government funds<sup>25</sup>.” The State of Michigan has Form 3372 “Michigan Sales and Use Tax Certificate of Exemption” that can be completed and submitted to receive a tax exemption.

In addition, our review of DWSD’s Travel Policy and Credit Card Policy revealed there is no per diem requirement for hotel lodging. However, we note the City of Detroit uses the per diem rates established by the United States General Services Administration (GSA) in its Travel policy.

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<sup>23</sup> DWSD Corporate Credit Card Policy, Section 6.2.1.

<sup>24</sup> [https://www.michigan.gov/-/media/Project/Websites/treasury/MISC\\_4/Audit\\_Manual\\_for\\_LUG\\_in\\_Michigan.pdf?rev=4f7a672a250e46a2ba0d5e76054e1fd3](https://www.michigan.gov/-/media/Project/Websites/treasury/MISC_4/Audit_Manual_for_LUG_in_Michigan.pdf?rev=4f7a672a250e46a2ba0d5e76054e1fd3) Appendix H, Pgs. 30-33

<sup>25</sup> <https://www.michigan.gov/taxes/business-taxes/sales-use-tax/information/exemptions-faq>

Our audit also revealed some travel expenditures exceeded the per diem rates established by the federal government. For example, one DWSD employee stayed at a hotel in San Francisco between September 15, 2019, and September 19, 2019, with an average nightly rate of \$447.80, which could be viewed as excessive when compared to the per diem rate of \$299.00<sup>26</sup> set by the federal government.

We note a floral arrangement purchased using the corporate credit card is not allowed as a municipal expenditure. According to the State of Michigan Audit Manual for Local Governments<sup>27</sup>, they refer to an Attorney General Opinion which states local governments do not have the authority to make these types of purchases with public funds. Furthermore, this type of purchase may fall under gifts, which are prohibited by the Policy.

As such, we find some purchases initiated by cardholders with the cards are not for public purpose and are therefore questionable. For example, some DWSD cardholders are using the credit cards for food purchases during business meetings, which may be considered a personal expenditure according to the guidance from the State of Michigan<sup>28</sup>. The records also show that some cardholders also paid sales tax paid on purchases made in Michigan where DWSD's tax exempt status should have been applied.

The risk of fraud and abuse is increased because the Policy does not differentiate between the types of food purchases allowed by the State of Michigan and those that are prohibited or a questionable use of government funds. Furthermore, the risk of waste is increased because the cardholders are not trained on when the tax-exemption should be used. Finally, the lack of per diem requirement increases the risk wasteful travel expenditures.

***Recommendation #5: DWSD should reduce the risk of fraud, abuse, and waste by revising the Corporate Credit Card Policy to provide additional guidance to cardholders***

DWSD should consider revising its Corporate Credit Card Policy to ensure purchases made on the Cards meet the State of Michigan's definition of public purpose. In addition, examples of such purchases should be provided in the Corporate Credit Card

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<sup>26</sup> [https://www.gsa.gov/travel/plan-book/per-diem-rates/per-diem-rates-lookup/?action=perdiems\\_report&state=CA&fiscal\\_year=2019&zip=&city=](https://www.gsa.gov/travel/plan-book/per-diem-rates/per-diem-rates-lookup/?action=perdiems_report&state=CA&fiscal_year=2019&zip=&city=)

<sup>27</sup> [https://www.michigan.gov/-/media/Project/Websites/treasury/MISC\\_4/Audit\\_Manual\\_for\\_LUG\\_in\\_Michigan.pdf?rev=4f7a672a250e46a2ba0d5e76054e1fd3](https://www.michigan.gov/-/media/Project/Websites/treasury/MISC_4/Audit_Manual_for_LUG_in_Michigan.pdf?rev=4f7a672a250e46a2ba0d5e76054e1fd3) Appendix H, Pgs. 30-33

<sup>28</sup> [https://www.michigan.gov/-/media/Project/Websites/treasury/MISC\\_4/Audit\\_Manual\\_for\\_LUG\\_in\\_Michigan.pdf?rev=4f7a672a250e46a2ba0d5e76054e1fd3](https://www.michigan.gov/-/media/Project/Websites/treasury/MISC_4/Audit_Manual_for_LUG_in_Michigan.pdf?rev=4f7a672a250e46a2ba0d5e76054e1fd3) Appendix H, Pgs. 31

Policy, so the cardholders are made aware of what type of purchases qualify as purchases made for official business for DWSD.

DWSD's CFO should also consult Legal and Administration in drafting a policy to limit food purchases to those allowed by the State of Michigan. Such written guidance would reduce the risk of fraud and abuse. In that regard, we note the City of Detroit's Office of the Chief Financial Officer has a written policy regarding food purchases that can be used as a guide.

DWSD can reduce the risk of wasteful purchases by revising its Corporate Credit Card Policy to include a dedicated section pertaining to tax-exempt purchases. Finally, DWSD should revise its Travel Policy to include a per diem for hotel lodging based on the travel location. The Travel Policy should outline the circumstances under which, if any, an employee could stay at a hotel that exceeds the per diem. Hotel stays that exceed the per diem should be preapproved and the reason for exceeding the per diem should be documented. Such revision should reduce the risk of waste from excessive travel expenditures.

#### **V. Response from DWSD**

DWSD has agreed to make changes to their Corporate Credit Card Policy, as well as changes in the ways the policy is enforced, to reduce the risks of fraud, abuse, and waste. Please see the attached response from DWSD for additional information.





VIA Email Only

July 15, 2022

Ellen Ha, Esq., CIG  
Inspector General  
City of Detroit  
615 Griswold, Suite 1230  
Detroit, MI 48226

**Re: Office of Inspector General (OIG) File No. 21-003-AUD  
DWSD Corporate Credit Card Audit**

Dear Ms. Ha:

In response to the referenced audit dated June 8, 2022, please see DWSD's responses below.

***Recommendation #1a: DWSD should enforce the Corporate Credit Card Policy by requiring the cardholders to submit detailed supporting documentation.***

We do acknowledge that detailed supporting documentation have not been submitted by the cardholders to the Program Administrator (PA) on a consistent basis during the audit period. The current Policy clearly requires cardholders to submit detailed and adequate documents to support the charges on the Card. We will revise the Policy to further clarify the importance of this requirement so that there is no chance of potential misuse. We will also train the cardholders to educate what constitutes detailed and appropriate supporting documentation and will also require cardholders to consult with the PA to ensure if a purchase is in compliance with the Policy before a purchase is made.

Effective July 1, 2021, DWSD has put in place additional controls that would strengthen the enforcement of this requirement of the Policy.

***Recommendation #1b: DWSD should revise the Policy to provide additional guidance on what qualifies as supporting documentation.***

The Policy currently requires cardholders to provide receipts and invoices, however, we will revise the Policy to further clarify what qualifies as supporting documentation. We implemented training for cardholders and their administrative staff to provide guidance as to what qualifies as appropriate supporting documentation. We believe clarification and training would mitigate the risk of cardholders submitting inadequate documentation.

***Recommendation #2: DWSD should revise the Corporate Credit Card Policy regarding prohibited purchases.***

All Card expenses are reviewed and checked for accuracy and completeness of supporting documentation by the PA who is independent of the cardholders. This ensures appropriate segregation of duties. Although submission of adequate documentation has not always been consistent, there is no evidence of any charges for prohibited purchases or use of the Card for personal expenses, such as personal travel. We do, however, acknowledge that the Policy could be revised to provide further guidance/clarity on DWSD's terminology for prohibited items. We will also require cardholders to consult with the PA to ensure if a purchase is in compliance with the Policy and is not prohibited before a purchase is made. Going forward, we will also ensure all travel is preapproved by the Director or CFO before purchases are made.

Going forward, we will strictly enforce compliance with the Policy. Any cardholder found not to be in compliance with the Policy will be met with disciplinary action, in accordance with the Policy, in consultation with Legal and HR. This will include deactivation of Card and may lead to termination.

***Recommendation #3a: The Corporate Credit Card Policy should be enforced to require cardholders to submit their monthly expense reports***

While we acknowledge that some monthly expense reports were not turned in timely, effective July 1, 2021, the Finance Department is consistently enforcing the requirement that all cardholders submit monthly expense reports along with supporting documentation for all purchases made on the Card on a timely basis. The enforcement is producing the desired result and cardholders are now submitting monthly expense reports on a timely basis.

***Recommendation #3b: The Corporate Credit Card Policy should be revised to provide clarity on the expense report requirements to the cardholders.***

Based on your recommendations, we will further clarify the Policy to make it clear to cardholders when the reports are due and resolve any conflicting due dates that are in the Policy.

***Recommendation #3c: Transition from the paper process to an electronic process.***

We acknowledge your recommendation to move to an electronic process. DWSD will take necessary steps to transition from paper process to an electronic process.

***Recommendation #4: DWSD should revise the Corporate Credit Card Policy, so it aligns with the Procurement Policy requirements.***

While there is no evidence of cardholders trying to circumvent the Procurement Policy by using the Card, we will ensure the Policy is in alignment with the Procurement Policy. We will revise the Policy to clarify what purchases can be made with the Card and what needs to go through the Procurement Process. The exceptions and exemptions will be clearly laid out in the Policy. The revision to the Policy will also require the cardholders to justify why purchases are made via credit card rather than through the procurement process and will have to be reviewed and approved by the CFO.



***Recommendation #5: The DWSD Corporate Credit Card Policy does not adequately address certain purchases that can increase the risk of fraud, abuse, and waste.***

DWSD will review and revise the appropriate sections of the Policy to incorporate additional guidance to adequately address certain purchases as recommended in the OIG report. Although the current Policy states that all purchases must be business related and no personal use of the Card is allowed, we will provide clarification on what "Official DWSD business" means.

Other recommendations made throughout the OIG report will also be taken into consideration and the Policy will be revised accordingly.

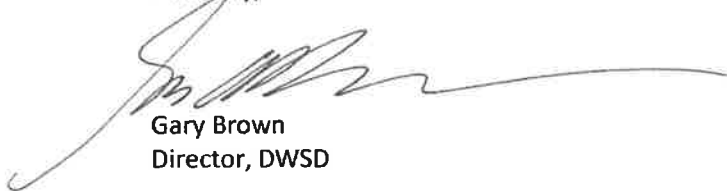
The PA has so far conducted 2 training sessions with cardholders to provide guidance on the nature and adequacy of supporting documents that are required to support any expense charged to the Card, educate the cardholders on all the requirements of the Policy and to emphasize the significance of submitting complete expense reports on a timely basis.

As mentioned earlier, effective July 1, 2021, DWSD has started strict enforcement of the Policy. We believe the revision of the Policy incorporating the recommendations along with the training of cardholders will mitigate the risk of noncompliance with the requirements of the Policy.

We would like to thank you for the audit and the recommendations. We found the audit very helpful. We would also like to thank your staff for being patient and courteous while working with us on this audit.

Please let us know if you have any questions or concerns.

Sincerely,



Gary Brown  
Director, DWSD



Istakur Rahman  
Chief Financial Officer, DWSD

