

# INTERNAL AUDIT REPORT

2020-08

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Annual Municipal Procurement Card Review

Purchasing Department

September 2, 2020

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# Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

September 2, 2020

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2020-08, Annual Municipal Procurement Card Review, Purchasing Department**. A brief summary of the report is presented below.

In accordance with the 2020 Audit Plan, we have completed an audit of the Procurement Card Program. The objective of this audit was to determine whether employees adhered to Municipal policies and procedures regarding Procurement Card use. Our audit included a review of purchases made from January 1, 2019, to December 31, 2019. Specifically, we reviewed purchases of judgmentally selected transactions to ensure compliance with Policy and Procedure 48-16, Policy and Procedure 24-23, and the Procurement Card Guide.

Overall, most employees adhered to Municipal Policies and Procedures regarding the use of Procurement Cards. However, our review of calendar year 2019 Procurement Card transactions revealed some instances of questionable or prohibited purchases. Examples of these purchases included cable/satellite television subscriptions, expensive neoprene seat covers for some Municipal vehicles, a facility rental and food catering for a staff team building retreat, and appliances. Examples of prohibited purchases included food for a department holiday party, water, Christmas trees in office areas, retirement badges, retirement plaques, funeral related items, and employee gifts. In addition, transactions were sometimes split to circumvent the cardholder's single transaction limit. Finally, some Procurement Card transactions contained inadequate descriptions of the purchases.

There were three findings in connection with this audit. Management was responsive to the findings and recommendations.

Michael Chadwick, CIA, CICA  
Director, Internal Audit



# Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

September 2, 2020

## **Internal Audit Report 2020-08 Annual Municipal Procurement Card Review Purchasing Department**

**Introduction.** The Purchasing Department implemented the Procurement Card (P-Card) Program to provide for the purchase and payment of low-dollar, non-asset goods, services, and business and travel related expenses. According to the Purchasing Department, the number of P-Card transactions increased from 47,605 in 2018 to 49,348 in 2019. However, the total dollar amount of P-Card transactions decreased from \$19,795,434 in 2018 to \$19,024,547 in 2019. To establish an appropriate level of control over the P-Card program and maintain accountability of public funds, Policy and Procedure (P&P) 48-16, *Procurement Card Program (P-Card)*, requires Internal Audit to perform an annual review of controls within the P-Card program. In addition, P&P 24-23, *Disallowed Purchases*, provides guidance for disallowed expenditures.

**Objective and Scope.** The objective of this audit was to determine whether employees adhered to Municipal policies and procedures regarding P-Card use. Our audit included a review of purchases made from January 1, 2019, to December 31, 2019. Specifically, we reviewed purchases of judgmentally selected transactions to ensure compliance with P&P 48-16, P&P 24-23, and the Procurement Card Guide (Guide).

We conducted this performance audit in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit was performed during the period of April through June 2020. The audit is required by P&P 48-16, Section 6.f.i.

**Overall Evaluation.** Overall, most employees adhered to Municipal P&Ps regarding the use of P-Cards. However, our review of calendar year 2019 P-Card transactions revealed some instances of questionable or prohibited purchases. Examples of these purchases included cable/satellite television subscriptions, expensive neoprene seat covers for some Municipal vehicles, a facility rental and food catering for a staff team building retreat, and appliances. Examples of prohibited purchases included food for a department holiday party, water, Christmas trees in office areas, retirement badges, retirement plaques, funeral related items, and employee gifts. In addition, transactions were sometimes split to circumvent the cardholder's single transaction limit. Finally, some P-Card transactions contained inadequate descriptions of the purchases.

## **FINDINGS AND RECOMMENDATIONS**

### **1. Questionable/Prohibited P-Card Purchases.**

- a. Finding.** Our review of P-Card transactions during 2019 revealed some instances of questionable or prohibited purchases. Examples of questionable purchases included cable/satellite television subscriptions, expensive neoprene seat covers for some Municipal vehicles, a facility rental and food catering for a staff team building retreat, and appliances such as microwave ovens, refrigerators, a \$110 toaster, multiple expensive vacuums for one facility, and nearly \$4,000 for coffee brewers and related accessories for one department, as well as other coffee-related accessories purchased by other departments. Examples of prohibited purchases included food for a department holiday party, water, Christmas trees in office areas, retirement badges, retirement plaques, funeral related items, and employee gifts.

Although the magnitude of these purchases was not significant, the public may perceive these purchases as an indication of fraud, and/or abuse. While these purchases may not be consistent with prudent fiscal management or comply with Municipal policy, we did not find evidence of wide-spread abuse or purposeful fraud. Policy and Procedure 48-16 states that P-Cards will only be used to conduct official

Municipal business. Furthermore, P&P 24-23 states that it is the Municipality of Anchorage's policy that Municipal funds cannot be used for purchases that do not serve the public interest.

- b. **Recommendation.** The Purchasing Officer should ensure that Municipal agencies know and comply with the requirements found in P&P 48-16 and P&P 24-23.
- c. **Management Comments.** Management stated, "Purchasing concurs with the finding and recommendation. MOA Directors will be briefed on the finding during Pre-Agenda on September 9, and will be asked for assistance in assuring the P-Card is used only for authorized expenditures. Also, during refresher training with P-Card holders this finding will be stressed. Repeat offenders will have their P-Card terminated."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

## 2. **Transactions Split to Circumvent Dollar Limit.**

- a. **Finding.** Transactions were sometimes split to circumvent the cardholder's single transaction limit. Our review of selected purchases revealed 14 purchases totaling \$62,586 that were split into 28 separate transactions. Seven of these purchases belonged to Municipal Light and Power, two of the purchases belonged to the Anchorage Police Department, and the remaining purchases belonged to the Anchorage Fire Department, the Anchorage Public Library, the Anchorage Water and Wastewater Utility, Facility Management, and the Radio Shop. For example, a \$4,667.02 payment for a "16 bottle hydrogen rack" was split into two equal charges of \$2,333.51. The P-Card holder had a \$4,000 single transaction limit. In another case, a \$4,842.36 payment for wireless equipment was split into two equal charges of \$2,421.18 between two separate P-Card holders on the same date. Both individuals

had a \$2,500 single transaction limit. The Guide states that “Procurement card transactions shall not be split to circumvent a larger purchase which is over the cardholder’s single transaction limit.” Additionally, the Guide states that “It is a violation of Policy to split the charge in order to remain within p-card limits. . . . Efforts to make the purchase in some other way (i.e., making incremental purchases from the same vendor on different days, from various vendors, or using more than one p-card) are a violation of Policy.” Finally, the Guide states that “. . . like items are generally considered a single purchase. For example, . . . Tables, chairs, desks and file cabinets are all furniture and is a single purchase.”

- b. **Recommendation.** The Purchasing Officer should consider suspending privileges to those users who circumvent the single transaction limit.
  
- c. **Management Comments.** Management stated, “Purchasing concurs with the finding and recommendation. This issue appears to be a continuing problem. Purchasing has been monitoring P-Card usage to help identify split transactions and then asking the P-Card holder to explain the transaction. MOA Directors will be briefed on the finding during Pre-Agenda on September 9, and will be asked for assistance in reminding P-Card holders to contact Purchasing if the threshold may be exceeded. Purchasing can then either raise the limit or advise of the correct procurement method of acquiring the goods or services. The single transaction limit can be exceeded with Purchasing Officer approval and this is stressed during P-Card holder training. Additionally, a definition of split card purchases will be added to the Procurement Card training booklet at the next printing that each P-Card holder receives. We will continue to suspend P-Cards for repeat offenders and if the purchases continue, then the P-Card will be terminated.”
  
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Purchase Descriptions Not Always Adequate.**

- a. **Finding.** Some P-Card transactions contained inadequate descriptions of the purchases. Examples of inadequate descriptions include “[Employee Name] did for [Employee Name]”, “Document [Date]”, and “INVOICE [Invoice Number], [Invoice Number]”. In addition, some P-Card transactions had wrong descriptions. For example, one purchase had “coffee makers for break rooms AB12872935” for the purchase description. However, we found that the purchase was for digital cameras. The Guide states that “Cardholders will review their transactions for accuracy and will supply accounting information and description of the item(s) purchased. The cardholder’s supervisor/approver will then be able to approve this information on-line and mark the transaction approved.” In addition, the Guide requires “In the **Transaction Notes** field, type in a plainly state [sic] a description of item(s) purchased . . . .” Despite the inadequate descriptions, these transactions were still approved.
- b. **Recommendation.** The Purchasing Officer should remind all Municipal agencies to comply with the P-Card Guide requirement for a complete description of the purchase or consider suspending privileges to those who fail to provide adequate purchase descriptions.
- c. **Management Comments.** Management stated, “Purchasing concurs with the finding and recommendation. MOA Directors will be briefed on the finding during Pre-Agenda on September 9, and will be asked for assistance in assuring that P-Card purchases are adequately described. Also, during refresher training with P-Card holders this finding will be stressed. Repeat offenders will have their P-Card terminated.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

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**Discussion With Responsible Officials.** The results of this audit were discussed with appropriate Municipal officials on June 30, 2020.

Audit Staff:  
Scott Lee