

INTERNAL AUDIT REPORT

2021-03

Annual Municipal Procurement Card Review

Purchasing Department

May 13, 2021

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Municipality of Anchorage

Austin Quinn-Davidson
Acting Mayor

Internal Audit

May 13, 2021

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2021-03, Annual Municipal Procurement Card Review, Purchasing Department**. A brief summary of the report is presented below.

In accordance with the 2021 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, 2020, to December 31, 2020. 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 2020 Procurement Card transactions revealed some instances of questionable or prohibited purchases. Examples of questionable purchases included cable/satellite television subscriptions, online fitness subscriptions, expensive neoprene seat covers for some municipal vehicles, plastic utensils for employee use, mobile app-controlled gym timers, 55-inch televisions, and appliances. Examples of prohibited purchases included catered dinners for department staff, water, "a replacement motor for the department's fiberoptic Christmas tree," retirement badges, and retirement plaques. 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

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Internal Audit Report 2021-03 Annual Municipal Procurement Card Review Purchasing Department

Introduction. The Purchasing Department (Purchasing) implemented the Procurement Card (P-Card) Program to provide for the purchase and payment of low-dollar goods, services, and business and travel related expenses. According to Purchasing, the number of P-Card transactions decreased from 49,348 in 2019 to 47,481 in 2020. However, the total dollar amount of P-Card transactions increased from \$19,024,547 in 2019 to \$19,939,266 in 2020. 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 prohibited 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, 2020, to December 31, 2020. 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 reasonable basis for our findings and conclusions based on our audit objectives. The audit was performed during the period of February through March 2021. 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 2020 P-Card transactions revealed some instances of questionable or prohibited purchases. Examples of questionable purchases included cable/satellite television subscriptions, online fitness subscriptions, expensive neoprene seat covers for some municipal vehicles, plastic utensils for employee use, mobile app-controlled gym timers, 55-inch televisions, and appliances. Examples of prohibited purchases included catered dinners for department staff, water, “a replacement motor for the department’s fiberoptic Christmas tree,” retirement badges, and retirement plaques. 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 2020 revealed some instances of questionable or prohibited purchases. Examples of questionable purchases included cable/satellite television subscriptions, online fitness subscriptions, expensive neoprene seat covers for some municipal vehicles, plastic utensils for employee use, mobile app-controlled gym timers, 55-inch televisions, and appliances such as two microwave ovens totaling \$479.98, a \$99.99 toaster, and a \$199.99 toaster oven. Moreover, questionable purchases included a \$649.99 Wi-Fi-enabled air-purifying cooling/heater fan, vacuums, and refrigerators, including a \$1,699 French-door refrigerator. In addition, one department spent over \$1,500 for a coffee brewer and related accessories, including hardware to install the coffee brewer, even though the same department spent nearly \$4,000 for coffee brewers and related accessories in 2019, as reported Internal Audit Report 2020-08. Examples of prohibited purchases included \$900 for catered dinners for department staff, water, “a replacement motor for the department’s fiberoptic Christmas tree”, retirement badges, and retirement plaques.

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.

Finally, during the course of this audit, we identified other purchasing anomalies at a department that will be discussed in Internal Audit Report 2021-04.

- 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 and terminate P-Card privileges for repeat offenders.

In addition, the Chief Fiscal Officer should review and update P&P 24-23 to clarify if appliances, for example, are a prohibited purchase.

- c. **Management Comments.** Management stated, "Management concurs with the recommendation. Directors were briefed at the Pre-Agenda meeting on May 5, 2021, regarding the findings of the audit. In addition, Directors were notified that certain individuals' P-Card privileges are being terminated and that Directors should consider disciplinary action where appropriate. In addition, Directors were notified that departments noted in the audit will be required to reattend P-Card training within the next 60 days or P-Card privileges will be suspended until such time as training is completed.

"P&P 24-23 is currently under review."

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Transactions Sometimes 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 22 purchases totaling \$102,687 that were split into 57 separate transactions. Some of these split purchases were identified by Purchasing staff throughout the year and the P-Card holders were unable to adequately justify their split purchases. Specifically, four purchases belonged to the Public Transportation Department and three purchases each belonged to the Anchorage Fire Department and the Maintenance and Operation Department. Moreover, two purchases each belonged to the Anchorage Police Department, the Anchorage Water and Wastewater Utility, the Office of Public Works Administration, and Solid Waste Services. The remaining purchases belonged to the Anchorage Health Department, the Port of Alaska, Merrill Field, and Risk Management. For example, a \$10,259.04 payment for rain jackets and associated charges was split into six charges of \$2,499.64, \$1,949.70, \$1,949.70, \$2,000.00, \$1,360.00, and \$500.00 – which was for shipping costs. The P-Card holder had a \$2,500 single transaction limit. In another case, a \$3,561.52 payment for four “Low-Level Strainer 6.0” Female” was split into two equal charges of \$1,780.76 with order numbers “1479” and “1480” 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, “Management concurs with the recommendation. Appropriate P-Cards noted in the audit have been suspended for 30 days, pending retraining.”
- 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 “document [Date]”, and “invoice [Invoice Number], [Invoice Number]”. In addition, some P-Card transactions had wrong descriptions provided. For example, one purchase made at McDonald’s had “. . . witness callout supplies” for the purchase description. However, it is doubtful that supplies were purchased at a fast food restaurant. The P-Card 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 P-Card Guide requires “In the **Transaction Notes** field, . . . plainly state 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 descriptions.

- c. **Management Comments.** Management stated, “Management concurs with the recommendation. See management response noted in 1.c. whereby Directors were notified on May 5 of the audit findings.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on April 14, 2021.

Audit Staff:
Scott Lee