

INTERNAL AUDIT REPORT

2022-08

Annual Municipal Procurement Card Review

Purchasing Department

November 3, 2022

MUNICIPALITY OF ANCHORAGE

Office of Internal Audit

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MUNICIPALITY OF ANCHORAGE
MAYOR DAVE BRONSON

OFFICE OF INTERNAL AUDIT

November 3, 2022

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2022-08, Annual Municipal Procurement Card Review, Purchasing**. A summary of the report is presented below.

In accordance with the 2022 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, 2021, to December 31, 2021. 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 2021 Procurement Card transactions revealed some instances of questionable or prohibited purchases. Examples of questionable purchases included cable/satellite television subscriptions, online yoga membership subscriptions, a fitness trainer course, expensive brand-named jackets, plastic utensils and paper plates for employee use, massage guns, Apple TV streaming devices, appliances such as microwave ovens, a water dispenser, coffee makers, a toaster and toaster oven, and \$4,771 of supplies for an epoxy table making project. Examples of prohibited purchases included balloons, a barbeque grill part, water, baked goods, retirement badges, retirement plaques, artwork, and fuel. In addition, it appeared that transactions were sometimes split to circumvent cardholders' single transaction limits and some Procurement Card transactions did not contain an adequate description of the purchases. Finally, some Procurement Card purchases were made without using mandatory annual supply contracts and the Municipality of Anchorage issued more Procurement Cards than were likely required for operational needs.

There were five 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 2022-08
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 non-asset goods, services, and business and travel related expenses. According to Purchasing data, the number of P-Card transactions decreased from 47,481 in 2020 to 41,373 in 2021. In addition, the total dollar amount of P-Card transactions decreased from \$19,939,266 in 2020 to \$16,266,393 in 2021. 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 the Internal Auditor to perform an annual review/audit 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 P&Ps regarding P-Card use. Our audit included a review of purchases made from January 1, 2021, to December 31, 2021. Specifically, we reviewed purchases for 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 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 2021 P-Card transactions revealed some instances of

questionable or prohibited purchases. Examples of questionable purchases included cable/satellite television subscriptions, online yoga membership subscriptions, a fitness trainer course, expensive brand-named jackets, plastic utensils and paper plates for employee use, massage guns, Apple TV streaming devices, appliances such as microwave ovens, a water dispenser, coffee makers, a toaster and toaster oven, and \$4,771 of supplies for an epoxy table making project. Examples of prohibited purchases included balloons, a barbeque grill part, water, baked goods, retirement badges, retirement plaques, artwork, and fuel. In addition, it appeared that transactions were sometimes split to circumvent cardholders' single transaction limits and some P-Card transactions did not contain an adequate description of the purchases. Finally, some P-Card purchases were made without using mandatory annual supply contracts and the Municipality of Anchorage (Municipality) issued more P-Cards than were likely required for operational needs.

FINDINGS AND RECOMMENDATIONS

1. Questionable/Prohibited P-Card Purchases.

- a. **Finding.** Our review of P-Card transactions during 2021 revealed some instances of questionable or prohibited purchases. Examples of questionable purchases included cable/satellite television subscriptions, online yoga membership subscriptions, a fitness trainer course, expensive brand-named jackets, plastic utensils and paper plates for employee use, massage guns, Apple TV streaming devices, appliances such as microwave ovens, a water dispenser, coffee makers, a toaster and toaster oven, and \$4,771 of supplies for an epoxy table making project. Examples of prohibited purchases included balloons, a barbeque grill part, water, baked goods, retirement badges, retirement plaques, artwork, and fuel. While the magnitude of these purchases was minor, they may not be consistent with prudent fiscal management or comply with Municipal P&Ps. Policy and Procedure 48-16 states that P-Cards will only be used for official Municipal business. Furthermore, P&P 24-23 states that it is the Municipality's policy that Municipal funds cannot be used for purchases that do not serve the public interest.

- b. **Recommendations.** The Purchasing Director 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 Purchasing Director should coordinate with the Chief Fiscal Officer to 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 audit findings and recommendations. Management will review P&P 24-23 for necessary clarification and updating based on audit findings and recommendations by June of 2023. Furthermore, management will direct all municipal agency heads to review both P&P 48-16 and P&P 24-23 by December 31, 2022. The Purchasing Director, or P-Card Administrator, will issue a written reminder to all P-Card holders of relevant P-Card policies and procedures, as well as links to the documents, and contact information for questions by December 31, 2022.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendations.

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

- a. **Finding.** It appeared that transactions were sometimes split to circumvent cardholders’ single transaction limits. Our review of selected purchases revealed 63 purchases totaling \$356,843 that were split into 168 separate transactions. For example, a \$6,520.00 payment for jackets from a single quote was split into three charges of \$2,300.00, \$1,900.00, and \$2,320.00. The P-Card holder had a \$2,500 single transaction limit. In another case, a \$4,179.55 payment for optics and mounting hardware was split into two charges of \$2,468.36 and \$1,711.19 between two separate P-Card holders on the same date. Both individuals had a \$2,500 single transaction

limit. Finally, a \$4,377.50 payment for “Training Door Prop” was split into two charges of \$2,499.00 and \$1,878.50 which was for the shipping cost. The P-Card holder had a \$2,500 single transaction limit. Although Purchasing does receive a report regarding split purchases, the report only identifies split purchases made on the same day by the same P-Card holder. The report does not show purchases made on the same day and split between different P-Card users nor does it show split purchases made over a span of days. The below table summarizes the split purchases that we identified.

2021 P-Card Split Purchases

<u>Department</u>	<u>Number of Split Purchases</u>	<u>Value of Split Purchases</u>
Anchorage Water and Wastewater Utility	14	\$ 81,631
Anchorage Fire Department	13	72,723
Anchorage Health Department	9	63,934
Anchorage Police Department	9	41,904
Public Works Department	5	29,743
Solid Waste Services	5	24,530
Public Transportation Department	3	18,184
Anchorage Public Library	3	13,701
Merrill Field Airport	1	6,090
Parks and Recreation Department	<u>1</u>	<u>4,403</u>
Totals:	63	\$356,843

Source: Auditor’s analysis of 2021 P-Card data.

The Procurement Card Guide states that “A cardholder shall not split transactions to circumvent a larger purchase, which is over the card 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 Director should consider suspending P-Card privileges to those users who circumvent the single transaction limit.
- c. **Management Comments.** Management stated, “Management concurs with the audit findings and has started reviewing split purchases with Directors of each department that had split purchases identified in the audit. Employees with split purchases will be made aware of the policy. Those who are determined to have intentionally engaged in a split purchase will receive a warning; repeat offenders may have their P-Card privileges revoked after review and determination by the Purchasing Director, or upon recommendation of the Municipal Manager. Review with Directors and corrective actions will be completed by December 31, 2022.”
- 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 did not contain an adequate description of the purchases. Examples of inadequate descriptions include “[Vendor Name] Inv# [Invoice Numbers]”, “invoice# [Invoice Number]”, “stuff that [Vendor Name] does, reconciled for [Employee Name], no invoice”. In addition, some P-Card transactions had descriptions that did not accurately describe the purchase. For example, one purchase made at a paint store had “paint – Inv#[Invoice Number]”. Another purchase made at a battery store had “Batteries – Inv#[Invoice Number]. One would expect paint to be purchased at a paint store and batteries to be purchased at a battery store.

These descriptions did not include information such as a work order number and other descriptive information to help an approver to determine if the purchase was necessary for Municipal business. Finally, some P-Card purchases had wrong descriptions for the purchases provided. For example, one purchase made at “Easy Park”, a parking services provider, had “GCI Modem Back Charges and Final [Department Name] March-2021”. Another purchase had “Purchase of Pizza for EIC [the Municipality’s Employee Incentive Committee] with tip.” However, our review found that the purchase was made using the Department’s operating fund, not the EIC fund. Despite the inadequate descriptions, these transactions were approved in the PaymentNet system. The Procurement 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 Guide requires that “In the **Transaction Notes** field, . . . plainly state a description of item(s) purchased. . . .”

- b. **Recommendation.** The Purchasing Director should remind all Municipal agencies to comply with the Guide’s 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 audit findings and will implement recommendations by December 31, 2022.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Mandatory Annual Supply Contracts Not Always Used.**

- a. **Finding.** Some P-Card purchases were made without using mandatory annual supply contracts. Specifically, we found that P-Card purchases for express delivery services,

moving services, and car washing services were made without using the annual supply contracts for these services. Policy and Procedure 48-16 states that “. . . Annual Supply Contract (ASC) – A contract achieved through a competitive process for providing goods or services to the Municipality. These contracts contain specific items at specific prices. Use of Annual Supply Contracts is mandatory when purchasing goods or services for which an ASC exists.” A list of annual supply contracts is available to all Municipal departments on Purchasing’s internal website.

- b. **Recommendation.** The Purchasing Director should remind all Municipal agencies to use the annual supply contracts when P-card purchases are made for good and services for which an annual supply contract exists.
- c. **Management Comments.** Management stated, “Management concurs with the audit findings and will implement recommendations by December 31, 2022.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

5. **More P-Cards Issued Than Needed.**

- a. **Finding.** The Municipality of Anchorage issued more P-Cards than were likely required for operational needs. For example, 35 P-Card holders made 5 or less purchases in 2021 and 34 P-Card holders did not use their P-Cards in 2021 at all. Policy and Procedure 48-16 states that the Purchasing Director will “Review on an annual basis the number of cards and usage of such cards to determine whether the card is warranted.” Purchasing has not conducted this review for several years. Issuing P-Cards to Municipal employees who do not need them for an operational purpose can increase the risk of financial loss. Limiting P-Cards to those who really need them helps control the Municipality's financial exposure. A similar finding was reported on the Internal Audit Report 2018-03.

- b. **Recommendation.** The Purchasing Director should review the number of cards issued and the usage of these cards as required by P&P 48-16.

- c. **Management Comments.** Management stated, “Management concurs with the audit findings and recommendations. The Purchasing Director will review the number of P-Cards issued, and the usage of each card, by December 31, 2022.”

- 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 May 25, 2022.

Audit Staff:
Scott Lee