

August 17, 2009

**Internal Audit Report 2009-09**  
**Annual Municipal Procurement Card Review**  
**Purchasing Department**

**Introduction.** In 2001, the Purchasing Department implemented the Procurement Card (P-Card) Program throughout the Municipality of Anchorage (Municipality) with the goal of providing delegated authority to designated individuals for the purchase and payment of low-dollar goods, services, business and travel related expenses. According to the data provided by the Purchasing Department, the number of P-Card transactions increased from 33,008 in 2007 to 35,104 in 2008. In 2008, Municipal P-Card holders charged approximately \$11 million compared to \$10 million in 2007. To establish an appropriate level of control over the program and maintain accountability of public funds, the Internal Auditor is required to perform an annual review of the program for compliance with Municipal Policy and Procedure (P&P) 48-16, *MOA Procurement Cards*.

**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, 2008, to December 31, 2008. Specifically, we reviewed purchases for selected transactions to ensure compliance with P&P 48-16.

The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit is required by P&P 48-16, Section 7f (1).

**Overall Evaluation.** Most of the P-Card purchases reviewed complied with P&P 48-16. However, some purchases may not be for official Municipal business such as food, retirement plaques, flowers, and office water. Moreover, our review of P-Card purchases revealed some charitable donations to non-Municipal agencies. In addition, we found some purchases were split to circumvent the maximum \$2,500 single transaction limit. Finally, most agency heads complied with P&P 48-16;

however, we found some instances of questionable or prohibited purchases such as flowers, gasoline for Municipal vehicles, various lunches, and food.

## FINDINGS AND RECOMMENDATIONS

### 1. Some Purchases May Not Be for Official Business.

- a. **Finding.** While most P-Card purchases complied with Municipal policies and procedures, our judgmental review of P-Card purchases revealed some questionable purchases. Questionable purchases included items such as food, retirement plaques, flowers, and office water. We reported similar findings in previous audit reports from 2003 through 2007. Although these purchases had been approved in the PaymentNet system by the employees' supervisors (or designees), the policy and procedure did not clearly define what constituted non-business use. To better define non-business use, P&P 24-23, *Disallowed Purchases*, was issued in January 2009. While most of the purchases did not violate P&P 48-16, some of these purchases may decrease in 2009 because of P&P 24-23.

The following statistics are provided for informative purposes.

- ***Restaurants/Grocery Stores*** – Nearly \$102,000 was spent on food. Most of these food purchases were made at restaurants for meetings.
- ***Coffee/Tea*** – About \$4,700 was spent on coffee and tea related purchases.
- ***Flowers*** – About \$4,000 was spent to purchase flowers and related items. For example, over \$600 was spent on flowers for funerals and \$65 was spent on flowers for a Municipal employee who had been hospitalized.

- b. **Recommendation.** The Municipal Manager should remind all Municipal P-Card holders to comply with the requirements of P&P 48-16.

- c. **Management Comments.** Management stated, “Agree. A review of all applicable

Municipal Policy & Procedures will be performed to remove discretionary spending in the categories of this audit finding. Clear guidance and/or written waivers will be instituted where appropriate or justified. Corrective action will be implemented within 30 days.”

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

2. **Charitable Donations.**

- a. **Finding.** Some contributions and donations were made with Municipal P-Cards during 2008. Municipal Light & Power contributed a total of \$7,760 to various charitable functions while various other Municipal Departments purchased tables and tickets to the Mayor’s Diversity Appreciation and Awards dinner for a total of \$7,762. Policy & Procedure 80-3, *Charitable Contributions by Municipal Utilities and Enterprise Activities*, prohibits making contributions using a P-Card. While P&P 80-3 does not apply to general government departments, using Municipal funds for tickets to an event sponsored by the United Way of Anchorage may not be considered official Municipal business. Policy & Procedure 48-16 states that procurement cards may not be used for non-business purchases (items not required for the conduct of official Municipal business).

b. **Recommendations.**

- 1) The Municipal Manager should enforce and monitor adherence to P&P 80-3.
- 2) The Chief Fiscal Officer should consider revising P&P 80-3 to apply to all Municipal activities including general government.

- c. **Management Comments.** Management states, “Agree. Municipal Policy & Policy 80-3 will be revised to apply to all agencies of the Municipality. Additionally, any purchase activity that is not a direct function for the conduct of business of an agency

will require advance approval or a waiver prior to processing under the P-Card Program. Corrective action will be implemented within 30 days.”

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

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

- a. **Finding.** Transactions were sometimes split to circumvent the \$2,500 single transaction limit. Our review of selected purchases revealed twelve that appeared to be split. For example, one purchase of \$2,669 for airway kits was split into five equal charges of \$500 and one charge of \$169. In another case, a purchase of \$3,853 for chip seal was split into one charge for \$1,323 and two charges of \$1,265. All of these purchases should have been submitted to the Purchasing Department for processing. The P-Card Guide states that “Procurement card transactions shall not be split to circumvent a larger purchase which is over the cardholder’s single purchase limit.”
- b. **Recommendation.** The Municipal Manager should consider suspending privileges to those users who circumvent the \$2,500 transaction limit.
- c. **Management Comments.** Management states, “Agree. A memorandum will be issued to all agencies reminding them of the requirements of Policy & Procedure 48.16. Current remedies are available and will be applied for repeat violations. Corrective action will be implemented within 30 days.
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

### 4. **Questionable P-Card Purchases by Agency Heads.**

- a. **Finding.** Most agency heads complied with P&P 48-16. However, our judgmental review of P-Card transactions found instances of questionable or prohibited purchases. Examples include the purchase of flowers, gasoline for Municipal

vehicles, various lunches, and food. Although some of these purchases may be for official business, use of a P-Card may not have been appropriate.

- b. Recommendation.** The Purchasing Officer should remind agency heads to adhere to the requirements found in P&P 48-16 and P&P 24-23.
- c. Management Comments.** Management states, “Agree. As stated previously, a memorandum will be issued to remind and guide agency heads in the use of P-Cards for official business use only. Action will be implemented within 30 days.”
- 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 July 22, 2009.

Audit Staff:

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