

# INTERNAL AUDIT REPORT

2023-05

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Annual Municipal Procurement Card Review

Purchasing Department

September 01, 2023

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MUNICIPALITY OF ANCHORAGE  
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MUNICIPALITY OF ANCHORAGE  
MAYOR DAVE BRONSON

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OFFICE OF INTERNAL AUDIT

September 1, 2023

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review the **Internal Audit Report 2023-05, Annual Municipal Procurement Card Review, Purchasing Department**. A summary of the report is presented below.

In accordance with the 2023 Audit Plan, we performed an audit of 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, 2022, to December 31, 2022. Specifically, we reviewed purchases for 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 2022 Procurement Card transactions revealed some instances of questionable or prohibited purchases. Examples of questionable purchases included travel expenses for a contractor, expensive brand-named jackets, appliances such as multiple portable air conditioning units, microwave ovens, a coffee maker, a \$589 vacuum, and a \$1,098 barbeque grill. In addition, printer ink and a wireless mouse were purchased for an employee's home work station. Examples of prohibited purchases included balloons, baked goods, retirement badges, retirement plaques, and fuel. Moreover, 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, Procurement Card transaction files with supporting documentation such as monthly statements, receipts and original invoices for purchases made with Procurement Cards were not always maintained at some Departments.

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

Scott Lee

Acting Director, Internal Audit



MUNICIPALITY OF ANCHORAGE  
MAYOR DAVE BRONSON

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OFFICE OF INTERNAL AUDIT

September 1, 2023

**Internal Audit Report 2023-05**  
**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 41,373 in 2021 to 40,347 in 2022. However, the total dollar amount of P-Card transactions increased from \$16,266,393 in 2021 to \$21,341,057 in 2022. 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, 2022, to December 31, 2022. 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 2022 P-Card transactions revealed some instances of questionable or prohibited purchases. Examples of questionable purchases included travel expenses for a contractor, expensive brand-named jackets, appliances such as multiple portable air conditioning units, microwave ovens, a coffee maker, a \$589 vacuum, and a \$1,098 barbeque grill. In addition, printer ink and a wireless mouse were purchased for an employee's home work station. Examples of prohibited purchases included balloons, baked goods, retirement badges, retirement plaques, and fuel. Moreover, 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, P-Card transaction files with supporting documentation such as monthly statements, receipts and original invoices for purchases made with P-Cards were not always maintained at some Departments.

## **FINDINGS AND RECOMMENDATIONS**

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

- a. Finding.** Our review of P-Card transactions during 2022 revealed some instances of questionable or prohibited purchases. While the magnitude, in terms of dollars and number of items purchased, was very minor, they may not be consistent with prudent fiscal management or comply with Municipal P&Ps. Examples of questionable purchases included travel expenses for a contractor, expensive brand-named jackets, appliances such as multiple portable air conditioning units, microwave ovens, a coffee maker, a \$589 vacuum, and a \$1,098 barbeque grill. In addition, printer ink and a wireless mouse were purchased for an employee's home work station. Examples of prohibited purchases included balloons, baked goods, retirement badges, retirement plaques, and fuel. 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. Finally, P&P 40-40, *Telecommuting Policy*, states that “employees are responsible for providing remote worksite furniture and equipment.”

- b. **Recommendations.** The Purchasing Director should ensure that Municipal agencies know and comply with the requirements found in P&P 48-16, P&P 24-23, and P&P 40-40 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 employee break rooms, 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. Furthermore, management will direct all card holders and department heads to review both P&P 48-16 and P&P 24-23. Annually 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. In the notification Purchasing will include a confirmation signature page that each card holder has reviewed the pertinent Policies and Procedures.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

## 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 27 purchases totaling \$140,599 that were split into 65 separate transactions. For example, a \$4,684,11 payment for Medical Testing Supply was split into two charges of

\$2,342.11 and \$2,342.00 at the request of P-Card holder to split the purchase into two payments. The P-Card holder had a \$4,000.00 single transaction limit. In another case, a \$6,075.00 payment for putting and taking down “Holiday Lighting” was split into two equal charges of \$3,037.50. The P-Cardholder had a \$5,000 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 total amount and number of split purchases significantly decreased in 2022 from 2021 which we reported as 63 purchases totaling \$356,843 that were split into 168 separate transactions in Internal Audit Report 2022-08. The below table summarizes the split purchases that we identified in this audit and in the last audit.

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**2021 & 2022 P-Card Split Purchases**

<u>Department</u>	<u>Number of Split Purchases</u>		<u>Value of Split Purchases</u>	
	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>
Anchorage Fire Department	13	7	\$ 72,723	\$ 27,177
Anchorage Police Department	9	5	41,904	27,432
Anchorage Water and Wastewater Utility	14	4	81,631	34,141
Maintenance and Operations Department	0	5	0	25,024
Anchorage Health Department	9	4	63,934	19,275
Public Works Department	5	0	29,743	0
Public Transportation Department	3	0	18,184	0
Solid Waste Services	5	0	24,530	0
Merrill Field Airport	1	0	6,090	0
Parks and Recreation Department	1	0	4,403	0
Port of Alaska	0	1	0	4,500
Anchorage Public Library	<u>3</u>	<u>1</u>	<u>13,701</u>	<u>3,050</u>
Totals:	63	27	\$356,843	\$140,599



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Source: Auditor's analysis of 2021 and 2022 P-Card data.

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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 will continue to review 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 have been ongoing.”
  
- 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 “Functions for office” and “To continue and better the office functions” for purchases made at Best Buy, and “Supplies for Government Diplomacy” for purchases made at Wal-Mart. 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 apparently had wrong descriptions for the purchases provided. For example, one purchase made at Polar Bear Gifts had “Parking Transaction”. 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. We have developed an annual refresher training with the help of our IT Department. This will be assigned to all card holders through Litmos. Annually the card holders will be required to take a refresher



training and pass a short test. Cards will be suspended if not completed by the end of February. Training will launch in October 2023 and then will be required each January starting 2024.”

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

#### 4. **Supporting Documentation Not Maintained.**

- a. **Finding.** Procurement Card transaction files with supporting documentation such as monthly statements, receipts and original invoices for purchases made with P-Cards were not always maintained at some Departments. Specifically, on April 24, 2023, we requested supporting documentation for 21 P-card purchases made by six different Municipal employees. According to the P-Card Administrator, four of these employees did not attend P-Card training. Despite numerous follow-up requests documentation was not provided. We were then told that staff did not know where the P-Card files were and had to “find them first.” As of June 6, 2023, nothing had been provided. According to P&P 48-16, Section 6, RESPONSIBILITIES states that “...P-Card Holders shall: ... Acquire and maintain all invoices, charge slips, packing lists or receipts required to document the procurement. Records must be retained for the current year and four prior years.” Without the proper supporting document, there was no evidence that the P-Card purchases were properly reviewed, approved and reconciled. For example, one of the P-card purchases was made at a coffee shop for \$12 with a purchase description stating, “Office functions.” Although we can assume what might have been purchased at the coffee shop, we were unable to verify that assumption since no documentation was provided.
- b. **Recommendation.** The Purchasing Director should remind all P-Card holders the documentation requirements found in the P&P 48-16. In addition, the Purchasing Director should ensure that all P-Card users attend P-Card training.

- c. **Management Comments.** Management stated “Management concurs with the audit findings and will continue implementing recommendations. Purchasing was recently told by JPMorgan that receipts can be uploaded into their software and retained for two years. We are asking them to turn this on immediately. We will continue to educate cardholders that all receipts must be retained for five years.”
  
- 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 June 16 and 26, 2023.

Audit Staff:  
Scott Lee