

February 11, 2003

Internal Audit Report 2003-1
Municipal Procurement Card Program
Purchasing Department

Introduction. The Purchasing Department implemented the Procurement Card Program at Anchorage Water and Wastewater Utility in April 2001, Municipal Light and Power in June 2001, and the remainder of the Municipality of Anchorage (Municipality) starting in November 2001. The goals of the program were to: 1) provide an effective and efficient payment mechanism for goods and services provided through contracts; and 2) to better optimize the purchase and payment of low-dollar goods, services, and business and travel-related expenses. The objectives of the Procurement Card Program were to:

- Improve vendor relationships through an automated payment process.
- Deploy proven technology to lower costs and improve efficiency.
- Empower departments to make small dollar purchasing decisions.
- Be simple and convenient for users.
- Establish an appropriate level of control.
- Maintain accountability of public funds.

Although we did not audit the program's goals and objectives to determine whether they have been achieved, the Purchasing Department did provide the following information regarding the Procurement Card Program:

- According to a Purchasing Department survey, 91 percent of those surveyed were satisfied with the purchasing card system.
- From 2000 to 2002, the number of purchase orders decreased from 3,571 to 2,086, or a 42 percent reduction.
- From 2000 to 2002, the number of purchases made through alternative procurement methods, such as local purchase orders, decreased from 4,114 to 295, or a 93 percent reduction.

- From 2000 to 2002, the number of vouchers decreased from 97,821 to 44,148, or a 55 percent reduction.
- From 2001 to 2002, the number of procurement card transactions increased from 8,184, representing \$2.3 million, to 56,444, representing \$13.5 million.

Scope. The objective of this audit was to review procurement card purchases and supporting documentation to determine compliance with Municipal Policy and Procedure (P&P) 48-16, MOA Procurement Cards. 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 was performed during the period of September through November 2002. The audit is required by P&P 48-16, Section 7f(1).

Overall Evaluation. According to the Purchasing Department, the Procurement Card Program has been successful in reducing the number of purchase orders by 42 percent, the number of local purchase orders by 93 percent, and the number of vouchers by 55 percent¹. The Purchasing Department also stated that vendors no longer need to wait as long for the Municipality to process payments. Our audit disclosed that most Municipal departments complied with P&P 48-16 regarding the Procurement Card Program. However, some department heads, as well as other employees, did not always follow procurement card procedures or made questionable purchases with their procurement cards. These purchases included items such as, retirement plaques, flowers, and balloons. In addition, the Procurement Card Program administrator was not always notified when employees terminated employment with the Municipality. Furthermore, two departments did not keep their procurement card files in a central location and other departments did not maintain complete, accurate, or readily available information regarding procurement card transactions. We also noted that, since January 2002, the Purchasing Department completed only one of three required quarterly program reviews. Finally, the Finance Department paid procurement card invoices using

¹ According to the Purchasing Department, these reductions in high volume, low dollar activities has allowed them to redirect resources to higher value procurement activities.

electronic funds transfer (EFT), costing \$20 per transaction, instead of using an automated clearing house (ACH), which costs \$0.08 per transaction.

FINDINGS AND RECOMMENDATIONS

1. Procurement Card Procedures Not Always Followed by Department Directors.

- a. Finding.** Department Directors did not always follow procurement card procedures when making purchases. Examples of purchases include Chamber of Commerce lunches, business lunches between Municipal employees, airline tickets, software purchases without proper Information Technology (IT) approval, and the purchase of a professional services contract. Although these purchases were for official business, use of a procurement card for some of these purchases may not have been appropriate. P&P 48-16, Section 8, states that procurement cards may not be used for items such as, non-business purchases; materials or services requiring specialized terms, conditions or contracts; gasoline for Municipal vehicles; airline tickets; and alcoholic beverages. In addition, P&P 68-3, Reimbursement of Business Meal Expenses, also states business meals will not be reimbursed if they are between Municipal employees.
- b. Recommendation.** The Municipal Manager and the Purchasing Officer should remind all Municipal employees of the proper use of procurement cards as specified in P&P 48-16 and P&P 68-3.
- c. Management Comments.** Management stated, “The Procurement Card program has successfully saved the Municipality considerable time and money, plus increased our overall customer satisfaction. To make it even more effective, increased emphasis will be placed on the use of the procurement cards by individuals entrusted with them.”

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

2. **Questionable Purchases by Municipal Employees.**

- a. **Finding.** Municipal employees (other than Department Directors) made a number of questionable purchases. In some instances, the items are questionable because purchase descriptions entered in the Municipality's accounting system were not adequate to describe business use. Examples of questionable purchases include personal items, a vehicle remote starter, food and kitchen supplies, retirement plaques, balloons, flowers, and purchases made without proper IT approval. All of these purchases had been approved in the PaymentNet system by the employees' supervisors (or designee). However, there is no policy and procedure clearly defining what constitutes non-business or personal use items referenced in P&P 48-16. As a result, employees differed on what should or should not be purchased with Municipal funds.
- b. **Recommendation.** The Municipal Manager should establish a policy and procedure to more clearly define non-business and personal use items.
- c. **Management Comments.** Management stated, "More explicit guidance will be provided to card holders and supervisors on the appropriate use of the cards."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Purchasing Department Not Always Notified of Terminated Employees.**

- a. **Finding.** Department heads, division managers and supervisors, and the Employee Relations Director did not always notify the Purchasing Department when employees

terminated their employment with the Municipality. P&P 48-16, Sections 7a(8), 7b(6), and 7g(1), required the Procurement Card Program Administrator be notified when employees terminated their employment with the Municipality. During our review, we found one employee who was terminated on May 31, 2002, yet was still in the procurement card system as of September 5, 2002. This procurement card could have been misused since it was not retrieved prior to termination.

- b. **Recommendation.** The Purchasing Officer should remind department heads, division managers and supervisors, and the Employee Relations Director of their responsibility to notify the Purchasing Department when employees terminate their employment with the Municipality as required by P&P 48-16.
- c. **Management Comments.** Management stated, “We will prepare a Level II memo reminding Directors, supervisors, and departmental p-card coordinators of the importance of this item. We will also continue to monitor receipt of this information from the Employee Relations Department.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Department Procurement Card Files Not Always Maintained Properly.**

- a. **Finding.** Documentation for procurement card purchases was not always properly filed. For example, we found that 2 of 26 departments did not keep their procurement card files in a central location. In addition, another department allowed its employees to forward procurement card statements and backup documentation up to three months late. P&P 48-16, Section 7b(5), requires procurement card documentation to be maintained in a central filing location within the department for the current calendar year and four years prior. Furthermore, the P&P requires all

invoices, charge slips, packing lists or receipts required to document the procurement to be sent to a departmental central file location not less than monthly.

In addition, some departments did not maintain complete, accurate, or readily available information regarding procurement card transactions. For example, we found a lack of adequate transaction descriptions, missing documentation for some transactions, and differing methods of filing procurement card statements and backup documentation. These problems make it difficult and time-consuming to reconcile and review statements. Although P&P 48-16 does not specifically address how procurement card files are to be kept, the Procurement Card Guide does provide some guidance. This Guide states that the files, along with supporting documentation, will be maintained in the department by a designated individual in such a manner that individual transactions, or a specific date range of transactions, can be easily recovered. It also recommends that individual transactions be filed in a date sequence based upon the actual transaction date. Furthermore, the Guide states it is the responsibility of the cardholder to document any anomalies, lost receipts, future credits, returns, or other pertinent information in the cardholder's file. These files are important because they are the source of information for quarterly compliance reviews.

- b. **Recommendation.** The Purchasing Officer should ensure that Municipal departments maintain procurement card documentation in a central filing location. In addition, the Purchasing Officer should revise the Procurement Card Guide to clarify how procurement card files will be maintained.
- c. **Management Comments.** Management stated, "We will include this item in the Level II memo mentioned above (Finding #3). We will reiterate the requirement for central filing locations in each department and the need for program documentation to be readily accessible."

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

5. **Quarterly Compliance Reviews Not Always Performed.**

- a. **Finding.** The Purchasing Department had not performed all quarterly compliance reviews of procurement card transaction files as required by P&P 48-16, Section 7d(5) and Section 9(d). We found only one of three quarterly compliance reviews had been performed since January 2002 when P&P 48-16 was implemented. The intent of the compliance reviews is to randomly select 3% to 5% of individual cardholders and review their transaction files for completeness, accuracy, and compliance with guidelines and P&P 48-16. The results of these reviews provide cardholders, supervisors, and managers with information regarding the state of their monthly files, any anomalies, documentation, or other requirements to ensure the procurement card program's integrity.
- b. **Recommendation.** The Purchasing Department should perform quarterly compliance reviews as required by P&P 48-16.
- c. **Management Comments.** Management stated, "At this time audits of February and May transactions have been completed and the review of August transactions is underway. These reviews will always be in arrears so that all transactions from the review period have been reconciled and approved prior to the audit. It is our intent to audit the required number of accounts each quarter."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

6. Alternate Procurement Card Payment Method Should Be Used.

a. Finding. The method used to make procurement card payments can be performed in a more cost effective manner. Currently, the Finance Department pays procurement card invoices by making three monthly EFT transactions costing \$20 each. Alternate payment methods revealed that using one ACH transfer for all three monthly transactions costs \$0.08 per transaction. We contacted Paymentech and found they would accept either payment method.

b. Recommendation. The Controller should consider making the monthly procurement card payment to Paymentech using one ACH transfer.

c. Management Comments. Management stated, "Paying the vendor timely is essential to the Municipality of Anchorage receiving the maximum rebate for the procurement card program. The method used in 2002 was the most conservative means of ensuring that occur because wire transfers are posted to the Municipality's account immediately virtually guaranteeing the Municipality of Anchorage receive the maximum rebate on purchases.

"During February, the Finance Department paid two of the business units by a wire transfer and the third business unit by an ACH payment. The ACH payment did take an additional day to be posted. However, it remains within the timeframe which still allows the maximum rebate to the Municipality, so this method will be used in the future."

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.

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