

April 14, 2004

Internal Audit Report 2004-7
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 to provide delegation of authority to designated individuals for the purchase and payment of low-dollar goods, services, business and travel-related expenses. According to data provided by the Purchasing Department, in 2003 roughly 800 Municipal P-Card holders (including utilities) made about 60,000 transactions totaling nearly \$14.5 million. To establish an appropriate level of control over the program and to 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 Card.

Objective and Scope. The objective of this audit was to determine if P-Card holders are adhering to Municipal policies and procedures regarding P-Card use. Our audit included a review of P-Card transactions from January through December 2003. Specifically, we reviewed purchase descriptions for selected transactions to ensure purchases were made in compliance with P&P 48-16. In addition, we contacted various departments to clarify questionable purchases and to verify availability and accuracy of supporting documentation. Finally, we judgmentally selected 10 transactions to verify approval by authorized personnel.

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 January through February 2004. The audit is required by P&P 48-16, Section 7f(1).

Overall Evaluation. Our audit revealed that most P-Card purchases were in compliance with P&P 48-16. However, some employees did not always follow P-Card policies and procedures or made questionable purchases with their P-Cards. Violations of P&P 48-16 include buying airline tickets with individual P-Cards, purchasing software without approval of the Information Technology (IT) Department, splitting purchases, and purchasing items from sources other than through the mandatory Annual Supply Contracts. Questionable purchases included items such as kitchen and food supplies, memberships in an online greeting card program, flowers, balloons, retirement plaques, patio furniture, microwaves and donuts. Finally, we found that in one department documentation for P-Card purchases was not properly maintained.

FINDINGS AND RECOMMENDATIONS

1. Purchases in Violation of P&P 48-16.

- a. Finding.** While most P-Card purchases were in compliance with Municipal policies and procedures, our review of P-Card purchases revealed numerous violations of P&P 48-16. We found that cardholders purchased fuel for Municipal vehicles even though P&P 48-16 states that the P-Card may not be used to purchase gasoline for Municipal vehicles. In addition, items available on a mandatory Annual Supply Contract were purchased from unauthorized sources. For example, even though the Municipality has an Annual Supply Contract with Downtown Legal Copies, an employee charged \$403 to their P-Card for document reproduction at Kinko's. According to P&P 48-16, items available on a mandatory Annual Supply Contract cannot be purchased from other sources.

We also found that Municipal employees bought airline tickets using their individual P-Cards. For example, one employee charged \$1,950.90 to their P-Card when buying a last minute airline ticket for a training session he had been scheduled to attend. According to P&P 48-16, cardholders are not authorized to purchase airline tickets on their individual credit cards. Airline tickets are purchased with a P-Card

held in the Purchasing Department for that purpose. Furthermore, three employees purchased software worth \$1,750.86 without proper IT Department approval. P&P 48-16, Section 8, requires P-Card holders to get IT Department approval prior to purchasing hardware and software.

Finally, according to the Procurement Card Program Coordinator, employees frequently split purchases. For example, instead of submitting a purchase requisition, as required by the Purchasing Department for known requirements exceeding \$2,500, one employee bought parts for a total of \$11,940 on his P-Card. Since the employee had a daily P-Card limit of \$2,500, he spread the purchase over five consecutive days, thereby remaining just below the daily limit. The Procurement Card Guide, incorporated by reference in P&P 48-16, states, "Procurement card transactions shall not be split to circumvent a larger purchase which is over the cardholder's single purchase limit."

- b. **Recommendation.** The Chief Fiscal Officer should remind all Municipal P-Card holders to comply with the requirements of P&P 48-16 and the Procurement Card Guide.
- c. **Management Comments.** Management stated, "... we concur with the finding that P-Card purchases made as described by the draft Internal Audit report are in violation of P&P 48-16 and/or the Procurement Card Guide.

"Action Taken to Correct Deficiency - as recommended by the draft Internal Audit report, the Chief Fiscal Officer (C.F.O.) will remind all Municipal P-Card holders to comply with the requirements of P&P 48-16 and/or the Procurement Card Guide."

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

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

- a. **Finding.** Our review of P-Card purchases revealed a variety of questionable purchases. Purchases included kitchen and food supplies, flowers, retirement plaques, appliances, gifts for retiring employees, and so forth. All of these purchases had been approved in the PaymentNet system by the employees' supervisors (or designees). However, the current policy and procedure does not clearly define what constitutes non-business or personal use items. See Attachment A for examples of questionable purchases.
- b. **Recommendation.** The Municipal Manager, in coordination with the other Executive Managers, should establish guidance and program policy to more clearly define what may or may not be an appropriate expenditure of public funds. This will enable the end-using departments as well as the Purchasing Department to provide better training, proper utilization, and program management at a level appropriate for Municipal P-Card holders.
- c. **Management Comments.** Management stated, "We concur with the finding and recommendation. The Department of Efficiency has been reviewing all Municipal purchases. Once this review is completed, the Director of the Department of Efficiency will provide direction regarding the proper use of Municipal funds."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Department P-Card Files Not Always Properly Maintained.**

- a. **Finding.** Documentation for P-Card purchases was not always properly maintained by Municipal departments. For example, in one department we found that, of 20 P-Card transactions reviewed, six did not have supporting documentation, such as

invoices and sales receipts. P&P 48-16, Section 7, requires P-Card holders to acquire all invoices, charge slips, packing lists or receipts required to document the purchase. It further states that agency heads shall assure all reporting, logging and file retention is being routinely maintained in the department.

b. **Recommendation.** The Chief Fiscal Officer should remind all P-Card holders of the requirement to obtain and maintain supporting documentation for all P-Card purchases.

c. **Management Comments.** Management stated, “. . . we concur that lack of adequate supporting documentation is a violation of P&P 48-16 and/or the Procurement Card Guide.

“Action Taken to Correct Deficiency - as recommended by the draft Internal Audit report, the C.F.O. will remind all Municipal P-Card holders of the requirement to obtain and maintain supporting documentation for all P-Card purchase as required by P&P 48-16 and/or the Procurement Card Guide.”

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.

Audit Staff:
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Examples of Questionable Items Purchased and Corresponding Dollar Amounts	
Transaction Description	Amount
Cooking goodies for the Thanksgiving feed	\$46.93
Food for electrical shop Grand Opening	\$361.47
Donuts for staff meeting	\$5.49
Coffee cups	\$427.20
Paper kitchen supplies, plates, utensils, paper towels	\$438.66
Coffee maker, coffee filter	\$184.82
Deluxe coffee brewer, decanters, coffee filters	\$375.46
Picnic supplies	\$159.00
New Year's Eve supplies	\$195.77
Flowers for memorial of member	\$100.00
Flowers sent to employee on his father's passing	\$54.00
Retirement plaques	\$174.00
Gold pans for retiring commissioners	\$135.00
Gold pan for employee	\$76.96
Balloons for member in hospital	\$31.95
Microwave	\$329.95
Refrigerator and microwave for Guard Post at Plant 2	\$179.98
25 ice and water filters for one Whirlpool refrigerator used to store food	\$728.70
Pictures from SkyMall	\$240.94
2 sets of patio furniture	\$582.00
Adobe Photoshop 7.0/Adobe Publishing Collection for Windows	\$1,608.00
Remote Starter	\$399.00
Bottled water for the office	\$35.94
Memberships in online greeting card program	\$27.90
Alaskan Aids Assistance, Sponsorship of 4A's Alaskan Aids Assistance event for World AIDS Day	\$1,000.00
Jackets for Port of Anchorage	\$1,491.00
Kentucky Fried Chicken, Battalion Chief Meeting for November	\$80.43
Cab ride home for disgruntled employee	\$146.00
Catering for the head of the Maritime Administration	\$1,935.00
Sponsorship of Skate Night	\$2,500.00
City of Lights Sponsor	\$500.00
Gold Pan Awards Sponsor, one table of ten	\$1,600.00
Pizza Hut, Lunch for special Battalion Chief meeting to discuss re-org	\$58.95

ATTACHMENT A

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