

March 22, 2005

**Internal Audit Report 2005-4
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 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 2004 about 800 Municipal P-Card holders (including utilities) made 57,643 transactions totaling approximately \$14.9 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 16, 2004. Specifically, we reviewed purchase and vendor descriptions for selected transactions to ensure purchases complied with P&P 48-16. In addition, we judgementally selected and visited 22 different Municipal locations to verify that P-Card documentation is properly maintained according to 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 was performed during the period of November 2004 through January 2005. The audit is required by P&P 48-16, Section 7f(1).

Overall Evaluation. Our review revealed that most P-Card purchases complied 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 included fuel for Municipal vehicles and purchasing items available on a mandatory Annual Supply Contract. Questionable purchases included items such as lunches for meetings, birthday cakes, retirement plaques, balloons, flowers, charges for overweight baggage, and office water. Our review also revealed a variety of questionable donations to organizations such as the Anchorage Heart Association and the Chugiak Grad Blast. Finally, our review revealed that four departments did not properly maintain P-Card documentation.

FINDINGS AND RECOMMENDATIONS

1. Inappropriate and Questionable Purchases Continue.

- a. Finding.** While most P-Card purchases complied with Municipal policies and procedures, our judgmental review of P-Card purchases revealed numerous violations of P&P 48-16, as well as several questionable purchases. For example, 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. Moreover, items available on a mandatory Annual Supply Contract with Downtown Legal Copies were purchased from Kinko's. For example, one employee charged \$437.25 to his P-Card for document reproduction at Kinko's. According to P&P 48-16, items available on an Annual Supply Contract cannot be purchased from other sources.

In addition, our judgmental review of P-Card transactions revealed that users continued to make questionable purchases. Questionable purchases included lunches for meetings, birthday cakes, retirement plaques, balloons, flowers, charges for overweight baggage, and office water. We reported similar findings in our 2003-1, 2003-8, and 2004-7 audits. Although these purchases had been approved in the

PaymentNet system by the employees' supervisors (or designees), the current policy and procedure does not clearly define what constitutes non-business or personal use items.

For informational purposes, we compiled the following statistics regarding P-Card purchases made during 2004. While most of these purchases did not violate P&P 48-16, no policy exists to provide clear guidance to Municipal employees regarding the appropriate expenditure of Municipal funds.

- ***Restaurants/Grocery Stores*** - Nearly \$78,000 was spent at restaurants and grocery stores. Most of these purchases were made at local area restaurants. For example, \$16,365 was spent at Diane's Restaurant and \$5,515 was spent at Wayne's Original Texas Bar-B-Que.
- ***Coffee*** - About \$6,279 was spent on coffee-related purchases. For example, \$200.25 was spent to purchase 4 cases of coffee, creamer, and sugar. In another case, \$80.31 was spent to purchase a coffee grinder.
- ***Drinking Water*** - About \$11,900 was spent on purchases related to drinking water. For example, one department spent \$3,106 on bottled drinking water. In another case, a department spent \$772.80 for "Purified water in gallon jugs for water breaks"
- ***Flowers*** - Over \$2,506 was spent to purchase flower-related items. For example, \$91.95 was spent on flowers for one funeral and \$80 was spent on a membership renewal with the Ohio Florists Association.
- ***Pictures/Photographs*** - Over \$27,500 was spent on pictures and photographs. For example, \$219.72 was spent to frame one department's Mission and Vision Statements.

- b. **Recommendation.** The Chief Fiscal Officer should remind all Municipal P-Card holders to comply with the requirements of P&P 48-16. In addition, the Chief Fiscal Officer, 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.
- c. **Management Comments.** Management stated, “Concur with the finding and recommendation. A reminder will be sent to all Municipal employees of the provisions of P&P 48-16 regarding the proper use of procurement cards. While we agree that clearer guidance should be provided defining what constitutes inappropriate use of Municipal procurement cards, the implementation of MuniMart will significantly reduce the ability to make questionable/rogue purchases with Municipal funds. After full implementation of MuniMart, we will re-evaluate the extent or continuance of rogue purchases and will provide guidance to Municipal employees as appropriate.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Questionable Donations.**

- a. **Finding.** Our review of P-Card purchases revealed a variety of questionable donations for non-Municipal agencies. These items totaled about \$39,500. For example, donations were made to the Mayor’s Charity Ball, NAACP, Salmon on Parade, Anchorage Heart Association, Chugiak Grad Blast, and various appreciation lunches and dinners.
- b. **Recommendation.** The Chief Fiscal Officer, in coordination with the other Executive Managers, should establish guidance and program policy to clearly define what may or may not be purchased in terms of donations with public funds.

- c. **Management Comments.** Management stated, “Concur with the finding and recommendation. Donations will be reviewed to determine if policy guidance is required. If warranted, guidance will be provided to assist managers in determining the appropriate expenditure of Municipal funds.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **P-Card Documentation Not Properly Maintained.**

- a. **Finding.** Our review revealed four departments that did not properly maintain P-Card documentation. Specifically, 3 of the 4 departments did not have their P-Card files in a central location. Moreover, for 2 of the 4 departments, files were not organized to easily recover P-Card information. P&P 48-16 requires managers and supervisors to “. . . Ensure that files containing the required documentation are being maintained for the current calendar year and four years prior in a central filing location within the department.” In addition, the Procurement Card Guide states that “The cardholder files need to be maintained in such a manner that individual transactions or a specific date range of transactions can be easily recovered.” Proper file maintenance of P-Card transaction documentation is important because these files are the source of information for quarterly compliance reviews.
- b. **Recommendation.** The Chief Fiscal Officer should remind Municipal departments to maintain P-Card documentation in a central filing location, as required by P&P 48-16, in a manner to enable easy recovery of P-Card transaction documentation.
- c. **Management Comments.** Management stated, “A reminder will be sent to all Municipal employees of the provisions of P&P 48-16 regarding the proper use of procurement cards.”

- 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 February 17, 2005.

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