

March 27, 2006

Internal Audit Report 2006-8
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 data provided by the Purchasing Department, the number of P-Card holders decreased from 772 in May 2005, to 544 in December 2005, due to the implementation of MuniMart on April 1, 2005. In 2005, Municipal P-Card holders (including utilities) made 41,629 P-Card transactions totaling approximately \$12.0 million, compared with 57,643 transactions totaling approximately \$14.9 million in 2004. 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 whether P-Card holders adhered to Municipal policies and procedures regarding P-Card use. Our audit included a review of all P-Card transactions from January through December 2005. Specifically, we reviewed purchase descriptions for selected transactions to ensure purchases complied with P&P 48-16. In addition, we contacted various departments to clarify questionable purchases. Finally, we verified that the employee termination process regarding the closure of P-Card accounts worked as intended.

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 through January 2006. The audit is required by P&P 48-16, Section 7f(1).

Overall Evaluation. The P-Card system continues to provide a cost effective method for paying for small purchases with a reasonable level of management controls. Most P-Card purchases reviewed complied with P&P 48-16. However, our audit revealed some questionable purchases such as food for employees and birthday parties, retirement plaques, balloons, flowers for employee family members, water cooler rentals, and hand tools. We also found that some purchases were split to circumvent the maximum dollar limit per transaction.

FINDINGS AND RECOMMENDATIONS

1. Inappropriate and Questionable Purchases Continue.

- a. Finding.** While most P-Card purchases complied with Municipal policies and procedures, our review revealed that some employees made some questionable purchases. Questionable purchases included food for employees and birthday parties, retirement plaques, balloons, flowers for employee family members, and water cooler rentals. P&P 48-16 states that P-Cards will be used only for official Municipal business. Thus, we question whether some of these purchases were actually for official business. Similar findings have been reported in our audits of P-Card purchases in 2003 and 2004.
- b. Recommendation.** The Municipal Manger should remind employees that P-Cards are to be used for the conduct of official Municipal business only.
- c. Management Comments.** Management stated, "We concur with the finding and recommendation. The Municipal Manager will provide more explicit guidance to card holders and supervisors on the appropriate use of the cards. This action will be completed by April 30, 2006."

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

2. **Split Purchases Circumvent Dollar Limits.**

- a. **Finding.** Purchases were split to circumvent the maximum dollar limit per transaction. We identified three instances during our review where employees ‘split’ the purchase price to purchase items costing more than \$2,500. The first purchase for \$2,806 was split into \$2,000 for an ice machine and \$806 for the ice bin. The second purchase was for three custom paint jobs purchased from the same vendor for \$2,500 each instead of submitting a purchase requisition to the Purchasing Department. The third purchase for \$4,778 was split into two equal parts of \$2,389 for a breath alcohol machine. 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.” The limit for a single P-Card purchase is \$2,500.
- b. **Recommendation.** The Municipal Manager should remind Municipal P-Card holders to not split large purchases to circumvent the \$2,500 P-Card limit.
- c. **Management Comments.** Management stated, “We concur with the finding and recommendation. The Municipal Manager will instruct the Purchasing Department to review purchases to identify possible split purchases. The Purchasing Department will confirm these purchases with the card holder and obtain the rationale for the split purchase. A report will then be prepared for the Municipal Manager identifying the split purchases and the reasons for the purchase so that appropriate action can be taken.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Purchase of Hand Tools Questionable.**

- a. **Finding.** Some purchases of hand tools appeared to be questionable. Our review of P-Card purchases at the Fire Department revealed that over \$22,000 in hand tools, including hand soap and other items, were purchased from the Snap-On tool vendor even though the labor contract with the International Association of Fire Fighters, Local 1264, provides a \$100 a month tool allowance for their mechanics. We also found that over \$12,700 in hand tools were purchased by Street Maintenance. The labor contract for the Operating Engineers, Local 302, states that, “Employees may be required to provide common quality tools of the trade in which they are employed.” The contract also states that, “Employees’ inventoried speciality hand tools and power (air and electric) tools will be replaced if broken in the course of the work.” However, we found that a tool box full of tools costing \$688.93 was purchased for one employee when he retired, allegedly to replace broken and lost tools while he worked at Street Maintenance.

Generally, hand tools that are purchased by Municipal employees are major brand name tools such as Snap-On, Proto, Craftsman, and so forth which carry a full lifetime replacement warranty for damage and breakage. Thus, we question the repetitive purchases of tools found during our annual audits of P-Card purchases.

- b. **Recommendation.** The Municipal Manager should implement a standard Municipal policy for the purchase and control of hand tools. Employees should be required to be held accountable for tools purchased with Municipal funds and manufacturers’ warranties should be used to replace tools broken or damaged.
- c. **Management Comments.** Management stated, “We concur with the finding and recommendation. The Municipal Manager will meet with departments that purchase large quantities of hand tools in order to draft a standard Municipal policy for the purchase and control of hand tools, consistent with current labor agreements and

employment requirements. In addition, the Municipal Manager will remind departments that, if available, warranties should be used to replace broken or damaged tools. These actions will be completed by June 30, 2006.”

- 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 13, 2006.

Audit Staff:
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