

March 1, 2007

**Internal Audit Report 2007-3
2006 Procurement Card Program
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 the data provided by the Purchasing Department, the number of P-Card transactions decreased from 41,629 in 2005 to 29,994 in 2006 due to the implementation of MuniMart on April 1, 2005. In 2006, Municipal P-Card holders charged approximately \$9.3 million compared to \$12.0 million in 2005. 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 Cards*.

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 purchases made from January 1, 2006, to December 14, 2006. Specifically, we reviewed purchases for selected transactions to ensure compliance with P&P 48-16. In addition, we reviewed supporting documentation for selected transactions at various departments. Finally, we verified the process of closing P-Card accounts for terminated employees.

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 December 2006 through January 2007. 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 of paying for small purchases with a reasonable level of management controls. Most P-Card purchases reviewed complied with P&P 48-16. However, we found that some purchases were split to circumvent the maximum single transaction limit. Moreover, some of the purchases appeared questionable, such as food, water coolers and water, flowers, coffee and coffee-related items, and retirement plaques. In addition, our review of P-card purchases revealed a variety of questionable donations for non-Municipal agencies.

FINDINGS AND RECOMMENDATIONS

1. Transactions Split to Circumvent Dollar Limit.

- a. Finding.** Transactions were sometimes split to circumvent the P-Card holders' \$2,500 single transaction limit. Our review of selected purchases revealed three that appeared to be split. The first purchase was an advertisement billed by the Anchorage Daily News on one invoice which was split into two equal payments of \$2,380 (Anchorage Police Department). The second purchase of \$8,700 for Garmin Street Pilots was split into four equal charges of \$2,175 (Municipal Light and Power). Finally, the third purchase was split into two charges of \$1,316.80 for building materials for Kincaid Park ordered on the same date but placed on two invoices (Maintenance and Operations Department). These three purchases should have been submitted to the Purchasing Department for processing. 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."
- b. Recommendation.** The Purchasing Officer should consider suspending privileges to those users who circumvent the \$2,500 transaction limit.

- c. **Management Comments.** Management stated, “Management concurs with the finding and recommendation. The Purchasing Officer will review the transactions identified by the audit for circumstances that would explain the apparent violation of P-Card use policy. The results of the review will be discussed with the appropriate department head. Corrective action will be taken up to and including revocation of P-Card privileges as determined appropriate.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Some Questionable Purchases May Not Be for Official Business.**

- a. **Finding.** While most P-Card purchases did not violate Municipal policies and procedures, our review revealed that some employees made some questionable purchases. Examples of questionable purchases include food, water coolers and water, flowers, coffee and coffee-related items, and retirement plaques. P&P 48-16 states that P-Cards will be used only for official Municipal business. Thus, we question if some of these purchases were actually for official business. Similar findings have been reported in our audits of P-Card purchases in 2003, 2004, and 2005.
- b. **Recommendation.** The Chief Fiscal Officer, in coordination with the other Executive Managers, should remind all Departments that P-Cards should only be used for official Municipal business.
- c. **Management Comments.** Management stated, “Management concurs with the finding and recommendation. A reminder of the provisions of P&P 48-16 regarding the proper use of procurement cards will be sent to all Municipal employees. Now that MuniMart has been fully implemented, management will evaluate the continued

existence of rogue purchases and provide guidance to Municipal employees as appropriate.”

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

3. **Charitable Donations.**

- a. **Finding.** Our review of P-Card purchases revealed a variety of donations to non-Municipal agencies. The donations totaled about \$47,270. For example, donations were made to the Chugiak Grad Blast, Wild Salmon on Parade, Anchorage Symphony’s Halloween Trick-or-Treat table, Mayor’s Charity Ball, and various appreciation lunches and dinners. Currently, there is no guidance for donations made with public funds. A similar finding was reported in our 2005 audit of P-Card purchases.
- b. **Recommendation.** The Chief Fiscal Officer, in coordination with the other Executive Managers, should establish guidance and program policy to clearly define donations with public funds.
- c. **Management Comments.** Management stated, “Management concurs 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.

Internal Audit Report 2007-3
2006 Procurement Card Program
Purchasing Department
March 1, 2007

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials.

Audit Staff:
Marina Mazour