

July 17, 2008

**Internal Audit Report 2008-9
2007 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 increased from 29,994 in 2006 to 33,008 in 2007. The stated number of transactions is below previous years due to the implementation of MuniMart on April 1, 2005. In 2007, Municipal P-Card holders charged approximately \$10 million compared to \$9.3 million in 2006. To establish an appropriate level of control over the program and 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 employees adhered to Municipal policies and procedures regarding P-Card use. Our audit included a review of purchases made from January 1, 2007, to December 31, 2007. Specifically, we reviewed purchases for selected transactions to ensure compliance with 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 December 2007 through January 2008. The audit is required by P&P 48-16, Section 7f(1).

Overall Evaluation. Most of the P-Card purchases reviewed complied with P&P 48-16. However, some purchases appeared questionable such as holiday decorations, coffee-related items, flowers and a gift basket, retirement plaques, and gold foiled business cards. Moreover, our review of P-Card purchases revealed a variety of questionable donations to non-Municipal agencies. In addition, we found some purchases were split to circumvent the maximum \$2,500 single transaction limit. Furthermore, some purchases by agency heads appeared questionable such as flowers, gasoline for Municipal vehicles, various lunches, and food. Finally, controls over reconciling and approving P-Card transactions need improvement.

FINDINGS AND RECOMMENDATIONS

Since 2001, we have performed annual audits of the P-Card Program. Each audit has identified questionable purchases that do not appear to contribute to performing official business of the Municipality. While P&P 48-16 provides responsibilities for reviewing and approving purchases, managers have not always ensured that items purchased were required for official Municipal business. In addition, there is no clear policy defining what constitutes business versus non-business purchases made with Municipal funds. For example, should flowers and gift baskets given to employees for bereavement or congratulatory occasions be purchased with Municipal funds or money donated by their fellow employees? Even though our audits of P-Card purchases continue to identify questionable purchases, the lack of policy guidance is not limited to only P-Card purchases, but also includes purchases with voucher checks and MuniMart.

1. 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 \$12,451 for Christmas lights and holiday decorations, \$3,372 for coffee equipment, \$2,645 for flowers and a gift basket, \$682 for retirement/appreciation plaques, and \$537 for gold foiled business

cards. 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 previous audits from 2003 through 2006.

- b. **Recommendation.** The Administration should provide clear and specific guidance to more clearly define non-business purchases.
- c. **Management Comments.** Management stated, “The Administration agrees with this recommendation. We have drafted a new Policy and Procedure called ‘Disallowed Purchases’ to clarify what purchases are not allowed. The Policy and Procedure will apply to all purchases, not just P-Card purchases. We will ask Internal Audit to review a draft of the new Policy and Procedure before it is finalized.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Charitable Donations.**

- a. **Finding.** Our review of P-Card purchases revealed a variety of donations to non-Municipal agencies. The donations totaled over \$130,000 and were primarily made by the utilities. For example, donations were made to the Wild Salmon on Parade, Anchorage Symphony’s Halloween event, Military Bowl-a-Thon, supplies for Kid’s Kitchen and Begich Middle School, sponsorship of two holes at an Adjutant Generals’ convention, and various lunches and dinners. In 2007, there was no guidance for donations made with public funds. However, on January 1, 2008, P&P 80-3, *Charitable Contributions by Municipal Utilities and Enterprise Activities*, was implemented, but did not apply to general government operations. Similar findings were reported in our 2005 and 2007 audits of P-Card purchases.

b. **Recommendation.** The Chief Fiscal Officer, in coordination with the other Executive Managers, should enforce and monitor adherence to P&P 80-3. In addition, the Chief Fiscal Officer, in coordination with other Executive Managers, should also establish a policy and procedure that clearly defines donations with public funds for general government operations.

c. **Management Comments.** Management stated, “The Administration has recently increased the oversight and controls for charitable contributions by implementing Policy and Procedure #80-3, effective January 1, 2008. While this Policy increases charitable contribution controls among the municipal utilities and enterprise funds (where the bulk of the contributions are made), it also increases oversight for all charitable contributions by requiring quarterly reporting of every charitable contribution to the Municipal Assembly, including those made by general government.

“In January 2009, the Policy and Procedure will be reviewed for required updates. At that time, the Administration will consider including general government in the overall Policy and Procedure.”

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

3. **Transactions Split to Circumvent Dollar Limit.**

a. **Finding.** Transactions were sometimes split to circumvent the \$2,500 single transaction limit. Our review of selected purchases revealed five that appeared to be split. The first purchase of \$8,776 for office furniture was split into four equal charges of \$2,194 (Anchorage Police Department). The second purchase of \$3,415.04 for sacks of concrete was split into two equal charges of \$1,707.52

(Municipal Light and Power). The third purchase was split into two charges of \$2,000 and \$2,340 for concrete for a vault duct encasement (Municipal Light and Power). Finally, the last two purchases were each split into two charges of \$2,500 and two charges for \$495 for training registration fees for two Municipal employees (Information Technology Department). All of these 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, "The Administration agrees that splitting transactions in order to circumvent the \$2,500 P-Card limit is unacceptable. The Administration will contact the Directors of the three Departments (Police, ML&P and IT) and ask for a written response to the findings in the Internal Audit report. If the responses are insufficient, or if additional instances of split transactions are found, the Administration may suspend user privileges or take other disciplinary action against users who circumvent the \$2,500 transaction limit."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Questionable P-Card Purchases by Agency Heads.**

- a. **Finding.** Most agency heads complied with P&P 48-16. However, our judgmental review of P-Card transactions found instances of questionable or prohibited purchases. Examples include the purchase of flowers, gasoline for Municipal vehicles, various lunches, and food. Although most of these purchases appear to be

for official business, use of a P-Card for some of these purchases may not have been appropriate. For example, some agency heads used their P-Cards to purchase and send congratulatory or bereavement flowers on behalf of their Department, instead of “passing the hat.” P&P 48-16, Section 8, states that P-Cards may not be used for non-business purchases. Section 8 further states that gasoline for Municipal vehicles cannot be purchased with a P-Card.

- b. **Recommendation.** The Administration should provide clear and specific guidance to more clearly define non-business purchases.
- c. **Management Comments.** Management stated, “The Administration agrees with this recommendation. We have drafted a new Policy and Procedure called ‘Disallowed Purchases’ to clarify what purchases are not allowed. The Policy and Procedure will apply to all purchases, not just P-Card purchases. We will ask Internal Audit to review a draft of the new Policy and Procedure before it is finalized. This Policy and Procedure will cover purchases made by Agency Heads, but will allow for some flexibility for the Mayor and executive staff.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

5. **Reconciliation and Approval Authority Lacks Sufficient Controls.**

- a. **Finding.** Controls over reconciling and approving P-Card transactions need improvement. Currently, numerous employees are able to reconcile and approve their own P-Card purchases, as well as the purchases of others that they may work with, without supervisory approval. P&P 48-16 requires agency heads to approve the transactions of direct subordinate employees while division managers and supervisors approve transactions of their direct subordinates.

- b. Recommendation.** Given the limitations of the P-Card system, the Purchasing Officer should review all employees who have been provided the ability to reconcile and approve transactions, and take action to minimize the number of employees with the ability to approve their own transactions.

- c. Management Comments.** Management stated, “The Administration agrees with this recommendation. The Purchasing Officer will be asked to review all employees who have been provided the ability to reconcile and approve transactions, and take action to minimize the number of employees with the ability to approve their own transactions.”

- 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.

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