

INTERNAL AUDIT REPORT

2014-05

Annual Municipal Procurement Card Review

Purchasing Department

June 9, 2014

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Mayor Dan Sullivan

June 9, 2014

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2014-05, Annual Municipal Procurement Card Review, Purchasing Department**. A brief summary of the report is presented below.

In accordance with the 2014 Audit Plan, we have completed an audit of the Procurement Card program. The objective of this audit was to determine whether employees adhered to Municipal policies and procedures regarding Procurement Card use. Our audit included a review of purchases made from January 1, 2013, to December 31, 2013. Specifically, we reviewed purchases of judgmentally selected transactions to ensure compliance with Policy and Procedure 48-16, Policy and Procedure 24-23, and the Procurement Guide.

Based on our observation, it is our opinion that, overall, most employees adhered to Municipal policies and procedures regarding the use of Procurement Cards. However, Procurement Card transaction descriptions were sometimes incomplete in PaymentNet. In addition, similar to prior years, authority to approve Procurement Card transactions was not properly configured in the Procurement Card system.

There were two findings in connection with this audit. Management was responsive to the findings and recommendations.

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Introduction. The Purchasing Department implemented the Procurement Card (P-Card) Program to provide for the purchase and payment of low-dollar goods, services, business and travel related expenses. According to the Purchasing Department, the number of P-Card transactions increased from 45,934 (\$15,106,417) in 2012 to 46,077 (\$15,599,810) in 2013. To establish an appropriate level of control over the P-Card program and maintain accountability of public funds, Policy and Procedure (P&P) 48-16, *MOA Procurement Cards*, requires Internal Audit to perform an annual review of controls within the P-Card program. In addition, P&P 24-23, *Disallowed Purchases*, provides guidance for disallowed expenditures.

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, 2013, to December 31, 2013. Specifically, we reviewed purchases of judgmentally selected transactions to ensure compliance with P&P 48-16, P&P 24-23, and the Procurement Guide.

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 is required by P&P 48-16, Section 7f(1).

Overall Evaluation. Overall, most employees adhered to Municipal policies and procedures regarding the use of P-Cards. However, P-Card transaction descriptions were sometimes incomplete in PaymentNet. In addition, similar to prior years, authority to approve P-Card transactions was not properly configured in the P-Card system.

FINDINGS AND RECOMMENDATIONS

1. Purchase Descriptions Not Always Properly Entered in PaymentNet.

- a. **Finding.** P-Card transaction descriptions were sometimes incomplete in PaymentNet. For example, we identified 10 transactions with incomplete descriptions. In eight of these transactions the description field said that an employee would “. . . enter note when she returns”. In another case, the description field for a \$490 P-Card transaction stated “xxxxxxxxxxxx”. All of these transactions were approved in the PaymentNet system. The Procurement Guide states, “Cardholders will review their transactions for accuracy and will supply accounting information and description of the item purchased. The cardholder’s supervisor will then be able to review this information on-line and mark the transaction approved.”
- b. **Recommendation.** The Purchasing Officer should remind all Municipal agencies to adhere to the Procurement Guide requirement for a complete description of the purchase.
- c. **Management Comments.** Management stated, “Management concurs with the finding and has reminded directors at preagenda and director meetings. The Purchasing Officer has stressed that he will not hesitate to remove cards from offenders and that Pcards are a privilege and not a right and shall not be abused.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. Lack of Segregation of Duties.

- a. **Finding.** Similar to prior years, authority to approve P-Card transactions was not properly configured in the P-Card system. As of the end of 2013, 145 of 456 (32 percent) of the Municipal cardholders had the ability to both make payments and approve their own transactions as designed in the P-Card system. The ability to approve one's own purchases erodes internal controls. This creates opportunity for noncompliance with Municipal policies and procedures or otherwise abusing the P-Card system.
- b. **Recommendation.** The Purchasing Officer should ensure that the duties of making P-Card payments and approving P-Card transactions are segregated.
- c. **Management Comments.** Management stated, "Management concurs with the finding. Similar to prior years, Purchasing noted this was a defect in the legacy system that allowed an individual to both buy and approve their own transactions. However, in February of 2014, the MOA implemented Payment Net 4 which has system controls which do not allow an individual to buy and 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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