

INTERNAL AUDIT REPORT

2019-06

Annual Municipal Procurement Card Review

Purchasing Department

May 23, 2019

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Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

May 23, 2019

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2019-06, Annual Municipal Procurement Card Review, Purchasing Department**. A brief summary of the report is presented below.

In accordance with the 2019 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, 2018, to December 31, 2018. 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 Card Guide.

Overall, most employees adhered to Municipal policies and procedures regarding the use of Procurement Cards. However, our review of calendar year 2018 Procurement Card transactions revealed some instances of questionable or prohibited purchases. Examples of these purchases included a coffee brewer and related accessories, satellite television subscriptions, commercial airfare for an itinerary change and a seat upgrade fee, neoprene seat covers from Hawaii for some Municipal vehicles, graphic design work for business cards and online signatures, food for a department staff lunch, retirement plaques, retirement badge plates, artwork for a Christmas card, and Christmas cards. In addition, transactions were sometimes split to circumvent the cardholder's single transaction limit.

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

Michael Chadwick, CIA, CICA
Director, Internal Audit



Municipality of Anchorage

Ethan Berkowitz, Mayor

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Introduction. The Purchasing Department (Purchasing) implemented the Procurement Card (P-Card) Program to provide for the purchase and payment of low-dollar goods, services, business-related, and travel-related expenses. According to Purchasing, the number of P-Card transactions increased from 45,857 in 2017 to 47,605 in 2018. The total dollar amount of P-Card transactions also increased from \$18,317,010 in 2017 to \$19,795,434 in 2018. 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 the P-Card Program to evaluate overall program effectiveness. 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, 2018, to December 31, 2018. Specifically, we reviewed purchases of judgmentally selected transactions to ensure compliance with P&P 48-16, P&P 24-23, and the Procurement Card Guide (Guide).

We conducted this performance audit in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit

was performed during the period of February through April 2019. The audit is required by P&P 48-16, Section 7.f.(1).

Overall Evaluation. Overall, most employees adhered to Municipal policies and procedures regarding the use of P-Cards. However, our review of calendar year 2018 P-Card transactions revealed some instances of questionable or prohibited purchases. Examples of these purchases included a coffee brewer and related accessories, satellite television subscriptions, commercial airfare for an itinerary change and a seat upgrade fee, neoprene seat covers from Hawaii for some Municipal vehicles, graphic design work for business cards and online signatures, food for a department staff lunch, retirement plaques, retirement badge plates, artwork for a Christmas card, and Christmas cards. In addition, transactions were sometimes split to circumvent the cardholder's single transaction limit.

FINDINGS AND RECOMMENDATIONS

1. Questionable and Prohibited P-Card Purchases.

- a. Finding.** Our review of P-Card transactions during 2018 revealed some instances of questionable or prohibited purchases. Examples of questionable purchases included a coffee brewer and related accessories, satellite television subscriptions, commercial airfare for an itinerary change and a seat upgrade fee, and neoprene seat covers from Hawaii for some Municipal vehicles, and graphic design work for business cards and online signatures. Examples of prohibited purchases included food for a department staff lunch, retirement plaques, retirement badge plates, artwork for a Christmas card, and Christmas cards. While the magnitude of these purchases was not significant, they may not be consistent with prudent fiscal management and/or did not comply with Municipal policy. Policy and Procedure 48-16 states that P-Cards will only be used to conduct official Municipal business. Furthermore, P&P 24-23 states that it is the Municipality of Anchorage's policy that Municipal funds cannot be used for purchases that do not serve the public interest.

- b. **Recommendation.** The Purchasing Officer should ensure that Municipal agencies know and comply with the requirements found in P&P 48-16 and P&P 24-23.
- c. **Management Comments.** Management stated, “Purchasing concurs with the finding and recommendation. MOA Directors were briefed on the findings during Pre-Agenda on May 15 and asked for assistance in assuring the P-Card is used only for authorized expenditures. Also, the Purchasing Officer will schedule one on one with each director and during refresher training of card holders this finding will be stressed. Repeat offenders will have their P-Card terminated.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Purchases Split to Circumvent Single Transaction P-Card Limits.**

- a. **Finding.** Transactions were sometimes split to circumvent the cardholder’s single transaction limit. Our review of selected purchases revealed five purchases totaling \$30,466 that appeared to be split into fourteen separate transactions. Twelve of these transactions belonged to the Anchorage Police Department and the remaining two belonged to the Anchorage Health Department. For example, a \$9,265 single invoice for training services was split into three transactions of \$2,500, and one transaction of \$1,765 between two separate P-Card holders over a period of 25 days. Both individuals had \$2,500 single transaction P-Card limits. In another case, a \$5,396 purchase of office chairs and desk risers was split into two charges of \$3,300 and \$2,096. In this case, the purchase was made on two separate vendor invoices. However, the order was placed with the same salesman, on the same day, and at about the same time. The vendor purchase orders were sequentially numbered and the charges were recorded less than 2 minutes apart. The P-Card holder had a \$2,500 single transaction P-Card limit.

The Guide states that “Procurement card transactions shall not be split to circumvent a larger purchase which is over the cardholder’s single transaction limit.” Additionally, the Guide states that “It is a violation of Policy to split the charge in order to remain within p-card limits. . . . Efforts to make the purchase in some other way (i.e., making incremental purchases from the same vendor on different days, from various vendors, or using more than one p-card) are a violation of Policy.” Finally, the Guide states that “. . . like items are generally considered a single purchase. For example, . . . Tables, chairs, desks and file cabinets are all furniture and is a single purchase.”

- b. **Recommendation.** The Purchasing Officer should consider suspending privileges to those users who circumvent the single transaction limit.
- c. **Management Comments.** Management stated, “Purchasing concurs with the finding and recommendation. This issue appears to be a continuing problem. The finding was briefed to Directors at Pre-Agenda on May 15, and asked for assistance in reminding card holders to contact Purchasing if the threshold may be exceeded. Purchasing can then either raise the limit or advise of the correct procurement method of acquiring the goods or services. The single transaction limit can be exceeded with Purchasing Officer approval and this is stressed during card holder training. Additionally, a definition of split card purchases is being added to the Procurement Card training booklet that each cardholder receives. Repeat offenders will have their P-Card suspended and if it continues, then the card will be terminated.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

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Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on April 29, 2019.

Audit Staff:
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