



February 22, 2002

**Internal Audit Report 2002-2  
Procurement Card Program  
Purchasing Department**

**Introduction.** The Procurement Card Program was implemented by the Purchasing Department for the purchase and payment of low-dollar goods, services, business and travel-related expenses. JPMorgan Chase PaymentTech MasterCard was selected as the procurement card provider. Purchases made using this system are paid once a month via an Electronic Funds Transfer.

The Procurement Card Program was rolled out to Anchorage Water and Wastewater Utility (AWWU) in April 2001, Municipal Light and Power (ML&P) in June 2001, and the remainder of the Municipality starting in November 2001. As of November 30, 2001, total purchases made with procurement cards equaled \$1.9 million. Of this, approximately \$1 million was associated with AWWU and \$800,000 with ML&P. At the time of the audit, AWWU had 100 cards and ML&P had 98 cards. The Purchasing Department is responsible for administering and monitoring the Procurement Card Program. The agency heads, division managers and supervisors are responsible for ensuring proper use and accountability at the cardholder level.

**Scope.** The objective of this audit was to determine whether procurement card transactions initiated by AWWU and ML&P personnel were in compliance with the draft Municipal Policy & Procedure (P&P) 48-16, Procurement Cards, and P&P 68-1, Employee Travel Approval, Travel Expense and Per Diem. Specifically, we reviewed all transactions initiated by the two utility General Managers and a sample of transactions initiated by the other utility employees during the period April through September 2001 to determine whether:

- ▶ the description of items purchased was accurately entered into PaymentNet,
- ▶ supervisory approval was made on-line within seven days,

- ▶ items prohibited by the P&P were purchased (airline tickets, professional services, gasoline, etc.),
- ▶ discounts were received when appropriate,
- ▶ travel and business meals purchased were in accordance with the P&P,
- ▶ transactions had been split to circumvent the \$2,500 transaction limit, and
- ▶ supporting documentation was filed in a central location.

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 October through November 2001.

**Overall Evaluation.** Procurement card transactions made by AWWU and ML&P personnel generally complied with P&P's 48-16 and 68-1. In addition, all transactions made by the two General Managers were appropriate. Item descriptions were entered accurately, supervisory approval was generally timely, and supporting documentation was filed as required. However, travel expenses charged to procurement cards were not always documented properly on the travel expense reports. It was difficult to determine whether discounts were received at the time of purchase. Also, the \$2,500 transaction limit may be too low for some cardholders, resulting in some purchases being split to circumvent the transaction limit.

## **FINDINGS AND RECOMMENDATIONS**

### **1. Travel Expenses Charged on Procurement Cards.**

- a. **Finding.** Travel expenses charged on procurement cards were not always reported on the travel expense report by employees. Our review of 21 travel-related transactions revealed that three (14%) had not been disclosed on the respective travel expense report. Two of the charges were for meals and one was for one night's

lodging. As a result, the employees were reimbursed for these expenses, resulting in overpayment for the travel. Since the current procedures do not require the approving official to review the employee's procurement card statement when approving the travel expense report, charges not reported by the employee can go undetected.

Another issue related to the use of procurement cards for travel is that the Municipality uses a standard per diem rate for meals during travel. The per diem rate must be adjusted if meals are provided either by the Municipality or the conference/training, since these meals have already been paid through the registration fee. A separate amount is established for breakfast, lunch and dinner. The current procurement card policy tends to cloud the per diem policy by allowing the use of the procurement card for meals during travel. In one sense, each meal charged to the procurement card becomes a meal that has been paid for by the Municipality. However, the amount that has been established for each of the three meals is not used in the procurement card computation and the total charges for meals are offset against the total per diem rate for each day.

Further, under the per diem concept, the employee is provided a fixed amount to cover meals for each day in travel status and there is no requirement to account for how the amount was spent. However, the procurement card policy places restrictions on what can be purchased, and properly so. For example, the purchase of alcoholic beverages is not allowed with the procurement card. The use of the procurement card for travel-related expenses now documents what has been purchased with the per diem allowance.

In summary, the use of Municipal procurement cards for travel expenses may result in problems that the prior per diem policy did not have.

- b. **Recommendation.** Management should re-evaluate the policy to allow Municipal procurement cards for travel-related expenses. If this policy is to be continued, the procedures for processing travel expense reports should be revised to require supervisors to review procurement card charges and statements in conjunction with reviewing and approving travel expense reports.
  
- c. **Management Comments.** Management concurred and stated, "This is a new program and adjustments may be required as operational experience is gained. Procurement card transactions are available for supervisory review within the PaymentNet system and additional emphasis may need to be directed to those individuals reviewing/approving travel expenses."

Additionally, the Controller Division, Finance Department, stated, "Employees who received overpayments will be required to reimburse the Municipality of Anchorage for the overpayment amounts. To avoid future overpayments, Policy & Procedure 68-1 Employee Travel Approval, Travel Expense And Per Diem is being revised and will require the approving official to review the employee's procurement card statement when approving the travel expense report. In addition, the revised Policy & Procedure 68-1 will require that the traveler provide a copy of their procurement card statement with their expense report. In those cases where the traveler has not received their procurement card statement, they will be required to turn in a query covering their travel dates. Currently, any travelers who have a procurement card are asked by Municipal-wide Financial Processing to submit procurement card statements that coincide with their travel dates along with their expense report. The statements are reviewed in conjunction with the traveler's expense report to ensure that the Municipality is not overpaying travel expenses."

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

## 2. Receipt of Discounts Difficult to Determine.

- a. **Finding.** It was not possible to determine whether discounts specified in annual supply contracts and preferred vendor agreements were received on purchases. The Procurement Card Guide directs card holders to “Be sure to verify the pricing and ask for your MOA discount at time of purchase.” The procurement card training sessions also stated that the card holders should “agree and understand discounts and price.” We noted the following issues associated with discounts.

Control memos that the Purchasing Department uses to communicate prices and discounts for annual supply contracts were confusing and difficult to use by the average employee. For example, some control memos contained mark-down and mark-up percentages by manufacturer of the parts. Other control memos specified a specific price for certain part numbers. Each type of product contained unique discounts or prices by manufacturer and vendor. (See attachment A for examples.) We found that, in most cases, the employees doing the purchasing did not have the control memos and felt that they did not have time to research what the terms were for the specific items they were purchasing. We would like to point out that this issue is not unique to credit card purchases. The same difficulty existed prior to the implementation of the procurement card program.

Discounts for preferred vendor agreements were provided to procurement card holders on a fold-up list. Preferred vendor agreements did not exist prior to the procurement card program and should result in savings to the Municipality if the stated discounts are received. However, many of the discounts were a range or other non-specific terms (i.e., 20% to 50%, 30% approx., wholesale.) Thus it was not always possible for the cardholders to verify that the proper discount had been given.

We also found that the great majority of vendors did not show a separate discount on the invoice but only gave the purchase price. Thus it was not possible to determine if a discount had been given or what the discount was.

Our review of some randomly selected purchases revealed that discounts were not always given. We also found two cases where a vendor had charged different prices for the same item on different dates of purchase. The sales clerk at one vendor told us that he was not clear at what price to charge the Municipality.

In summary, we believe that the Municipality may not be receiving full benefit from the discounts that the Purchasing Department negotiates in annual supply contracts and preferred vendor agreements because the published discounts are too confusing and non-specific for Municipal employees to determine.

- b. **Recommendation.** The Purchasing Officer should review the current method for offering discounts on annual supply contracts and preferred vendor agreements. We also recommend that employees using procurement cards for purchases be queried to get their input on the best way to maximize savings from discounts.
  
- c. **Management Comments.** Management stated, "The Municipality has a large number of Annual Supply Contracts (ASC's) which include a variety of products. When contracts are initiated, the major department users are queried for their input. Due to the nature of some of these contracts, a non-user or infrequent user may have some difficulty; however, we are unaware that there is a problem for the primary users. Pricing information on ASC's is distributed via Level II memoranda to every department and division.

"Preferred Vendors: Credit card usage is historically based on retail and over-the-counter purchases. Our mission was to provide a list of known vendors and to

achieve a level of discounts wherever possible. Each of the vendors on this list has agreed to accept our procurement cards and offer some type of discount. It is each cardholder's responsibility to identify himself as a Municipal employee and request any discount which has been offered. Cardholders are given this information during training. They are also told that there is no guarantee that a preferred vendor will provide the best pricing on a particular purchase and that they should make every effort to be wise shoppers and obtain the best pricing available.

"We will consider the audit comments as we renew or re-bid the various ASC contracts. Additionally, we are preparing to gather information on the overall effectiveness and usage of the credit card program through user surveys beginning this spring. Based upon these results, we expect that some level of operational improvements or program modifications will result as the credit card program matures."

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

### 3. **Transaction Limit Too Low for Some Employees.**

- a. **Finding.** The current transaction limit of \$2,500 may be too low for some employees responsible for purchasing parts and equipment costing more than the limit. We found eight instances where purchases had been split because the purchase price exceeded the \$2,500 limit. In some instances the transactions were approved by the Purchasing Department to expedite the purchase. The splitting of transactions violates the guidelines for procurement card use which states that "procurement card transactions shall not be split to circumvent a larger purchase which is over the cardholder's purchase limit." The employees told us that they felt frustrated in having

to violate the policy and obtain approval of purchases that were required to meet operational needs.

- b. **Recommendation.** The Purchasing Officer should reconsider increasing the transaction limit for those individuals who are required to make purchases that are greater than the current \$2,500 limit.
  
- c. **Management Comments.** Management stated, "There are two types of procurement card purchases. The first is an "open market" purchase for items which are not available on a contract. The second is a purchase against an established contract, using the procurement card only as a payment mechanism.

"The limit has been set at \$2,500 for open market purchases. Requirements over this amount should be submitted on a requisition to the Purchasing Department.

"Contract purchases may indeed exceed the \$2,500 transaction limit. There is a provision for issuing "specialty cards" for payment of contract purchases. Those cards are limited to a specific contract and may have transaction limits greater than \$2,500. Our emphasis was to roll out the program for low cost purchases; however, since program inception we have had discussions with users and monitored purchases on specific contracts. In fact, the first specialty card has recently been issued for this purpose. We will continue to monitor this activity and to place specialty cards where appropriate."

- 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 January 24, 2002.

Audit Staff:  
Eric Kaehler, CIA  
Laura Adams

# AUTOMOTIVE SUPPLY CONTRACTS

PERCENTAGE APPLIED TO THE LOWEST PRICE COLUMN FOR THE SPECIFIED  
ANUFACTURER'S CURRENT PRICE LIST, THIS APPLIES ON ANY QUANTITY, AS NEEDED

- SCHEDULE A - LIGHTWEIGHT FILTERS

**GENUINE AUTO PARTS 99VC0252**

<u>-46 %</u> (Lowest Price Column)	<u>Napa</u> (Manufacturer)	<u>1097-5</u> (Price List Form Number)	<u>10/6/97</u> (Price List Date)
<u>-46 %</u> (Lowest Price Column)	<u>Napa</u> (Manufacturer)	<u>NAPA 96AT-4A</u> (Price List Form Number)	<u>06/03/96</u> (Price List Date)

- SCHEDULE B - HEAVYDUTY EQUIPMENT FILTERS

**GENUINE AUTO PARTS 99VC0252**

<u>-46 %</u> (Lowest Price Column)	<u>Napa</u> (Manufacturer)	<u>1097-5</u> (Price List Form Number)	<u>10/6/97</u> (Price List Date)
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- SCHEDULE C - CARBURETORS, WATER & FUEL PUMPS

**SKA AUTOMOTIVE 99VC0254**

<u>-7 %</u> (Lowest Price Column)	<u>Delco</u> (Manufacturer)	<u>9A-20</u> (Price List Form Number)	<u>07/01/96</u> (Price List Date)
<u>-16 %</u> (Lowest Price Column)	<u>Delco</u> (Manufacturer)	<u>25A-20</u> (Price List Form Number)	<u>02/01/98</u> (Price List Date)
<u>-16 %</u> (Lowest Price Column)	<u>Delco</u> (Manufacturer)	<u>43A-20</u> (Price List Form Number)	<u>8/8/1998</u> (Price List Date)

- SCHEDULE D - CHEMICAL SUPPLIES

**ALASKA AUTOMOTIVE 99VC0254**

<u>+35 %</u> (Lowest Price Column)	<u>Amrep</u> (Manufacturer)	<u>          </u> (Price List Form Number)	<u>11/01/98</u> (Price List Date)
<u>0 %</u> (Lowest Price Column)	<u>Pyroil</u> (Manufacturer)	<u>96-1</u> (Price List Form Number)	<u>02/15/96</u> (Price List Date)
<u>0 %</u> (Lowest Price Column)	<u>Citco</u> (Manufacturer)	<u>          </u> (Price List Form Number)	<u>08/01/98/</u> (Price List Date)

- SCHEDULE E - ALTERNATORS AND STARTERS

**CARQUEST 99VC0253**

<u>-5 %</u> (Lowest Price Column)	<u>Arrow</u> (Manufacturer)	<u>W99J</u> (Price List Form Number)	<u>09/12/97</u> (Price List Date)
<u>+10 %</u> (Lowest Price Column)	<u>Four Seasons</u> (Manufacturer)	<u>FS101-98-1</u> (Price List Form Number)	<u>03/30/98</u> (Price List Date)

SCHEDULE OF ITEMS

ITEM	EST QTY	UNIT	DESCRIPTION	MFR/BRAND OFFERED	MODEL/PN OFFERED	UNIT PRICE FOB DEST.	TOTAL PRICE
1	4	GAL	Acetone	Klean Strip	AC186	\$ 10.50	\$ 42.00
2	16	GAL	Acrylic Clean, CX 330	PPG	DX 330	\$ 23.90	\$ 382.40
3	23	EA	Acrylic Clean, DX 330, 5 Gall/ Ea.	PPG	DX 330	\$ 90.00	\$ 2070.00
4	45	QT	Acrylic Urethane Paint	Nascon	ISE	\$ 12.00	\$ 576.00
5	14	GAL	Acrylic Urethane Paint, Pencil Hardness	Nascon	IEF	\$ 40.00	\$ 560.00
6	10	GAL	Aluminum Cleaner PPG DX 533	PPG	DX 533	\$ 16.00	\$ 160.00
7	6	GAL	Aluminum Condition, PPG DX 503	PPG	DX 503	\$ 19.00	\$ 114.00
8	24	QT	Concept 2020, Urethane Clear, Dust Free in 30 min. Tack Free in 2-3 hours. Pencil Hardness 2B. Coverage per Gal @ 1 mil 468 SF	PPG	DCY 2020	\$ 11.50	\$ 276.00
9	10	GAL	Concept 2020, Urethane Clear	PPG	DCY 2020	\$ 32.50	\$ 325.00
10	15	EA	Cream Hardener/Tube	Fi	16	\$ .75	\$ 11.25
11	4	GAL	DBU Deltron Basecoat - Clearcoat	PPG	DBU	\$ 105.99	\$ 423.96
12	45	QT	Delta high solids Urethane, DFHA	PPG	DFHA	\$ 20.00	\$ 900.00
13	12	GAL	Delta high solids Urethane, DFHA, pencil hardness HB-F. Solids 66% 847 SF coverage per gal	PPG	DFHA	\$ 71.33	\$ 855.96
14	24	QT	Deltron Base Coat, 225 SF per gal. Coverage. Dry time: 5 min, unlimited pot life	PPG	DBC	\$ 55.80	\$ 1339.20
15	5	PT	Deltron Base Coat	PPG	DBC	\$ 33.45	\$ 167.25
16	8	GAL	Deltron Base Coat	PPG	DBC	\$ 150.00	\$ 1200.00
17	25	GAL	Deltron DT Reducer 870	PPG	DT 870	\$ 31.40	\$ 785.00
18	75	QT	Deltron DT Reducer 870	PPG	DT 870	\$ 12.65	\$ 948.75
19	8	GAL	DT Reducer 860	PPG	DT 860	\$ 31.40	\$ 251.20
20	6	QT	DT Reducer 885	PPG	DT 885	\$ 12.65	\$ 75.90
21	10	PT	DT Reducer 885	PPG	DT 885	\$ 40.00	\$ 400.00
22	1	QT	Deltron Enhancer, DX 84	PPG	DX 84	\$ 23.36	\$ 23.36
23	2	PT	Deltron Enhancer, DX 84	PPG	DX 84	\$ 7.50	\$ 15.00
24	12	EA	Disposable Paint Suits	Dup	M-101	\$ 6.20	\$ 74.40
25	3	GAL	Distiller Oil	Dow -	S-100	\$ 20.00	\$ 60.00
26	12	GAL	DP Epoxy Primer, Catalyst, DP401	PPG	DP401	\$ 50.00	\$ 600.00

Enter your discount or mark-up percentage for each Manufacturer/Brand listed above. Include price list number and date. This percentage will be used to purchase other like items that are not listed within the Schedule of Items. All offers shall include the most current manufacturers price list.

PPG (MANUFACTURER)	Shop Price List (PRICE LIST FORM NUMBER)	10-29-01 (PRICE LIST DATE)	As printed MARK-UP/DISCOUNT
FEJCOART (MANUFACTURER)	Dealer Price (PRICE LIST FORM NUMBER)	6/4/01 (PRICE LIST DATE)	10% of Shop Price MARK-UP/DISCOUNT
3M (MANUFACTURER)	Weatherly Index # 736 (PRICE LIST FORM NUMBER)	1-1-01 (PRICE LIST DATE)	17% of Broken Case MARK-UP/DISCOUNT
Viedow (MANUFACTURER)	Trade Price (PRICE LIST FORM NUMBER)	2-1-01 (PRICE LIST DATE)	12% of Trade Price MARK-UP/DISCOUNT
(MANUFACTURER)	(PRICE LIST FORM NUMBER)	(PRICE LIST DATE)	MARK-UP/DISCOUNT

Hi-Tec  
Professional Auto Body Supply  
2375 E. 63rd Avenue  
Anchorage, AK 99507

COMPANY NAME \_\_\_\_\_