

INTERNAL AUDIT REPORT

2012-08

Annual Municipal Procurement Card Review

Purchasing Department

September 13, 2012

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Mayor Dan Sullivan

September 13, 2012

Honorable Mayor and Members of the Assembly:

I am pleased to present **Internal Audit Report 2012-08, Annual Municipal Procurement Card Review, Purchasing Department** for your review. A brief summary of the report is presented below.

In accordance with the 2012 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, 2011, to December 31, 2011. Specifically, we reviewed purchases of judgmentally selected transactions to ensure compliance with Policy and Procedure 48-16 and Policy and Procedure 24-23.

Based on our review, we determined that, overall most employees adhered to Municipal policies and procedures regarding the use of Procurement Cards. However, our review of Procurement Card transactions during 2011 revealed some instances of questionable or prohibited purchases. Examples of these purchases include food for employee lunch meetings, microwave ovens, a four burner gas barbeque grill, a park rental for an employee picnic, picture frames, parking tickets, business cards, gasoline, and an AARP membership. We also noted that items such as cameras, tools, and mobile communication services and devices continue to be purchased year after year, sometimes in large quantities. In addition, some transactions were split to circumvent the \$2,500 single transaction limit. Finally, the purchase of food items for board and commission meetings is unclear and authority to approve Procurement Card transactions was not always properly carried out or configured in the Procurement Card system.

There were four 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 in 2001 to provide for the purchase and payment of low-dollar goods and services. According to the Purchasing Department, the number of P-Card transactions increased from 46,403 (\$13,747,345) in 2010 to 46,744 (\$14,847,827) in 2011. 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*, was implemented in 2009 to provide 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, 2011, to December 31, 2011. Specifically, we reviewed purchases of judgmentally selected transactions to ensure compliance with P&P 48-16 and P&P 24-23.

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, our review of P-Card transactions during 2011 revealed some instances of questionable or prohibited purchases. Examples of these purchases include food for employee lunch meetings, microwave ovens, a four burner gas barbeque grill, a park rental for an employee picnic, picture frames, parking tickets, business cards, gasoline, and an AARP membership. We also noted that items such as cameras, tools, and mobile communication services and devices

continue to be purchased year after year, sometimes in large quantities. In addition, some transactions were split to circumvent the \$2,500 single transaction limit. Finally, the purchase of food items for board and commission meetings is unclear and authority to approve P-Card transactions was not always properly carried out or configured in the P-Card system.

FINDINGS AND RECOMMENDATIONS

1. Questionable P-Card Purchases.

- a. **Finding.** Our review of P-Card transactions during 2011 revealed some instances of questionable or prohibited purchases. For example, Municipal Light & Power (ML&P) purchased food for employee lunch meetings, propane for a staff recognition barbeque, a microwave oven, meal cards for Rotary and Anchorage Chamber of Commerce meetings, and three new printers with various accessories for an office having few staff. Anchorage Water and Waste Water (AWWU) purchased a four burner gas barbeque grill, a microwave oven, and a park rental for an employee picnic. These purchases were made while ML&P and AWWU were still independent authorities. In addition, other departments paid for picture frames, parking tickets, business cards, gasoline, microwave ovens, and an AARP membership. While the magnitude of these purchases was not significant, they may not be consistent with prudent fiscal management or comply with Municipal policy. Policy and Procedure 48-16 states that P-Cards will only be used to conduct official Municipal business. Policy and Procedure 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.

We also noted that some items continue to be purchased year after year, sometimes in large quantities. Examples of some of these items include cameras, tools, and mobile

communication services and devices. Some of these purchases could be an indication of employees trying to keep up with the latest technology or a failure to protect Municipal assets from loss.

- b. **Recommendation.** The Purchasing Officer should remind all Municipal agencies of the requirements of P&P 48-16 and P&P 24-23.
- c. **Management Comments.** Management stated, “Concur. The Purchasing Director is preparing a memorandum reminding Municipal agencies of the requirements found in P&P 48-16 and P&P 24-23 regarding P-Card use. In addition, in conjunction with the implementation of the new ERP system, the above noted P&Ps are under review and will be revised accordingly.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **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 eight that appeared to be split. For example, a purchase of \$4,461 for iPads and iPad accessories was split into four charges of \$1,299, \$2,495, \$319, and \$348. In addition, a purchase of \$4,921 for shop supplies was split into six charges of \$2,312, \$69, \$92, \$1,148, \$1,186, and \$114. 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 transaction 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, “Concur. Action will be taken to terminate the P-Card of those individuals who repeatedly split purchase to circumvent the dollar limit of their P-Card.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Disallowed Food Items Unclear.**

- a. **Finding.** The purchase of food items for board and commission meetings is unclear. The January 26, 2009, version of P&P 24-23 stated that “Food & beverages purchased for Assembly, board, and commission meetings is allowed.” Effective September 1, 2010, P&P 24-23 was revised to state that “Food & beverages purchased for Assembly and election workers is allowed.” The revised P&P eliminated all references to food for board and commission meetings. Since the P&P is titled, *Disallowed Purchases*, and food for board and commission meetings is not mentioned as a disallowed purchase, one could assume that this is a permitted purchase. However, if someone is familiar with the January 26, 2009, P&P that permitted this type of purchase and was then revised to exclude it, they may conclude that it is no longer a permitted purchase.
- b. **Recommendation.** The Finance Department should revise P&P 24-23 to clarify if food purchases for boards and commissions are permitted.

- c. **Management Comments.** Management stated, “Concur. The Finance Department will revise P&P 24-23, Disallowed Purchases, to allow the purchase of food for Board and Commission meetings.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **P-Card Transactions Not Always Properly Approved.**

- a. **Finding.** Authority to approve P-Card transactions was not always properly carried out or configured in the P-Card system. Specifically, we found that supervisors did not always approve P-Card transactions but delegated this responsibility to non-supervisory staff. For example, at one department we found that the junior accountant approved most P-Card transactions. P&P 48-16 states that agency heads, division managers, and supervisors are to approve transactions of direct subordinates. In addition, we found that 190 of 476 (40 percent) P-Card holders had the authority to both make and approve their own purchases as configured in the P-Card system. Although Purchasing staff told us that most P-Card holders do not approve their own transactions, key duties and responsibilities such as purchasing and approving P-Card transactions should be separated among individuals.
- b. **Recommendation.** The Purchasing Officer should remind Department Directors that P-Card purchases should be approved by supervisory staff. In addition, the Purchasing Officer should ensure the P-Card holders are unable to approve their own transactions.
- c. **Management Comments.** Management stated, “Concur. The Purchasing Director will remind Department Directors to ensure that P-Card purchases are approved by

supervisors as required by P&P 48-16. In addition, in conjunction with the implementation of the new ERP system P&P 48-16 is being reviewed and will be revised accordingly.”

- 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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