

INTERNAL AUDIT REPORT

2016-02

Annual Municipal Procurement Card Review

Purchasing Department

May 12, 2016

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Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

May 12, 2016

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2016-02, Annual Municipal Procurement Card Review, Purchasing Department**. A brief summary of the report is presented below.

In accordance with the 2016 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 Procurement Card purchases made from January 1, 2015, to December 31, 2015. Specifically, we reviewed purchases of judgmentally selected transactions to ensure compliance with Policy and Procedure 48-16, Policy Procedure 24-23, and the Procurement Card Guide. In addition, our audit included an assessment of controls and risks regarding the overall Procurement Card process.

Based on our review, it is our opinion that, overall, most employees complied with Municipal policies and procedures regarding the use of Procurement Cards. However, there were ineffective controls regarding Municipal cellular telephone usage and the corresponding bill payments with Procurement Cards. In addition, Amazon Prime memberships were sometimes purchased by individual Procurement Card holders belonging to the same Municipal departments and even the same offices; and there were some instances of questionable Procurement Card purchases. Moreover, PaymentNet configurations need further improvement; the Employee Relations Department did not inform the Procurement Card Program Administrator of employee terminations; and Procurement Cards of terminated employees were not always returned to the Procurement Card Program Administrator in a timely manner and sometimes were not returned at all. Finally, some Procurement Card transactions were not timely reviewed and approved in PaymentNet and some Procurement Card transactions in PaymentNet did not contain adequate descriptions of the purchases.

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

Michael Chadwick, CICA
Acting Director, Internal Audit



Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

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Purchasing Department

Introduction. The Purchasing Department (Purchasing) implemented the Procurement Card (P-Card) Program to provide for the purchase and payment of low-dollar goods, services, and business and travel related expenses. According to Purchasing, the number of P-Card transactions increased from 45,624 (\$15,950,091) in 2014 to 45,972 (\$16,558,975) in 2015. 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 and the Procurement Card Guide (P-Card Guide) provides detailed guidance for the P-Card process.

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 P-Card purchases made from January 1, 2015, to December 31, 2015. Specifically, we reviewed purchases of judgmentally selected transactions to ensure compliance with P&P 48-16, P&P 24-23, and the P-Card Guide. In addition, our audit included an assessment of controls and risks regarding the overall P-Card process.

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 complied with Municipal policies and procedures regarding the use of P-Cards. However, there were ineffective controls regarding Municipal cellular telephone usage and the corresponding bill payments with P-Cards. In addition, Amazon Prime memberships were sometimes purchased by individual P-Card holders belonging to the same Municipal departments and even the same offices; and there were some instances of questionable P-Card purchases. Moreover, PaymentNet configurations need further improvement; the Employee Relations Department did not inform the Procurement Card Program Administrator (P-Card Administrator) of employee terminations; and P-Cards of terminated employees were not always returned to the P-Card Administrator in a timely manner and sometimes were not returned at all. Finally, some P-Card transactions were not timely reviewed and approved in PaymentNet and some P-Card transactions in PaymentNet did not contain adequate descriptions of the purchases.

FINDINGS AND RECOMMENDATIONS

1. Ineffective Controls Regarding Cellular Telephone P-Card Payments.

- a. **Finding.** There were ineffective controls regarding Municipal cellular telephone usage and the corresponding bill payments with P-Cards. As a result, payments contained undetected billing errors, excessive international call and roaming charges, and uncollected charges for unofficial cellular telephone data usage. For example:
- An erroneous cellular telephone contract termination charge of \$480 was not detected and was paid with the monthly department cellular telephone charges.
 - One employee's monthly cellular telephone bill of \$2,559 included international call and roaming charges, which could have been avoided by adjusting the telephone's plan and seeking more affordable ways to communicate.

- One employee exceeded his data plan by 53,694 megabytes resulting in an additional monthly charge of \$735. This usage was of a personal nature, but was not detected and a reimbursement was not collected.

Assuring cellular telephone bill accuracy, monitoring cellular telephone bills to minimize avoidable charges, and preventing or timely detecting unofficial cellular telephone usage requires effective information sharing between the parties involved in the process. However, the audit revealed that there was inadequate communication between cellular telephone users, cellular telephone users' supervisors (Department Directors), Information Technology representatives administering cellular telephone plans, and P-Card holders paying the corresponding bills.

In addition, P&P 16-2, *Acquisition and Controlled Use of Cellular Telephones*, states each Department Director must, "(3) Monitor monthly use and identify any unofficial use. (4) Collect payment for unofficial use." However, it appears that cellular telephone usage was not monitored.

- b. **Recommendation.** The Information Technology Director should strengthen the framework of controls regarding cellular telephone usage and the corresponding bill payments. In addition, the Information Technology Director should advise all Municipal agencies to comply with P&P 16-2.
- c. **Management Comments.** Management stated, "The IT Director concurs with Finding 1 from the Annual Municipal Procurement Card Review Report.

"To address this deficiency MOA IT is implementing process improvements and taking vendor management actions as described below.

- "1. The primary provided for MOA cell phones GCI, has been communicated with to address and resolve billing errors created since their assumption of ACS

mobile contracts. GCI analysis expected to be completed by 6/1/16 and credits applied.

- “2. GCI will provide a mechanism to validate credits applied based on billing correction requests from the MOA. Expect implementation for 6/16 billing cycle.
- “3. MOA IT will provide MOA departments with necessary contract service costs to enable identification of provider billing errors. Provided with monthly bill detail.
- “4. MOA IT will work with providers to supply MOA departments with monthly billing statements that should be reviewed by MOA department resources responsible for payment approval (Department Directors) and payment processing (P card holders). Implemented monthly beginning with 6/2016 bill.
- “5. IT director will inform all MOA General Government Department directors of their responsibility under P&P 16-2 to ‘monitor monthly use, identify unofficial use and collect payment for unofficial use’. Deliver communication to MOA Directors with 6/16 wireless bill detail.
- “6. MOA IT will inform Department Directors on existing processes to recover personal expenses and implement minor process changes to provide the necessary process controls.
- “7. MOA IT will inform cell phone user’s through their department Directors on their option and process to change service plans when international roaming or calling is a job requirement.”

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

2. **Amazon Prime Membership Purchases Not Centralized.**

- a. **Finding.** Amazon Prime memberships were sometimes purchased by individual P-Card holders belonging to the same Municipal departments and even the same offices. In 2014, four Amazon Prime memberships were purchased totaling \$376. In 2015, ten Amazon Prime memberships purchased totaling \$990. If not addressed, the purchase of Amazon Prime memberships could rise due to the increase of purchases from Amazon.com and Amazon Marketplace. Separate Amazon Prime memberships represent a waste of Municipal resources and pose a risk of unofficial use of membership benefits.
- b. **Recommendation.** The Purchasing Officer should explore means for centralizing Amazon Prime membership purchases.
- c. **Management Comments.** Management concurred and stated, “Management is currently working with Amazon to establish a MOA wide account.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Questionable P-Card Purchases.**

- a. **Finding.** Our review of 2015 P-Card transactions revealed some instances of questionable purchases. For example, one employee purchased eight skirts within a three month period totaling \$412 from an upscale apparel store. The skirts were of four different styles and ranged from \$40 to \$88 per skirt. These purchases appeared to be excessive, both in quantity and price. In another case, in 2015 an employee purchased a GPS (Global Positioning System) for \$283 for his Municipal work vehicle. According to the employee, this purchase was made to replace a broken GPS that was purchased in 2014 for \$216. Given that this employee had a

Municipal issued smart telephone, free internet-based mapping programs such as MapQuest, Google Maps, and Yahoo Maps were available and could have easily been used.

Another questionable purchased appeared to circumvent the \$2,500 single transaction limit. Specifically, over a two month period a \$7,179 purchase for office furniture was split into four charges of \$2,500, \$938, \$2,224, and \$1,517. This furniture was purchased to refurbish the office. 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 remind P-Card holders to comply with P&P 24-23 and should consider suspending P-Card privileges to those users who circumvent their single transaction limit.
- c. **Management Comments.** Management concurred and stated, “The Purchasing Officer and Internal Auditor briefed the concerns to all Directors at the Pre-Agenda meeting in April 2016. The Municipal Manager at that meeting noted to all present that he supports the Purchasing Officer canceling cards from repeat offenders.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **PaymentNet Configurations Need Further Improvement.**

- a. **Finding.** PaymentNet configurations need further improvement because they allowed P-Card transactions to be reviewed and approved by a cardholder’s subordinates. PaymentNet configurations were recently improved to provide at least one appraisal independent of the P-Card holder either in the form of review or approval.

However, our audit revealed that reviews and approvals by P-Card holders' subordinates could not be considered independent because the subordinates, as a result of their lower positions, did not challenge questionable/disallowed purchases. Per P&P 48-16, division managers and supervisors shall "Approve transactions of direct subordinates...."

- b. **Recommendation.** The Purchasing officer should ensure that configurations in the PaymentNet system provide for effective checks and balances.
- c. **Management Comments.** Management concurred and stated, "The MOA PCard administrator has had communications with JP Morgan Chase and has embarked on a plan to review all configuration set-ups to resolve the finding. Due to volume of reviewing all PCard holders and making necessary changes, the goal is to have this task completed by 9/3/16."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

5. **P-Card Administrator Not Properly Informed of P-Card Holder Terminations.**

- a. **Finding.** The Employee Relations Department did not inform the P-Card Administrator of employee terminations. P&P 48-16 states that the Employee Relations Director shall "Advise the Procurement Card Administrator of employee terminations and/or suspensions to ensure that procurement cards are cancelled timely." However, the information about employee terminations was supplied to the P-Card Administrator only by Payroll up to 25 days after the terminations. As a result, 24 (41%) P-Cards for the 58 P-Card holders terminated in 2015 were not deactivated in a timely manner. Moreover, in some instances no reliable information was supplied to the P-Card Administrator about the terminations, such as department decisions not

to rehire a temporary employee. For example, one employee was terminated in March 2015, but his P-Card was still active as of January 2016. Failure to deactivate P-Cards of terminated employees in a timely manner creates a risk of unauthorized charges.

- b. **Recommendation.** The Employee Relations Department should inform the Procurement Card Program Administrator of employee terminations.
- c. **Management Comments.** Management concurred and stated, “Employee Relations will work with the Purchasing Department to temporarily redirect this responsibility to the Central Payroll Division until SAP goes live.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

6. **Terminated Employee P-Cards Not Always Returned.**

- a. **Finding.** Procurement Cards of terminated employees were not always returned to the P-Card Administrator in a timely manner and sometimes were not returned at all. The audit revealed that 22 (38%) P-Cards for the 58 cardholders terminated in 2015 were not turned in prior to the employee termination date and 17 (29%) of the P-Cards were not turned in at all. Continuing with the example from the above finding, the employee was terminated in March 2015, but his P-Card was still not reclaimed and returned to the P-Card Administrator as of January 2016. Failure to reclaim P-Cards from the terminated employees and return to the P-Card Administrator creates a risk of unauthorized charges.

The P-Card Guide states, “When a cardholder terminates employment with the Municipality, the supervisor has the specific obligation to reclaim the procurement card and return it to . . . [the] P-Card Administrator, prior to the employee

termination date.” In addition, the Employee Termination Check-Off List contains a box to mark that the procurement card was returned.

b. Recommendations.

- 1) The Purchasing Officer should remind all Municipal agencies to comply with the P-Card Guide and the requirement pertaining to P-Cards in the Employee Termination Check-Off List.
- 2) The Payroll Director should revise the Employee Termination Check-Off List to include the P-Card Administrator’s confirmation that the P-Card was returned or that the terminated employee did not possess a P-Card.

c. Management Comments. The Purchasing Department concurred and stated, “This is accomplished now at all PCard training sessions.”

The Central Payroll Division stated, “The Central Payroll Division concurs with the Internal Audit finding. Central Payroll will revise the employee termination check off list to clarify that the P-Card has been returned to Purchasing.”

d. Evaluation of Management Comments. The Purchasing Department’s comments were responsive to the audit finding and recommendation.

The Central Payroll Division’s comments were responsive to the audit finding and recommendation.

7. **Some P-Card Transactions Not Timely Reviewed and Approved.**

- a. **Finding.** Some P-Card transactions were not timely reviewed and approved in PaymentNet. While reminders to timely review and approve P-Card transactions were sent and delinquency follow-up procedures were performed by the P-Card Administrator on a continuous basis, each month there were numerous delinquent reviewers and approvers. For example, as of November 20, 2015, there were five P-Card transactions that were not approved and fifteen P-Card transactions that were both not reviewed and not approved, but were outstanding in PaymentNet from 23 to 46 days.

Per P&P 48-16, P-Card holders shall “Reconcile or provide sufficient information for a delegate to reconcile all procurement/payment transactions authorized under the procurement card. Reconciliation shall be completed not less than weekly allowing time for supervisory approval within the same week.” In addition, per P&P 48-16, division managers and supervisors shall “Approve transactions of direct subordinates manually or on-line not less than weekly. If approvals are done on-line, they shall be done not less than weekly; if on paper, not less than monthly. However, the transactions must still be fully processed and approved weekly on the .PaymentNet system.”

- b. **Recommendation.** The Purchasing Officer should remind delinquent P-Card transaction reviewers and approvers that repeat delinquencies could result in removal of the P-Card.
- c. **Management Comments.** Management concurred and stated, “PCard holders who are delinquent now have their cards suspended for 30 days or until the Purchasing Officer determines an adequate corrective plan is in place to prohibit the behavior from reoccurring.”

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

8. **Purchase Descriptions Not Always Adequate.**

- a. **Finding.** Some P-Card transactions in PaymentNet did not contain adequate descriptions of the purchases. Examples of inadequate descriptions include “s”, “[Employee Name] has back-up”, “Requested by [Employee Name] for [Employee Name]”, “Ticket Number: 19”, and “Recording”. The P-Card 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.” Despite the incomplete descriptions, these transactions were approved in the PaymentNet system.
- b. **Recommendation.** The Purchasing Officer should remind all Municipal agencies to comply with the P-Card Guide requirement for a complete description of the purchase.
- c. **Management Comments.** Management concurred and stated, “The Purchasing Officer and Internal Auditor briefed the concerns to all Directors at the Pre-Agenda meeting in April 2016. The Municipal Manager at that meeting noted to all present that he supports the Purchasing Officer canceling cards from repeat offenders.”
- 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.

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