

INTERNAL AUDIT REPORT

2017-07

Annual Municipal Procurement Card Review

Purchasing Department

July 27, 2017

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Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

July 27, 2017

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2017-07, Annual Municipal Procurement Card Review, Purchasing Department**. A brief summary of the report is presented below.

In accordance with the 2017 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, 2016, to December 31, 2016. 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.

Based on our review, it is our opinion that, overall, most employees adhered to Municipal policies and procedures regarding the use of Procurement Cards. However, transactions were sometimes split to circumvent the cardholder's single transaction limit. In addition, our review of calendar year 2016 Procurement Card transactions revealed some instances of questionable or prohibited purchases. Examples of these purchases include flu vaccinations, food and related items for employee training and lunch meetings, appliances for staff use, a gift for employees, art work for a Christmas card, Christmas cards, and premium satellite television subscriptions.

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

Internal Audit Department

July 27, 2017

Internal Audit Report 2017-07 Annual Municipal Procurement Card Review Purchasing Department

Introduction. The Purchasing Department 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 the Purchasing Department, the number of P-Card transactions increased from 45,972 (\$16,558,975) in 2015 to 48,298 (\$18,069,421) in 2016. 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, 2016, to December 31, 2016. 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 reasonable basis for our findings and recommendations based on our audit objectives. The audit was performed during the period of April through May 2017. 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, transactions were sometimes split to circumvent the cardholder's single transaction limit. In addition, our review of calendar year 2016 P-Card transactions revealed some instances of questionable or prohibited purchases. Examples of these purchases include flu vaccinations, food and related items for employee training and lunch meetings, appliances for staff use, a gift for employees, art work for a Christmas card, Christmas cards, and premium satellite television subscriptions.

FINDINGS AND RECOMMENDATIONS

1. Transactions Split to Circumvent Dollar Limit.

- a. **Finding.** Transactions were sometimes split to circumvent the cardholder's single transaction limit. Our review of selected purchases revealed 24 purchases totaling \$119,076 that appeared to be split. These purchases included items such as furniture, computer monitors, vehicle batteries, and vehicle repair. The table below shows the departments that made these purchases, the number of split purchases, and the dollar value of these purchases.

<u>Department</u>	<u>Number of Split Transactions</u>	<u>Value of Split Transactions</u>
Anchorage Fire Department	6	\$ 26,830
Anchorage Police Department	1	\$ 4,839
Anchorage Water and Wastewater Utility	2	\$ 12,471
Anchorage Equal Rights Commission	1	\$ 4,580
Information Technology Department	1	\$ 7,232
Municipal Light and Power	10	\$ 53,773
Maintenance and Operations	<u>3</u>	<u>\$ 9,351</u>
Total:	24	\$119,076

The Guide states that “Procurement card transactions shall not be split to circumvent a larger purchase which is over the cardholder’s single purchase limit.” The Guide also 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.”

- b. **Recommendation.** The Purchasing Officer should consider suspending privileges to those users who circumvent their single transaction limits.

- c. **Management Comments.** Management stated, “The Purchasing Officer concurs with the finding. The finding was briefed by the Purchasing Officer to all Directors at the Pre-Agenda meeting on June 7, 2017, and Directors advised that continued abuse will result in the offending P-Card being suspended. In addition, individual Directors were briefed on the specific instances. The Municipal Manager also added additional comments supporting the Purchasing Officer’s comments.”

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

2. **Questionable/Prohibited P-Card Purchases.**

- a. **Finding.** Our review of calendar year 2016 P-Card transactions revealed some instances of questionable or prohibited purchases. Examples of these purchases include flu vaccinations, food and related items for employee training and lunch meetings, appliances for staff use, a gift for employees, art work for a Christmas card, Christmas cards, and premium satellite television subscriptions. While the magnitude of these purchases was not significant, they are not 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. Furthermore, 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.

- b. **Recommendation.** The Purchasing Officer should ensure that Municipal agencies know the requirements found in P&P 48-16 and P&P 24-23.
- c. **Management Comments.** Management stated, "The Purchasing officer concurs with the finding. New chip cards are being issued to all card holders in July 2017. Additional training is being provided with the issuance of the chip cards."
- 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 on June 20, 2017.

Audit Staff:
Scott Lee