

INTERNAL AUDIT REPORT

2018-03

Annual Municipal Procurement Card Review

Purchasing Department

May 10, 2018

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Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

May 10, 2018

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2018-03, Annual Municipal Procurement Card Review, Purchasing Department**. A brief summary of the report is presented below.

In accordance with the 2018 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, 2017, to December 31, 2017. 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, our review of calendar year 2017 Procurement Card transactions revealed some instances of questionable or prohibited purchases. Examples of these purchases include food for staff lunches, Christmas trees and lights, items for a retirement party (food, barbeque grills, and propane tanks), appliances (i.e. microwave ovens and a toaster), gifts for employees, and satellite television subscriptions. In addition, transactions were sometimes split to circumvent the cardholder's single transaction limit. Finally, our review found that the Municipality issued more Procurement Cards than are likely operationally necessary.

There were three 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

May 10, 2018

Internal Audit Report 2018-03 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 decreased from 48,298 in 2016 to 45,857 in 2017. However, the amount of P-Card transactions increased from \$18,069,421 in 2016 to \$18,317,010 in 2017. 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, 2017, to December 31, 2017. 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 March 2018. 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 calendar year 2017 P-Card transactions revealed some instances of questionable or prohibited purchases. Examples of these purchases include food for staff lunches, Christmas trees and lights, items for a retirement party (food, barbeque grills, and propane tanks), appliances (i.e. microwave ovens and a toaster), gifts for employees, and satellite television subscriptions. In addition, transactions were sometimes split to circumvent the cardholder's single transaction limit. Finally, our review found that the Municipality issued more P-Cards than are likely operationally necessary.

FINDINGS AND RECOMMENDATIONS

1. Questionable/Prohibited P-Card Purchases.

- a. Finding.** Our review of P-Card transactions during 2017 revealed some instances of questionable or prohibited purchases. Examples of these purchases include food for staff lunches, Christmas trees and lights, items for a retirement party (food, barbeque grills, and propane tanks), appliances (i.e. microwave ovens and a toaster), gifts for employees, and satellite television subscriptions. 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. 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 concurred and stated, "The individual department transactions noted in the review were discussed with the appropriate departments. In addition, the overall findings were discussed with Department

Directors in the April 18, 2018 Pre-Agenda meeting. Emphasis was placed upon the importance of insuring card holders are aware of the correct purchasing actions or their cards will be suspended/terminated and that repeated violations could result in employee termination. In addition, this is added as an additional stressed item during initial P-Card training. Egregious cardholders will have the P-Card suspended and or terminated upon first discovery of this type of action.”

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

2. **Transactions Split to Circumvent Dollar Limit.**

- a. **Finding.** Our review of selected purchases revealed 10 purchases totaling \$52,960 that appeared to be split transactions to circumvent the card holders’ single transaction limit. Nine of these purchases belonged to Municipal Light and Power and the remaining purchase belonged to Solid Waste Services. For example, a \$6,271.50 payment for installing security systems was split into three charges of \$2,404.90, \$2,198.80, and \$1,667.80. The P-Card holder had a \$2,500 single transaction limit. In another case, a \$6,000 payment for painting buildings was split into two charges of \$4,000 and \$2,000. The P-Card holder had a \$4,000 single transaction limit. 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 the single transaction limit.

- c. **Management Comments.** Management concurred and stated, “The individual department transactions noted in the review were discussed with the affected departments. In addition, the overall findings were discussed with Department Directors in the April 18, 2018 Pre-Agenda meeting. Emphasis was placed upon the importance of insuring card holders are aware of the importance of correct purchasing actions or their cards will be suspended or terminated and that repeated violations could result in employee termination. Suspension of a specific cardholder occurred in April for purchases not noted in the report but discovered after the report. Department management is taking appropriate actions at this time.”

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

3. **Issuance of P-Card Needs to Be Improved.**

- a. **Finding.** Our review found that the Municipality issued more P-Cards than are likely operationally necessary. For example, we found that 102 P-Card holders made 10 or less purchases in 2017. In addition, we found that 35 P-Card holders each made purchases amounting to less than \$500 in 2017. Finally, we found 20 P-Card holders did not use their P-Cards in 2017. Currently, the Municipality has no P&P for determining which employee should receive a P-Card. Issuing P-Cards to Municipal employees who do not need them for an operational purpose can increase the risk of financial loss. Limiting P-Cards to those who really need them helps control the Municipality’s financial exposure.

- b. **Recommendation.** The Purchasing Officer should develop a policy and procedure to determine whether employees need a P-Card for their operational needs.

- c. **Management Comments.** Management concurred and stated, “Actions were taken to terminate six additional cards that upon review had not been used in the last year.

In addition, a section is being added to P&P 48-16 that addresses an annual review requirement of card usage. This revision to the P&P is due not later than June 30, 2018.”

- 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 April 10, 2018.

Audit Staff:
Scott Lee