

# INTERNAL AUDIT REPORT

2024-06

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Annual Municipal Procurement Card Review  
Purchasing Department  
October 9, 2024

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MUNICIPALITY OF ANCHORAGE  
MAYOR SUZANNE LAFRANCE

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OFFICE OF INTERNAL AUDIT

October 9, 2024

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review the **Internal Audit Report 2024-06, Annual Municipal Procurement Card Review, Purchasing Department**. A summary of the report is presented below.

In accordance with the 2024 Audit Plan, we performed an audit of the Municipal 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, 2023, to December 31, 2023. Specifically, we reviewed purchases for judgmentally selected transactions to ensure compliance with Policy and Procedure 48-16, Policy and Procedure 24-23, and the Procurement Card Guide.

Overall, most employees adhered to Municipal Policies and Procedures regarding the use of Procurement Cards. However, our review of calendar year 2023 Procurement Card transactions revealed some instances of questionable and prohibited purchases. Examples of questionable purchases included high-end electronic devices, expensive name-brand clothing, flight seat upgrades, furniture, plastic utensils for employee use, seat covers, and appliances. Examples of prohibited purchases included beverages, food, coffee related items, flowers, gifts, graphic art designs, retirement badges and engravings, office decorations, fuel purchases, and parking fine payments. In addition, some Procurement Card purchases appeared to be excessive and/or non-essential, as users could have opted for more cost-effective alternatives that either have the same function or would have accomplished the same task. Examples included \$279 noise-canceling headphones, \$311.98 for ergonomic wireless mouse and keyboard, \$3,748 (\$3,249 + \$499 warranty) commercial refrigerator, and \$995 club chairs with USB ports. Furthermore, some Procurement Card purchases were made without mandatory Annual Supply Contracts. Examples included payments for moving services, tire services, language translation services, and sit-stand desktops from non-contract vendors. Finally, transactions were sometimes split to circumvent the cardholder's single transaction limit.

There were four findings in connection with this audit. Management comments were responsive to the audit findings and recommendations.

Scott Lee



Acting Director, Internal Audit



MUNICIPALITY OF ANCHORAGE  
MAYOR SUZANNE LAFRANCE

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OFFICE OF INTERNAL AUDIT

October 9, 2024

**Internal Audit Report 2024-06**  
**Annual Municipal Procurement Card Review**  
**Purchasing Department**

**Introduction.** The Purchasing Department (Purchasing) implemented the Procurement Card (P-Card) Program to provide for the purchase and payment of low-dollar non-asset goods, services, and business and travel related expenses. According to Purchasing data, the number of P-Card transactions decreased from 40,347 in 2022 to 39,641 in 2023. The total dollar amount of P-Card transactions decreased from \$21,341,057 in 2022 to \$21,003,470 in 2023. 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, *Procurement Card Program (P-CARD)*, requires the Internal Auditor to perform an annual review/audit of controls within the P-Card program. In addition, P&P 24-23, *Disallowed Purchases*, provides guidance for prohibited expenditures.

**Objective and Scope.** The objective of this audit was to determine whether employees adhered to Municipal P&Ps regarding P-Card use. Our audit included a review of purchases made from January 1, 2023, to December 31, 2023. Specifically, we reviewed purchases for 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 is required by P&P 48-16, section 6.f.i.



**Overall Evaluation.** Overall, most employees adhered to Municipal P&Ps regarding the use of P-Cards. However, our review of calendar year 2023 P-Card transactions revealed some instances of questionable and prohibited purchases. Examples of questionable purchases included high-end electronic devices, expensive name-brand clothing, flight seat upgrades, furniture, plastic utensils for employee use, seat covers, and appliances. Examples of prohibited purchases included beverages, food, coffee related items, flowers, gifts, graphic art designs, retirement badges and engravings, office decorations, fuel purchases, and parking fine payments. In addition, some P-Card purchases appeared to be excessive and/or non-essential, as users could have opted for more cost-effective alternatives that either have the same function or would have accomplished the same task. Examples included \$279 noise-canceling headphones, \$311.98 for ergonomic wireless mouse and keyboard, \$3,748 (\$3,249 + \$499 warranty) commercial refrigerator, and \$995 club chairs with USB ports. Furthermore, some P-Card purchases were made without mandatory Annual Supply Contracts. Examples included payments for moving services, tire services, language translation services, and sit-stand desktops from non-contract vendors. Finally, transactions were sometimes split to circumvent the cardholder's single transaction limit.

## **FINDINGS AND RECOMMENDATIONS**

### **1. Questionable/Prohibited P-Card Purchases.**

- a. Finding.** Our review of P-Card transactions during 2023 revealed some instances of questionable or prohibited purchases. Examples of questionable purchases included brand-name jackets, an electric bicycle, expensive earphones/headphones, BBQ grill and parts, microwave ovens, plastic utensils for employee use, recliners, seat covers, refrigerators, vacuums, white noise machine, portable air conditioners and fans, humidifiers, and heaters. Examples of prohibited purchases included beverages and food for employees, balloons, coffee supplies for the office, flowers, frames, gifts, graphic art designs, retirement plaques and badges, seasonal decorations for the office, fuel, water, and parking ticket payments. While the magnitude of these purchases were not significant, they may not be consistent with

prudent fiscal management or comply with Municipal P&Ps. Policy and Procedure 48-16 states that P-Cards will only be used for official Municipal business. Furthermore, P&P 24-23 states that it is the Municipality's policy that Municipal funds cannot be used for purchases that do not serve the public interest.

- b. Recommendations.** The Purchasing Officer should ensure that Municipal agencies know and comply with the requirements found in P&P 48-16 and P&P 24-23 and terminate P-Card privileges for repeat offenders.

In addition, the Purchasing Officer should coordinate with the Chief Fiscal Officer to review and update P&P 24-23 to clarify if appliances for employee break rooms, for example, are a prohibited purchase.

- c. Management Comments.** Management stated, "Management concurs with the audit findings and recommendations. Management will review P&P 24-23 for clarification and potential updates. Management will also direct all card holders and approvers to review both P&P 48-16 and P&P 24-23 on an annual basis.

"The Purchasing Director or P-Card Administrator will require all P-Card holders and approvers to participate in Litmos P-Card training on an annual basis. The P-Card Administrator will confirm that each card holder and approver have passed the annual P-Card training, or cards and/or P-Card responsibilities will be suspended 30 days following an overdue training reminder. In addition, the P-Card Administrator will issue a written reminder to card holders of relevant policies and procedures, when applicable."

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

2. **Transactions Appeared to Be Excessive and/or Non-Essential.**

- a. **Finding.** Some P-Card purchases appeared to be excessive and/or non-essential, as users could have opted for more cost-effective alternatives that either have the same function or would have accomplished the same task. For example, one P-Card holder purchased three sets of name-brand noise-canceling headphones for \$837 (\$279 each). Per the P-Card holder, the justification for this purchase was to obtain headphones with noise-cancellation feature so that their staff could “listen to audio recordings of interviews... without the entire office hearing them, as all 8 are in one room.” A quick search for noise-canceling headphones from the same vendor yielded many highly user-rated products ranging from \$27.99 to \$49.99. To put it into perspective, one could purchase nine of the \$27.99 noise-canceling headphones for the price of one name-brand headphone. Another example, a P-Card holder purchased an ergonomic wireless mouse and keyboard for \$311.98 (\$129.49 for the mouse, \$182.49 for the keyboard). A quick search from the same vendor showed a highly user-rated ergonomic mouse and keyboard combo set priced at \$65.99. Another quick search at a different vendor for an ergonomic wireless keyboard and mouse combo set showed prices as low as \$34.99. Another example is the purchase of a 49 cu-ft commercial refrigerator for \$3,748 (\$3,249 + \$499 warranty). The justification provided by the P-Card holder was that “the previous model broke and had to be replaced by a new model with similar capacity and capability to the previous model.” A search for commercial refrigerators from the same vendor showed a similar refrigerator with a 48-cu ft capacity priced at \$2,367.97 which is \$881.03 less. Finally, a P-Card holder spent \$6,147.15 for the following items to refurbish an office: 2 club chairs with USB ports (\$995 each, totaling \$1,990), 2 two-seat lounge chairs (\$1,497.20 + \$1,419.30 = \$2,916.50), and 3 cylinder side tables (\$413.55 each, totaling \$1,240.65). The P-Card user’s justification for the purchase of club chairs with USB ports and cylinder side tables is that guests from the media or the public can keep their devices charged during meetings as they often bring tablets and laptops for notetaking, and some sort of surface area was needed to place their equipment rather than on the floor. However,



we question whether the purchase of such chairs was the best use of public funds, as a chair with USB charging ports could be considered a luxury item. Standard chairs and separate charging stations could have been procured at a much lower cost.

- b. **Recommendation.** The Purchasing Officer should ensure that Municipal agencies know the requirements found in P&P 48-16 and P&P 24-23 for the better use of Municipal funds.
- c. **Management Comments.** Management stated, “Management concurs with the audit findings and recommendations.

“The Purchasing Director or P-Card Administrator will work alongside all P-Card approvers to ensure each card holder knows the requirements found in P&P 48-16 and P&P 24-23, and remind holders and/or approvers to purchase cost-effective alternatives, when applicable, for better use of Municipal funds.”

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

3. **Mandatory Annual Supply Contracts Not Always Used.**

- a. **Finding.** Our review found that some P-Card purchases were made without mandatory Annual Supply Contracts. Examples included payments for moving services, tire services, language translation services, and sit-stand desktops from non-contract vendors. Policy and Procedure 48-16 states that “. . . Annual Supply Contract (ASC) – A contract achieved through a competitive process for providing goods and services to the Municipality. These contracts contain specific items at specific prices. Use of Annual Supply Contracts is mandatory when purchasing goods or services for which an ASC exists.” By not using the Annual Supply Contracts, which were

contracts achieved through a competitive process, departments might not have paid the best prices for supplies and services. A list of Annual Supply Contracts is available to all Municipal departments on Purchasing's internal website.

- b. **Recommendation.** The Purchasing Officer should remind all Municipal agencies to use the Annual Supply Contracts when P-card purchases are made for goods and services for which an annual supply contract exists.
- c. **Management Comments.** Management stated, "Management concurs with the findings and recommendations. Management will review all Annual Supply Contracts on an annual basis.

"The Purchasing Director or P-Card administrator will ensure that Purchasing's internal website is updated annually and will remind all Municipal agencies to use the Annual Supply Contracts, when applicable."

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

#### 4. **Transactions Split to Circumvent Dollar Limit.**

- a. **Finding.** It appeared that transactions were sometimes split to circumvent cardholders' single transaction limits. Our review of selected purchases revealed 51 purchases totaling \$326,811.50 that were split into 128 separate transactions. Fourteen purchases belong to the Anchorage Fire Department, eight purchases belong to the Public Works Department, eight purchases belong to the Anchorage Water and Wastewater Utility, six purchases belong to the Anchorage Police Department, five purchases belong to the Solid Waste Services, and five purchases belong to the Parks & Recreation Department. The Anchorage Public Library, the Assembly, the Anchorage Equal Rights Commission, the Office of Municipal



Manager, and the Public Transportation Department were found to have one split purchase each. For example, a \$2,822.21 payment for preventative maintenance services of vehicles was split into three charges of \$1,607.10, \$672.59, and \$542.52. The P-Card holder had a \$2,500 single transaction limit. In another case, the purchase of five 20 ft. Conex containers and one 40 ft. container was split among five P-Card holders. The price of the 20 ft. containers was \$4,375 each and the price of the 40 ft. container was \$6,000 with the grand total amounting to \$27,875. The P-Card holders each had a \$5,000 single transaction limit. The below table summarizes the split purchases that we identified.

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**2023 P-Card Split Purchases**

<u>Department</u>	<u>Number of Split Purchases</u>	<u>Value of Split Purchases</u>
Anchorage Fire Department	14	\$ 87,399.55
Anchorage Water and Wastewater Utility	8	50,760.47
Public Works Department	8	36,796.91
Anchorage Police Department	6	34,515.13
Solid Waste Services	5	63,729.16
Parks & Recreation	5	27,517.62
Anchorage Public Library	1	9,252.84
Anchorage Equal Rights Commission	1	5,257.72
Assembly	1	2,652.10
Public Transportation Department	1	4,500.00
Office of Municipal Manager	<u>1</u>	<u>4,430.00</u>
Totals:	51	\$326,811.50

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Source: Auditor's analysis of 2023 P-Card data.

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The Procurement Card Guide states that “A cardholder shall not split transactions to circumvent a larger purchase, which is over the card limit.” Additionally, the Guide 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.” Finally, the Guide states that “. . . like items are generally considered a single purchase. For example, . . . tables, chairs, desks and file cabinets are all furniture and is a single purchase. . .”

- b. **Recommendation.** The Purchasing Officer should consider suspending P-Card privileges to those users who circumvent the single transaction limit.
  
- c. **Management Comments.** Management stated, “Management concurs with the audit findings and recommendations. Management will work to review split transactions with Municipal Directors of the departments identified in the 2023 P-Card Split Purchases audit report.

“Split transactions appear to be a continuing problem. The P-Card Administrator will continue to monitor P-Card usage to target split transactions and communicate with card holders to explain the apparent misuse.

“The P-Card Administrator will work alongside all Municipal Directors to advise department card holders of the correct procurement method to acquire a good or service. The single transaction limit can be exceeded with P-Card Administrator approval, as communicated verbally in P-Card training and written in the Procurement Card Training booklet.

“It is the responsibility of P-Card approvers to contact the P-Card Administrator if a card limit will be exceeded before the transaction occurs. The P-Card Administrator will continue to suspend P-Cards for repeat, split transaction offenses.”

- 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 August 19, 2024.

Audit Staff:  
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