

# INTERNAL AUDIT REPORT

2022-02

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Sole Source Purchases

Purchasing Department

April 28, 2022

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MUNICIPALITY OF ANCHORAGE  
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MUNICIPALITY OF ANCHORAGE  
MAYOR DAVE BRONSON

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OFFICE OF INTERNAL AUDIT

April 28, 2022

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2022-02, Sole Source Purchases, Purchasing Department**. A summary of the report is presented below.

In accordance with the 2021 Audit Plan, we have completed an audit of Sole Source Purchases. The objective of this audit was to determine whether the Purchasing Department had established and followed adequate controls to ensure sole source purchases were appropriate. Our audit included a review of all sole source purchases reported on Assembly Information Memorandums from January 2019 through August 2021 to determine if the purchases exceeded \$30,000. In addition, we selected random samples of sole source purchases reported on Assembly Information Memorandums and Assembly Memorandums and judgmental samples of purchase orders from January 2019 through August 2021 to determine if sole source purchases were properly identified, accurately reported, and had reasonable justifications. Moreover, we evaluated if there was adequate transparency in the sole source purchasing process.

The Purchasing Department needs to improve some controls over sole source purchases. Specifically, sole source purchases were not always approved/reported as required and departments did not always adequately justify their decision to contract with a sole source provider. In addition, when reviewing sole source justification memorandums, we noted that there were no requirements stating what a sole source justification memorandum should include. Finally, public notification of the intent to award sole source purchase contracts can be improved and some of the reporting requirements for sole source purchases could be strengthened.

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

Michael Chadwick, CIA, CICA  
Director, Internal Audit



**MUNICIPALITY OF ANCHORAGE**  
**MAYOR DAVE BRONSON**

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**OFFICE OF INTERNAL AUDIT**

April 28, 2022

**Internal Audit Report 2022-02**  
**Sole Source Purchases**  
**Purchasing Department**

**Introduction.** The Municipality of Anchorage’s (Municipality) Purchasing Department (Purchasing) is responsible for the purchase of supplies, services, and construction. Sole source purchases are purchases entered into without using a competitive process, based on a justification that only one vendor can provide the supply, service, or construction. Anchorage Municipal Code (AMC) section 7.20.080, *Proprietary and non-competitive procurements*, states that “The purchasing officer may contract, without the use of the competitive source selection procedures of this chapter, for the following supplies, services, professional services or construction.... For contracts where the purchasing officer determines in writing that the municipality’s requirements reasonably limit the source for the supplies, services, professional service or construction to one person.” Municipal departments needing to make a sole source purchase submit a sole source purchase request memorandum to the Purchasing Officer to justify the purchase. This memorandum is then approved by the Purchasing Officer. In addition, AMC section 7.15.040, *Assembly approval of contracts*, requires that sole source purchases exceeding \$30,000 need Assembly approval through an Assembly Memorandum (AM). Finally, each month Purchasing also reports sole source purchases between \$10,000 and \$30,000 to the Assembly through an Assembly Information Memorandum (AIM).

**Objective and Scope.** The objective of this audit was to determine whether Purchasing had established and followed adequate controls to ensure sole source purchases were appropriate. Our audit included a review of all sole source purchases reported on AIMs from January 2019 through August 2021 to determine if the purchases exceeded \$30,000. In addition, we selected random samples of sole source purchases reported on AIMs and AMs and judgmental samples of purchase orders (POs) from January 2019 through August 2021 to determine if sole source purchases were properly identified, accurately reported, and had reasonable justifications. Moreover, we evaluated if there was adequate transparency in the sole source purchasing process.

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.

**Overall Evaluation.** Purchasing needs to improve some controls over sole source purchases. Specifically, sole source purchases were not always approved/reported as required and departments did not always adequately justify their decision to contract with a sole source provider. In addition, when reviewing sole source justification memorandums, we noted that there were no requirements stating what a sole source justification memorandum should include. Finally, public notification of the intent to award sole source purchase contracts can be improved and some of the reporting requirements for sole source purchases could be strengthened.

## FINDINGS AND RECOMMENDATIONS

### 1. **Sole Source Purchases Not Always Approved/Reported as Required.**

a. **Finding.** Sole source purchases were not always approved/reported as required. As a result, an inaccurate representation of sole source purchases and amounts spent had been reported to the Assembly and the public. Specifically, we found the following:

- *Sole Source Purchases Over \$30,000 Not Always Approved/Reported* – Some sole source purchases exceeding \$30,000 were not provided to the Assembly for approval as required by AMC Title 7. Specifically, we identified seven instances, totaling \$272,326 between May 2019 and June 2021. For example, a sole source purchase for “VOTE BY MAIL PROJECT SUPPORT FOR 2020 ELECTION” had an initial PO amount of \$25,000 and had two change orders that increased the PO amount to \$51,179. Anchorage Municipal Code section 7.15.080, *Contract amendments – Assembly approval*, states that “. . . any

contract amendment or change order, or cumulative or successive contract amendments or change orders, that will cause the total contract amount to exceed \$30,000.00, or continue to exceed \$30,000.00, as amended” requires approval by the Assembly. In another case, in March 2021 a \$33,329 sole source purchase for diving equipment was not reported to the Assembly because the purchase was split into two POs for \$20,438 and \$12,891 to the same vendor. These two POs were issued on the same day with separate sole source justification memorandums. Anchorage Municipal Code section 7.15.040 requires sole source purchases over \$30,000 to be approved by the Assembly.

- *Sole Source Purchases Between \$10,000 and \$30,000 Not Always Reported* – Our review of 57 sampled POs found 22 (39%) sole source purchases between \$10,000 and \$30,000, totaling \$384,944, that were not reported to the Assembly even though the POs had sole source justification memorandums. According to Purchasing staff, they had written “sole source” or “SS” on the PO name description field in the Municipality’s SAP system. However, we found that these PO descriptions were not consistently entered into SAP. In addition, there was no SAP report developed to identify POs using this sole source identifying description. Moreover, Purchasing staff had not developed a process such as a query to extract this data, export it to a spreadsheet, and search for these sole source description fields.
- *Sole Source Purchases Not Correctly Identified* – We found departments incorrectly identified 12 of 155 (8%) vendors as sole source providers. For example, in 2019 a \$70,195 contract to the State of Alaska Department of Transportation and Public Facilities for Anchorage trail rehabilitation was reported as to the Assembly as a sole source purchase. However, this was a payment for a State of Alaska project that the Municipality was under agreement to match a portion of the cost. In another case, in 2019 a \$2,105,953

system update for the Anchorage Wide Area Radio Network was reported to the Assembly as a sole source purchase. However, this purchase used a contract already established by the State of Washington using a purchasing method called “piggy-backing”. “Piggy-backing” uses a vendor agreement established by another public entity to ensure the Municipality receives the same competitively sourced terms, conditions, and pricing.

- b. **Recommendation.** The Purchasing Officer should ensure that sole source purchases are correctly reported to the Assembly and processes are developed to identify sole source purchases in SAP.
  
- c. **Management Comments.** Management stated, “Concur. Purchasing will provide additional training to its staff to help ensure that each sole source purchase is reviewed to confirm that the vendor is correctly identified as a sole source provider. In addition, Purchasing will work with the Office of Information Technology to determine how/if SAP can be used to better identify sole source purchases.”
  
- d. **Evaluation of Management Comments.** Management comments were responsive to the auditing finding and recommendation.

2. **Sole Source Purchasing Justifications Sometimes Questionable.**

- a. **Finding.** Departments did not always adequately justify their decision to contract with a sole source provider. Specifically, of 184 sampled purchases with sole source justification memorandums, we found 21 (11%) questionable sole source purchase justifications. Anchorage Municipal Code subsection 7.20.080A.5. states that competitive source selection is not required “For contracts where the purchasing officer determines in writing that the municipality’s requirements reasonably limit the source for the supplies, services, professional service or construction to one person.” However, there is no other guidance defining a sole source purchase. Having appropriate

justification to not seek other providers is important because these sole source purchases bypass full and open competition. For example:

- *Demolition and Cleanup* - In 2019, a \$17,750 sole source contract was awarded to a vendor for the demolition of a structure and cleanup of a parcel of land. To justify this sole source procurement, the department stated that the vendor owned the appropriate equipment and had decades of experience. However, we located other vendors who could provide the same service.
- *Artificial Turf* - In 2021, a sole source \$231,902 contract was awarded to a vendor for the installation of artificial turf. To justify this sole source procurement, the department stated that the vendor was the only qualified provider and installer of artificial turf for unitary playground surfacing, and the department had been using this product for many years. However, we located other vendors who could provide the same service.

In many of the justification memorandums we reviewed, the factor used to justify the sole source purchases appeared to be preference for the vendor, rather than the supply or service being available from only one source as required by AMC Title 7. A National Association for State Procurement Officers' briefing paper titled *Non-Competitive/Sole Source Procurement: Seven Questions*, states that "An agency requirement for a particular proprietary product or service does not automatically justify a sole source procurement if there is more than one potential bidder or offeror for that item."

We also identified other questionable justifications such as:

- *Clothing* - In 2021, a \$28,170 sole source contract was awarded to a vendor for pants. The sole source justification stated, ". . . a sole source PO totaling \$28,170.00 . . . for the purchase of MedPro pants . . . The clothing used is by Lion First Responder and Sea Western is the local distributor for Lion."

Although the sole source justification described the purchase, it did not elaborate on why this was a sole source purchase.

- *Interpreting Services* – In January 2021, a sole source contract not to exceed \$15,000 was awarded to a vendor for interpretation services. The sole source justification stated that “The department is preparing to put it out in a RFP but needs services until it is awarded.” Later, in June 2021, another sole source contract not to exceed \$30,000 was awarded to a vendor for a six-month term. Once again, the sole source justification stated that an RFP was being worked on. Rather than a sole source purchase, these appear to be contract extensions until a proposed RFP was issued, reviewed, and a new contract was awarded.
- b. **Recommendation.** The Purchasing Officer should provide guidance on what qualifies as a sole source purchase.
- c. **Management Comments.** Management stated, “Concur. As part of the sole source template that will be developed, as recommended in Finding 3, Purchasing will provide guidance on what qualifies as a sole source purchase. This guidance may include examples of what is and what is not a sole source purchase to help departments better understand the difference.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the auditing finding and recommendation.
3. **No Template for Sole Source Purchasing Justification Memorandums.**
- a. **Finding.** When reviewing sole source justification memorandums, we noted that there were no requirements stating what a sole source justification memorandum should include. As a result, each sole source justification memorandum was different and may or may not have addressed why a sole source purchase was necessary. Without clear



justification for sole source contracts, the Purchasing Officer would not know if a department considered and analyzed other service/purchasing options. Further, the Purchasing Officer would not have complete information needed to approve sole source justification memorandums. According to Purchasing staff, they follow guidance in AMC Title 7 and use their best judgement to determine if sole source purchase justification memorandums are reasonable before the information is forwarded to the Purchasing Officer. The National Association of State Procurement Officers suggests that one way of reducing sole source purchases is to provide a standard template for a written justification.

Our research found that other Purchasing entities have requirements on what should be included in a sole source justification memo. For example:

- *Hillsborough County* – A 2018 audit stated that the county had a sole source procurement request form. This form was signed by the department director requesting a sole source procurement and included a narrative explanation to justify their reasons for a sole source purchase. In addition, they were required to submit a vendor letter or memo from the vendor explaining why the product or service was only available from them. Finally, a sole source approval form was completed by Hillsborough County Procurement Services staff which included a checklist of research steps performed by a procurement analyst to review the sole source purchase.
- *State of Alaska* - The State of Alaska, Department of Administration, Office of Procurement and Property Management had a “REQUEST FOR ALTERNATE PROCUREMENT” form. This form required information such as evidence consisting of material facts supported by data, affidavits, or other information. In addition, the submitter must indicate for each piece of evidence whether it supports the state’s best interests, or “. . . whether it supports the procurement being impractical to compete using a more competitive method, or both.”

- b. **Recommendation.** The Purchasing Officer should develop a standard template for sole source purchase justification memorandums to ensure that sufficient information is provided when approving a sole source purchase or recommending a sole source purchase for approval by the Assembly.
  
- c. **Management Comments.** Management stated, “Concur. Purchasing agrees that a sole source template will help Departments to better provide sufficient information to justify their sole source purchases and will also help Purchasing staff in determining if the sole source purchase is justified. Purchasing will develop a sole source template as part of its review of many of Purchasing’s processes.”
  
- d. **Evaluation of Management Comments.** Management comments were responsive to the auditing finding and recommendation.

4. **Public Notification to Award Can be Improved.**

- a. **Finding.** Public notification of the intent to award sole source purchase contracts can be improved. Specifically, AMC Title 7 only requires posting of competitive bids for a period of 14 days, but there was no requirement for Purchasing to post public notice of intent to award a sole source purchase to a vendor. Public posting of sole source purchases prior to award allows potential vendors to view and indicate interest in bidding on the proposed sole source purchase, in which case a competitive process could be used to find the vendor who could best provide the service or supplies. In contrast to the Municipality, the State of Alaska requires that a “Request for Information” for a single source purchase be posted/advertised on the State of Alaska Online Public Notice for a period of no less than 10 calendar days.
  
- b. **Recommendation.** The Purchasing Officer should revise AMC Title 7 to include guidelines for posting public notice of intent to award a sole source contract to a vendor.

- c. **Management Comments.** Management stated, “Concur. Purchasing plans to begin posting a public notice of intent to award a sole source purchase to a vendor. In addition, in late Fall 2022 Purchasing intends to include this posting in AMC Title 7 as part of an update.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the auditing finding and recommendation.

5. **Reporting Requirements Could Be Strengthened.**

- a. **Finding.** Some of the reporting requirements for sole source purchases could be strengthened. While AMC has specific reporting requirements for sole source purchases over \$30,000, there is nothing in AMC to address reporting requirements for sole source purchases \$30,000 and less. However, in 1988 Purchasing stated in AIM 26-88 that each month “. . . the Purchasing Department will prepare an Assembly Informational Memorandum detailing those sole source procurements that are more than \$10,000 and less than \$30,000. The purchase order number, vendor, dollar amount, and the reason for the sole source will be set forth in the report.” Other than AIM 26-88, there is nothing in AMC or Municipal Policies and Procedures requiring this report. In addition, we did not find any requirement for the reporting of sole source purchases between \$5,000 and \$10,000 to the Assembly.
- b. **Recommendation.** The Purchasing Officer should formalize the reporting requirements for sole source purchases of \$30,000 and less, like the reporting requirements for sole source purchases over \$30,000.
- c. **Management Comments.** Management stated, “Concur. Reporting guidance for sole source purchases of more than \$10,000 and less than \$30,000 in AIM 26-88 have not been updated in 34 years and need to be reviewed. Purchasing will review guidance provided in AIM 26-88 and develop language to include reporting requirements in

AMC for sole source purchases of more than \$10,000 and less than \$30,000. While conducting this review, Purchasing will also address any needed reporting requirements for Purchases between \$5,000 and \$10,000.”

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

**Discussion With Responsible Officials.** The results of this audit were discussed with appropriate Municipal officials on February 9, 2022.

Audit Staff:  
Dalton Benson