

# INTERNAL AUDIT REPORT

2020-07

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Purchase Orders Under \$5,000

Purchasing Department

July 16, 2020

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# Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

July 16, 2020

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2020-07, Purchase Orders Under \$5,000, Purchasing Department**. A brief summary of the report is presented below.

In accordance with the 2020 Audit Plan, we have completed an audit of Purchase Orders Under \$5,000. The objective of this audit was to determine whether there were sufficient internal controls in place for purchases under \$5,000 made with SAP-automated purchase orders. To accomplish our objective, our audit included a review of automated purchase orders processed by various departments in 2019. Specifically, we identified and reviewed possible split purchases and judgmentally selected transactions to ensure purchases were properly authorized, supported, and physically present for inspection, if goods were procured.

Our audit revealed that internal controls for purchases under \$5,000 made with SAP-automated purchase orders could be improved. Specifically, our review of selected purchases revealed 19 purchases totaling \$160,853 that appeared to be split into two or more smaller transactions to circumvent the \$5,000 single purchase order limit. Furthermore, there were no written policies and procedures for using the SAP-automated purchase order function for purchases under \$5,000.

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 16, 2020

## Internal Audit Report 2020-07 Purchase Orders Under \$5,000 Purchasing Department

**Introduction.** The Municipality of Anchorage’s (Municipality) Purchasing Department (Purchasing) is responsible for the acquisition of supplies, services, and construction. In October 2017, the Municipality implemented a new financial system, SAP, which replaced PeopleSoft. With the implementation of SAP, the procurement process changed for purchases under \$5,000. These purchases no longer involve Purchasing staff. Instead, municipal employees make these purchases by generating automated SAP purchase orders (POs). In 2019, municipal employees processed 3,158 automated POs totaling over \$5 million as shown in the table below.

### 2019 Automated POs Under \$5,000

<u>Department</u>	<u>Amount</u>	<u>Number of POs</u>	<u>Percent of POs</u>
Municipal Light & Power	\$1,293,143	1,083	34%
Anchorage Water & Wastewater Utility	1,036,222	654	21%
Public Works	1,002,047	598	19%
Anchorage Health Department	302,724	166	5%
Anchorage Fire Department	302,208	158	5%
General Government <sup>1</sup>	324,257	136	4%
Economic & Community Development <sup>2</sup>	292,488	134	4%
Port of Alaska	125,624	85	3%
Anchorage Police Department	146,513	74	2%
Public Transportation	127,363	40	1%
Solid Waste Services	35,955	19	1%
Merrill Field	16,230	11	<1%
<b>Totals</b>	<b>\$5,004,774</b>	<b>3,158</b>	<b>100%</b>

<sup>1</sup>General Government includes Risk Management, Human Resources, Finance, Municipal Clerk’s Office, the Office of Information Technology, and the Office of the Municipal Attorney.

<sup>2</sup>Economic & Community Development includes Parks and Recreation, Real Estate, and the Anchorage Public Library.

Source: Auditor’s analysis of SAP query provided by the Purchasing Department.

**Objective and Scope.** The objective of this audit was to determine whether there were sufficient internal controls in place for purchases under \$5,000 made with SAP-automated POs. Our audit included a review of automated POs processed by various departments in 2019. Specifically, we identified and reviewed possible split purchases and judgmentally selected transactions to ensure purchases were properly authorized, supported, and physically present for inspection, if goods were procured.

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 January through March 2020. The audit was requested by the Administration.

**Overall Evaluation.** Internal controls for purchases under \$5,000 made with SAP-automated POs could be improved. Specifically, our review of selected purchases revealed 19 purchases totaling \$160,853 that appeared to be split into two or more smaller transactions to circumvent the \$5,000 single PO limit. Furthermore, there were no written policies and procedures (P&Ps) for using the SAP-automated PO function for purchases under \$5,000.

## **FINDINGS AND RECOMMENDATIONS**

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

- a. Finding.** Our review of selected purchases revealed 19 purchases totaling \$160,853 that appeared to be split into two or more smaller transactions to circumvent the \$5,000 single PO limit. These purchases represent a small portion of the total volume of POs under \$5,000 and we did not identify split purchases for most departments. Fifteen of the split purchases we did identify belonged to Municipal Light & Power (ML&P) and

the remaining four purchases belonged to Anchorage Water and Wastewater Utility (AWWU). For example, three POs totaling \$8,601 were issued for hydrant extensions ordered on the same day. In another case, a \$13,927 payment to restock inventory was split into three separate POs over two days. Furthermore, a \$9,813.30 payment for ground rods was split into two charges of \$4,906.65 each, on the same day to the same vendor. Employees at ML&P and AWWU stated that the purchases were separated to expedite the automated SAP purchase process since the procurement process through Purchasing takes longer. According to Purchasing management, any purchase, from any vendor with the same, similar, or different items on the same day or within days, separated with an intent to remain below the single purchase threshold is considered a split purchase.

- b. **Recommendation.** The Purchasing Officer should ensure a definition and prohibition of split purchases are included in the draft P&Ps for POs under \$5,000.
- c. **Management Comments.** Management stated, “Purchasing concurs and the planned P&P will contain a definition of a split purchase. In addition, this will continue to be emphasized in the Tuesday training.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Lack of Written P&Ps for Purchases Under \$5,000.**

- a. **Finding.** There were no written P&Ps for using the SAP-automated PO function for purchases under \$5,000. The problems identified in this report could have been mitigated with written P&Ps that provide clear guidance in using SAP’s automated POs for purchases under \$5,000. According to Purchasing management, P&Ps are still being developed.

- b. **Recommendation.** The Purchasing Officer should ensure that P&Ps for POs under \$5,000 are implemented and followed.
  
- c. **Management Comments.** Management stated, “Purchasing concurs that a written P&P may help with this finding. In 2019 Purchasing chose to devote time to conducting weekly scheduled training every Tuesday from 10:30 – 12:00 in lieu of preparing a P&P. We plan to continue that training and will also prepare a P&P for muni wide use.”
  
- 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 May 12, 2020.

Audit Staff:  
Dalton Benson