INTERNAL AUDIT REPORT

2026-04

Controls Over Non-PO Payments

Purchasing/Controller Departments

July 17, 2026

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July 17, 2026

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2026-04, Controls Over Non-PO Payments, Purchasing/Controller Departments.** A summary of the report is presented below.

In accordance with the 2026 Audit Plan, we completed an audit of the Controls Over Non-Purchase Order Payments, Purchasing/Controller Departments. The objective of this audit was to determine if there are adequate controls over SAP's non-purchase order payment process and to ensure the process is not used for purposes other than its intended use. To accomplish this objective, we reviewed a selected sample of non-purchase order invoices from January 1, 2024, to April 7, 2026, to identify payments that should have required a purchase order. In addition, we also reviewed Purchasing Department guidance on purchase order and non-purchase order payments to determine if processes were clearly defined and whether training was adequate.

Overall, controls over non-purchase order payments need to be improved. Specifically, our review of January 1, 2024, to April 7, 2026, payments processed through the non-purchase order route revealed many of the purchases should have required a purchase order, and we found employees with access to submitting invoices in SAP for payment currently do not receive training on how to determine the correct payment route for invoices, resulting in incorrect non-purchase order submissions for payment across departments. In addition, the process for submitting invoices through the non-purchase order route in SAP currently lacks sufficient controls and checkpoints, allowing invoices that should have required a purchase order to be submitted as non-purchase order, and payments incorrectly processed through the non-purchase order route are resulting in incomplete and misleading public reporting. Moreover, our review identified instances where departments obtained goods and services without following the competitive solicitation requirements of Anchorage Municipal Code 7.20.010, *Competitive sealed bidding required; exceptions*, resulting in purchases being processed as non-purchase order despite meeting thresholds that require competitive solicitation, and invoices that were incorrectly processed as non-purchase order bypassed the required nondiscrimination and equal employment opportunity contract language all vendors must acknowledge when conducting business with the Municipality of Anchorage. Finally, our review found non-purchase order payments to vendors who accept credit card payments resulted in the Municipality of Anchorage losing potential rebate revenue.

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

Alden P. Thern

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Director, Internal Audit

Mayor Suzanne LaFrance
Municipality of Anchorage
-Office of Internal Audit-

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Introduction. The Municipality of Anchorage's (Municipality) acquisition of most goods, services, and construction activities require a purchase order (PO) to document the purchase, satisfy competitive procurement requirements, and ensure invoices are matched to the appropriate contract and funding. In contrast, non-purchase order (non-PO) payments are transactions the Municipality processes without the issuance of a purchase order because they are not required to be competitively sourced and do not involve a purchasing decision. Invoices typically submitted through the non-PO route include, but are not limited to, utility expenses, employee reimbursements, legal settlements, grant disbursements, and intergovernmental payments.

In the past, the only documented guidance related to non-PO payments was in a previous version of the Accounts Payable (AP) Guide under Chapter 4 titled *Authorized Uses of Express Vouchers.* Express vouchers were the prior system used for processing invoices for payment not supported by a PO. Chapter 4 of the AP Guide included a list, created by the Purchasing Department (Purchasing), identifying the types of expenditures that were permitted to be paid without a PO. Accounts Payable staff referred to this list when reviewing invoices submitted through the Express Voucher system. If an invoice did not fall within one of the approved categories, the AP reviewer would have manually blocked the invoice from payment and referred the submitting department to Purchasing.

When the Municipality transitioned its financial system from PeopleSoft to SAP, "express vouchers" became a legacy term, and these types of transactions are now referred to as a non-PO payment. The responsibility for reviewing these transactions formally transferred from AP to Purchasing on January 29, 2024, and Chapter 4 was subsequently removed from the AP Guide. According to the former AP manager, this reassignment was done for efficiency, as the approved exceptions list originated from

Purchasing and invoices submitted incorrectly through the non-PO route were ultimately subject to the Purchasing Officer's authority.

The Purchasing Department issued a memo on December 12, 2025, and published guidance on its website to help Municipal departments determine the appropriate payment route when submitting invoices, with the Purchasing Director stating they plan to develop a formally updated policy and procedure. The Purchasing Department is responsible for ensuring POs are used when required and only certain expenditures are paid through the non-PO route. This audit was initiated at the request of both the Controller and Purchasing Officer.

Objective and Scope. The objective of this audit was to determine if there are adequate controls over SAP's non-PO payment process and to ensure the process is not being used for purposes other than its intended use. To accomplish this objective, we reviewed a selected sample of non-PO invoices from January 1, 2024 to April 7 2026 to identify payments that should have required a PO. In addition, we also reviewed Purchasing guidance on POs and non-PO payments to determine if processes were clearly defined and whether training was adequate.

We conducted this performance audit in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review due to budget constraints. We also developed and implemented a required quality management system. 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Overall Evaluation. Controls over non-PO payments need to be improved. Specifically, our review of January 1, 2024, to April 7, 2026 payments processed through the non-PO route revealed many of the purchases should have required a PO, and we found employees with access to submitting invoices in SAP for payment currently do not receive training on how to determine the correct payment route for invoices, resulting in incorrect non-PO submissions for payment across departments. In addition, the process for submitting invoices through the non-PO route in SAP currently lacks sufficient controls and checkpoints, allowing invoices that should have required a PO to be submitted as non-PO, and payments incorrectly processed through the non-PO route are resulting in incomplete and misleading public reporting. Moreover, our review identified instances where departments obtained goods and services without following the competitive solicitation requirements of Anchorage Municipal Code (AMC) 7.20.010, *Competitive sealed bidding required; exceptions*, resulting in purchases being processed as non-PO despite meeting thresholds that require competitive solicitation, and invoices that were incorrectly processed as non-PO bypassed the required nondiscrimination and equal employment opportunity contract language all vendors must acknowledge when conducting business with the Municipality. Finally, our review found non-PO payments to vendors who accept credit card payments resulted in the Municipality losing potential rebate revenue.

FINDINGS AND RECOMMENDATIONS

1. Purchases Requiring a PO were Processed as Non-PO Payments

a. Finding. Our review of January 1, 2024, to April 7, 2026 payments processed through the non-PO route revealed many of the purchases should have required a PO. Specifically, in 2024, at least 2,448 invoices totaling $5,847,401 were incorrectly processed as non-PO and in 2025, at least 2,687 totaling $5,368,701 were incorrectly processed as non-PO. From January 1, 2026, to April 7, 2026, at least 241 payments totaling $619,659 were incorrectly processed through the non-PO route.

In addition, our review found Purchasing was granted authorization to review invoices submitted through the non-PO route on January 29, 2024; however, Purchasing staff did not begin performing these reviews until December 12, 2025. As a result, the control intended to provide oversight of non-PO payments was not in place for nearly two years despite being approved to do so. When asked what caused the delay, the Purchasing Director stated, "At the time, Purchasing did not have the time, resources, know-how, directions, or the directive to pursue it. It was only recently that [Purchasing Department's employee's name redacted] took the initiative to dig into this with A/P, develop a process, and start blocking invoices that should have been on POs. Now that the process is in place and understood, it is fairly easy to do so." However, the delayed implementation resulted in numerous invoices that should have been blocked for payment instead of being processed and paid as non-PO. Even after Purchasing issued the guidance on December 12, 2025, and Purchasing staff started reviewing invoices to block payment that were incorrectly processed, at least 343 invoices totaling $795,050 were paid as non-PO despite meeting purchase order requirements, showing the problem continued to occur while the process was still being implemented.

Moreover, our review of the published guidance found some of the terminology used was too vague and overall insufficient to support consistent application of PO vs. non-PO requirements. For example, the guide lists "leases" as an approved non-PO expense; however, it does not explicitly exclude equipment leases, which employees could easily misinterpret as belonging in the same category even though those expenditures require a PO. In addition, the guide lists "utilities" as a non-PO expense but does not clarify that services provided by a third-party waste collection company are excluded, as competitively sourced vendor services require a PO. "Assessments", another non-PO expense listed in the guide, was misinterpreted to include fire inspections, which are competitively sourced professional services that require a PO. These ambiguous terms and broad labels increase the risk of invoices being incorrectly submitted through the non-PO route.

b. **Recommendations.** The Administration should ensure responsibilities assigned to staff are implemented promptly once access and authorization are granted. In addition, the guidance should be revised to provide clear definitions, explicit inclusions and exclusions, and multiple examples for each category. Ambiguous terms such as leases, utilities, and assessments should be clarified to ensure employees can accurately determine the appropriate payment route.

c. **Management Comments.** Management stated, "Management concurs. While the practice of using non-PO payments in the manner described in this finding is an issue that goes back many years, current Purchasing staff pro-actively identified the issue; are working to address it; and requested this audit. As the report reflects, these interventions have already resulted in a significant reduction in the overall volume of non-PO payment activity.

Management is aware of a January 29, 2024, SAP "business blueprint" role-mapping form that documented Purchasing Department staff's system access to review non-PO payments. But, in general, processing invoices is the responsibility of the department that created the obligation for payment. Each invoice payment is entered by a department representative and then approved by a designated departmental approver.

Management will continue to direct departments to follow required procurement procedures using the appropriate systems and instruments for such. Purchasing will continue to develop training on procurement processes and best practices. Additionally, Purchasing has provided the Accounts Payable division updated guidance that has been added to the AP Guide for department references.

Corrective Actions:

- Purchasing will update and expand published Non-PO guidance to include clearer definitions, inclusions, exclusions, and examples.
- Purchasing and Controller Division staff will identify common errors and recurring transaction types requiring additional clarification.
- Purchasing will continue performing quality assurance reviews of Non-PO transactions utilizing a risk-based approach.
- Purchasing and Controller Division staff will collaborate with departments demonstrating strong procurement compliance to identify best practices that can be implemented municipality-wide.
- Departments will be reminded of their responsibility to initiate purchases through the appropriate procurement channel.

Target Completion: Q1 2027"

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

2. No Training on Determining Correct Payment Route

a. **Finding.** Our review found employees with access to submitting invoices in SAP for payment do not receive training on how to determine the correct payment route for invoices, resulting in incorrect non-PO submissions for payment across departments. In the absence of training, staff members relied on informal knowledge passed down from colleagues who were also untrained or followed past departmental practices.

A review of the blocked-payment list maintained by AP staff, along with follow-up email correspondences with employees who incorrectly submitted invoices through the non-PO route, revealed most individuals believed they were following appropriate procedures based on their department's past practices with several employees reporting they learned the process from colleagues or were directed by their department lead to choose the non-PO route to reduce processing time. Others stated they received no training from Purchasing and staff who attempted to self-train found existing resources incomplete, unclear, or lacking sufficient explanation. The lack of standardized training and informal transfer of knowledge contributes directly to errors in invoice submission.

When an invoice is incorrectly entered through the non-PO route, the reviewing Purchasing staff must block the invoice and notify the department. This causes delays in payment processing and increases the administrative burden on both the submitting department who must reenter the invoice through the PO route, and the Purchasing staff who must manually review, block, and follow-up with the department, resulting in inefficient use of valuable Municipal resources.

As the one initiating the process, it is essential for department staff to understand the distinctions between the payment routes and the appropriate times for using them. Implementing formal training would establish a consistent baseline of knowledge across all departments, reducing the risk of invoices submitted as non-PO being rejected due to avoidable errors.

b. **Recommendation.** The Administration should develop and implement comprehensive training for employees with invoice-entry permissions to ensure they understand the distinctions between PO vs. non-PO routes, and the appropriate times for using them.

c. **Management Comments.** Management stated, "Management concurs. Employees with invoice-entry permissions, and employees with invoice-approval permissions, should be required to undergo more training than has previously been assigned. Purchasing will work with the Municipal Manager and CFO to notify departments of their responsibilities, and collaborate on creating training for invoice-entry/approval personnel.

Corrective Actions:
Purchasing, with support from the Controller Division, will develop and implement procurement and invoice processing training for employees responsible for initiating purchases and submitting invoices.

Training will address:

- PO versus Non-PO requirements.
- AMC Title 7 procurement requirements.
- Contract monitoring responsibilities.
- P-Card utilization.
- Common invoice submission errors.
- Documentation requirements.
- Work sessions will be conducted with exemplary departments to identify successful practices and develop standardized guidance.
  - Refresher training and onboarding materials will be developed for future employees.

Target Completion: Q2 2027"

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

3. Lack of Controls Over Non-PO Invoice Entry to SAP

a. **Finding.** The process for submitting invoices through the non-PO route in SAP currently lacks sufficient controls and checkpoints, allowing invoices that should have required a PO to be submitted as non-PO. The process in its current form does not require the submitting department to choose from a defined list of approved non-PO categories when entering an invoice as non-PO, placing heavy reliance on user judgement rather than reinforcing existing procurement policies. This deficiency combined with lack of training increases the risk invoices will be processed outside the appropriate purchasing channels, potentially leading to noncompliance with AMC Title 7, *Purchasing—Procurement, Contracts, Grants, and Surplus Property*, and other established procurement procedures.

b. **Recommendation.** The Administration should implement stronger internal controls within the invoice-entry system. One approach would be to add a mandatory drop-down list of approved non-PO categories that department staff must select prior to submitting an invoice through the non-PO route. Implementing such restrictions would help ensure only legitimate invoices are paid as non-PO.

c. **Management Comments.** Management stated, "Management concurs. While Purchasing does not have authority over the invoice-entry system, the Municipal Manager and CFO will assess opportunities to strengthen system controls through changes in the SAP system.

Corrective Actions:
Purchasing, ERP, Information Technology, and Controller Division leadership will evaluate opportunities for enhanced controls within SAP S/4HANA.

Potential enhancements include:

- Mandatory Non-PO category selection.

- Workflow improvements.
- User permission reviews.
- Enhanced exception reporting.
- Approval hierarchy validation.
- Automated prompts and reference guidance.
- Enhancements will be evaluated following S/4HANA stabilization and prioritized based on risk, operational impact, and available resources.

Management believes system controls should supplement, not replace, departmental responsibility for procurement compliance.

Target Completion: Post S/4HANA stabilization."

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

4. **Misleading Public Reporting Resulting from Incorrect Non-PO Payments**

a. **Finding.** Payments incorrectly processed through the non-PO route are resulting in incomplete and misleading public reporting. Assembly Ordinance (AO) No. 2023-13, approved on February 21, 2023, requires the Municipality to establish and maintain an internet website called the "Municipality of Anchorage Online Checkbook" that discloses Municipal financial transactions, and specifies the information must be publicly available. Although the ordinance mandates transparency of Municipal financial activity, certain payments processed through the non-PO route were excluded from the data displayed on the online checkbook.

For example, a search of a specific vendor for fiscal year 2025 displayed $65,290 under Procurement and Contracts, and $52,835 under Non-Payroll Expenditures; however, our review found an additional $148,901 was paid to the same vendor through 40 invoices processed through the non-PO route, and these payments did not appear on the online checkbook. In another example, a search of a vendor for fiscal year 2024 displayed $20,845 under Procurement and Contracts, and $32,813 under Non-Payroll Expenditures; however, our review found an additional $16,591 was paid through 68 invoices processed through the non-PO route, and these transactions also did not appear on the online checkbook. This omission creates an inaccurate representation of Municipal expenditures and erodes the transparency intended by AO No. 2023-13.

b. **Recommendation.** The Administration should ensure all procurement-related transactions are routed through the required PO process, so they are accurately displayed on the online checkbook as required by AO No. 2023-13.

c. **Management Comments.** Management states, "Management concurs. All procurement-related transactions should be routed through the required process (PO or non-PO). We agree in the importance of accuracy displayed in the online checkbook. Both PO and non-PO transactions should be displayed in the Online Checkbook, Purchasing cited this issue as significant when requesting this audit.

Corrective Actions:

- Correct routing of procurement transactions through established purchasing processes will improve reporting completeness and transparency.
- Purchasing and Controller Division staff will evaluate whether additional reporting enhancements are appropriate following implementation of corrective actions.

Target Completion: Ongoing."

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

5. Competitive Solicitation Requirements of Title 7 Bypassed

a. **Finding.** Our review identified instances where departments obtained goods and services without following the competitive solicitation requirements of AMC

7.20.010, *Competitive sealed bidding required; exceptions*, resulting in purchases being processed as non-PO despite meeting thresholds that require competitive solicitation or an established contract.

For example, invoices totaling $148,901 were paid as non-PO in 2025 for equipment rentals that had previously been under a competitively awarded contract established through an invitation to bid. However, after all renewal options were exhausted, the contract expired on June 1, 2025, and the department continued renting the equipment after this date from the same vendor and submitted invoices for payment through the non-PO route rather than competitively procuring a new contract as required. In another example, $59,764 were paid as non-PO to one vendor for marketing materials in 2024. One invoice included a memo from the former Department Director requesting approval of a sole source contract with this vendor; however, the memo also stated the materials had already been received and distributed, demonstrating the department committed to a single vendor before conducting the required competitive solicitation. Both examples were within the competitive solicitation threshold of $50,000 or more established in AMC 7.20.010.

Receiving goods or services after a contract has expired, or procuring items without competitive solicitation places the Municipality at risk. These practices bypass standard protections such as insurance requirements, performance obligations, and cost controls, and they prevent other vendors from having fair access to compete for Municipal work.

b. **<u>Recommendation</u>.** The Administration should ensure departments follow required competitive procurement procedures for all purchases that meet or exceed the competitive solicitation threshold.

c. **<u>Management Comments</u>.** Management stated, "Management concurs. Purchasing will continue to educate departments on procurement ordinances, Processes and Procedure documents, and best practice requests. Purchasing will work with the Municipal Manager and CFO to campaign for compliance with Purchasing directives.

Corrective Actions:
Departments will be reminded of their responsibility to monitor contract expiration dates and initiate procurements in sufficient time to meet competitive solicitation requirements.

Purchasing training will emphasize:

- Competitive procurement thresholds.
- Contract renewal limitations.
- Sole source requirements.
- Procurement planning.

Target Completion: Q2 2027."

d. **<u>Evaluation of Management Comments</u>.** Management comments were responsive to the audit finding and recommendation.

6. <u>Required Contract Language Bypassed</u>

a. **<u>Finding</u>.** Invoices that were incorrectly processed as non-PO bypassed the required nondiscrimination and equal employment opportunity contract language all vendors must acknowledge when conducting business with the Municipality. This contract language is a mandatory component of Municipal procurement and is automatically generated and incorporated into POs to ensure compliance with AMC 7.50.050, *Equal Employment Opportunity Contract Compliance*.

Anchorage Municipal Code 7.50.050 Section D.1 states, "Every municipal contract shall include language substantially the same as the following: The contractor will not discriminate against any employee or applicant for employment because of race, color, religion, national origin, ancestry, age, sex, sexual orientation, gender identity, marital status, or physical or mental disability. The contractor will comply with all laws concerning the prohibition of discrimination including, but not limited to, Title 5 and Title 6 of the Anchorage Municipal Code."

Under AMC 7.10.010, *Definitions*, "contract" is defined to include all types of Municipal agreements for the procurement of supplies, services, professional services or construction. Therefore, POs themselves are considered contracts and are subject to nondiscrimination and equal employment opportunity requirement of AMC 7.50.050. The purchase order system automatically generates this required contract language so that vendors formally acknowledge these terms before conducting business with the Municipality.

The non-purchase order process, however, does not generate or require vendors to acknowledge this contract language. When invoices requiring a purchase order are submitted through the non-PO route, the Municipality loses this contractual safeguard, increasing the risk of the Municipality's exposure to potential legal and reputational harm.

b. **<u>Recommendation</u>.** The Administration should ensure all vendors conducting business with the Municipality formally acknowledge the nondiscrimination and equal employment opportunity requirements of AMC 7.50.050 by requiring all procurements meeting PO criteria are routed through the PO process.

c. **<u>Management Comments</u>.** Management stated, "Management concurs. All vendors receiving payment from the Municipality through SAP have actively registered to do business with the Municipality. One of the registration requirements is to acknowledge and agree to abide by AMC 7.50 prior to being established as a vendor eligible to receive payment from the Municipality.

9. Additionally, by checking this box, you are certifying that you are an equal employment opportunity employer and will comply with AMC 7.50.

Additionally, Purchasing maintains that there are other risks associated with departments contracting without the proper executed contract documents. Purchasing will develop training explaining when and why contracts are needed, the types of contracts to be used for different procurements, and how they should be legally executed. Purchasing will work with the Municipal Manager and CFO to ensure compliance with these requirements."

d. **<u>Evaluation of Management Comments</u>.** Management comments were responsive to the audit finding and recommendation.

7. <u>Potential Rebate Opportunity Lost</u>

a. **<u>Finding</u>.** Our review found non-PO payments to vendors who accept credit card payments resulted in the Municipality losing potential rebate revenue. In 2024 and 2025, 170 invoices totaling $208,957 were submitted and paid through the non-PO route via electronic fund transfer (i.e., ACH), even though the 2024 P-Card transaction report showed significant P-Card activity with the same vendor. According to the P-Card Administrator, the rebate percentage for the past two years was 1.55%. As a result, the potential rebate lost from these ACH payments was $3,239. Another vendor with substantial P-Card activity was paid $84,364 through 774 invoices submitted as non-PO using a combination of printed checks and ACH in 2024 and 2025, resulting in an additional $1,308 in potential lost rebate revenue.

b. **<u>Recommendation</u>.** The Administration should ensure departments are not routing invoices through the non-PO system if the P-Card method was applicable to the case.

c. **<u>Management Comments</u>.** Management stated, "Management partially concurs. Purchasing staff regularly updates P-Card training, the P-Card User Guide, and the P-Card Policy and Procedure document. Updated guidance on appropriate P-Card use is already being implemented as part of a routine review of these documents. However, there are vendors who charge a process fee when using a P-Card. In those cases, the potential rebate does not exceed the fee so shouldn't be encouraged. It is not financially responsible to pay a 3% fee to earn a 1% rebate.

Corrective Actions:

- Staff will evaluate opportunities to appropriately expand P-Card utilization where operationally beneficial and compliant with procurement requirements.

- Training materials will include guidance regarding payment methods and P-Card utilization.
- Opportunities to increase rebate revenue will be balanced with procurement compliance, operational efficiency, and internal control considerations.

Target Completion: Q2 2027."

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 8, 2026.

Audit Staff:
Kevin Song