

# INTERNAL AUDIT REPORT

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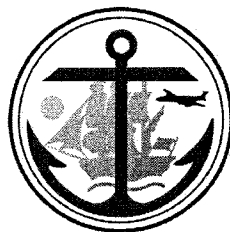
Purchasing/Warehouse Department

Anchorage School District

February 7, 2012

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*Mayor Dan Sullivan*

February 7, 2012

Anchorage School District Superintendent and Members of the School Board:

I am pleased to present **Internal Audit Report, Purchasing/Warehouse Department, Anchorage School District** for your review. A brief summary of the report is presented below.

We have completed an audit of the Anchorage School District's Purchasing/Warehouse Department. The objectives of this audit were to determine if Purchasing was complying with Policy 725 in the acquisition of goods and services and if Policy 725 could be improved. To accomplish our objectives, we interviewed Purchasing staff, reviewed Policy 725 and Purchasing internal policies and procedures, and examined contract awards and acquisitions. Our scope included all purchases, awards, and contracts from May 1, 2011 to mid November 2011 greater than \$500,000, except construction contracts which are governed by Board Policy Section 743.

Based on our review, we found that the Purchasing/Warehouse Department generally complied with Policy 725 for the acquisition of goods and services. Purchasing/Warehouse Department personnel were able to provide all contract files selected for audit and the files were generally well organized and complete. However, we found that Anchorage School Board approval was not always obtained for purchases exceeding \$500,000, some parts of Policy 725 could be clarified, delegation of authority was not documented, the requirement for Anchorage School Board approval of exempted items and direct payments was not clear, the number of reports to the Anchorage School Board may be duplicative, contract change orders were not required to be approved by the Anchorage School Board, Anchorage School Board Memorandums approving contracts were not always clear, the Purchasing/Warehouse Internal Procedures Manual was out of date, and the use of Procurement Cards could reduce the Purchasing/Warehouse Department's workload.

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

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February 7, 2012

**Internal Audit Report  
Purchasing/Warehouse Department  
Anchorage School District**

**Introduction.** The primary goal of the Purchasing/Warehouse Department (Purchasing) is to facilitate and support all schools and departments of the Anchorage School District (District) through timely acquisition of supplies, services and equipment. The goods and services can be purchased with a variety of different methods such as using petty cash, sending a purchase requisition to Purchasing where an expeditor buys the requested goods/services, a purchase order, or a contract. Anchorage School Board (Board) Policy Section 725 (Policy 725), *Purchasing and Contracting*, which was revised on May 1, 2011, governs purchasing and contracting efforts.

**Objective and Scope.** The objectives of this audit were to determine if Purchasing was complying with Policy 725 in the acquisition of goods and services and if Policy 725 could be improved. To accomplish our objectives, we interviewed Purchasing staff, reviewed Policy 725 and Purchasing internal policies and procedures, and examined contract awards and acquisitions. Our scope included all purchases, awards, and contracts from May 1, 2011 to mid November 2011 greater than \$500,000, except construction contracts which are governed by Board Policy Section 743.

The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of November through December 2011. The audit was requested by the Anchorage School District.

**Overall Evaluation.** We found that Purchasing generally complied with Policy 725 for the acquisition of goods and services. Purchasing personnel were able to provide all contract files selected for audit and the files were generally well organized and complete. However, we found that Board approval was not always obtained for purchases exceeding \$500,000, some parts of Policy 725 could be clarified, delegation of authority was not documented, the requirement for Board approval of exempted items and direct payments was not clear, the number of reports to the Board may be duplicative, contract change orders were not required to be approved by the Board, Board Memorandums approving contracts were not always clear, the Purchasing/Warehouse Internal Procedures Manual was out of date, and the use of Procurement Cards could reduce Purchasing's workload.

We would like to thank the Purchasing staff for their cooperation and assistance during our audit.

## FINDINGS AND RECOMMENDATIONS

### 1. **Board Approval Not Always Obtained.**

- a. **Finding.** Board approval was not always obtained for purchases at or exceeding \$500,000. Policy 725.2.4.1(a), *Board Approval Required*, states that "All contracts awarded at five hundred thousand dollars (\$500,000) and above require approval by the Board except as exempted by Board Policy 725.2.6." Specifically, we found two purchase orders that used Municipal contracts to purchase fuel that were not approved by the Board. One purchase order was for \$629,190 and the other was for \$550,000.
- b. **Recommendation.** The Purchasing Director should ensure that all contracts exceeding \$500,000 are sent to the Board for approval.
- c. **Management Comments.** Management stated, "Concur with finding. Historically use of other public agency contracts were covered under items exempt from the

competitive process and were reported to the School Board on an annual basis. The Administration is not sure if the new policy intentionally requires School Board approval of these contracts, but the Administration will request approval of these purchases to ensure compliance.”

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

2. **Board Policy 725 Could be Clarified.**

- a. **Finding.** Policy 725 could be clarified. The Policy contains a variety of terms that refer to the procurement of goods and services. However, it does not define these terms or explain how they relate. For example, in one section Policy 725 uses the term “acquisitions”, in another section Policy 725 uses the term “contracts”, and in another section Policy 725 uses the term “solicitations awarded”. Reading further, Policy 725 uses the term “contracts awarded”.

In contrast, Anchorage Municipal Code (AMC) Title 7, *Purchasing and Contracts and Professional Services*, uses the term “contract” and provides a definition as follows:

“Contract includes all types of municipal agreements, regardless of what they may be called, for the procurement or disposal of supplies, services, professional services or construction, but does not include collective bargaining agreements, subdivision agreements, water or sewer main extension agreements or other similar agreements whereby the owner or a person acting under the direction of the owner

of real property agrees to construct improvements of a public nature on property to be dedicated to the municipality. For purposes of Anchorage Municipal Code 7.60 only, this term includes leases.”

Consistent terminology can assist the user of the policy to comply with Board approval requirements, exceptions, and reporting.

- b. **Recommendation.** The Board should consider revising Policy 725 to define and standardize the terms that relate to the procurement of goods and services.
  
  - c. **Management Comments.** Management stated, “Concur with finding. At the School Board’s direction, we are prepared to suggest enhancements to the definitions section as appropriate.”
  
  - d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.
3. **Delegation of Authority Not Documented.**
- a. **Finding.** Policy 725.2.1, *Delegation of Authority*, does not require delegation of authority to the designee to be documented. Policy 725.2.1 states “Except as otherwise provided in Board policy, all rights, powers, duties and authority relating to the procurement of goods, services and construction for the District are the responsibility of the Superintendent or designee.” In addition, the Policy does not require the use of “acting appointment” documentation if the Superintendent or designee is absent. As a result, we were not provided documentation to show that there was a designee appointed with the authority to procure goods, services and

construction for the District. We were told that the Purchasing Director was the designee but this had not been put in writing. AMC Title 7 assigns the authority and responsibility to procure all supplies, services and construction to the Purchasing Director.

- b. **Recommendation.** The Board should consider revising Policy 725.2.1 to require that any delegation of authority to procure goods and services be documented and retained in a permanent file.
- c. **Management Comments.** Management stated, “Concur with finding. At the School Board’s direction, we are prepared to suggest Policy language changes. The Internal Purchasing Department Procedures dated 11/30/2011 provide written delegation of authority for Purchasing Department employees.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Board Approval Requirement Not Clear.**

- a. **Finding.** Policy 725.2.4.1(a) states that “All contracts awarded at five hundred thousand dollars (\$500,000) and above require approval by the Board except as exempted by Board Policy 725.2.6.” However, Policy 725.2.6 is titled *Exemptions from Formal Competitive Procedures and Reporting*. We did not find any specific provision in this section that addressed exemption to Board approval of contracts over \$500,000. The Purchasing Director has interpreted 725.2.6.1(a) which states “The Board may exempt specific goods, services or construction from the purchasing procedures required in Board policy...” to include exemption of Board approval of contracts exempted from formal competitive procedures over \$500,000.

For comparison, AMC 7.15.040, *Assembly approval of contracts*, states that no contract for supplies, services, professional services or construction whereby the Municipality of Anchorage (Municipality) is obligated to pay more than \$500,000 pursuant to a contract awarded through competitive procedures or more than \$30,000 pursuant to sole source contracts, or more than \$50,000 pursuant to contracts awarded through other authorized procedures, may be executed unless the Municipal Assembly (Assembly) has approved a memorandum setting forth the essential terms of the contract.

- b. **Recommendation.** The Board should consider revising Policy 725 to clarify if contracts exempt from formal competitive procedures are also exempt from Board approval if over \$500,000.
- c. **Management Comments.** Management stated, “Concur with finding. At the School Board’s direction, we are prepared to suggest Policy language changes.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

5. **Policy 725 not Clear Regarding Approval Requirements of Direct Payments.**

- a. **Finding.** The District makes payments for insurance and other routine items that do not go through Purchasing. The direct payments are made with a purchase order and may sometimes exceed \$500,000. Since these payments are not “contracts”, they have not been brought to the Board for approval. For example, we noted a direct payment of \$886,960 for insurance during our audit period that was not approved by the Board. Policy 725.2.4.1(a) requires contracts awarded at \$500,000 and above to be approved by the Board, but direct payments are not contracts. Interestingly, we were told by the Purchasing Director that even though these payments are not contracts, they are included in the annual sole source acquisition report to the Board.



- b. **Recommendation.** The Board should determine if direct payments of \$500,000 and above need Board approval. If so, Policy 725 should be revised accordingly.
- c. **Management Comments.** Management stated, “Concur with finding. At the School Board’s direction, we are prepared to suggest Policy language changes.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

6. **Number of Reports to the Board May be Duplicative.**

- a. **Finding.** The number of reports sent to the Board may be duplicative. For example, Policy 725.2.3.5, *Contracts not Approved by Board*, requires a quarterly report to the Board of all solicitations awarded between \$100,000 and \$500,000 for which Board approval was not required. Policy 725.2.3.1, *Exemption Reporting*, requires an annual report to the Board of all acquisitions in excess of \$100,000 exempt from competitive requirements. Policy 725.2.3.4, *Sole Source Procurement*, requires an annual report to the Board of all sole source acquisitions in excess of \$100,000. Finally, Policy 725.2.3.3, *Emergency Procurements*, requires that a full report be presented to the Board at the next scheduled Board meeting after the purchase of any emergency contracts awarded at \$100,000 and above. As a result, a contract could be included in several of these reports.

For comparison, the Assembly is provided two monthly reports, one for all contracts awarded through competitive procedures that are more than \$50,000 and less than

\$500,000, and the other report for all proprietary and non-competitive contracts (sole source) between \$10,000 and \$30,000. These contracts do not require Assembly approval.

- b. **Recommendation.** The Board should reconsider what reports are necessary to provide sufficient information to the Board regarding the procurement of goods and services for the District.
- c. **Management Comments.** Management stated, “Concur with finding. At the School Board’s direction, we are prepared to suggest Policy language changes.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

7. **Contract Change Orders Not Required to be Approved by the Board.**

- a. **Finding.** Policy 743, *Construction Contracts*, requires that changes to construction contracts above \$250,000 be approved by the Board. However, Policy 725 does not contain language regarding the approval of change orders to operating contracts. In comparison, AMC 7.15.080.A, *Contract amendments-Assembly approval*, requires all contract amendments or change orders that will cause the total value of the contract to exceed specified limits to be approved by the Assembly.
- b. **Recommendation.** The Board should consider revising Policy 725 to include language regarding the review and approval of change orders by the Board.
- c. **Management Comments.** Management stated, “Concur with finding. At the School Board’s direction, we are prepared to suggest Policy language changes.”

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

8. **Board Memorandums Approving Contracts Not Always Clear.**

- a. **Finding.** Board approvals of contracts/acquisitions were sometimes included in Board Memorandums pertaining to budget adjustments and budget transfers. For example, Board Memorandum #327, *Budget Adjustments and Budget Transfers FY 2010-2011 Year End*, included a request for authorization for prepayment up to \$5 million in utility and/or rent payments with existing vendors. In another section of the Memorandum titled Budget Transfers for One-Time Expenditures, different subparagraphs discussed one-time expenditures related to critical needs identified by the administration. Approval of this Memorandum then became approval for various contracts and acquisitions such as a \$1,128,962 purchase of 1,210 iMac computers.
- b. **Recommendation.** The Superintendent should consider presenting the approval of contracts by the Board in a clear and identifiable format.
- c. **Management Comments.** Management stated, “We agree that Memo #327 (2010-2011) could be more clear in distinguishing between the allocation of funds and the approval of large purchases. The intent of the Administration was to seek approval of the allocation of funds. All large purchases identified in the memo were either competitively bid or fell under the exempt or cooperative agreement sections of Board Policy.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

9. **Purchasing/Warehouse Internal Procedures Manual Out of Date.**

- a. **Finding.** The Purchasing/Warehouse Internal Procedure Manual has not been revised to incorporate the revisions made to Policy 725. For example, revised Policy 725 requires Board approval of contracts exceeding \$500,000, but the Procedures Manual requires “Formal competitive procedures . . . for all purchases of equipment, supplies, and non-construction related services expected to cost over \$50,000.” Unless revised criteria for Board approval of contracts and other revisions are incorporated in the Internal Procedures Manual, Board policy may not be followed by Purchasing staff.
- b. **Recommendation.** The Purchasing Director should revise the Purchasing/Warehouse Internal Procedure Manual to incorporate the current requirements and provisions of Policy 725.
- c. **Management Comments.** Management stated, “Concur with finding. Internal purchasing procedures that implement the new Board Policy are effective as of 11/30/11.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

10. **Procurement Cards Not Utilized.**

- a. **Finding.** Since Procurement Cards are not used, Purchasing staff spend a significant amount of time processing and purchasing thousands of low-dollar transactions for goods and services. According to Purchasing staff, 19,050 purchase orders were processed from July 1, 2010 to June 30, 2011. Of these purchase orders, 15,861 (83 percent) were \$2,500 or less, with 9,992 (52 percent) from \$1 to \$500. In addition, many items requested by schools are purchased by the Warehouse Expediter using a District check to pay for the purchase. Using a Procurement Card to purchase these

low-dollar goods and services would reduce the amount of small purchases that are currently made by Purchasing staff as well as reduce the number of checks written by the District. Policy 725.1.3.1, *Payment*, gives the Superintendent the discretion to pay for purchases with a Procurement Card.

- b. **Recommendation.** The Superintendent should consider adopting a Procurement Card program to purchase low-dollar items. If a Procurement Card program is implemented, the School District should implement internal control procedures to ensure that those who are delegated purchasing authority are regularly monitored to ensure that purchases are appropriate and in accordance with Board and District policy and procedures. In addition, an annual audit or review of procurement card purchases should be performed to identify any inappropriate purchases.
  
- c. **Management Comments.** Management stated, “Concur with recommendation. The Administration is in the process of evaluating existing procurement card programs and anticipates implementation for next school year.”
  
- 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 School District officials on January 5, 2012.

Audit Staff:  
Mike Chadwick