



OFFICE OF THE COMPTROLLER  
CITY OF ST. LOUIS



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Internal Audit Executive

FILE COPY

January 8, 2013

Freddie Dunlap, Supply Commissioner  
Supply Division  
1200 Market St., Room 324  
St. Louis, MO 63103

RE: Supply Division (Project #2012-42)

Dear Mr. Dunlap:

Enclosed is the Internal Audit Section's report on the process review of the Supply Division for the period January 1, 2011 through December 31, 2011. A description of the scope of the work is included in the report.

Fieldwork was completed on November 27, 2011. Responses to the observations and recommendations, noted in this report, were received on January 3, 2013 and have been incorporated in the report.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

If you have any questions, please contact the Internal Audit Section at (314) 657-3490.

Respectfully,

*Kenneth M. Stone*

Dr. Kenneth M. Stone, CPA, CGMA  
Internal Audit Executive

Enclosure



# CITY OF ST. LOUIS

**DEPARTMENT OF FINANCE**

**SUPPLY DIVISION**

**PROCESS REVIEW**

**JANUARY 1, 2011 THROUGH DECEMBER 31, 2011**

**PROJECT #2012-42**

**DATE ISSUED: JANUARY 8, 2013**

**Prepared by:  
The Internal Audit Section**



# OFFICE OF THE COMPTROLLER

**HONORABLE DARLENE GREEN, COMPTROLLER**

**CITY OF ST. LOUIS  
DEPARTMENT OF FINANCE  
SUPPLY DIVISION  
PROCESS REVIEW  
JANUARY 1, 2011 THROUGH DECEMBER 31, 2011**

**EXECUTIVE SUMMARY**

**Purpose**

The Supply Division was selected for review based on the Annual Risk Assessment conducted by the Internal Audit Section. The purpose was to determine whether Supply Division's internal controls effectively and efficiently managed risks in achieving the goals and objectives related to the following:

- Compliance with applicable laws, regulations, policies and procedures.
- Safeguarding of assets.
- Reliability and integrity of financial and operational information.
- Economic and efficient use of resources.

**Scope and Methodology**

The scope of the review period included purchase requisitions, the bidding process, and contract approvals from the period January 1, 2011 through December 31, 2011. The review was confined to evaluating internal controls over the financial and operational activities related to the objectives noted above. The review procedures included:

- Inquiries of management and staff.
- Observation of relevant processes.
- Reviews for compliance with policies and procedures, as well as applicable laws and regulations.
- Limited tests of controls.
- Follow-ups on prior observations.
- Other procedures, as considered necessary.

**Background**

The St. Louis City Revised Code Chapter 5.58 authorizes the Supply Division to purchase all supplies, excluding material for public work and improvement, for all departments, boards and offices, according to the specifications adopted or prepared by the Board of Standardization.

**Exit Conference**

An exit conference was conducted at the Supply Division on December 11, 2012. The Supply Commissioner, Deputy Supply Commissioner and Executive Secretary represented the Supply Division. The Internal Audit Executive and Auditor I represented the Internal Audit Section.

## Conclusion

Several control procedures that strengthen the operational and financial activities were noted. These included, but were not limited to, the following:

- The recording, processing, and reconciliation duties of requisitions were properly segregated.
- There was oversight of the Supply Division's awarding of bids and contracts by the Board of Standardization.
- There were clearly established procedures and criteria for the evaluation of bid and contract proposals.
- Requisitions were date stamped and/or initialed as each phase of the process was completed.

However, the opportunity exists for the Supply Division to improve internal controls over operational and fiscal activities. The following observations resulted from the review:

1. Opportunity to improve compliance of emergency purchases.
2. Opportunity to improve verification of purchase amounts to contract terms.
3. Opportunity to ensure adequate tracking of filed requisitions.
4. Opportunity to ensure all required documents are obtained and filed.
5. Opportunity to maintain accurate logbooks.

These observations are discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

  
Dr. Kenneth M. Stone, CPA, CGMA  
Internal Audit Executive

  
Date

**CITY OF ST. LOUIS  
DEPARTMENT OF FINANCE  
SUPPLY DIVISION  
PROCESS REVIEW  
JANUARY 1, 2011 THROUGH DECEMBER 31, 2011**

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## OBSERVATIONS

### Status of Prior Observations

The Internal Audit Section (IAS) followed up on observations included in the Missouri State Audit Report 2008-60, issued September 2008. The status is as follows:

- Numerous emergency purchases were made that did not appear to meet the city's definition of "emergency" or include adequate documentation to justify the emergency nature of the purchase. **(Unresolved, see Observation 1)**
- Invoice prices for some purchases did not agree to the applicable contracted bid prices. **(Unresolved, see Observation 2)**
- The city may be limiting available bidders due to the city's performance bonding requirements. **(Resolved)**
- The Supply Division does not maintain an initial record of checks received, and checks are not restrictively endorsed immediately upon receipt. **(Resolved)**

### Summary of Current Observations

Several control procedures that strengthen operational and fiscal activities were noted. These included, but were not limited to, the following:

- The recording, processing, and reconciliation duties of requisitions were properly segregated.
- There was oversight of the Supply Division's awarding of bids and contracts by the Board of Standardization.
- There were clearly established procedures and criteria for the evaluation of bid and contract proposals.
- Requisitions were date stamped and/or initialed as each phase of the process was completed.

However, the opportunity exists for the Supply Division to improve internal controls over operational and fiscal activities. The following observations resulted from the review:

1. Opportunity to improve compliance of emergency purchases (Repeated).
2. Opportunity to improve verification of purchase amounts to contract terms (Repeated).
3. Opportunity to ensure adequate tracking of filed requisitions.
4. Opportunity to ensure all required documents are obtained and filed.
5. Opportunity to maintain accurate logbooks.

These observations are discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

## **DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES**

### **1. Opportunity to Improve Compliance of Emergency Purchases (Repeated)**

Of six emergency purchases reviewed, two were approved by the Comptroller's Office and processed by the Supply Division that did not fit the definition of an "emergency".

- The Airport submitted a request for emergency purchase of promotional T-shirts in the amount of \$3,102.54. The department justified that the T-shirts were needed for an upcoming recognition event for Airport employees, who assisted with the storm restoration. Emergency processing was requested because there were only a few working days left to get the T-shirts printed and delivered in time for the event.
- The Parks Division submitted an Emergency Purchase Requisition for miscellaneous plant materials and floral supplies in the amount of \$2,748.51. Based on the Emergency Requisition Form, justification for the emergency purchase was "to provide plant material for Downtown Partnership planting of flowers".

In addition, the above-mentioned emergency purchase by the Parks Division did not appear to have been approved by the Comptroller's Office and Supply Division prior to purchase and there was no documentation indicating that emergency purchase was made while offices were closed. The invoice showed that the order date was December 17, 2010, with the bill due date being March 13, 2011. The Emergency Requisition Form showed that the Department contacted the Comptroller's Office for emergency purchase approval on March 31, 2011.

According to Section G, Emergency Purchases and Waiver of Advertising, in the Supply Division's Policy and Procedures Manual, "Emergency purchases can be made only when a condition exists which might cause injury to a person, property damage or seriously impair public health or services. The Comptroller's Office has ruled that any purchase made by an individual, department or institution, without the approval of the Comptroller's Office and the Supply Division will not be paid from City, State or Federal funds. Emergency purchases required during hours the Comptroller's Office and Supply Division are closed may be made by the department with the understanding that such purchases have the approval of the division head and are purchased at the lowest possible price."

Departments are using the emergency process to circumvent the normal purchasing procedures. There are times when departments will purchase items without prior approval and then submit them as "emergency" purchases in order to pay the vendor. Because non-payment of bills will be detrimental to the City's credit rating, the Comptroller's Office will sometimes approve non-emergency items as "emergency", so that payment to vendors can occur in a timely manner.

When Departments receive emergency approval for non-emergency purchases, they do not have to go through the regular channels of the purchasing process, which may result in less competitive pricing for purchases.

## 1. Continued...

### Recommendation

The following are recommended to ensure compliance with emergency purchase policies and procedures:

- The Supply Division work with the Comptroller's Office to ensure that departments submit requests for emergency purchases that fit the definition of an "emergency".
- When a department submits an approved emergency requisition that does not fit the definition of "emergency", it is recommended that the Supply Division send a letter to the authorizing division head, reminding them of the criteria for emergency purchases.
- For departments that continue to be noncompliant, despite written reminders, the Supply Division should work with the Mayor and the Board of Estimate and Apportionment to address this issue.

### *Management's Response (Received January 3, 2013)*

*The Supply Division agrees with and will implement all recommendations no later than February 28, 2013.*

## 2. Opportunity to Improve Verification of Purchase Amounts to Contract Terms (Repeated)

Of the purchases reviewed, the amounts of several purchases could not be accurately verified to the contract terms.

- The Equipment Services Department submitted a requisition where the invoices did not specify the quantities according to the vendor's contract pricing. On the vendor's contract, pricing was based on an hourly labor charge of \$60, and an hourly labor rate of \$75 for on site repairs. Also, the contract indicated that material charges were on a per unit (weight) basis for all metal used, which is \$0.90 per pound. The invoices submitted by the Equipment Services Department only itemized materials by quantity and not by per unit weight, as specified on the vendor's contract. Also, three of the six invoices did not indicate the number of hours of labor that was performed and which hourly labor rate was being charged.
- The Parks Division submitted a requisition where two of the three items on the invoice could not be found on the contracted vendor's pricing list.
- The Board of Public Service submitted a requisition where the final purchase order amount of \$19,408.43 did not match the original requisition amount of \$18,748.43. The difference in pricing was due to an added transportation, delivery and set-up

## 2. Continued...

charge of \$660 that was not specifically listed on the contract. It was unclear how the additional charge of \$660 was derived.

- The Water Division submitted a requisition that was a cooperative procurement through the State of Missouri. An access ID was needed to log onto the vendor's website to obtain the State of Missouri discounted pricing. The Supply Division's Account Clerk did not have the necessary login information to view and verify the discount price. During the audit, the requisition amount could not be verified to the pricing on the website because the vendor had since changed the product price. There were no printouts on file to show the vendor's website pricing at the time of the purchase.

The Supply Division did not have a system of internal controls in place to ensure that the following occurred:

- Vendors itemized their invoices exactly as specified on their contracts.
- Items purchased were in accordance to those listed on the vendor's contract.
- Employees had the necessary access to vendor pricing on websites.
- Copies of purchased items and their prices were obtained and attached to requisitions, if not listed on the contract.

When vendors do not itemize invoices according to their contract, and the Supply Division does not adequately verify purchases to determine whether the right items and amounts are being charged, the risk of overpayment for purchases and/or vendor fraud is increased.

### **Recommendation**

The following is recommended for the Supply Division:

- Ensure that employees adhere to Supply Division's policies and procedures for the verification of purchase prices. If a purchase does not match contract terms, then the Supply Division is to send a Rejection Notice to the department to rectify the discrepancy.
- Ensure that invoices are itemized in accordance to those specified in the vendor's contract, such as per unit rates, so that invoice prices can be adequately verified to contract prices.
- Ensure that employees have adequate access to vendor pricing on websites where account login is required.

## 2. Continued...

- Ensure that, for purchases where items and prices are not specifically listed on the vendor's contract, copies of the items and their purchase prices are obtained and attached to the filed requisition.

### *Management's Response (Received January 3, 2013)*

*The Supply Division has implemented the recommended changes as of December 3, 2012.*

## 3. Opportunity to Ensure Adequate Tracking of Filed Requisitions

Purchase requisitions were selected for testing from the Supply Division's requisition logbook for Fiscal Year 2011 and obtained from the "Closed" file drawers for review. Street Department's unadvertised bid requisition 51411R0048 was not in its numerical location in the closed files. However, upon review of Refuse Division's advertised bid requisition 51611R0048, it was noted that Street Division's unadvertised bid requisition 51411R0048 had been cancelled and resubmitted as Refuse Division's advertised bid. Because of this, the two requisitions were combined and filed together under the Refuse Division. The Supply Division has an "Out" form that is placed at the front of each file drawer, which is to be filled out whenever a requisition is removed from its location. However, there was nothing on the Out form to indicate that requisition 51411R0048 had been removed and combined with requisition 51611R0048.

The Supply Division's procedures require that all requisitions, vendor contracts, and necessary documents are kept on file. Requisitions are filed numerically under their Departments, which are ordered alphabetically. If a requisition is removed from the file, then the Supply Division employee is supposed to complete an "Out" form, which is located at the front of each file drawer. An Out form is supposed to contain information about which filed requisition was removed, who removed it, on what date it was removed, and when it was returned.

Internal controls were not in place to ensure that requisitions, which have been removed from their numerical location in the files, can be tracked and located. The Out forms were not being filled out when requisitions were removed.

When requisitions are not adequately tracked, then there is a risk of misplacement of important documents and not being able to retrieve needed information on past purchases.

### **Recommendation**

It is recommended that the Supply Division ensure that employees complete the Out forms when requisitions are removed from the files. If a requisition has been permanently moved to a new location in the file, then it is recommended that the Supply Division ensure that procedures are in place that would provide information on where that requisition has

### 3. Continued...

been moved to. For example, indicating on the Out form that the requisition has been combined with another requisition.

#### *Management's Response (Received January 3, 2013)*

*Employees have been briefed on the need for insuring that "sign out forms" are fully completed whenever a document is removed from the requisition file. Implemented December 3, 2012.*

### 4. Opportunity to Ensure That All Required Documents Are Obtained and Filed

After testing five advertised bid, five unadvertised bid, and five waived advertised bid requisitions, it was observed that some required documents were not on file.

- Three requisitions did not have Excluded Parties List System (EPLS) printouts to indicate that a suspension and debarment check was completed on the awarded vendors.
- One requisition did have an EPLS printout on file for the vendor, but it was not current. The vendor was awarded the bid in May 2011, while the EPLS printout that was on file was from 2009.
- One waived advertised bid ended up being a Sole Source requisition. However, the department did not submit a Request for Sole Source Purchase, Waiver of Advertising, and documentation from the Manufacturer or Authorized Distributor indicating that they are the sole source for the required commodity/service.

The Supply Division's policy and procedures require that the following documents are to be obtained and included with the filed requisitions:

- Suspension and debarment EPLS printouts on all contract and bid awardees.
- For Sole Source requisitions, the departments are to submit a sole source request, waiver of advertisement, and documentation from the Manufacturer or Authorized Distributor indicating that they are the sole source for the required commodity/service.

The Supply Division did not have adequate internal controls in place to ensure that all required documents are obtained and placed in the files.

When EPLS printouts are not included with the filed requisitions, then it cannot be verified whether a suspension and debarment check has been completed. If a suspension and debarment check is not completed, then the City is in danger of conducting business with a fraudulent vendor. Also, when the required documents for sole source requisitions are not

#### 4. Continued...

obtained, then the procedures for the competitive bidding process may end up not being followed and the City may not receive the most competitive pricing for products/services.

#### **Recommendation**

It is recommended that the Supply Division ensure the following:

- The current EPLS printouts on bid awardees are attached to all filed bid requisitions.
- All required documents for sole source requisitions are obtained from the departments before processing and are attached to the requisitions when filed.

#### ***Management's Response (Received January 3, 2013)***

*EPLS and or System for Award Management (SAM) verifications documents are filed with all bid documents. Sole Source documents will be reviewed for accuracy prior to sending bid package for signature. Implemented December 3, 2012.*

#### 5. Opportunity to Maintain Accurate Logbooks

Of the 31 requisitions reviewed, four were misclassified and/or mislabeled in the Fiscal Year 2011 Logbook for incoming requisitions.

- A requisition from the Water Division was classified as an emergency. However, when a copy of the Emergency Requisition Form could not be found on file, the Supply Division indicated that this was not an emergency, but was a regular contract with invoice. The original logbook entry was not changed to reflect this.
- Equipment Services submitted a contract with invoice requisition. However, in the logbook, the requisition classification column was left blank, which denotes an "unadvertised bid".
- A requisition, submitted by ITSA, was initially classified as a contract requisition with invoice attached, but was changed to a Sole Source requisition. However, the logbook entry was whited-out and left blank. According to the procedures, entries that are left blank in the classification column are considered as "unadvertised bids". The logbook entry was not changed to reflect the new classification.
- A requisition, submitted by Traffic Division, was classified as a waived advertised bid. However, the "Advertised Bid" label that was stamped on the requisition was crossed out and "Sole Source" was written next to it. The logbook entry was not correctly labeled.

The Supply Division's employee policy and procedures requires the recording of all incoming requisitions in a logbook. In the logbook, the requisitions are recorded under the

## 5. Continued...

tab for the originating department, and are classified and labeled according to the following types of requisitions:

- Emergencies are labeled as "EMG INV ATT."
- Lease contracts are labeled as "LEASE CONTRACT."
- Contracts with invoices are labeled as "CONT INV ATT."
- Contracts without invoices are labeled as "CONTRACT."
- Advertised bids (for purchases over \$5,000) are labeled as "ADV BID."
- Unadvertised bids (for purchases over \$500, but under \$5,000) are labeled by being left blank under the classification column.
- Advertised bids that are waived (for purchases over \$5,000) are labeled as "ADV BID WAIVED."
- Sole Sources are labeled as "SOLE SOURCE."
- Blanket contracts are labeled as "BL CONTRACT."

The Supply Division did not have internal controls in place to ensure that classification and labeling of logbook entries for incoming requisitions were accurately maintained.

When logbook entries for incoming requisitions are mislabeled and/or misclassified, then accurate information is not being maintained by the Supply Division.

### **Recommendation**

It is recommended that the Supply Division ensure that all logbook entries for incoming requisitions are kept current and accurate. If any changes are made to a requisition's classification, then this must also be reflected in the logbook by changing the classification label.

### ***Management's Response (Received January 3, 2013)***

*Management will insure that all entries in the logbook for incoming requisitions are verified for accuracy prior to bidding. Implemented December 3, 2012.*